

# Effectiveness of Supervision Model as the Key to Increase the Performance of Supervision of the Village Financial Institution

1<sup>st</sup> I M M Arsana  
Accounting departement,  
State Polytechnic of Bali  
Badung, Indonesia  
mademarsaarsana@pnb.ac.id

2<sup>nd</sup> I N Sugiarta  
Accounting departement,  
State Polytechnic of Bali  
Badung, Indonesia

3<sup>rd</sup> N L G M Dicriyani  
Accounting departement,  
Univercity Mahasaraswati  
Denpasar, Indonesia  
mahayudicriyani@gmail.com

**Abstract** - Several previous studies on the effectiveness of Village Financial Institution surveillance have been different and still many under effective and constructed models with effective monitoring tools of Village Financial Institution need to be tested for their effectiveness. **Research problem:** how effective models and monitoring support tools encourage improved performance of Village Financial Institution supervisors? The objective of the study was to know the effectiveness of supervisory model to encourage the improvement of Village Financial Institution supervisor performance. The research method used experimental design of factorial pattern 2 x 2 control group and treatment group. The control group was untreated while the treatment group treated. Preliminary and final tests were administered by both treatment groups and control groups to determine the results of control of treatment groups with treatment and control groups without treatment of control models. The data collection technique uses a set of experimental questions with manual answers on the fields provided. The data analysis using paired sample t test is parametric statistic, then the data is tested the normal and homogeneous distribution. The test is continued by Independent Samples Test, Paired Sample t-test and Effect Size. The results of treatment model treatments treated in the treatment group showed the success of the ignition monitoring model empowering techniques and effective management. The use of supervisory models can encourage improved monitoring performance at Village Financial Institutions. The effective contribution of control models is 78% and high category. The supervisory model indicator gives effective contribution in sequence from the largest to the smallest is supervisor professionalism of 38.26%, followed by effective supervision management of 22.19% and effective control technique of 17.15%. The conclusion of the effective supervisory model encourages improving the performance of Village Financial Institution supervisors with an effective contribution of 78% and high categories comprising supervisory professionalism, effective oversight management, and effective supervisory techniques.

**Keywords** – *Effectiveness; model; supervision; supervisor; performance; Village Financial Institution.*

## I. INTRODUCTION

Several previous research results have shown that there is a different effectiveness of Village Financial Institution surveillance and many are still very effective under [1, 2, 3]. The presence of 1,304 Bendesa Adat people in Bali concerning

the management function of Village Financial Institutions in the field of supervisory gaps in the understanding of the balance sheet, income statement, cash flow statement, comparative financial statements, capital structure, productive assets, liquidity, earnings, and risk management [4]. The preliminary service shows there is still a gap in the understanding of what is being disclosed, so that the Village Financial Institution internal supervisors have a low form of supervision and behavior. Low supervisory behavior still lacks professional skills, independence attitudes, supervisory management, surveillance techniques, creativity and innovation.

The theory concepts mention that the success in supervision is strongly influenced by the quality of human resources (supervisory) which includes: high knowledge, positive attitude and high skill in applying technology, creativity and innovation related to effective internal supervisory business [5] empirical success in supervision is strongly influenced by the attitude of independence, professional skills, and work experience [6, 7].

The condition of this gap is urgent for the revitalization of the supervisory model. The design of models and tools for effective monitoring of Village Financial Institutions designed to be tested for their effectiveness leads to improved performance of Village Financial Institution supervisors and the effective contribution of control model indicators.

## II. RESEARCH METHOD

The research method used experimental design of factorial pattern 2 x 2 between control group and treatment group subjects. The control group was untreated while the treatment group treated. Preliminary and final tests were administered by both treatment groups and control groups to determine the results of control of treatment groups with treatment and control groups without treatment of the control model. The data collection technique uses a set of experimental questions with manual answers to the fields provided in the treatment group and control group. Data analysis using paired sample t test is part of parametric statistic, then the data tested the normal and homogenous distribution. The test is continued

with Independent Samples Test, Paired Sample t-test and Effect Size.

### III. RESULTS AND DISCUSSIONS

The results showed that treatment group had significant change compared to control group, it means that the treatment model given in the treatment group showed the success of the technique model of empowerment control and effective management. The use of supervisory models can encourage improved monitoring performance at Village Financial Institutions. The effective contribution of the supervisory model by 78% and the high category encourages the performance effectiveness of the supervisor. Effective donation variables in sequence from the largest to the smallest is supervisor professionalism of 38.26%, followed by effective supervisory management of 22.19% and effective control technique of 17.15%. This study confirms that field trials in bank branches, [8] found significant performance improvements in branches where internal audits were conducted, compared to branches where no audit was conducted. Internal audits not only help increase the value of the branch, but also contribute to the organization as a whole. The internal audit model demonstrates that internal audit is an important driver of both industrial enterprises [9] and local government [10]. The study also found the contributions of the internal supervisory bodies, namely: overseeing the management of Village Financial Institutions, providing guidance to the board, advising, considering and solving problems, socializing the existence of Village Financial Institutions, evaluating the performance of prajuru regularly, preparing and submitting reports on monitoring results to village representatives effective. The same result of internal auditors' contribution to responsibility and accountability is no less important than the potential impact on improving sustainable financial performance [11]. This is because auditors help to preserve ethical values by evaluating whether decisions, working conditions and policies align with the ethical norms within the organization [12] and assess the extent to which these practices are legitimized.

The results of this study are similar [13], that audit quality can be measured through process quality (the accuracy of professional findings, skepticism), quality of results (recommendation value, clarity of reports, and audit benefits), and follow-up audit results. A professional auditor will not perform an activity that is contrary to established audit procedures, so the resulting audit report can be trusted. Supervision is said to be of quality if it meets uniform and consistent standards, which describes best practices [14]. Professional auditor skills are manifest in knowledge and experience [15, 16], and professional credibility [17]. Auditors not only have academic background but also specific training experience [18]. Auditors in multinational organizations must be familiar with international audit standards to conduct sound audits on geographically dispersed units. The auditor also needs to have extensive knowledge in the information system so as to assess the risks and related control mechanisms [19].

[20] encouraging steadily professional training programs to further cultivate auditor skills and make it possible to handle complex audit activities. Furthermore, the auditor needs to act professionally; Otherwise, risk at the expense of independence or neglect of fundamentals and even by failing to deal with inaccuracies [21]. Auditors also need resources to conduct audit activities. The number of resources determines the scope of the audit and the depth for a given period of time [22]. Auditor behavior is also important for an effective internal audit process. The auditor needs to develop the ability to interact with a sense of dignity and respect for the auditee because the way the audit is delivered is critical to learning and improving audit performance. [23] found that an auditor's ability to build positive interaction with auditee was more positive with a learning orientation that emphasized teaching and teaching than focused on error detection as a means of reprimand and sanction. [24] emphasized that establishing quality relationships with auditees and problem-solving orientations associated with lower levels of resistance to auditors and auditors. [25] proves the influence of competence, independence, professionalism, and motivation either partially or simultaneously to the quality of internal audit. [26] states that audit quality is influenced by knowledge of accounting, auditing, financial reporting, knowledge of client industry, and professional ethics of accountants.

The results of this study indicate that the effective supervisory model is strengthened by the supervisory management that produces the second largest effective contribution of 22.19%, namely the stipulation of implementation standards, the determination of the measurement of the implementation of activities, the implementation of the activities, the standard implementation, the correction action if necessary. Support for this study, [27] explains that supervision will be successful when starting with standard setting, then checking the situation achieved, then doing what needs to be done to ensure performance in accordance with what has been planned. [28] explains that supervisory management is a systematic effort to set performance standards according to plan, design a feedback information system, compare employee performance against predetermined standards, determine whether errors or irregularities occur, and to take necessary action to ensure that all corporate resources are used as effectively and as efficiently as possible in achieving company goals. [29] reveals that supervisory management is an activity that will motivate and inspire employees to act more in order to achieve organizational goals. It further explained that the monitoring process is also used to detect and correct errors or deliberate performance deviations, such as theft or misuse of resources. [30] pointed out that supervision is important because it can provide benefits to the organization such as: (1) creating better quality, (2) coping with change, (3) accelerating the organizational cycle, (4) facilitating delegation and teamwork.

The study also found that an effective control model was strengthened by effective supervisory techniques that resulted in the second largest effective contribution of 17.15%.

Research [31, 32] management techniques as a variable affecting performance, supports also research [33, 34]. [35] the application of organizational management techniques will be increasingly focused and can result in better performance. Confirm the findings [36, 37]. Reinforcing the findings [38, 39, 40] The structured-strategy environment is appropriately treated to create a fit that produces superior performance.

#### IV. CONCLUSION

Effective control models encourage improved performance of Village Financial Institution supervisors with an effective contribution of 78% and high categories, the effective contribution of the control model indicator in sequence from the largest to the smallest, namely: supervisory professionalism, followed by effective supervisory management, and lastly effective oversight techniques.

#### ACKNOWLEDGMENT

We wish to thank the associate editor and three anonymous reviewers for their helpful comments and suggestions. We also thank Dr. Jamari for her editorial comments. The second author acknowledges the financial support of the Directorate Research and Devotion of Society Directorate General Reinforcement Research and Development of Ministry Research, Technology, and Higher Education in Indonesia, As according to contract research of number: 00894/PL8/LT/2018.

#### REFERENCES

- [1] N. W. Wedayani and K. Jati, "Effectiveness of the Functions of the Supervisory Board as Internal Auditor in Supervision of Credit Provision at LPD Bali Province", e-journal. Undiksha.ac.id/index.php/jja/artikel/download/324/279, 2012.
- [2] I. I. N. M. Dewi and G. W. Yasa, "Analysis of Effectiveness of Internal Control Structure In Suppressing Credit Loss At LPD", e-journal. jpakuntansidd120251, 2014.
- [3] T. A. N. L. G. Giri, A. Zukhri and A.M. Meitriana, "Effectiveness of the Supervisory Function as Internal Auditor in LPD Operational Supervision", e-journal. Undiksha, 4 (1), 2014.
- [4] I. W. Ramantha, "Towards a Village Rural Credit Institution (LPD) Healthier Bali: A Study of Internal Control Structures", www.unud.ac.id, Karyacipta 148. May 22, 2015. Downloaded May 11, 2017.
- [5] H. Tugiman, "Professional Standards for Internal Audit", Yogyakarta. Kanisius, 2006.
- [6] E. N. P. Desyanti and D. N. M. Ratnadi, "Influence of independence, professional expertise and work experience of internal supervisor on the effectiveness of the implementation of internal control structure at rural banks", Journal of Accounting and Business, 3 (1). pp: 34-44, 2008.
- [7] N. L. G. M. Dicriyani and I. M. M. Arsana, "Independent Determination, Professional Ability, and Internal Audit Scope of Internal Audit Effectiveness at LPD", Journal of Management & Accounting, 20 ( 1). pp: 1-22, 2014.
- [8] D. Eden and L. Moriah, "Impact of internal auditing on branch bank performance: A field experiment", Organizational Behavior and Human Decision Processes, 68. pp. 262-271. 1996.
- [9] A. Carmeli and A. Tishler, "Resources, capabilities, and the performance of industrial firms: A multivariate analysis", Managerial and Decision Economics, 25. pp. 299-315, 2004a.
- [10] A. Carmeli and A. Tishler, "The relationships between intangible organizational elements and organizational performance", Strategic Management Journal, 25. pp. 1257-1278, 2004b.
- [11] L. Lamberti and E. Lettieri, "CSR practices and corporate strategy: Evidence from a longitudinal case study", Journal of Business Ethics, 87(2). pp. 153-168, 2009.
- [12] M. J. Pearsall and A. P. J. Ellis, "Thick as thieves: The effects of ethical orientation and psychological safety on unethical team behavior", Journal of Applied Psychology, 96. pp. 401-411, 2011.
- [13] M. T. Efendi, "The Influence of Competence, Independence, and Motivation on Audit Quality of Inspectorate Apparatus in Regional Financial Supervision (Empirical Study on Gorontalo Municipal Government)", Thesis, Magister of Diponegoro University. Semarang, 2010.
- [14] M. J. Pearsall and A. P. J. Ellis, "Thick as thieves: The effects of ethical orientation and psychological safety on unethical team behavior", Journal of Applied Psychology, 96. pp. 401-411, 2011.
- [15] L. DeAngelo, "Auditor size and audit quality", Journal of Accounting and Economics, 3 (3). pp. 183-199, 1981.
- [16] O. A. G. Office of the Auditor General, "Internal Audit in Departments and Agencies-Internal audit needs to be strengthened and professionalized", November 2004. Retrieved June 11, 2011, from [http://www.oag-vg.gc.ca/internet/English/mr\\_20041\\_123e15336.html](http://www.oag-vg.gc.ca/internet/English/mr_20041_123e15336.html), 2004.
- [17] D. R. Jr, Deis and G. A. Giroux, "Determinants of audit quality in the public sector", The Accounting Review, 67. pp. 462-479, 1992.
- [18] M. Firth, "Auditor reputation: The impact of critical reports issued by government inspectors", The Rand Journal of Economics, 21 (3). pp. 374-387, 1990.
- [19] ISACA, "Control Objectives for Information and related Technology (COBIT) 4.1", Retrieved May 1, 2013, from <http://www.isaca.org>, 2007.
- [20] The IIA, "The IIA-The Institute of Internal Auditors", [Online], Available: <http://www.theiia.org/theiia/>. 2010.
- [21] D. Satava, C. Caldwell and L. Richards, "Ethics and the auditing culture: Rethinking the foundation of accounting and auditing", Journal of Business Ethics, 64. pp. 271-284, 2006.
- [22] P. C. Light, "Monitoring government: Inspectors general and the search for accountability", Washington, DC: Brookings Institution Press, 1993.
- [23] T. Ha'elion, "The mediating processes between internal audit and organizational performance improvement", An unpublished thesis, Faculty of Management, Tel Aviv University, Tel Aviv, 1996.
- [24] D. Berg, "Audit style of the internal auditor and the auditee's resistance to the auditing", Unpublished Master's Thesis, Faculty of Management, Tel Aviv University, Tel Aviv, 1992.
- [25] I. Rosnidah, Rawi and Kamarudin, "Analysis of the Impact of Motivation and Professionalism on Audit Quality of Inspectorate Apparatus in Regional Financial Supervision", Journal of Economics and Business Education, 3(2). pp. 456-466, 2011.
- [26] J. Nahariah, M. A. Salsiah, S. Zarehan, and A. Norazlan. "The Perception of Audit Partners, Audit Committee and Investment Analyst on Audit Quality Attributes in Malaysia", Finance India, 19 (2). pp. 535-545, 2005.
- [27] Mosley, Megginson, and Pietri, "Supervisory Management, The Art of Inspiring, Empowering, and Developing People", China, Thomson, 2005.
- [28] K. Winiarska, "Management Control in Entities of the Public Finance Sector", Warszawa, 2012.
- [29] L. J. Mullins, "Management And Organisational Behaviour", England, Prentice Hall, 2005.
- [30] J. A. F. Stoner, R. E. Freeman and D. R. J. Gilbert, "Management", Sixth Edition, New Jersey, Prentice Hall International Inc, 1995.
- [31] K. Kyriakopoulos, M. Meulenberg and J. Nilson, "The Impact of Cooperative Structure and Firm Culture on Market Orientations and Performance", Agribusiness, Vol. 20 (4). pp. 379-396, 2004.
- [32] S. A. Kucukancabas and M. B. A. Akyol, "Examination of The Effects of The Relationship Marketing Orientation on The Company Performance", Erasmus Research Institute of Management. Erasmus University, 2009.
- [33] R. H. Chenhall and L. S. Kim, "The Relationship Between Strategic Priorities, Management Techniques and Management Accounting: an Empirical Investigations Using a Systems approach", Accounting Organizations and Society, Vol.23 No.3. pp. 243-264, 1998.

- [34] C. Juliana, "Effect of Leadership Style on Organizational Performance through Culture, Strategy, and Management Accounting System", Dissertation, PPIA UI Depok, 2011.
- [35] M. Ali, "Good University Governance and Performance Study Program: The Influence of Application of Management Accounting, Management Techniques, and Priority Choice Strategies as FIT Mediation Models" Dissertation, Postgraduate Program University of Indonesia, Depok. 2016.
- [36] M. Song, D. C. A. Benedetto and R. W. Nason, "Capabilities and Financial Performance: The Moderating effect of Strategic Type", *Journal of The Academic, Mark. Sci.* 35. pp.18-34, 2007.
- [37] M. Acquah, "Management Control Systems, Business Strategy and Performance in a Transition Economic in Sub-Saharan Africa", *Journal of Family Business Strategy*, 4. pp. 131-146, 2013.
- [38] J. A. Parnell, "Strategic Clarity, business Strategy and Performance", *Journal of Strategy and Management*, Vol. 3. (4). pp. 304-324, 2010.
- [39] H. S. Bae, "The Relationships Between Environment, Integration and Performance in Supply Chain Contexts", *The Asian Journal of Shipping and Logistics*, Vol. 27 (1) pp. 061-090, 2011.
- [40] M. C. Ganesu, "Assessing Corporate Social Performance from a Contingency Theory Perspective", *Procedia Economics and Finance*, 3. pp. 999-1004, 2012.