

LOCAL DEVELOPMENT IN THE EMERGING MARKET: DOES INTEGRATED GOVERNMENT INTERNAL CONTROL MATTER?

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Abstract

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Following the significant local development issues in Indonesia (Pukuh & Widyasthika, 2017; Siburian, 2020), the study aims at examining the effect of an integrated government internal control system (GICS) on various local development measures. We employ secondary data from the government regulating bodies. The study discovers that there are still indeed significant issues in development achievement between West Indonesian and East Indonesian regions. Further empirical analysis finds that integrated GICS maturity and corruption control effectiveness support local development by improving human development, inclusive economic development and reducing poverty. Risk management, however, has not contributed significantly to local development as the effect on the development measures is not significant. The study provides practical implications to the related government bodies for the sake of improving the integrated GICS in Indonesian local government to support the local development agenda. The local governments should commit to the integrated GICS implementation to safeguard public interests specifically in local development outcomes. The role of the Financial and Development Supervisory Agency (*BPKP*) is also essential to improve the implementation of integrated GICS in which adequate monitoring and regulation support are required.

Keywords: Indonesia, Local Government, Local Development, Integrated Government Internal Control System

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1. INTRODUCTION

Indonesia is a country that is highly committed to inclusive development (Warburton, 2018), especially considering that the country still faces significant issues in local development for several regions (Pukuh & Widyasthika, 2017). Indeed, Indonesia still faces various development issues at a local level (Siburian, 2020). The issues arise in the form of poverty, unemployment, inequality, regional disparity and inclusiveness issues (Novak, 2017). Indeed, Indonesia faces bigger development challenges in local development, as compared to other Association of Southeast Asian Nations (ASEAN) countries for example, due to having way larger area and greater population (Kurniawan & Managi, 2018). In response to the existing development issues, Indonesia optimistic to pursue inclusive development so that the development can be enjoyed by all of the regions in Indonesia (Kusdarjito, 2017). In this regard, the government has taken specific policies and regulations to support an inclusive development agenda (Badaruddin et al., 2021; Dewi et al., 2018; Sebayang & Sebayang, 2020).

In fact, the country has actually committed to inclusive development since decades when the decentralization started after the fall of President Suharto (Talitha et al., 2020). The 1998 reform is followed with a decentralization policy that is the manifestation of the country's initial commitment to better local development (Aritenang, 2020; Vujanovic, 2017). As a consequence, local governance in Indonesia has experienced a set of massive changes. In the financial aspect, local governments are given great authority in managing their own financial resources (Furqan et al., 2020). It is believed that local governments can manage local development better as they know better about the local development potential and any barriers that they may face (Dick-Sagoe, 2020) as compared to when they are handled by the central government.

In regard to governance mechanisms, one of the most significant parts is the implementation of government internal control system (GICS) (Winarna et al., 2021). In 2021, Indonesia started the implementation of integrated GICS for government bodies by adding the implementation of risk management and corruption control effectiveness. Indeed, the internal control system has played a significant role in public sector governance in many countries (Benedek et al., 2014) as the implementation of internal control system can enhance accountability by improving performance (Aziz et al., 2015). Thus, the role of internal control is undeniably important and should be one of the primary concerns for public governance reform (Urbanik, 2016). With the implementation of local autonomy and integrated GICS, local government is expected to be able to maximize its potential for local development and ultimately improve public welfare.

The role of GICS in Indonesian local government is significant in the governance mechanisms that potentially support the realization of proper local development. However, there is a considerably limited studies in public sector literature that give significant attention to integrated GICS factors in promoting local development. It becomes the theoretical research gap that underlies

the importance of this study. Therefore, the study is expected to fill this research gap by answering the research question.

RQ1: How is the effect of integrated GICS implementation on local development in Indonesia so that the study can contribute to enriching the literature?

By drawing the theoretical framework from agency theory and internal control framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), the study presents clear empirical evidence that is relevant to provide recommendations to the related government institutions for the further development of integrated GICS practice in Indonesia to support local development.

The structure for the rest of the paper is arranged as follows. Section 2 presents the theoretical framework and hypotheses development, followed by Section 3 which presents the methodology to conduct the study and answer the research questions. The next Section 4 is results that present the empirical evidence obtained from the analysis, followed by Section 5 which discusses the results based on the theories and previous studies. Lastly, the final Section 6 is the conclusion that presents the conclusions, implications, and limitations of the study.

2. LITERATURE REVIEW

2.1. Agency theory and internal control system implementation

The idea of the study is developed based on the concept of agency theory (Jensen & Meckling, 1976) that has been extensively utilized in social sciences studies. In general, agency theory elucidates the relationship between principals and agents in which the delegation of authority from the principal to agent potentially results in agency problems (Fama, 1980), especially due to conflict of interests (Mäntysaari, 2010). Agency theory is also applicable in the public sector where people as the principals entrust the management of public financial resources to the government as the agent (Lane, 2005). The theory is also relevant to the Indonesian local government context (Rakhman, 2019) as a democratic country with direct elections where the people directly elect the local head. Local heads are granted the authority and responsibility to manage available resources and implement strategies for local development (Sutaryo et al., 2022). This agency relationship certainly contains potential conflict of interest as the government executives may act opportunistically such as misusing public funds for personal benefits which leads to mismanagement and even corruption (Maulidi & Ansell, 2022) and is surely against the public interest. To ensure public accountability, it becomes necessary to address agency problems with governance mechanisms to control the agents' actions (Panda & Leepsa, 2017), one of which is by implementing an internal control system (Adams, 1994; Jones, 2008). Thus, the adoption of an internal control system will support local governments to achieve public accountability and realize their desired outcomes for local development agendas (Winarna et al., 2021).

2.2. Integrated government internal control system maturity on local development

Government internal control system has been regarded as a crucial aspect in local governments (Benedek et al., 2014), specifically in financial management that undeniably hold a significant part for local development agenda (Saragih, 2022). Indonesia's implementation of integrated GICS can be expected to make certain that the government's financial processes are effective and efficient, especially when the maturity is better (Van Rensburg & Coetzee, 2016). In regards to local development, integrated GICS will play a crucial role, especially considering the main goals of integrated GICS in Indonesia to realize an accountable government that performs effectively and efficiently, produces reliable information, and complies to the mandated regulations. It can be expected to improve government programs implementation by securing public interests to meet the desired goals. Thus, it may play a significant role in supporting the realization of local development goals.

On a technical level, good implementation of integrated GICS cannot be separated from a technologically assisted and well-organized system (Smidt et al., 2019). Therefore, the monitoring and evaluation of the government programs implementation can be carried out well for continuous improvement (Sarens & Abdolmohammadi, 2011) specifically to tackle the existing local development issues. Further, higher GICS maturity can help ensure that government development programs are effective and efficiently executed to deliver a good impact to the people. The local governments' development programs can be adequately monitored so that they can achieve the desired result with the best internal supervision (Sari et al., 2019), specifically the improved level of local development in various dimensions such as human development, economic development, and poverty. Based on the description above, the researcher formulates the following hypothesis.

H1a: Integrated GICS maturity positively affects human development.

H1b: Integrated GICS maturity positively affects inclusive economic development.

H1c: Integrated GICS maturity negatively affects poverty.

2.3. Risk management and local development

Every organization will always suffer risk that may result in fraudulent actions more specifically in financial resources (Hashim et al., 2020; Winarna et al., 2021). In regard to local development, risks will threaten the realization of development goals that are expected from local government programs. In practice, the severity of risks will increase whenever an entity is not aware. Hence, risk assessment is very necessary (Dabbagolu, 2012), especially in maintaining organizational accountability. Risk assessment is also crucial in public governance (Wardhani et al., 2017). Bager (2011) even recommends that risk management should be applied to a wider section of the public sector. Better risk management helps local government to enhance performance accountability (Yasin et al., 2019) to realize accountable government functions from planning, budgeting,

and realization. In the planning and budgeting stages, risk management will help identify and prevent unfavourable activities with irrelevant output and outcomes so that the budget can be allocated to better spending. Further, in the realization stage, risk management will help ensure the compliance of government programs both from financial and procedural aspects. Therefore, risk management can be expected to result in good local development following the concept from COSO (2013). Local government with better risk management practices can be expected to reach better human development, inclusive economic development, and lower poverty. Finally, the hypothesis of the study is stated as follows.

H2a: Risk management positively affects human development.

H2b: Risk management positively affects inclusive economic development.

H2c: Risk management negatively affects poverty.

2.4. Corruption control effectiveness and local development

Corruption is a relevant issue in the Indonesian local government (Arifin et al., 2015; Sarwono et al., 2018). Thus, the integrated GICS is equipped with a corruption control effectiveness aspect. The integration of internal control and code of conduct is important for anti-corruption practices (Le et al., 2021). Corruption, which refers to the misuse of public office resources for personal gain, can significantly hinder the progress and effectiveness of government projects and programs (Lewis & Hendrawan, 2020). When corruption is prevalent and remains unchecked, it can divert public resources away from essential development projects, leading to inefficiencies and the misallocation of funds. Here is where the corruption control is needed (Liu & Lin, 2012). When strong and effective corruption control instruments are in place, they act as a safeguard against corruption practices (Maulidi & Ansell, 2022). The existing corruption patterns should be identified (Ibrahim et al., 2018) as the initial step for corruption control. The role of the public must also be optimized through the use of social communication and networks to strengthen the institutional capacity of the citizens in combating corruption (Kopotun et al., 2020). Finally, by preventing corrupt behaviours and promoting transparency, accountability, and integrity within the government, local government can create a conducive environment to realize successful development goals (Asiedu & Deffor, 2017). Therefore, the effectiveness of corruption control is expected to play a crucial role in determining the success of government development initiatives. It is also essential for local governments to prioritize and implement robust anti-corruption strategies to ensure that resources are utilized effectively for development purposes. By doing so, local governments can realize inclusive development and improve the overall welfare of the local people, indicated by higher human development, inclusive economic development, and lower poverty level. Based on the description above, the researcher formulates the following hypothesis.

H3a: Corruption control effectiveness positively affects human development.

H3b: Corruption control effectiveness positively affects inclusive economic development.

H3c: Corruption control effectiveness negatively affects poverty.

3. RESEARCH METHOD

3.1. Design, population, samples, and research data

The design of the study is a causality study with hypothesis testing to obtain empirical evidence regarding the effect of integrated GICS on local development in Indonesia. The study uses a quantitative approach. The population of this research is all local governments in Indonesia in 2021 following the implementation of integrated GICS in 2021. Research samples are selected by using the purposive sampling method with the following criteria: 1) registered in the Ministry of Internal Affairs; 2) publish audited financial statement; and 3) provide complete data that the research needs. We finally generate a total sample of 444 local governments for our observation. As for the research data, we use

secondary data from the authorized institutions in Indonesia such as the Ministry of Internal Affairs (Kemendagri), Financial and Development Supervisory Agency (BPKP), Ministry of Finance, Central Agency of Statistics (BPS), and Ministry of National Planning and Development (Bappenas).

3.2. Variables and measurement

The dependent variable of our study is *local development* which is represented by various development aspects namely *human development*, *inclusive economic development*, and *poverty*. The independent variable of the study is the *implementation of integrated GICS* that consists of *integrated GICS maturity*, *risk management*, and *corruption control effectiveness*. The measurement of the independent variables is using the assessment score provided by the Financial and Development Supervisory Agency. We also control the other factors outside of the independent variables that consist of *fiscal decentralization*, *local wealth*, *local government geography*, and *local government type*. The details of our research variables are reported as follows.

Table 1. The details of the research variables

Variable	Notation	Measurement
Dependent variables: Local development		
Human development	HDI	Local human development index (LHDI), published by the Central Agency of Statistics (BPS).
Inclusive economic development	IEDI	Inclusive economic development index, published by the Ministry of National Planning and Development.
Poverty	POV	Percentage of people living under the poverty line, published by the Central Agency of Statistics (BPS).
Independent variables: The implementation of integrated GICS		
Integrated GICS maturity	MAT_GICS	Local government integrated GICS maturity assessment score, provided by the Financial and Development Supervisory Agency, with the following measurement: 1 < score < 2: Initial (Level 1); 2 < score < 3: Developing (Level 2); 3 < score < 4: Defined (Level 3); 4 < score < 5: Managed and measured (Level 4); 5 < score < 6: Optimum (Level 5).
Risk management	MRI	Risk Management Index, provided by the Financial and Development Supervisory Agency, with the following measurement: 1 < score < 2: Initial (Level 1); 2 < score < 3: Developing (Level 2); 3 < score < 4: Defined (Level 3); 4 < score < 5: Managed and measured (Level 4); 5 < score < 6: Optimum (Level 5).
Corruption control effectiveness	CCE	Corruption Control Effectiveness Index, provided by the Financial and Development Supervisory Agency, with the following measurement: 1 < score < 2: Initial (Level 1); 2 < score < 3: Developing (Level 2); 3 < score < 4: Defined (Level 3); 4 < score < 5: Managed and measured (Level 4); 5 < score < 6: Optimum (Level 5).
Control variables		
Fiscal decentralization	DECEN	Natural logarithm value of central government transfer fund per capita.
Local wealth	WEALTH	Natural logarithm value of total assets.
Local government geography	GEO	Dummy variable: 1: local government located in Java; 0: local government located outside Java.
Local government type	TYPE	Dummy variable: 1: city local government; 0: district local government.

3.3. Data analysis

We conduct an initial analysis by examining the descriptive statistics of our research variables. Variable correlations are also examined to detect potential multicollinearity issue among research variables. Then, the primary analysis to examine the effect of integrated GICS implementation on local development is performed with

multiple regression analysis, considering that the observation period is only one year in 2021 as the first year of integrated GICS implementation. Further studies can extend the observation period and use panel data regression for the hypothesis testing analysis following the use of panel data. In this study, the regression equation is presented as follows:

$$HDI = \beta_1 MAT_GICS + \beta_2 MRI + \beta_3 CCE + \beta_4 DECEN + \beta_5 WEALTH + \beta_6 GEO + \beta_7 TYPE + \varepsilon \quad (1)$$

$$IEDI = \beta_1 MAT_GICS + \beta_2 MRI + \beta_3 CCE + \beta_4 DECEN + \beta_5 WEALTH + \beta_6 GEO + \beta_7 TYPE + \varepsilon \quad (2)$$

$$POV = \beta_1 MAT_GICS + \beta_2 MRI + \beta_3 CCE + \beta_4 DECEN + \beta_5 WEALTH + \beta_6 GEO + \beta_7 TYPE + \varepsilon \quad (3)$$

development achievement by the local governments in Indonesia is still below the high level overall with an average value of 69.9. In terms of *inclusive economic development*, we find that local governments on average have achieved satisfactory level. As for *poverty*, the result demonstrates that there is still 12.273 per cent of people living below the poverty line. The gap between the highest and the lowest achievement in local development variables unfortunately is still significant. The *implementation of integrated GICS* as our independent variables is represented by the *integrated GICS maturity, risk management, and corruption control effectiveness*. The statistics show that the overall level of *integrated GICS maturity* is still at the developing stage with an average value below 3 for all measures. The descriptive statistics for our research variable are presented in the following Table 2.

4. RESULTS

4.1. Descriptive statistics

The data analysis begins with descriptive statistics to generate the general summaries of the data. To begin with, we focus on examining *local development* as a dependent variable. *Human*

Table 2. Descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min	Max
HDI	514	69.927	6.497	32.84	87.18
IEDI	471	5.484	0.521	3.02	6.96
POV	514	12.273	7.459	2.38	41.66
MAT_GICS	449	2.661	0.413	1.145	3.665
MRI	449	2.168	0.549	1	3.456
CCE	449	2.105	0.595	1	3.277
DECEN	508	27.677	0.402	26.843	28.878
WEALTH	503	28.609	0.728	24.517	31.458
GEO	514	0.249	0.433	0	1
TYPE	514	0.196	0.398	0	1

In addition, we conduct spatial analysis to provide a clearer illustration of local development based on geographic regions. Overall, we also witness that disparity still becomes a prominent issue in local development in Indonesia, especially in the East Indonesian region indicated with a red-coloured area (Nugraha & Prayitno, 2020). Firstly, the spatial analysis on local human development shows that there is still a considerable gap in the East Indonesian region. As for inclusive economic development, the achievement of local government has met satisfactory levels in all regions. However, the achievement of local governments in East Indonesia is again still below West Indonesia. Secondly, it is also confirmed that the poverty issues in the East Indonesian region are more severe. The results of spatial analysis are presented as follows.

Figure 1. Spatial analysis of human development in Indonesian local governments



Figure 2. Spatial analysis of inclusive economic development in Indonesian local governments

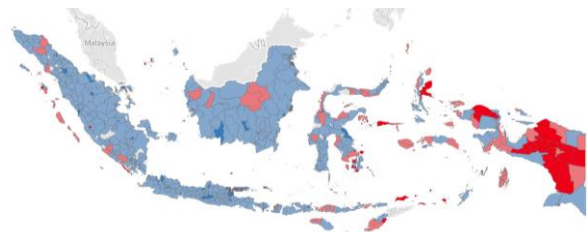


Figure 3. Spatial analysis of poverty in Indonesian local governments



We also test the correlation among our research variables. We find no collinearity among our explanatory variables. Therefore, the regression model can be performed to conduct the hypothesis testing. The result is presented as follows.

Table 3. Correlation matrix

Variables	HDI	IEDI	POV	MAT_GICS	MRI	CCE	DECEN	WEALTH	GEO	TYPE
HDI	1.000									
IEDI	0.818	1.000								
POV	-0.598	-0.576	1.000							
MAT_GICS	0.409	0.486	-0.390	1.000						
MRI	0.343	0.397	-0.318	0.695	1.000					
CCE	0.226	0.256	-0.198	0.340	0.514	1.000				
DECEN	-0.004	0.064	-0.013	0.202	0.202	0.035	1.000			
WEALTH	0.258	0.210	-0.141	0.230	0.301	0.114	0.578	1.000		
GEO	0.252	0.369	-0.118	0.357	0.223	-0.025	0.480	0.358	1.000	
TYPE	0.643	0.561	-0.318	0.190	0.142	0.058	-0.324	0.057	0.048	1.000

4.2. Multiple regression analysis

The hypothesis testing is performed with multiple regression analysis. We find that integrated GICS maturity overall has contributed to local development with a positive effect on human development and inclusive economic development while having a negative effect on poverty that confirms *H1a*, *H1b*, and *H1c*. As for the examination of risk assessment's effect on local development, the result demonstrates no significant effect on all local development measurements. Thus, *H2a*, *H2b*, and *H2c* are not supported. Further, corruption control effectiveness has also provided positive implication on local development by having a positive effect on human development and economic development while having a negative effect on poverty. These findings confirm *H3a*, *H3b*, and *H3c*. The result is presented as follows.

Table 4. Multiple regression analysis

Variables	HDI	IEDI	POV
	(1)	(2)	(3)
MAT_GICS	5.145*** (0.804)	0.306*** (0.0691)	-7.112*** (1.136)
MRI	-0.408 (0.630)	0.0384 (0.0522)	-0.0796 (0.891)
CCE	1.591*** (0.439)	0.125*** (0.0366)	-1.266** (0.620)
DECEN	0.336 (0.810)	0.108 (0.0675)	0.277 (1.145)
WEALTH	0.832** (0.404)	-0.0206 (0.0326)	-0.381 (0.571)
GEO	1.276** (0.615)	0.276*** (0.0500)	0.219 (0.870)
TYPE	8.364*** (0.634)	0.688*** (0.0520)	-4.186*** (0.896)
Constant	18.55 (18.57)	1.693 (1.565)	37.98 (26.25)
Observations	444	412	444
R-squared	0.532	0.536	0.288

Note: * significant at 0.1; ** significant at 0.05; *** significant at 0.01.

We also perform subsample analysis based on local government type by classifying local governments into district and city local governments. In district local government examination, we document consistent results in almost all of the findings, except for the effect of *corruption control effectiveness* on *poverty*.

As for the district local governments subsample, we similarly evidence consistent effect to the main analysis for the effect of *integrated GICS maturity* and *risk management* on *local development*. *Integrated GICS maturity* has a positive effect on *human development* and *inclusive economic development* index and a negative effect on *poverty*. Here, *risk management* also has an insignificant

effect on all dependent variables. Meanwhile, the effect of *corruption control effectiveness* in city local governments is less pronounced on *human development* and *inclusive economic development* as the effects are not significant. Finally, the effect on *poverty* is consistent with negative effect. The result is presented as follows.

Table 5. Subsample analysis — District local governments

Variables	HDI	IEDI	POV
	(1)	(2)	(3)
MAT_GICS	5.188*** (0.912)	0.234*** (0.0775)	-7.177*** (1.348)
MRI	-0.240 (0.722)	0.0661 (0.0589)	-0.495 (1.067)
CCE	1.649*** (0.506)	0.161*** (0.0418)	-1.180 (0.748)
DECEN	-0.540 (0.987)	0.149* (0.0820)	0.513 (1.459)
WEALTH	0.807 (0.541)	-0.00136 (0.0430)	-0.435 (0.800)
GEO	1.937** (0.770)	0.274*** (0.0622)	0.352 (1.138)
Constant	42.80* (22.98)	0.0778 (1.941)	33.84 (33.97)
Observations	361	330	361
R-squared	0.314	0.353	0.216

Note: * significant at 0.1; ** significant at 0.05; *** significant at 0.01.

Table 6. Subsample analysis — City local governments

Variables	HDI	IEDI	POV
	(1)	(2)	(3)
MAT_GICS	3.359* (1.782)	0.551*** (0.155)	-5.378*** (1.531)
MRI	-0.847 (1.217)	-0.0929 (0.107)	1.773 (1.045)
CCE	0.937 (0.837)	0.0154 (0.0722)	-1.262* (0.719)
DECEN	2.770* (1.469)	-0.0440 (0.126)	-1.142 (1.262)
WEALTH	0.703 (0.578)	-0.00630 (0.0496)	-0.180 (0.497)
GEO	0.386 (0.969)	0.226*** (0.0833)	-0.614 (0.832)
Constant	-28.31 (31.56)	6.015** (2.709)	57.93** (27.10)
Observations	83	82	83
R-squared	0.259	0.273	0.222

Note: * significant at 0.1; ** significant at 0.05; *** significant at 0.01.

In addition, we also perform robustness test for regression Model 2 and Model 3. For Model 2, we split the inclusive economic development index into three pillars. Pillar 1 (*IEDL_P1*) is economic growth and development while Pillar 2 (*IEDL_P2*) is income equality and Pillar 3 (*IEDL_P3*) is expansion of access and opportunity. We document consistent results in Model 2 both for Pillar 1, 2, and 3 examinations.

The robustness test for Model 3 uses variable proxy changes by changing the measurement of *poverty* variable with *poverty severity* (POV_SEVER) index and *poverty depth* (POV_DEPTH). We also find consistent results for the integrated GICS maturity and risk

management on poverty. Meanwhile, the effect of *corruption control effectiveness* is less pronounced in this robustness test as the effect becomes insignificant on *poverty severity* and *depth*. The robustness test result is as follows.

Table 7. Robustness analysis

Variables	Model 2			Model 3	
	IEDI_P1	IEDI_P2	IEDI_P3	POV_SEVER	POV_DEPTH
MAT_GICS	0.212***	0.252***	0.738***	-0.415***	-1.389***
	(0.0746)	(0.0732)	(0.156)	(0.142)	(0.324)
MRI	0.0786	-0.0684	-0.00649	-0.139	-0.261
	(0.0565)	(0.0574)	(0.119)	(0.112)	(0.254)
CCE	0.0849**	0.178***	0.261***	-0.0869	-0.209
	(0.0394)	(0.0400)	(0.0828)	(0.0778)	(0.177)
DECEN	0.0224	-0.0898	0.319**	-0.0510	-0.109
	(0.0731)	(0.0737)	(0.153)	(0.143)	(0.326)
WEALTH	0.0366	-0.0249	-0.115	0.0521	0.0654
	(0.0353)	(0.0368)	(0.0741)	(0.0716)	(0.163)
GEO	0.245***	0.0700	0.607***	-0.0796	-0.0808
	(0.0542)	(0.0560)	(0.114)	(0.109)	(0.248)
TYPE	0.745***	0.0184	1.123***	-0.262**	-0.869***
	(0.0564)	(0.0577)	(0.118)	(0.112)	(0.256)
Constant	2.056	8.692***	-2.469	2.159	8.121
	(1.694)	(1.691)	(3.556)	(3.289)	(7.482)
Observations	415	444	415	444	444
R-squared	0.501	0.126	0.435	0.127	0.193

Note: * significant at 0.1; ** significant at 0.05; *** significant at 0.01.

5. DISCUSSION

The study discovers that integrated GICS maturity contributes to local development in Indonesia. Higher integrated GICS maturity results in better human development, more inclusive economic development, and lower poverty levels. Our findings confirm that the importance of GICS in local governments (Benedek et al., 2014), especially in supporting the development agenda (Saragih, 2022). The finding also implies that the concept of maturity is important (Van Rensburg & Coetzee, 2016) to be implemented in the GICS. The finding does confirm the concept of agency theory (Adams, 1994) and COSO's (2013) internal control framework that emphasizes the importance of internal control implementation to achieve organizational goals, especially local development goals in the Indonesian local government context. The finding is also in line with the objectives of the COSO internal control framework in which the GICS practices that aim at achieving the organizational objective effectively and efficiently, safeguarding state assets, and comply to the mandated regulations. Further, the finding provides contribution to the development of agency theory and COSO internal control framework by enriching the literature based on the findings that extends the relevance of the concept in the public sector.

The positive contribution of integrated GICS on local development also emphasizes that the integrated GICS maturity is necessary to secure public interests and improve government programs implementation to meet the desired goals in the form of good local development outcomes. In relation to this finding, local governments in Indonesia should have commitment to the improvement of integrated GICS implementation within all departments to cover all local government functions implementation. It is important for local governments to adopt organize the system well and utilize information technology to reach higher GICS

maturity (Smidt et al., 2019). Therefore, it can cover the monitoring and evaluation over government programs implementation and continuously improvement the outcomes (Sarens & Abdolmohammadi, 2011) specifically in local development aspects.

As for the risk management variable, our examination demonstrates no significant effect on local development, both for human development, inclusive economic development, and poverty level. This empirical evidence does not support the hypothesis that is developed based on the concept of agency theory and the COSO framework. The insignificant effect arises because that the practices of risk management are not optimum yet in Indonesian local governments so that the implementation of risk management has not contributed significantly to reduce agency problem that causes issues that impede local development. Indeed, the implementation of integrated GICS that integrates the risk assessment component has just begun in 2021. Several local governments are still not ready to implement the risk management. In this regard, these local governments still do not have the local regulations that regulate how risk management is implemented as a part of the governance processes. Or else, these local governments are still initiating the development of risk management. Therefore, it becomes urgent to improve the practice of risk management in Indonesian local governments to contribute significantly to local development. It requires the role of the Financial and Development Supervisory Agency as the authorized institution. Local governments should be given proper guidance and monitoring in building risk management so that this component can function well in accordance with the purpose.

Finally, we reveal that corruption control effectiveness contributes significantly to local development. Better corruption control effectiveness results in greater human development outcomes and

more inclusive economic development while contributing to lowering the poverty level. The finding supports the integration of corruption control effectiveness to the integrated GICS in Indonesia, considering the importance to tackle corruption issue within the local government (Muhtar et al., 2018). It is also important because the weakness of the control system has resulted in many corruption cases (Sundari & Retnowati, 2021) that impede the development agenda within the country (Alfada, 2019). Indeed, since the decentralization, corruption issue in local governments has followed the implementation of fiscal decentralization and becomes a dilemma to be solved (Fatoni, 2020). With the corruption control effectiveness integrated to the GICS, local government will be able to fight corruption more independently, not merely relying on the Corruption Eradication Commission (Umam et al., 2020). This result is in line with of COSO's (2013) internal control framework that supports the concept of agency theory (Adams, 1994). Corruption control as a part of anti-corruption instrument can help manage agency relationship, specifically in controlling the opportunistic behaviour of the government executives and employees in performing their function to be free from corruption to realize good local development. Based on the result, the implementation of effective corruption control must be maintained and even continuously improved by the local governments through relevant innovations and good coordination with the Financial and Development Supervisory Agency.

6. CONCLUSION

The study aims at investigating the effect of integrated GICS implementation on local development in Indonesia. Our findings overall suggest that most of the regions in Indonesia have delivered a considerably satisfactory local development achievement. However, there are still local governments with dissatisfactory local development outcomes that confirm the disparity and inequality issues that still exist in Indonesia. Our empirical analysis using multiple regression

reveals that integrated GICS maturity and corruption control effectiveness provide valuable contribution to local development, as indicated by having a positive effect on human development and inclusive economic development while having a negative effect on poverty. However, we document that risk management has no significant effect on human development, inclusive economic development, and poverty. Thus, the implementation of risk management is still not adequate to positively contribute to local development as it is still at an early stage. The research offers practical implications to the authorized government authorities in the form of recommendations that can be useful for enhancing the integrated GICS practice in Indonesian local governments to realize local development agendas. Firstly, we recommend that the local governments to have a great commitment to integrated GICS implementation to improve its best practices for the sake of safeguarding public interests, particularly in realizing local development outcomes. Secondly, we suggest that the Financial and Development Supervisory Agency as the regulator to provide adequate support to local governments for the improvement of integrated GICS, such as monitoring, guidance, training, certification, etc. It can be expected that the optimum implementation of integrated GICS can contribute to the improvement of local development so that it can be enjoyed by all of the regions in Indonesia.

The study offers a considerable contribution to the development of the public sector literature as one of the earliest studies that explore the role of integrated GICS in Indonesia in promoting local development, especially considering that the implementation of integrated GICS just started in 2021. It is also important for future studies as one of the basis for further development of the integrated GICS implementation. Nevertheless, the study still contains a limitation in that the study only involves the 2021 observation period as the first year of integrated GICS implementation. Further studies can compile the data even further to cover future periods and generate more observations so that the findings can get even more robust.

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