Internal Control and Organizational Performance: Evidence From A Local Government Agency In Indonesia

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Abstract

This study examines the effect of internal control on organizational performance at the Medan City Trade Office. A quantitative causal design was applied. The population comprised 74 civil servants, all of whom participated through a census sampling technique. Data were collected using a five-point Likert-scale questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. Internal control was assessed through compliance with standard operating procedures and regulations, risk identification and response, segregation of duties and authorization, information and communication, and monitoring and evaluation. The hypothesis test yielded a path coefficient of 0.282, a t-statistic of 2.232, and a p-value of 0.026. The relationship between internal control and organizational performance was therefore positive and statistically significant at the 5% level. The findings underline the importance of embedding internal control in routine public-sector processes. Practical implications include consistent implementation of procedures, risk-based supervision, clear responsibilities, and periodic performance evaluation. The findings should be interpreted within the limits of the single-agency setting and the tested relationship.

Keywords: internal control; organizational performance; public sector; PLS-SEM.

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Introduction

Organizational performance in the public sector reflects an agency's ability to achieve its objectives, implement programs, and provide services effectively, efficiently, and accountably. Public organizations operate under requirements for regulatory compliance, stewardship of public resources, service quality, and transparency. Weak supervision, inconsistent procedures, unclear responsibilities, and limited evaluation may undermine these objectives. An adequate internal control system is therefore important not merely as an administrative requirement, but as a set of processes embedded in daily operations.

The Medan City Trade Office performs public functions related to trade affairs, including market management, consumer protection, business development, and monitoring the distribution of goods. Such responsibilities require coordinated workflows, clear authorization, reliable information, risk awareness, and ongoing monitoring. Internal control can help management identify operational risks, prevent errors and irregularities, and assess whether activities remain aligned with organizational objectives.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) frames internal control as an integrated process involving the control environment, risk assessment, control activities, information and communication, and monitoring [1]. In Indonesia, Government Regulation No. 60 of 2008 establishes the Government Internal Control System (SPIP) and provides a regulatory foundation for internal control in government agencies [2]. These frameworks provide the theoretical and institutional basis for expecting internal control to support organizational performance.

Prior studies listed in the reference collection provide related evidence across different contexts. Afila et al. examine internal control and good corporate governance in fraud prevention [3], while Anggasari et al. investigate internal control, compensation suitability, and morality in procurement-related fraud prevention [4]. Faurini and colleagues connect internal control systems with accountability and work culture [9], and in a related study examine internal control and service quality in relation to good university governance [5]. Safitri and Nasution discuss internal control in retail inventory management [6]. In the North Sumatra government context, Nasution et al. examine internal audit quality under time-budget pressure [7], while Nasution and Yulisfan discuss factors associated with internal-audit effectiveness [8]. Umar and Nasution also report that the government internal control system is positively associated with corruption prevention, including through accrual-based accounting implementation [10]. These studies support the relevance of control and assurance mechanisms but do not, by themselves, establish the effect on organizational performance in the specific trade-office context.

The research gap is therefore contextual and empirical rather than a claim that the relationship has never been studied. Evidence from organizations with different mandates, procurement, retail inventory, higher education, and internal audit, cannot automatically be generalized to a local government trade office. This study contributes a focused test of the internal-control-organizational-performance relationship in the Medan City Trade Office, using a census of 74 civil servants. Its practical novelty lies in applying established internal-control concepts to a specific public-service setting and translating the results into operational recommendations. The study asks: does internal control have a positive and significant effect on organizational performance at the Medan City Trade Office?

The objective is to analyze the effect of internal control on organizational performance. The study is guided by the COSO internal control framework and the Indonesian SPIP regulatory framework. Because the study tests one predictor and one outcome, the theoretical argument is intentionally parsimonious: control procedures, risk responses, authorization, communication, and monitoring are expected to help employees coordinate work and manage operational risks, which may support achievement of organizational targets.

Literature Review

2.1 Internal Control and Grand-Theoretical Foundation

Internal control is understood here as a process undertaken by management and personnel to provide reasonable assurance regarding the achievement of operational objectives, reliability of information, and compliance with applicable requirements. COSO's framework [1] provides the principal conceptual lens. Its five components are mutually reinforcing: the control environment establishes responsibilities and expectations; risk assessment identifies events that may impede objectives; control activities implement responses; information and communication support coordination; and monitoring evaluates whether controls continue to operate as intended.

For the Indonesian public sector, Government Regulation No. 60 of 2008 on SPIP [2] provides the institutional context. COSO is used as the principal conceptual framework, while SPIP anchors the discussion in public-sector regulation. The article does not claim that either framework is a separate statistical variable; rather, they inform the definition and operationalization of the internal-control construct.

2.2 Organizational Performance

Organizational performance refers to the extent to which an organization achieves its planned outputs and objectives. In public services, performance should not be reduced to financial outcomes alone; it can include target achievement, timeliness, resource efficiency, service quality, responsiveness, and accountability. These dimensions are used in this study as context-appropriate indicators of organizational performance. The indicators represent respondents' assessments and should not be interpreted as independently audited agency-level outcome measures unless corroborated by administrative performance data.

2.3 Prior Studies and Research Positioning

The selected literature is related but not identical to the present model. Afila et al. [3] focus on internal control and good corporate governance in fraud prevention; Anggasari et al. [4] examine internal control among several predictors of procurement fraud prevention; Faurini et al. [5] and Faurini and Nasution [9] examine control in relation to university governance and accountability; Safitri and Nasution [6] address inventory control; and Nasution et al. [7] and Nasution and Yulisfan [8] provide evidence from internal-audit studies in North Sumatra's public sector. Umar and Nasution [10] examine government internal control and corruption prevention. Collectively, these studies support the importance of control processes for governance, accountability, fraud prevention, and operational discipline. Their differing dependent variables and organizational settings mean they are contextual supports, not direct replications of the current hypothesis.

2.4 Conceptual Framework and Hypothesis

The conceptual framework illustrates the proposed relationship between internal control and organizational performance. Internal control is positioned as the independent variable (X), while organizational performance is the dependent variable (Y). Based on the COSO framework [1] and the Government Internal Control System (SPIP) [2], effective internal control is expected to support organizational performance through improved operational processes, risk management, accountability, and monitoring.

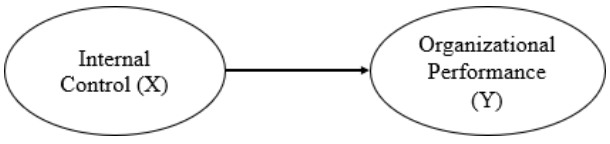


Figure 1. Conceptual Framework of the Relationship between Internal Control and Organizational Performance

Internal control is expected to contribute to organizational performance by clarifying responsibilities, reducing the likelihood of errors and deviations, enabling early identification of operational risks, improving coordination through information and communication, and providing feedback through monitoring. This expected relationship is consistent with the COSO framework [1] and the SPIP context [2]. The empirical test evaluates the direction and statistical significance of the association between the two constructs.

H1: Internal control has a positive and significant effect on organizational performance at the Medan City Trade Office.

Research Methodology

2.5 Research Design, Population, and Data Collection

This study uses a quantitative approach with a causal research design. The research setting is the Medan City Trade Office. The population consists of 74 civil servants (ASN), and all population members were included as respondents using census (saturated) sampling. Primary data were collected using a closed-ended questionnaire with a five-point Likert scale. The manuscript does not report the fieldwork dates, response-rate details, item wording, or respondent demographic profile; these details should be added if available in the underlying thesis or research records.

2.6 Variables and Operationalization

Internal control is the independent variable (X). Its indicators are compliance with SOPs and regulations; identification and handling of work risks; segregation of duties and authorization; effective work information and communication; and periodic monitoring and evaluation. These indicators are adapted to the operational setting of a government agency and conceptually informed by COSO [1] and SPIP [2]. They should be described as study-specific operational indicators, not as a verbatim one-to-one measurement of all five COSO components.

Organizational performance is the dependent variable (Y), assessed through target achievement, timeliness, efficiency in resource use, service quality, responsiveness, and accountability. These indicators reflect public-sector work outcomes as represented in the questionnaire. The instrument, item counts, item sources, and exact wording were not included in the supplied manuscript and have therefore not been invented in this revision.

2.7 Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The measurement model was assessed using convergent validity, discriminant validity, and reliability. Hypothesis testing used bootstrapping, with the path coefficient, t-statistic, and p-value considered. Statistical significance was evaluated at the 5% level ($p < 0.05$). The results below reproduce the reported statistics from the supplied manuscript; no new model estimation was performed for this revision.

3 Results and Discussion

3.1 Measurement Model

The supplied manuscript reports Average Variance Extracted (AVE) of 0.513 for internal control and 0.521 for organizational performance. Cronbach's alpha is reported as 0.724 and composite reliability as 0.802 for internal control; for organizational performance, Cronbach's alpha is 0.752 and composite reliability is 0.819. These values exceed the commonly used thresholds stated in the original analysis (AVE > 0.50 and reliability coefficients > 0.70). However, the original manuscript notes that these measurement values came from a thesis model containing multiple constructs and

were not re-estimated specifically for the single-predictor model presented in this proceeding. Accordingly, they are reported as supporting information from the thesis analysis, not as proof that the measurement model was re-estimated for this article. Before publication, the authors should verify that the reported loadings and reliability estimates correspond to the same 74 respondents and the final items used in this manuscript.

4.2 Hypothesis Testing

The hypothesis was tested using the path coefficient, t-statistic, and p-value obtained from the SmartPLS analysis. The results were evaluated at a 5% significance level, with a p-value below 0.05 indicating a statistically significant relationship. The results of the hypothesis testing are presented in the table below.

Table 1. Reported hypothesis-testing results

Relationship	Path coefficient	t-statistic	p-value / decision
Internal control → Organizational performance	0.282	2.232	0.026 / Supported

Source: Processed using SmartPLS (2026).

The path coefficient is positive ($\beta = 0.282$), and the reported p-value of 0.026 is below 0.05. The t-statistic of 2.232 is also consistent with statistical significance at the conventional 5% level for a two-tailed test. Therefore, H1 is supported by the reported analysis. The coefficient indicates a positive relationship in the estimated model; it should not be interpreted as a 28.2% increase in organizational performance. Because the design is questionnaire-based and cross-sectional as described, causal wording should be understood within the limitations of the research design.

4.3 Discussion

The results indicate that stronger internal control is positively associated with organizational performance at the Medan City Trade Office. Conceptually, adherence to procedures helps standardize task execution; risk identification helps employees anticipate disruptions; segregation of duties and authorization clarify accountability; information and communication support coordination; and monitoring provides feedback about whether work is aligned with targets. These mechanisms are consistent with the integrated view of control articulated by COSO [1] and with the public-sector control environment established by SPIP [2]. Research in Indonesian institutions also associates internal control with accountability and governance outcomes [5], [9], while Umar and Nasution [10] report a positive relationship between the government internal control system and corruption prevention. These findings provide contextual support for the importance of control, although they do not directly test organizational performance at a trade office.

The finding is broadly consistent with the relevance of internal control in related Indonesian studies, while the outcomes studied differ. Afila et al. [3] connect internal control and governance with fraud prevention, and Anggasari et al. [4] examine control as part of a combination of factors associated with procurement fraud prevention. Faurini et al. [5] link internal control systems and service quality to good university governance, while Faurini and Nasution [9] report a positive contribution of internal control systems to accountability. Safitri and Nasution [6] illustrate the role of control in inventory management. Nasution et al. [7] and Nasution and Yulisfan [8] provide a public-government perspective through their studies of internal-audit quality and effectiveness in North Sumatra. Umar and Nasution [10] further connect the government internal control system with corruption prevention. These comparisons reinforce the practical importance of control but should not be presented as direct empirical confirmation of the same dependent variable.

The contribution of this study is consequently specific: it supplies evidence from one local government trade office, where work involves coordination across trade-related public services. For management, the result supports maintaining consistent SOP implementation, mapping operational risks, documenting authorization, ensuring timely information exchange, and using monitoring

findings to correct work processes. These actions should be tied to measurable service targets rather than treated only as compliance documentation.

Several limitations should temper interpretation. First, the sample comprises 74 respondents from one agency, which limits generalizability. Second, questionnaire responses may be affected by common-method bias or social desirability; independent performance records and additional data sources would strengthen future studies. Third, the manuscript does not provide effect size (f^2), coefficient of determination (R^2), predictive relevance (Q^2), confidence intervals, outer loadings, HTMT values, or full item-level information. These statistics should not be fabricated and should be added if available from the original SmartPLS output. Finally, the reported measurement statistics originated in a broader thesis model and should be reconciled with the exact model reported in the article.

4 Conclusion

This study examined the relationship between internal control and organizational performance at the Medan City Trade Office. Based on the reported SmartPLS output, internal control has a positive and statistically significant relationship with organizational performance ($\beta = 0.282$; $t = 2.232$; $p = 0.026$). The hypothesis is therefore supported at the 5% significance level. The finding is consistent with the conceptual emphasis on integrated control processes and the Indonesian SPIP framework.

The practical implication is that the agency should strengthen consistent compliance with SOPs and regulations, risk identification and response, clarity of task segregation and authorization, effective information and communication, and periodic monitoring and evaluation. The contribution is contextual evidence from a local government trade office rather than a claim of a wholly new general relationship. Future studies should include multiple local government agencies, use objective service-performance indicators alongside questionnaires, and report complete PLS-SEM diagnostics, including effect size, R^2, predictive assessment, confidence intervals, and detailed measurement-model results.

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