Effectiveness of Public Sector Audit Reports in

Indonesia

(Preceding and Following Audit Reform)

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Statement of Originality

This thesis is duly my own work and it contains no material which has previously been accepted in the award of any other degree in any other university. The thesis contains no material written by any other person, except where due reference is made in the text.

Septiana Dwiputrianti

March 2011
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Abstract

This research aims to enrich the existing literature on public administration, public accountability and public sector auditing. The research was undertaken through a comprehensive examination of the quality of information in the audit reports of the Indonesian State Audit Institution (Badan Pemeriksa Keuangan or BPK) with comparisons made between pre audit reform (1945-2000) and post audit reform (2001-2009). The study also evaluates the factors influencing the effectiveness and ineffectiveness of BPK audit information. To achieve these purposes, two main research questions were the focus of the study: How is the quality of information in BPK audit reports before and after audit reform? What are the key factors influencing the effectiveness and ineffectiveness of information in BPK audit reports?

Data were collected through triangulation of observations, documentation, questionnaires and personal interviews. Purposive sampling and snowball techniques were applied in this study. The respondents and key informants engaged in this study were:(i) BPK auditors, Board members and managers; (ii) members of both central and regional Parliaments; (iii) public sector officials (auditees) at both the central and local level; and (iv) academics, researchers, and non government organisations (NGO).

The study revealed that the Indonesia’s Executive (the President, Governors, Regents and Mayors) has historically neglected the roles and functions of BPK. Since the third amendment of the 1945 Constitution in 2001, the Indonesian government has reformed laws and regulations related to public sector auditing, including setting new rules for strengthening and improving BPK’s roles and functions. In situation where the Indonesian government needs immediate reform, BPK has been attempting to improve its professionalism and independence to provide better quality audit reports.

Independence, professionalism and integrity are among the most important factors that influence public sector audits. However, in the past, BPK auditors lacked independence as the Executive influenced its administration and finances. Auditors also lacked opportunities to increase their professionalism by undertaking additional education and training. Since there was little incentive for auditors not to accept audit fees from auditees, the objectivity and integrity of auditors were reduced significantly.

Fortunately, in response to the audit reform in 2001, the roles and functions of BPK have been strengthened. BPK has been able to give much more attention to education, training and the development of other skills and knowledge. BPK has also implemented improved remuneration and applied a rewards and sanctions system to strengthen auditor professionalism and integrity. This study revealed a significant improvement in the quantity and quality of BPK’s audit resources, including increases in the number of qualified auditors, representative offices, modern
equipment, and in the use of Information Technology (IT). However, the improvement in audit resources have not quite matched with the increasing number of auditees and the authority given to the BPK. In terms of the quality of auditors, BPK has many new auditors, but they lack experience. To execute performance audits, BPK requires more auditors with diverse educational backgrounds in addition to accounting and finance.

The research also showed that many factors have impeded the ‘followup’ on information and recommendations in BPK audit reports. For example, Parliament’s lack of willingness to politically oversee the Executive, insufficient serious ‘buy-in’ by government to implement audit recommendations, and an unintegrated approach by authorised investigators to follow up on audit findings that indicate criminality and corruption. To what degree these factors influence the ineffectiveness of public sector audits remains an open question and an area for further research.

It is clear from the research that there is further space for improvement of BPK’s functions to enhance the quality of public administration and accountability. Towards this, the study suggests recommendations to the BPK relating to four different aspects, namely: legal basis, institutional and resources, effectiveness of audit reports, human resources development.
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<tr>
<td>AAB</td>
<td>Advisory Audit Board</td>
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<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>AIPRD-GPF</td>
<td>Australia Indonesia Partnership for Reconstruction and Development-Government Partnership Fund</td>
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<tr>
<td>APIP</td>
<td>Aparat Pengawasan Internal Pemerintah or Akuntabilitas Kinerja Instansi Pemerintah; Government Internal Auditors or Performance Accountability of Government Agencies</td>
</tr>
<tr>
<td>APRU</td>
<td>Association of Pacific Rim Universities</td>
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<tr>
<td>ANAO</td>
<td>Australian National Audit Office</td>
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<tr>
<td>Angbintama</td>
<td>Anggota Badan Utama; Member of BPK</td>
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<tr>
<td>ANZO</td>
<td>Audit New Zealand Office</td>
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<tr>
<td>APBD</td>
<td>Anggaran Pendapatan Belanja Daerah; Regional Government Budget</td>
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<tr>
<td>APBN</td>
<td>Anggaran Pendapatan Belanja Negara; State Government Budget</td>
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<tr>
<td>ASOSAI</td>
<td>Asian Organisation of Supreme Audit Institutions</td>
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<tr>
<td>AusAID</td>
<td>Australian Aid for International Development</td>
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<td>Bappenas</td>
<td>Badan Perencanaan Pembangunan National; The National Development Planning Board</td>
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<tr>
<td>Bawasda</td>
<td>Badan Pengawasan Daerah; Regional Supervision Agency</td>
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<tr>
<td>BI</td>
<td>Bank Indonesia; the Central Bank of Indonesia</td>
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<td>BLBI</td>
<td>Bantuan Likuiditas Bank of Indonesia; Liquidity Aid of the Central Bank of Indonesia</td>
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<tr>
<td>BKN</td>
<td>Badan Kepegawaian Negara; State Personnel Board</td>
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<td>BLU</td>
<td>Badan Layanan Umum; Public Service Board</td>
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<td>BNI</td>
<td>Bank Nasional Indonesia; Indonesia State Bank</td>
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<tr>
<td>BPK</td>
<td>Badan Pemeriksa Keuangan; Indonesian State Audit Board</td>
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<tr>
<td>BPKP</td>
<td>Badan Pengawas Keuangan dan Pembangunan; Financial and Development Supervisory Board</td>
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<tr>
<td>BPS</td>
<td>Badan Pusat Statistik; Central Board of Statistics</td>
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<tr>
<td>BRR</td>
<td>Badan Rehabilitasi dan Rekonstruksi; Rehabilitation and Reconstruction Board</td>
</tr>
<tr>
<td>BULOG</td>
<td>Badan Urusan Logistik; Logistic Agency</td>
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<tr>
<td>BUMD</td>
<td>Badan Usaha Milik Daerah; Regional-owned Enterprise</td>
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<td>BUMN</td>
<td>Badan Usaha Milik Negara; State-owned Enterprise (SOE)</td>
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<td>GAS</td>
<td>Ghana Audit Service</td>
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<td>GGR</td>
<td>The Comptroller General of the Republic</td>
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<tr>
<td>DPA</td>
<td>Dewan Pertimbangan Agung; Supreme Advisory Council</td>
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<tr>
<td>DPD</td>
<td>Dewan Perwakilan Daerah; the Senate</td>
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<tr>
<td>DPR</td>
<td>Dewan Perwakilan Rakyat; Parliament</td>
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<td>DPRD(s)</td>
<td>Dewan Perwakilan Rakyat Daerah; regional Parliament(s)</td>
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<tr>
<td>Fatwa</td>
<td>Legal decision, edict</td>
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<td>FCPP</td>
<td>Financial Crime Prevention Project</td>
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<td>US GAO</td>
<td>The United States Government Accountability Office</td>
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<td>GOI</td>
<td>Government of Indonesia</td>
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<tr>
<td>HAPSEM</td>
<td>Hasil Pemeriksaan Semester; Summary of Semester Report</td>
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<td>HRB</td>
<td>Human Resources Bureau</td>
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<tr>
<td>IAI</td>
<td>Ikatan Akuntansi Indonesia; Indonesian Accountants Association</td>
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<tr>
<td>IAR</td>
<td>Instructie en verdere bepalingen voor de Algemeene Rekenkamer; Instruction and further provisions for the Office of State Audit</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td>IBW</td>
<td>Indische Bedrijvenwet; Trade laws for the East Indies</td>
</tr>
<tr>
<td>ICW</td>
<td>Indische Comptabiliteitswet; Laws for financial accountability for the East Indies</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>ICW</td>
<td>Indonesian Corruption Watch</td>
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<td>INCOSAI</td>
<td>The International Congress of Supreme Audit Institutions</td>
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<td>INTOSAI</td>
<td>International Organisation of Supreme Audit Institutions</td>
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<tr>
<td>ISSAI</td>
<td>The International Standards of Supreme Audit Institutions</td>
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<tr>
<td>IG</td>
<td>Inspektorat Jenderal; Inspectorate General (IG)</td>
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<tr>
<td>JCPAA</td>
<td>Joint Committee of Public Accounts and Audit</td>
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<tr>
<td>KAP</td>
<td>Kantor Akuntan Publik; Public Accountant Office</td>
</tr>
<tr>
<td>KKN</td>
<td>Korupsi, Kolusi dan Nepotisme; Corruption, Collusion, and Nepotism</td>
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<tr>
<td>KPK</td>
<td>Komisi Pemberantasan Korupsi; the Corruption Eradication Commission</td>
</tr>
<tr>
<td>KY</td>
<td>Komisi Yudisial; Judicial Comission</td>
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<tr>
<td>LAN</td>
<td>Local Area Network</td>
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<tr>
<td>LHP</td>
<td>Laporan Hasil Pemeriksaan; Audit Result Report</td>
</tr>
<tr>
<td>LKBI</td>
<td>Laporan Keuangan Bank of Indonesia; Financial Statement of the Central Bank of Indonesia</td>
</tr>
<tr>
<td>LKD</td>
<td>Laporan Keuangan Daerah; Regional Financial Statement</td>
</tr>
<tr>
<td>LKL</td>
<td>Laporan Keuangan Lembaga; Institutional Financial Statement</td>
</tr>
<tr>
<td>LKPD</td>
<td>Laporan Keuangan Pemerintah Daerah; Financial Report of the Regional Government</td>
</tr>
<tr>
<td>LKPP</td>
<td>Laporan Keuangan Pemerintah Pusat; Central Government’s Financial Report</td>
</tr>
<tr>
<td>LP3ES</td>
<td>Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial; Economic and Social Research, Education and Information Agency</td>
</tr>
<tr>
<td>MA</td>
<td>Mahkamah Agung; Supreme Court</td>
</tr>
<tr>
<td>MENPAN</td>
<td>Kementrian Pendayagunaan Aparatur Negara; Ministry of Empowerment State Apparatus - changed to Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi (Ministry of Administrative and Bureaucratic Reforms) on the 2nd Cabinet of Susilo Bambang Yudhoyono</td>
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<tr>
<td>MK</td>
<td>Mahkamah Konstitusi; Constitutional Court</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>MPR</td>
<td>Majelis Permusyawaratan Rakyat; People’s Consultative Assembly</td>
</tr>
<tr>
<td>NAD</td>
<td>National Audit of Department</td>
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<td>NAO</td>
<td>National Audit Office</td>
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<tr>
<td>NAD Province</td>
<td>Nangroe Aceh Darussalam Province</td>
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<tr>
<td>NGO</td>
<td>Non Government Organisation</td>
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<tr>
<td>PAP/PAC</td>
<td>Panitia Akuntabilitas Publik; Public Accountability Committee</td>
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<tr>
<td>PAN</td>
<td>Partai Amanat Nasional; National Mandate Party</td>
</tr>
<tr>
<td>PDAM</td>
<td>Perusahaan Daerah Air Minum; Water Drinking Regional Enterprise</td>
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<tr>
<td>PDIP</td>
<td>Partai Demokrasi Indonesia Perjuangan; Indonesian Democratic Party-Struggle</td>
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<td>PDS</td>
<td>Partai Damai Sejahtera; Prosperous Peace Party</td>
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<tr>
<td>PHP</td>
<td>Provincial Health Project</td>
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<tr>
<td>PG</td>
<td>Partai Golkar; Golkar Party</td>
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<tr>
<td>PKB</td>
<td>Partai Kebangkitan Bangsa; National Awakening Party</td>
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<tr>
<td>PKS</td>
<td>Partai Keadilan Sejahtera; Prosperous Justice Party</td>
</tr>
<tr>
<td>PLN</td>
<td>Perusahaan Listrik Negara; National Electricity Company</td>
</tr>
<tr>
<td>PNS</td>
<td>Pegawai Negeri Sipil, Public/Civil Servants</td>
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<tr>
<td>PP</td>
<td>Peraturan Pemerintah; Government Regulation</td>
</tr>
<tr>
<td>PPATK</td>
<td>Pusat Pelaporan Analisis dan Transaksi Keuangan; the Centre of Reporting and Analysis of Financial Transaction</td>
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<tr>
<td>PPPI</td>
<td>Pusat Pengkajian Pelayanan Informasi; Centre for Information Service Research</td>
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<tr>
<td>PSAK</td>
<td>Pernyataan Standard Akuntansi Keuangan; Statement of Financial Accounting Standard</td>
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<tr>
<td>PSP</td>
<td>Pernyataan Standard Pemeriksaan; Statement of Auditing Standard</td>
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<tr>
<td>R2</td>
<td>Rehabilitation and Reconstruction Phase</td>
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<td>RAB</td>
<td>Reglement voor het Administratief Beheer; Regulations for administrative</td>
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</tbody>
</table>
management
Retribusi Charges or levies
ROE(s) Regional-owned Enterprise(s)
Rp. Rupiahs; Indonesian currency
SAI(s) The Supreme Audit Institution(s)
SAO Swedish National Audit Office
SOE(s) State owned Enterprise(s)
Sosialisasi Promoting an idea or program usually by disseminating information
SPAP *Standard Professional Akuntan Publik*; Professional Standard for Public Accountants
SPI *Satuan Pengawas Internal*; Internal Controller Unit
SPIP *Sistem Pengawasan Internal Pemerintah*; Government’s Internal Control System
STAR-SDP State Audit Reform Sector Development Project
SUN *Surat Utang Negara*; State Debt Letter
TMP *Tidak Memberikan Pendapat*; Disclaimer (No Opinion)
TW *Tidak Wajar*; Adverse Opinion
UN The United Nations
USAID The United States Aid
WDP Wajar Dengan Pengecualian; Qualified Opinion
WTP Wajar Tanpa Pengecualian; Unqualified Opinion
WTP-DPP *WTP Dengan Paragraf Penjelasan*; Unqualified Opinion with explanatory paragraph
Chapter 1

Statement and Rationale for the Research on the Indonesian Public Sector Auditing

This study examines the quality of information in audit reports produced by the Audit Board of the Republic of Indonesia and the reasons behind their ineffectiveness or effectiveness. Moreover, it addresses comparisons between pre and post audit reform in Indonesia. The research scope is limited to external, rather than internal, public sector auditing, due to concern over the performance and accountability of the Indonesian public sector.

This chapter begins by describing the definitions of different types of auditing, the development of auditing, and the importance of public sector auditing in public administration. Then it describes the research problems and the significance and objectives of the study before exploring the research design and methodology, and limitations of the study. Finally, the chapter gives a brief overview on the thesis structure.

1.1 Defining Public Sector Audit

Before proceeding further, working definitions and the purposes of two distinctive types of audit in the public sector, namely, financial (including compliance) and performance audits will be provided.

1.1.1 Financial (and Compliance) Auditing

Several definitions of ‘financial auditing’ (include compliance auditing) in public sector have been given by some academics as follows:

- Reviewing whether auditees’ financial statements, accounts, operations and other related financial information comply with laws and regulations and
present true and fair information (Gong 2009: 37; Hatherly and Skuse 1991 quoted in Sherer and Turkey 1997: 182-3; Nosworthy 1999: 4; Ramos 2006: 88-99). Russell (c2000: 25) added that financial audits include examining specifications of products and services to see whether or not auditees comply with the specified requirements or standards.

- Examining the financial reports of the public sector to seek information, obtain explanation, and provide justification from auditees in performing their transparency and accountability in managing public finance and resources (Mulgan 2003: 9). Moreover, in the context of public sector, Houghton and Jubb (2003: 299-300) added that the output of financial auditing is opinion of transparency and accountability of audited institutions from auditors. The auditors’ opinion is valuable information to reflect the financial and economic condition of a country in reducing risk for the public and market.

- Examining auditees’ financial reports and their compliance with laws and regulations, including audit standards, to support country’s anticorruption programs (Nicoll 2005: 146-7). For instance, the anticorruption program conducted by the Auditor General of the State Audit of Vietnam, the Brazilian Court of Accounts, and the Audit Board of the Republic of Indonesia (BPK).

- Verifying financial statements by referring and checking to a variety of evidence such as invoices, board minutes, contract notes, costing records and market values (Sikka 2009: 147).

Besides the above definitions, Gauthier (2005: 20-32) pointed out two purposes of financial auditing relating to accountability of the public sector. The first purpose is related to fiscal accountability, which requires the government to be accountable when
making decisions regarding the spending of public income and spending over a certain period (usually one fiscal year). The second purpose is related to operational accountability, which requires government agencies to meet their budget with operational objectives, and to provide financial statements based on audit standards.

The abovementioned definitions and purposes indicate three main points about financial audits related to the public sector. Firstly, financial audits are concerned with assessing and verifying whether the auditees’ financial transactions, evidence, records and reports have been presented with adequate transparency in accordance with audit standards. Secondly, financial audits—also called regulatory/compliance audits or process audits—verify financial processes to ensure and assure that financial transactions have complied with laws and regulations, including the audit standards. Thirdly, financial audits provides the auditor’s opinion to the public on the transparency and accountability of the public sector in managing state finances; and prevents or reduces corruption, fraud, and other misuses of state funds.

1.1.2 Performance Auditing

The second type of auditing is performance auditing (value-for-money auditing), which can be defined as follows:

- Evaluating the management performance of the public sector to provide better services and to reduce public costs and resource use (Funnell 1997: 89) or examining the effectiveness of programs or projects with concern on efficiency and the value of money (Broadbent 1992: 13).

- Providing recommendations for the better performance of public sector administration and stimulating the government to provide better goods and services and to use public resources effectively and efficiently (Houghton 1998: 30-35, Wheat 1991: 387-388).
Assessing the management and operational performance of programs, considering the 3Es (economy, efficiency and effectiveness) to achieve the administrative objective of the New Public Management (Politt, et. al 1999).

Examining the economy and efficiency of operations, the correctness of policies, and the extent to which the organisational objectives can be achieved (Andy 2002: 109-118).

Improving the value of public sector administration by providing constructive criticism and recommendations from auditors (Barrett 2003: 13). Due to the complexity and narrowness of contemporary policy issues and the changing of political culture, Wheat (1991: 387-388) believed that auditors are strategically positioned to provide recommendations for public agencies with a wider perspective, including on policy performance.

Examining the effectiveness, efficiency and accountability in the pre-contracting stage for public-private partnerships in line with the changes demanded from public organisations in administrating contracts with a variety of private agencies (English 2007: 331).

The above definitions present three common points that performance audits examine public sector institutions through: (1) their efficiency in using public money or other public resources; (2) their effectiveness in conducting programs and projects; and (3) their ability to develop the economy by using its resources in the most productive manner and by following up constructive audit recommendations for increasing performance and service delivery of the public sector. These three points clearly describe that performance audits go beyond financial audits by evaluating the costs, benefits and achievements of programs and policies. Besides, performance audits have a dramatic impact on recent
public administration by providing recommendations to improve the performance of public sector agencies and eliminating the ineffectiveness of public policies.

1.1.3 Difference between Financial and Performance Audits

Some literature explains the differences between financial and performance audits from different perspectives. In terms of ‘audit results’, Brown and Copeland (1985:3-8) pointed out that financial audit reports provide opinions on audited financial statements, while performance audit reports provide audit recommendations for obtaining better organisation performance. In terms of ‘audit standards’ and period of time, Politt et al. (1999: 9-16) argued that financial auditing is conducted yearly and is based on financial audit standards and procedures. In contrast, performance auditing is carried out more occasionally and is based on evaluation of performance criteria. Indicators to measure performance vary in terms of scope, length, focus and design in every public agency.

In terms of ‘auditor’s competencies,’ Sheldon (1996: 52) pointed out that performance auditing in the public sector requires a wide range of auditors’ competencies, ability, and educational background to design performance targeting in auditing. In contrast, financial auditors require specific competencies in financial and accounting backgrounds, and additional knowledge in public administration. In terms of ‘orientation’, Kitindi (1992: 8-11) believed that financial auditing is more related to examining financial reports whether the reports accord with the truth and facts, including compliance with the existing regulations. Whereas performance auditing has a broader future, long term and strategic orientation that makes it relevant to examine not only the outputs and results of programs, but also their expected impacts and benefits. In addition, Lindeberg (2007: 337-350) compared financial and performance auditing and non-audit evaluative practices. He argued that performance auditing has great differences with financial auditing, but greater similarity with program evaluation. Therefore, the recommendations from performance
auditing can be used for evaluating and monitoring the programs and policies implemented in the public sector.

Outside financial and performance audits, there are specific purpose audits that can be based on a request from the President, Members of Parliament, or government agencies that need immediate audits for certain purposes. Some examples of this type of auditing are related forensic, information technology (IT), environment, and financial reports (such as auditing for expenditure, tax income, non-tax income, subsidies, foreign loans, donors and foreign aid) for certain programs or projects.

Table 1.1 presents a summary of comparisons between financial and performance audits.

<table>
<thead>
<tr>
<th>Table 1-1 Comparison between Financial and Performance Audits</th>
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<tbody>
<tr>
<td><strong>Objective/Focus</strong></td>
</tr>
<tr>
<td>Examinining financial statements regularity and compliance</td>
</tr>
<tr>
<td><strong>Results</strong></td>
</tr>
<tr>
<td><strong>Auditor's competency</strong></td>
</tr>
<tr>
<td><strong>Time Period</strong></td>
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<tr>
<td><strong>Audit standard and norms</strong></td>
</tr>
<tr>
<td><strong>Orientation</strong></td>
</tr>
</tbody>
</table>

Source: Compiled from the following:
1.2 Development of Public Sector Auditing and Accountability

Academic authors have clearly described the development of public sector auditing in developed countries in line with the demand for more effective public accountability. Accountability is an essential process to ensure the elected politicians or public offices appointed to act responsibly and transparently (Schultz 2004: 2). This section describes the development of public sector auditing and accountability in the 1980s, 1990s and early 21st century.

In the 1980s, public administrators and auditing theorists and practitioners acknowledged the contestable and changing practice of public auditing. Staats (1981: 1-11) believed that the changing practice of public sector auditing was characterised by: (i) changing auditing practices to meet growing expectations from the public, (ii) growing auditing models as the number of complex problems increased, (iii) increasing number of evaluations on the performance of government programs, (iv) increasing scope of audits to evaluate issues of social accounting that concern society, (v) developing audit techniques for paperless transaction systems, (vi) establishing fraud prevention instead of fraud detection, and (viii) continuing education for auditors in information system technology.

In addition, Brown (1980: 259) highlighted the development and considerable growth of post audit and evaluation activities at the Legislative level. He found that public administration education and training circle paid little attention to issues of accountability and auditing. Guthrie (1989) also found a tremendous change in Australian public sector auditing as well as overseas on performance auditing for greater public accountability, rather than only administrative efficiency.

In the 1990s, the focus of public sector auditing changed from financial and traditional auditing to performance auditing with a focus on efficiency, effectiveness and economy, and providing recommendations regarding management. English and Guthrie (1991: 347-360) indicated several contestable and contentious issues in public sector
auditing, however, little attention was given by academics and professionals to research public sector auditing based on empirical data in specific areas. Guthrie (1992: 27-28) observed the development and changes in Australian public sector auditing that had a significant impact on the nature, scope, funding, organisation, staffing, and professional arrangements for public sector accountability. He also argued that public auditing has a significant function in maintaining the trust of public and Members of Legislative to the government’s administration. Moreover, due to greater concern for social justice and equity and for developing public administration, public sector auditing has expanded its role with the development of performance auditing. This was examined by Guthrie and Parker (1999) in the Australian federal public sector and by Jacobs (1998) and Guthrie and Parker (1999) in the New Zealand public sector.

In the early 21st century, the development of performance auditing in response to increasing demands for public accountability has continued. English and Guthrie (2000: 98-114) emphasised the greater role of audit institutions in conducting performance auditing. According to Peter (Durrant 2000: 80), audit can hold agencies accountable through transparency. Besides, he believes that audit can support governance reforms. Moreover, Power (2003b: 188-191) found a potential development of auditing in line with increasing demand on program monitoring in public sector agencies. In addition, he emphasised improving of the role of auditing as a result of the development of accounting standards and higher demand from the public on accountability and performance of public sector.

Therefore, the development and the role of the public sector auditing are increasingly important in the public sector. Audit institutions in the public sector are required to provide a broader role, not only for conducting financial audits, but also aimed more at performance audits. The relevant academic literature accurately portrays what public sector auditing has been facing in the late 1980s and more recently. However, most
of the studies and literature of public administration emphasised improving the role of public sector auditing in developed countries, instead of in developing countries such as Indonesia. Developing countries can learn from the experience of developed countries which had experienced to develop public sector auditing.

1.3 The Importance of Public Sector Auditing

The following sections describe the importance of auditing, especially for providing public accountability, effective and efficient administration, and good governance in the public sector.

1.3.1 The Role of Auditing in Public Accountability

Some scholars have argued that auditing has contributed to promoting the implementation of accountability in the public sector. Brooks and Parisher (1995: 72-83) claimed that public sector auditing is the key element in examining and evaluating government accountability in using public money and providing services to the public. Predengast (2003: 951) believed that the ability of bureaucracies to allocate public goods leads to a high level of inefficiency in the public sector. Public sector auditing can be an essential element in ensuring efficiency, effectiveness and accountability of the government to the public (Barrett 2000: 67).

In addition, Guthrie and English (1997:12) emphasised that the role of the Auditor General is a vital part of the Westminster accountability mechanism to ensure the accountability of the Executive Government (the President, Governors, Regents and Mayors) to public needs and interests. Similarly, Nosworthy (1999: 4) believed that an independent audit institution has the function to examine government agencies in order to hold the Executive to be accountable to the public in using public funds and resources.

According to Bovens (2005: 196-199), supreme audit institutions as external auditors of public sector have roles and functions in external administrative and financial
supervision that are closely related to administrative accountability. He (2007: 100) also underlined that most of administrative accountability deals with a form of diagonal accountability which helps parliament control but not as a part of the direct chain of Parliament and government as principal and agent. Audit institutions report their findings on financial accountability and performance of auditees to their stakeholders. Accountability of government agencies to the public and Parliament is called ‘horizontal accountability.’ Moreover, Day and Klein (1987: 10-12) underlined political accountability as the function of Parliament in reviewing the government agencies to hold them to account for their actions.

Coy and Dixon (2004: 81) also argued that there are three discerning report paradigms, namely stewardship, decision usefulness and public accountability. Stewardship “entails accountability between agent and principal”; decision usefulness considers “the information needs of existing and potential investors, lenders and similar suppliers of capital”; and public accountability “takes a broader perspective that encompasses social, political and wider economic interest”.

Gray et al. (1993: 3) also underlined that most government concern over the last three decades has been about how to control public expenditure and how to strengthen public accountability with auditing and evaluation instruments. Auditors have been aware that the understanding of accountability and openness in the public sector allows the public to criticize. The criticism can force the government to change and reform (Funnell 2003: 114). Uhr (1999: 100) underlined that an audit body is an accountability agency that holds auditees to be accountable in managing public funds and providing better public services.

Therefore, there is no doubt that auditing in the public sector has significantly affected assurance of government’s accountability in managing and using public funds and other public resources for providing better benefits and services for the public.
1.3.2 Audit for Effectiveness and Efficiency in Public Administration

In line with the political demands for greater accountability in providing better services to the public and efficiency in managing public resources, public sector auditing became a necessity for the public sector in recent decades (Power 2003b: 191). Members of Parliament as representative of the public have greater concern about the efficiency and effectiveness of the quality of public sector goods and services. Durrant (2000: 80) highlighted that public sector auditing is a prominent aspect for encouraging public sector agencies to improve their effectiveness and efficiency in public administration.

Efficiency in using public funds and resources reduces the resources needed to provide public goods and services, while effectiveness provides a certain result (outputs, outcomes, impacts and benefits) on the quality of goods and services provided by the government. By preventing the waste of public money, fraud and misappropriation expenditure, the government can allocate funds for a greater number and quality of public goods and services. As argued by Devas (1989: 271), external auditing can ensure all government’s income is “collected, accounted for and properly” used. Moreover, efficiency can provide lower costs of goods and services that influences tariff setting by the government, which is important for a country to be able to compete internationally (McIntosh 1997: 123-129). Funnel and Cooper (1998: 283) argued that effective public sector auditing can significantly improve public sector performance.

One of the big problems in managing public sector funds and resources is the possibility of misuse, fraud and corruption. Bertsk (2000: 61) argued that the role of auditing for uncovering and investigating fraud and corruption has been recognised in many countries. Oiken (2007: 200-248) provided evidence of a substantive reduction in missing expenditure in over 600 Indonesian village road projects, from 27.7 percent to 19.2 percent, after being audited by the external audit agency from a baseline 4 percent to 100 percent. Raman and Wilson (1994: 517-38) added that auditing can contribute specifically
to controlling and ensuring compliance with laws and regulations that prevent threats to society, including the practices of money laundering, fraud and corruption.

Therefore, effective public sector auditing can provide greater efficiency and effectiveness in public administration by examining the public sector agencies in preventing and reducing waste, abuse, fraud and corruption. This can improve the performance of public administration and public goods and services for the benefit of the public.

1.3.3 Auditing for Good Governance

Public auditing that holds for a transparency, accountability, efficiency, effectiveness, openness, preventing of corruption and excess expenditure, can promise good governance (Shimomura 2003: 167). This is also supported by Curtin and Dekker (2005: 36-37) who emphasised the principles of accountability, transparency, effectiveness and participation in public administration. They agreed that providing government accounting system and public sector auditing can provide accountability of public sector agencies which lead to good governance. Moreover, Barret (1996:137-146) argued that the audit institution is a part of the governance framework that influences the economic and social development.

An effective auditing practice is an essential precondition for good governance (Doig 1995:151). Similarly, Mulgan (2007: 24) found that the Auditor-General makes a significant contribution to the public accountability and public sector reform in Australia by standing up for values of transparency, probity and good governance. Innes et.al. (1997: 706) believed that audit reports enhance the credibility of the financial statements that are useful for investors in, and management of, the public sector.

Therefore, public sector auditing is an important tool for resulting in good governance in the long term. Auditing provides assurance of an appropriate use of
resources and prevents misuse, fraud, abuse and corruption of public funds and resources. It can maintain and improve public trust, including that of local and foreign investors and also tax payers.

1.4 Statement of Research Problem

Since 1946 (from the establishment of the Audit Board of the Republic of Indonesia, or BPK), public sector auditing in Indonesia has not significantly evolved in promoting transparency and accountability of government. The BPK was not as functional as it should have been and resulted in an ineffective public sector system and public administration, and lack of public accountability.

Since 1998, Indonesia has achieved a critical transition from a centralised authoritarian government in the New Order Era\(^1\) to a decentralised democratic government during the Reformation Era. As a result of fiscal decentralisation policy in 1999, the allocation for the regional expenditure budget has increased annually. For instance, the budget allocation in 2005, 2006, 2007 and 2008 reached Rp.150.5 trillion, Rp.226.2 trillion, Rp.252.5 trillion and Rp.271.8 trillion respectively\(^2\). The regional budget expansion requires greater public accountability and standard of governance in managing public finance (Booth 1999:14). Dwiyanto et.al (2003: 108-109) pointed out that decentralisation has worsened the practice of corruption, collusion and nepotism at the regional level, both Executive and Legislative. As a result, corruption skyrocketed and spread not only in the central government, but also in the regional governments and Legislatures. This condition requires BPK to work hard to perform its roles and functions

\(^1\) The New Order Era was under the leadership of President Soeharto (1968-1998); this replaced the Old Order Era (1945-1967) under the first leader of the Republic of Indonesia, President Soekarno.

to examine public sector accountability in managing and spending public resources, and to prevent misuse or abuse of public funds and resources.

From 2001, as mandated by the third amendment of 1945 Constitution, BPK was confirmed as the only external audit institution in Indonesia. BPK has worked very hard to provide better performance in auditing and to gain trust from the public. However, some analysts have still identified poor implementation of the Indonesian public sector auditing in performing its roles. As stated by Booth (2005: 216), the bad performance of public sector auditing was an indication of bad governance in Indonesia. Moreover, studies from the Asian Development Bank (ADB 2003; ADB 2004b; ADB 2004c) of Indonesian public sector auditing indicated problems of legal obstacles, absence of public accountability, unsettled audit institutional arrangements, insufficient numbers of qualified auditors and low public awareness of audit functions. Combined, these have influence ineffectiveness of public sector auditing in Indonesia. Therefore, in 2007, BPK was one of the most priorities of public sector institution that had to reform its organisation. This was due to the importance of the audit functions of BPK to improve the accountability and performance of the public sector.

Under the leadership of the President of the Republic of Indonesia, Bambang Yudhoyono, the government attempted to prioritising reducing corruption and creating good governance by reforming bureaucracy and public administration. This is his statement:

Success of development depends on the quality of the administrative order as well as the effectiveness and performance of the bureaucracy. Therefore, to improve the performance of the bureaucracy and to create good governance; gradual and planned bureaucracy reform is carried out by the government. Such reform embraces the balanced improvement of the work system, performance measurement, and implementation of discipline as well as remuneration. On this level, the reform process has started to be carried out by the Ministry of Finance, the Supreme Court, and the Audit Board. (Yudhoyono 2007: 3)

This statement indicates seriousness of President Yudhoyono to improve Indonesian performance in public administration and bureaucracy. The first step in achieving this
purpose is by reforming institutions that are closely related to state finance, administration of justice and public sector auditing.

The reform started with a significant change in Indonesian public sector financial management and auditing that influence the reform on institutional, organizational arrangements and policies. The significant audit reforms were covered by the national media such as Republika (3rd October 2004), which stated that the Government of the Republic of Indonesia had made strong efforts since the third amendment of the Constitution in 2001. The legislation and policies from 2003-2007 related to public sector auditing and accounting showed the seriousness of the government’s attempts to enhance accountability and transparency of state finances through the improvement of the roles and functions of public sector auditing. As stated by a senior official, in order to rebuild the Indonesian economy, it is been necessary to redevelop the accounting and auditing legal system (Rakyat Merdeka 2nd December 2006b).

Regrettably, the considerable growth and change of external public sector auditing in Indonesia has gone largely unnoticed. Research on the issue of audit reporting for accountability and performance and the factors influencing its ineffectiveness on Indonesian public sector auditing has had little attention from academics and professionals. Moreover, there has so far been a lack of detailed studies related to the comparative effectiveness of external public sector auditing in Indonesia before and after the reforms of the early 2000s. There is also lack of research into the reasons behind the continuing failure (impediments) of audit effectiveness in Indonesia comparing the two periods (before and after audit reform in 2001).

Thus, there are two major problems that motivate a study on the topic on external public sector auditing in Indonesia. The first problem is the limited interest by public administration scholars on the research of external public sector auditing reports, in particular, the lack of detailed case studies on the struggles of BPK after the reform in
improving public accountability of the Executive. The second problem is that although there have been some reforms and regulations to improve the roles and functions of the external public sector audits, there are still some factors that have significantly impeded the public sector audit effectiveness and these require deeper research. In addition, it is hoped that this study will be able to contribute to the general understanding of external public sector auditing in Indonesia. Particularly, the factors influencing the quality of audit reports for improving the transparency, performance and accountability of the public sector in public administration academic literature.

1.5 Significance and Objectives of the Study

This thesis is about assessing Indonesian external public sector auditing, preceding and following audit reform in 2001. First of all, the study rigorously examines the quality of information in the Indonesian external public sector auditing reports, which are issued by BPK. Secondly, this thesis evaluates some key factors influencing the effectiveness or ineffectiveness regarding the quality of audit reports. Through comprehensive analysis on the performance of the Indonesian external public sector auditing reports and its impacts to the transparency and development of public administration, the research will significantly contribute to gaps in the existing literature about auditing in Indonesia. It will also contribute to the general comparative and growing development of literature on different aspects of public sector auditing and administration.

Solomon and Trotman (2003: 409) highlighted an urgent need for auditing research “to pose and test theories that are well suited to the changing environment and task demands faced by auditors”. They found that since the first 25 years that Accounting, Organisations and Society journals were published, there is less of response from the academic than professional in responding to changes and development of public sector auditing. Moreover, Durrant (2008: 291) suggested studying variations in the adoption of administrative reforms across agencies, and examining their ability to reform for
achieving policy goals and identifying factors affecting the adoption of administrative reforms.

This study has two preliminary objectives in examining public sector auditing in Indonesia. The first main objective is to assess the quality of information and the extent of follow-up action on information in BPK audit reports, preceding and following audit reform in 2001. The second main research objective is to examine the key factors influencing reporting and follow-up action regarding the information in BPK audit reports before and after audit reform. It is hoped that this research will improve understanding of Indonesian public sector auditing for other researchers, professionals, and relevant regulatory and oversight bodies.

### 1.6 Research Questions

Early in this chapter it was pointed that this study aims to assess the Indonesian external public sector auditing both preceding and following audit reform. Within the study objectives identified earlier in section 1.5, this thesis will be guided by the following research questions:

1. How is the quality of information in reports of BPK both preceding and following audit reform in 2001?
2. What are the key factors influencing the quality of information in BPK reports and the extent of follow-up action preceding and following audit reform in 2001?

### 1.7 Research Design and Method

In providing more comprehension of the emerging field of Indonesian external public sector auditing issues, the study utilised an exploratory research design. The research process included a theoretical conceptual stage and the field research stage. The theoretical conceptual stage included a literature review that provided background for study and disclosed the room for improvement in public sector auditing in Indonesia.
Moreover, a historical analysis of Indonesia public sector auditing including the crucial time period of Dutch colonisation (before 1945) until the Reformation Era (1998-present) was described in this study. This provides insights into the process of development and change regarding public sector auditing in Indonesia. The field research explored primary and secondary data. The primary data was collected from questionnaires (see Appendix A) to the respondents, observations at BPK, and unstructured in-depth interviews ranging from half an hour to two hours with the informants.

The informants for primary data collection came from different groups of respondents and informants, namely: public sector agencies (auditees), BPK auditors and management, Parliament and regional Parliaments Members, General Secretariat of Parliament, and others (such as researcher, auditors from ANAO, ex-auditor of BPK, team leader of ADB, and secondment participants), to provide greater insight into the changing nature of external public sector audits in Indonesia. The list position of interviewees and the date of the interview can be found in Appendix B. The secondary data was collected from government documents (regulations, reports, statistical data, audit results and photos), printed media (newspapers, magazines), academic papers presented in local and international conferences, and relevant national/international seminars.

Analysis of the data was mainly qualitative descriptive with an applied triangulation method for verification. For ensuring the validity of data and information, data was collected from multiple resources including in-depth interviews, observations and document analysis (Creswell 2009: 199). As cited by Becker and Bryman (2004: 408), the triangulation method was used to enrich and check the validity and reliability of collected data and information. Solomon and Trotman (2003: 408) strongly believed that the triangulation method plays a valuable role in advancing audit studies. The various responses from questionnaires and information during the interviews, observations in BPK.
offices, and several secondary data sets were used in this study to check the validity and objectivity of data and information.

Non-probability with specific purposive sampling was the chosen technique, considering the complexity and specific characteristics of informants (Blaikie 2000: 212-213; May 1997: 87; Sproull 1988: 117). In order to provide reliable and valid data and information, key informants were selected through screening criteria related to their competencies or experience with public sector auditing. The study also applied the snowball sampling method whereby the number of respondents was determined based on the needs of information and suggestions from previous informants.

The primary collection of data proceeded through the following stages: (i) consulting with the thesis supervisors on the questionnaires based on the development of concepts and theories related to the quality of public sector auditing, (ii) getting approval from the Secretary General of BPK, audited entities, and Secretary General of Parliament to distribute the questionnaires and to interview the key informants (BPK auditors, auditees and Members of Parliament), (iii) collecting data from questionnaires to get preliminary information, (iv) doing further interviews from 5th November 2006 to 25th March 2007 during the first fieldwork phase, (v) classifying data and information based on the criteria to answer the research questions (vi) analysing data in Canberra from May to July 2007, (vii) collecting more data and information during the second fieldwork phase from 4th-9th August 2007, (viii) analysing data and writing up the research results, (ix) conducting further interviews and dialogue with key informants on 2nd September to 23rd December 2009 to get more data and information to uncover several sensitive cases and fast developments relating to public sector auditing in Indonesia.

Sixty-one key informants were interviewed. From the questionnaires, there were totaled 140 responded over 180 distributed. Those who came from BPK consisted of (i) BPK Board Members as leaders who decide on strategic reform and policies for BPK, (ii)
top and middle managers from different bureaus under the General Secretariat of BPK that manages resources and support for audit roles and functions, (iv) different groups of auditors of state finances (AKN) and representative offices that examine the financial reports and performance of public sector auditees, (iv) trainees (auditors who took part in some trainings), and (v) project managers who manage audit reform projects.

Respondents from the BPK auditors can be divided into five AKNs, namely AKN I (auditors for the Ministry of Defence, the Air Force, the Navy, the Police, and the Ministry of Transportation), AKN II (auditors for the Central Bank of Indonesia\(^3\) and the Ministry of Finance\(^4\)), AKN III (auditors for the Ministry of National Education, the Ministry of Health, and non-departmental agencies), AKN IV (auditors for all the regional governments), and AKN V (auditors for state-owned enterprises and banks). BPK’s regional offices of West Java Province in Bandung can be selected as representative of other regional offices in this research as following reasons: (i) the same characteristics as most representatives’ offices of BPK in terms of organisational structure, quality of new auditors, and under chief of state finance auditors (AKN) IV for local governments, (ii) the most densely populated province in Indonesia with about 40.918 million people (BPS 2008) and Bandung is the most dense city in West Java with 686,400 households (BPS West Java Province 2007), (iii) the second largest number of audited entities of BPK after

\(^3\) The Central Bank of Indonesia was chosen because this institution was a new audited entity for BPK starting from the Reformation Era and an important entity in terms of the case of BLBI (Liquidity Aid from the Central Bank of Indonesia to the state owned bank).

\(^4\) The Ministry of Finance was chosen because of the state financial management reform that has been conducted in this department since the Reformation Era.
East Java Province\(^5\), and (iv) the reasonable distance between the central government in Jakarta and West Java Province to reduce the risk of difficulties during data collection\(^6\).

Respondents and informants from the Executive as auditees are divided into seven categories. The first category was from central government (departments), namely the Ministry of Health (MOH), the Ministry of National Education (MONE), and the Ministry of Foreign Affairs (MOFA). MOH and MONE are selected because they (i) received large amounts of the government’s national policy subsidies to their budgets, (ii) accommodated the increasing demands for accountability in managing funds from international organisations and donors in Indonesia, and (iii) were priority institutions to be audited by BPK on the expenditure side. MOFA was chosen because of Indonesia’s recent policy on strengthening international relations, and the Ministry of Home Affairs because of the decentralisation policy. The second category was from central government (non-departments), namely the manager of the State Audit Reform-Sectors Development Project (STAR SDP) from the National Development Planning Board (Bappenas) and the Financial and Development Supervisory Board (BPKP) who provide information related to program reforms of the Indonesian public sector audit. The third category was from the Central Bank of Indonesia as one of the new and important auditees for BPK since audit reform. The fourth category was from state-owned enterprises (SOEs), namely the National Electricity Company (PLN) and the National Oil Company (Pertamina), due to the important issue of electricity and fuel subsidies. The fifth category was from regional-owned enterprises, namely the Water Drinking Regional Enterprise (PDAM) in Bogor and

\(^5\) This is based on summary data for audit results in Semester I of Year 2007, published on BPK’s website: http://www.bpk.go.id/doc/hapsem/2007i/disc1/pdf_ikhtisar/lampiran_I.pdf (entities of the central government)

\(^6\) Due to the major flood disaster and Vivian Influenza epidemic in Jakarta and other regions in Indonesia, from January-March 2007, during the fieldwork study, the researcher decided to concentrate on two places in the province to reduce risks.
Sukabumi, which provide clean drinking water and sanitation for people in regional areas. The sixth category was from state-owned bank, namely the Mandiri Bank that had the case of non-performance loans (NPL). The seventh category was from auditees from local governments, namely the West Java Provincial Government, Local Secretariat of West Java Province, and Bogor City local government. The eighth category was from Members of Parliament at both the central (DPR) and regional levels (DPRD), as primary stakeholders of BPK. The DPRD Members are from five different commissions and three different factions, namely Golkar Party (PG), National Mandate Party (PAN), and Prosperous Justice Party (PKS). Informants from DPRDs are Members of West Java Province and Kuningan District.

Other respondents and informants included: (i) researchers and academics, (ii) a manager from the Asian Development Bank (as an international organisation that has transferred the largest amount of money to reform Indonesia’s public sector external auditing), (iii) B-Trust, a Non Government Organisation, and (iv) auditors from ANAO for getting information related to a secondment program in financial and performance audits and other collaboration with BPK.

1.8 Limitations of the Study

This study is limited to before the audit reform of the period (1945-2001) and after the audit reform of the period (2001-2008), but not after these periods. During the fieldwork in 2007, Jakarta suffered a bad flood disaster that resulted in changes of informants from the original plans. Moreover, the informants were very busy and had very limited time for interviews. The greatest difficulty with this study was to make appointments with managers of public sector bodies and the Members of Legislative at central and local levels. The second limitation was that this study found over-optimism

7 Commissions are units within the legislative body in charge of certain affairs or tasks.
and a lack of honesty from respondents who filled out the questionnaires. Sensitive issues about inefficiency, corruption and fraud make it difficult for informants to speak honestly. Moreover, this study did not attempt to examine the integrity of BPK because it is difficult to find out the level of moral integrity, which is highly subjective and difficult to measure.

1.9 Structure of the Thesis

The thesis comprises eight chapters, as follows:

Chapter One introduces and presents the background of the study. This chapter presents definitions of different types of public sector audits, the development and importance of public sector auditing, and the statement of the research problem. It then describes the significance and objectives of the study, the research questions, the research method and design, the limitations of the study, and the structure of the thesis. Chapter Two, reviews the literature related to the quality of information in public sector audit reports and the factors influencing the effectiveness of audit reports. Chapter Three discusses the historical development of auditing practices in Indonesia before and after the audit reform in 2001 from different aspects, including culture, regulations, politics and institutional arrangements. This chapter provides better understanding of the comparison of the quality of the BPK reports pre and post audit reform. It also elaborates on the reasons behind the ineffectiveness of auditing in Indonesia by describing the historical development of Indonesian public sector auditing since the Dutch colonial period. Chapters Four and Five analyse data and information from different resources to establish the quality level of information provided in Indonesian public sector audit reports. Chapters Six and Seven apply the key factors influencing information that significantly contribute to effectiveness or ineffectiveness in Indonesian public sector audit reports. Chapter Eight provides a summary of findings related to the strengths and opportunities of the quality of BPK report information and the weaknesses of and threat to the quality of BPK report
information. Moreover, this chapter provides recommendations for BPK and suggestions for further research.
Chapter 2

Literature Review on Criteria and Factors for Quality of Information in Public Sector Audit Reports

This chapter reviews different sources of literature to assess the quality of audit report information in public sector auditing and to identify factors influencing reporting and acting on audit information. The quality of audit report information is divided into three parts, namely: (1) the content of, (2) communication of, and (3) acting on, information in audit reports. The review of the factors influencing the criteria is divided into two parts: (1) the factors influencing the quality of information; and (2) the factors influencing acting on information, in public sector auditing reports.

Table 2-1 Summary of Criteria for the Quality of Audit Information and Factors Influencing the Effectiveness of Information

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<th>Quality of Audit Information/Factors Influencing</th>
<th>Criteria</th>
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<td>1.</td>
<td>The quality of information in audit reports</td>
<td>1) Scope and objectives of auditing</td>
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<td></td>
<td>a. Content of information in the audit reports</td>
<td>2) Access for reliable audit evidence</td>
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<td></td>
<td>b. Communication of information in the audit</td>
<td>3) Objectivity of information</td>
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<td>reports</td>
<td>4) Credibility of information</td>
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<td>1) Clear and understandable audit</td>
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<td>information with precise and informative</td>
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<td>2) Timely reporting of audit information</td>
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<td>2.</td>
<td>Acting on information in the audit reports</td>
<td>1) Publication of audit reports</td>
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<td>2) Realistic audit recommendations</td>
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The following sections review academic literature related to the quality of information in public sector audit reports and the factors influencing effectiveness or ineffectiveness of information in public sector auditing reports. Table 2.1(above) provides a summary of criteria for the quality of information and the factors influencing the effectiveness of information that will be described in the following sections.

2.1 The Quality of Information in Public Sector Audit Reports

The following sections review academic literature related to the quality of information in public sector auditing reports.

2.1.1 The Content of Information in the Audit Reports

The quality of information in the audit reports can be examined from the content of information; including the scope, objectives, objectivity and credibility of information in audit reports.

Scope and Objectives of Auditing

Wilkins (1995: 423-425) argued that there are differences in the auditing scope for financial and performance auditing. He argued that the scope in financial auditing can be measured from the number of agencies audited and the proportion of opinions qualified, while the scope in performance auditing can be evaluated from the number and value of audit recommendations for improvement in the public sector. He also emphasised that the purpose of an audit office is to fulfill the mandate for the audit office to improve the performance of public sector agencies.
The recent growth of the auditing scope in the public sector has changed from financial auditing to performance auditing to examine the achievements and outputs of public sector agencies as demanded by the public. Guthrie (1992: 27) also underlined that auditing for only financial statements may reduce the scope of audits. Moreover, Mikesell (2003: 216) underlined that audits can no longer just focus on financial detail concerned with how money was spent, but must go further and give attention on performance audits. Glynn et.al (1992: 66) argued that effective auditing occurs when it is done through evaluation of the purpose, impact and accountability of programs undertaken by the government, which also commonly called ‘value for money’ auditing.

According to Brown and Pethtel (quoted by Wheat 1991: 386), the scope of performance audits includes examining and analysing the auditees’ structure, planning, decision making, personnel, compliance with statutes, quality of goods and services, efficiency, output and purposes of programs and projects, performance standards, and policy alternatives and strategies. This is much broader than that of a traditional financial audit. Furthermore, Funnell (2003: 115) believed that performance audits have more strategic consequences of the public accountability of government that protect the right of citizens to get better public goods and services. This means that the scope of performance auditing is broader than for financial audits in terms of assessing the results, outputs, benefits and impacts of public sector organisations in the short, medium and long term.

In Sri Lanka since 1971, the Auditor General has been allowed to conduct more than financial audits and has the authority to conduct performance audits of public sector operations (Hemaratne 2005: 23-25). In Australia, under various public sector reforms to improve the accountability of government, the auditing scope of the Australian National...
Audit Office (ANAO) has moved from financial auditing to performance and environmental audits (Barrett 1999:48). Guthrie (1990: 280-282) indicated a positive relationship and impact of various scopes of auditing to levels of accountability, which are called the ‘ladder of accountability’. This is illustrated in Figure 2.1.

**Figure 2.1 Different Levels of Accountability and Scope of Auditing**

![Diagram showing different levels of accountability and scope of auditing]


Figure 2.1 shows five levels of accountability each with a different scope of auditing. The lowest level of accountability is related to the ‘accountability for probity and legality’ within the scope of financial auditing, which is applied to avoid misuse and to ensure that public funds and other resources are used properly. The second level is ‘process accountability, where internal and external auditors apply the scope beyond financial auditing to ensure the internal system and procedures are recorded and acted on adequately. In this second level, auditors provide performance indicators and standards to measure the achievements of organisations or individuals. For example, to check methods for assets safeguarding and the accuracy of information systems, to promote operational
efficiency and to provide quality control standards. The third level of impact is ‘performance accountability,’ within the scope of performance auditing and which focuses on the standard of performance against a set of criteria. In this level, auditors focus on the efficiency, effectiveness and economy of public resources. The fourth level is ‘program accountability,’ within the scope of performance auditing, to determine whether the objective of each program in the public sector is found to promote effectiveness in public administration. This scope of auditing is also called ‘effectiveness’, ‘results’ or ‘program’ auditing. The highest level impact of auditing is ‘policy accountability’, which focuses on performance auditing that is concerned with outcomes and opinions on economy and effectiveness. In policy accountability, public sector auditing focuses on examining and evaluating public sector policies. In this level, auditing has an important role and function to evaluate and assess public policies so that they are relevant and based on public needs and interest.

As all public funds need to be audited by the Auditor General as an external auditing institution, Mulgan (1997: 113-114) argued that private companies that provide public services using state finances also need to be audited by the Auditor General. However, he believed that as private firms, they have a right to have their own private sensitive data and information. In this case, he suggested that if the public thinks that private firms could not provide accountability in providing their services, the government should not allow the service to be contracted out.
Access for Reliable Audit Evidence

According to Tandon et al. (2007: 77-78), audit reporting can be effective if the report is supported by sufficient, appropriate, accurate and reliable evidence. He defines sufficient evidence as the quantum of audit evidence that is obtained (quantity of evidence), and appropriate evidence as relevant and reliable evidence (the quality of the evidence). Moreover, he defined accurate evidence as the capability of providing correct information that conforms exactly to fact and is performed with care and precision, while reliable evidence is the degree of the auditors’ confidence in checking the originality of audit evidence. Wilkins (1995: 424) argued that the reliability of documents provided by auditees is considered for reporting on the performance and quality of agencies’ services. In addition, valid and reliable data can be defined as information and methods that are well grounded, based on truth, acceptable and assured for effective government auditing (Larson 1983).

Effectiveness of audit can be measured by ability and power to access the data and information as evidence in auditing. “Full access to all records and documents containing information” relating to the accounts and operation of government is essential for government auditing (Barrett 1996:137-146). Sufficient, competent and relevant evidence can provide a reasonable basis for auditors to make effective judgments, conclusions and recommendations in auditing; in contrast, inadequate evidence and information can lead to ineffective auditing (Larson 1983: 280; Thai 1992: 349).
Objectivity and Credibility of Information

Objectivity of information is a fundamental criterion for the quality of audit report information. Objective information refers to reporting information by auditors that is constructed by “using appropriate auditing techniques and having a good set of working papers to demonstrate professional judgment” (Sikka 2009: 145). As a result, the audit report users can be confident in the facts, analysis and findings presented. Without such objectivity, auditors will not provide objective criticism and will not be able to produce objective recommendations (Al-Nofaie 2003:22-24; Seno 2004b:4-7). Thus, objectivity of information can be defined as information reported by auditors using appropriate audit techniques and professional judgment to produce objective audit opinions and recommendations.

By providing unbiased and objective information in audit reports about whether state finances and other state resources are responsibly and effectively managed to achieve certain results, auditors help government agencies to achieve accountability and integrity to improve their programs, and to encourage trust from their stakeholders. It has been argued by some scholars (Russell and Regel 2000: 211; Tandon et. al 2007) that objectivity of information will be achieved if auditors are free from any bias and influences. These influences can be from internal pressures such as personal beliefs or interest, or external pressures such as pressure from auditees (Ferguson and Rafuse 2004:10-15; Mukhamediyeva 2004:7). In addition, presenting objective audit reports can reduce the possibility of misusing the reports for political purposes (Yoedono 2002b:6-7). However, Palmer (2008: 281-283) found the possibility of bias in audit reports can be caused by audit manuals that are not based on the research and literature to control the
level of bias. He suggested joining the research with practical application in auditing
guidelines for reducing bias in audit reports.

Credibility is significant in presenting unbiased evidence in audit reports to
convince stakeholders. According to Power (1994: 47) objectivity of information in
auditing is a very important as one of measurement to see the quality of audit reports. In
addition, Schwartz and Mayne (2005: 175) and Santiso (2008:67-84) argued that the
performance of audit reports and effectiveness of audits depends on the credibility of audit
findings, which are crucial for holding up the reputation of the Supreme Audit Institutions
(SAIs).

Therefore, objectivity of information can be defined as information presented in
audit reports based on honesty, high integrity and fair professional views and examination
without any personal and external influences intruding on judgment. Credible information
is related to the quality of information in audit reports that can be trusted by stakeholders,
auditees or users of the reports.

2.1.2 Communication of Information in Audit Reports

How auditors communicate information in audit reports to the stakeholders is also a
part of assessing the quality of information. It is necessary that the audit reports of an audit
institution meet three criteria, namely: (1) they are communicated clearly and
understandably, (2) they have precise and informative formatting, and (3) they are timely.
The following sections discuss further each indicator in communicating audit information.
Understandable Information with Precise and Informative Formatting

It is essential to report audit findings in a meaningful way that is widely understood. Brown (1980: 264) indicated that school of public administration can provide learning about the development of public sector audit that can help students and the community to understand the role of public sector auditing in examining government performance. In addition, Soedibyo (2003: 22-24) believed that the inadequacy of auditors to communicate their findings orally or in writing has had a strong influence on the effectiveness of government auditing, because if an audit report does not communicate its results effectively, then most likely it will not achieve its aims.

Skaerbaek (2005: 387-388) believed that reports can be a means of presenting information to others. He argued that innovative reports with an elegant layout on glossy paper, a multitude of pictures, fancy pie charts, and complete with short appealingly written stories of the most essential content, can impress Parliament. Besides, he underlines that reports producing numbers without much meaning for practical purposes are not considering the needs of different users from internal and external organisations.

Good quality communication and interaction orally or in writing between auditors and the audit committee will prevent misunderstanding between auditors and auditees (Krishnamoorthy et al. 2002:3-13). Bakti (2000a: 21) argued that in Indonesian, it is important to consider the culture of community in communication. He suggested using more sound communication concepts to encourage individual community Members to promote democracy and understanding. Thus, if the auditors do not communicate well, this may cause a lack of commitment by the auditees to the findings and recommendations of the audit report.
Russell and Regel (2000: 14-16) believed that “the audit reports should be ‘user-friendly’, so readers can easily understand what is being reported.” They provide tips for auditors to provide more user-friendly audit reports: use terminology that the user will understand, avoid acronyms when possible, be direct and to the point, use a standard format that may improve communication with auditees, and define unfamiliar or technical terms used in the audit report. The basic requirement for a clear and user-friendly audit report is that the users will understand the report. This is indicated by not having too many questions on the reports.

Timely Reporting of Information

A timely report of external public sector auditors to Members of Parliament and Ministers is essential in communicating audit findings. Scanlan (1998: 54-55) argued that the timely nature of reports to Parliament is the most real and concrete result of audit work as an early warning for stakeholders to put further attention and scrutiny on unnoticed issues in accountability and performance of the public sector. Similarly, Schwartz and Mayne (2005: 173) and Santiso (2008:67-84) believed that timeliness of the audit report’s distribution to the users is one indicator by which to assess the effectiveness of audits.

Firth et.al. (2009: 118-132) revealed that timeliness in disseminating sanction and enforcement information leads to higher transparency and provides up to date information for regulatory agencies in other parts of the world. This is also applied in the case of the timeliness of audit findings and results. If auditors do not publicly announce the report to stakeholders on time, the audit reports may not be used effectively (Soedibyo 2003:22-24). For instance, the Netherlands Court of Audit in 1999 obtained an expression of
dissatisfaction from Parliament due to a very late accounts publication (Dees and Linders 1999:11-12).

The recent development of communication and IT may make it possible to deliver audit findings and reports more quickly and on time. Russell and Regel (2000: 171) argued the development of communication technology helps auditors to distribute audit reports in a timelier manner.

2.1.3 Acting on Information in Audit Reports

The following sections discuss indicators of acting on information to examine the quality of information in audit reports, namely, (i) publication of the audit reports, (ii) realistic audit recommendations, and (iii) followup of audit findings and recommendations.

Publication of Audit Reports

To embed the accountability of government, the publication of audit reports opens opportunities for the public and media to get information on the government’s performance and policies. Guthrie (1992: 27) believed that increasing interest in public sector auditing influences the awareness of, and helps to explore, critical issues in public sector auditing. In addition, Widodo (2004:19-24 pointed out that publication of audit findings and recommendations enhance the quality of auditing information beyond the scope of “being obscure” from the public who also participate in assessing the information being reported. Mikesell (2003: 156) also argued that publication of the audit reports of government institutions would relatively important to reduce the possibility of the same findings and problems happening.
In democratic countries, there is a direct relationship between the mass media and the concept of publicity. Santiso (2008:67-84) argued that the media is an effective actor in publishing audit findings. He also believed that the publication of audit reports has a role in indirect enforcement to implement audit recommendations for auditees. Arter (2003: 97) suggested that to improve the effect of audits, after they are finished, a summary that highlights any positive and negative conclusions should be published promptly.

A limited exemption for unreported audit results may be allowed in certain circumstances, for instance, security interests. Nonetheless, these exceptions should not be too many in addressing government spending efficiency and effectiveness and maintaining public trust in an auditing institution. Kaltenback (1993:9-12) pointed out the case of the German government audit system under its democracy, which has fewer audits and reports with classified security interests than would be the case under a monarchy, had led to better efficiency. Moreover, he stated that in the case of security interests, there are limited numbers of auditors involved; they protect classified information to safeguard government spending which leads to greater efficiency. Moreover, Hope (2008: 271) found that management and national culture affect the quality of financial reporting because auditors would be more willing to disclose findings in audit reports.

Publications for corporate organisations that belong to the public sector, such as state-owned enterprises (SOEs) may have different characteristics. According to Mulgan (2008b: 23), SOEs may resist if the audit results are reported to the Legislative and published to the public. This is due to the data and information relating to commercial sensitivity, as SOE has a private sector background and largely commercial orientation.
As independent auditors of SAIs, they are required to report their findings after examining the financial and performance of the public sector agencies to the public (Chaturverdi 1987: 32; Guthrie and English 1997: 13). In addition, current communication technology development provides the opportunity to publish audit reports electronically by presenting them on a website (Debreceny and Gray 1999:335-50). Based on their case studies, Debreceny and Gray indicated that some public companies in France, Germany and the UK also provided a printed annual audit report version on their website. For the Organisation for Economic Cooperation and Development (OECD) countries, external audit reports are published routinely (Bertsk 2000: 314).

Therefore, publication of audit reports through printed or electronic media is one indicator of the quality of information relating to acting on audit reports that provide information about the performance of the public service.

**Realistic Audit Recommendations**

One of the measurements for the quality of effective information in audit reports is the provision of realistic audit recommendations. Wilkins (1995: 429) pointed out that the improvement in public sector accountability can be achieved through audit results and recommendations. This means that public sector audits can be effective if auditees put into action audit recommendations for better government performance and resource management, which will improve economy, efficiency and effectiveness.

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9 [www.bundesrechnungshaus.de](http://www.bundesrechnungshaus.de) (accessed on 15/03/2007).
For this purpose, auditors have to provide realistic and practicable audit recommendations for auditees to implement in order to improve their performance and public administration in general (Taylor 1996:147-56). Gendron et.al. (2007: 110) underlined the essential nature of auditor’s expertise in issuing recommendations and constructing performance guidance measurements to improve the management of government.

**Followup of Audit Report Findings and Recommendations**

The quality of information is also indicated by the followup to the audit report findings and recommendations. The advantages of auditing can only be realised when findings and recommendations have been followed up. Following up of auditing can be in the form of discussion in Parliament and corrective action in government-auditedentities (Marsidi 2002:12-16; Thai 1992: 350). Without any followup from Parliament, the Executive, or investigators, audit reports are useless and public accountability cannot be enforced. This means that an audit office provides audit report information to raise political interest among Members of Parliament to follow up by presenting political oversight and control that offers further action. Moreover, Chowdhurry (2005: 905) suggested that effective monitoring and controlling is needed for the implementation of the audit follow-up recommendations.

The internal auditor of a government agency has an important role in taking corrective action based on audit recommendations. Triadji (2004:9-12) described a situation where there was an absence of internal control to prevent corrupt government
management, and a lack of followup of an external audit report that caused difficulty in addressing accountability, and achieving transparency and good governance.

2.1.4 Summary

Table 2.2 (below) presents the definition of each criterion for the quality of information in public sector audit reports.
Table 2-2
Definition of Criteria for the Quality of Information in Public Sector Audit Reports

<table>
<thead>
<tr>
<th>No</th>
<th>Quality of Audit Information</th>
<th>Criteria</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Content and communication of information in audit reports</td>
<td>The quality of content and communication of information to measure the quality of effective information in public sector audit reports.</td>
<td></td>
</tr>
<tr>
<td>a.</td>
<td>Content of information.</td>
<td>Information that is contained in public sector audit reports.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1) Scope and objectives of auditing</td>
<td>Numbers and values of auditing, and the objectives of the audit office to improve the public sector.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2) Compliance with audit standards</td>
<td>Compliance of auditors with existing audit standards in conducting and reporting audit information.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(3) Access for reliable audit evidence</td>
<td>Information in audit reports is supported by reliable data and documents.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4) Objectivity and credibility of information</td>
<td>Information in audit reports is presented correctly, is intellectually honest, and free from all bias and influence, and leads to ensuring trust from stakeholders.</td>
<td></td>
</tr>
</tbody>
</table>
Table 2.2 continued

<table>
<thead>
<tr>
<th>No</th>
<th>Quality of Audit Information</th>
<th>Criteria</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2. Communication of information</td>
<td></td>
<td>The quality of written communication in audit reports to measure effectiveness of information in reporting audit results to stakeholders.</td>
</tr>
<tr>
<td></td>
<td>Clear and understandable information</td>
<td></td>
<td>Information that is easy to follow and understand to avoid misunderstanding by readers or stakeholders.</td>
</tr>
<tr>
<td></td>
<td>Precise and informative formatting</td>
<td></td>
<td>Information that is presented with interesting formatting, is brief, but is complete.</td>
</tr>
<tr>
<td></td>
<td>Timely reporting of information</td>
<td></td>
<td>Information from audit reports received by stakeholders on time.</td>
</tr>
<tr>
<td>b.</td>
<td>Acting on information</td>
<td></td>
<td>Acting on audit results and recommendations to measure the quality of effectiveness of information in public sector audit reports.</td>
</tr>
<tr>
<td></td>
<td>Publication of the audit reports</td>
<td></td>
<td>Information of audit findings and recommendations in audit reports is published in a printed or electronic format for the public.</td>
</tr>
<tr>
<td></td>
<td>Realistic government audit recommendations</td>
<td></td>
<td>Providing audit recommendations that are applicable and realistic for auditees to improve their organisation's performance.</td>
</tr>
<tr>
<td></td>
<td>Followup of findings and recommendations</td>
<td></td>
<td>Followed up by stakeholders, including Members of Parliament at both central and local levels, auditees and authorised investigators (the police, KPK and judiciary (Attorney General)).</td>
</tr>
</tbody>
</table>
2.2 Factors Influencing the Quality of Information in Audit Reports

Having established indicators regarding the quality of effective information in public sector audit reports, it is also necessary to identify the factors that significantly influence the success and failure of providing effective information in public sector audit reports. This study divides these factors into two parts: (1) content and communication of information, and (2) acting on audit information.

Table 2-3 Definition of Factors Influencing the Effectiveness of Information in Audit Reports

<table>
<thead>
<tr>
<th>No</th>
<th>The Quality of Information</th>
<th>Factors</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Content and communication</td>
<td>Factors influencing the quality of information in audit reports.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Independence of auditors and audit institutions</td>
<td>Free from bias, controls, interests, influence and pressure from any parties.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Integrity and professionalism of auditors</td>
<td>Moral of auditors and audit competency, knowledge, experience, skills, and personality in performing audits.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Internal and external quality assurance</td>
<td>Assessing the quality of audit performance via internal and external reviewers.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. Resources of the audit institution</td>
<td>Audit resources, including budget, personnel, offices, computers, internet, office equipment, regulations and IT (installation, implementation of computer systems and applications).</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Acting on information</td>
<td>Factors influencing acting on the information in audit reports.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Support from the Executive</td>
<td>Commitment of the Executive (auditees) to implement audit recommendations.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Support from the Legislature</td>
<td>Oversight from the Legislature on audit reports as a means to support their function in controlling the budget of the Executive.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Support from law enforcers</td>
<td>Investigation and taking action from law enforcers for audit findings indicating criminality and corruption.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. Cooperation with public and media</td>
<td>Publishing reports and controlling government to act accountably in managing public resources.</td>
<td></td>
</tr>
</tbody>
</table>

Table 2.3 (above) presents the definition of factors influencing the quality of information to explain how each factor is defined in this study.
2.2.1 Factors Influencing Content and Communication of Information

The following sections review literature on three key factors influencing the quality of information in terms of the content and communication of audit reports: (1) independence of the audit institution and auditors, (2) professionalism and integrity of the auditors, and (3) audit resources.

Independence of Audit Institution and Auditors

The independence of auditors and the audit office is an essential factor influencing the quality of audit reports. Guthrie and English (1997: 12) believed that this is fundamental to maintain public and Parliamentary confidence in the integrity and impartiality of audit opinions, recommendations and findings. He also emphasised that with independence, auditors are free of any direction from the Executive, bureaucracy and its auditees’. Power (2003b: 198) defined that an auditor’s independence as “the extent to which the auditor is dependent on the auditee for knowledge or can develop an independent knowledge base”. Moreover, Chowdhury (2005: 896) argued that the “auditor’s independence refers to auditors being independent of management in conducting audits and in the subsequent reporting process”. Andy (2002: 112) also believed that independence in the public sector is stronger than in the private sector. In the public sector, the extent of the auditor’s independence is related to the broader culture of different perspective groups (such as the public and politicians), not only to auditees.

The following sections focus on the independence of public sector audits, including an explanation of whom the audit institution is independent from, the rationale of independence, and aspects influencing independence in public sector auditing.
The Importance of an Audit Institution and Auditor’s Independence

It is widely accepted that being independent for auditees or government entities is crucial for public sector audit institutions to protect auditors from external pressure and to prevent actions that might limit the scope of its audit work. This is highlighted by:

- Guthrie (1992: 29) who argued that independence of audit functions is one of several important issues in public sector auditing;
- Funnell (1994: 179) who argued that state auditors should be independent of the Executive to ensure the confidence of Parliament in the impartiality and objectivity of the auditor’s findings.
- Politt and Sukma (1997: 313), White and Hollingsworth (1999: 92), who emphasised the importance of a high level of independence for Supreme Audit Institutions (SAIs) to enable auditors to perform their function in the accountability process.
- Houghton and Jubb (1998: 33) and Torres (2004: 447-456) who claimed that independence is the heart of the auditors’ profession and that they perform impartially, with intellectually honesty and are free from conflicts of interest both in fact and appearance.
- Miller (1992: 74-84), Barret (1996:137-46), Gendron and Cooper (2001: 278), Healy and Palepu (2001:405-40), Houghton and Jubb (2003: 310), and Windsor and Rasmussen (2009: 268) believed that independence of auditors is crucial to obtain credibility in audit reports. According to Barrett, credibility can only be gained if the Audit Board Members are independent and competent.
➢ Chen et.al. (2005: 167) found that “independent auditing plays an important role in maintaining and improving the integrity of financial reporting, which is crucial to the development of an active and efficient capital market”.

➢ Tandon et al. (2007: 24) believed that auditors’ independence can provide reliable information as the foundation for building the credibility of audit reports.

➢ Santiso (2008:31-34) argued that an independent audit institution contributes positively to improved financial management and negatively to prevent corruption and mismanagement.

This body of literature emphasises that independence is essential in public sector auditing because it influences the reliability and credibility of audit data and information. Additionally, it reduces outside pressure and influence, especially from within the Executive or auditees in reporting their performance and accountability to the public through Parliament. If auditors are not independent, then the value, credibility and integrity of the audit process is reduced and the trust in, and reputation of, the audit institution is threatened.

The need for independence in audit opinions, recommendations and reports is undisputed in maintaining trust from the public and Parliament (Guthrie and English 1997: 12). White and Hollingsworth (1999: 92) pointed out the importance of an independent audit institution in presenting impartial findings and assessing the government’s accounts and performance. In addition, Barzelay (2000:52-88) argued that independence in performance audits is essential for building confidence in the performance indicator concept.
The most common source that threatens the independence of audit institutions is the Executive. Houghton and Jubb (2003: 301) mentioned examples of these threats, such as intimidation and interpersonal associations. They (1998:30-35) also suggested protection for auditors from external pressure to maintain their audit independence. Bertsk (2000: 63) provided Japan and Finland as examples of OECD countries that have a growing concern for ensuring the independence of SAIs from the Executive in their daily operations.

Nicoll (2005: 105) argued that the work of SAIs can be influenced not only by the government, but also by the Legislature. He (2005: 176) provided an example of the possibility that auditors may be influenced by the Legislature, due to a very close relationship between the SAI and the Legislature, with the latter having the right to allocate budget for the SAI and to review its reports. Santiso (2008: 73-74) found the ineffectiveness of the National Audit Office of Argentina (Auditoria General de la Nacion, AGN) was due to political interference from the Legislature in the auditing process at several stages, from the audit plan to the followup of audit reports. Therefore, the risk of the SAI being controlled by the Legislature is high, because the Members of Legislature are the first and main stakeholders who receive and use the audit reports.

Debates about independence emphasises a different angle with higher-level expectations, particularly in relation to compliance with codes of ethics and audit standards (Barrett 2003: 8). As audit institution’s and auditor’s independence, both in mind and in appearance, have been included in most audit professional standards, compliance with professional audit standards is necessary to maintain the independence and performance of SAIs (Ackerman 2004:447-63). Moreover, independence is threatened if auditors are economically dependent on the auditees (Windsor and Rasmussen 2009: 268). This
argument indicates that providing audit services for and accepting compensation from auditees reduces the auditor’s independence.

The implementation of risk management in public sector bodies is also necessary to reflect the potential impact of risks that occur on audit organisations as also stated by Power (2003b: 199). Moreover, risk management covers the identification and mitigation of risks that may prevent an organisation from achieving its objectives (Crawford and Stein 2002: 122).

**Aspects of Audit Independence**

White and Hollingsworth (1999: 95) explored independent assessments of public institutions. Considering its complexity, they promote at least three dimensions to assess the independence of public institutions. First is establishing the organisational independence of the audit body as a state institution by examining certain questions, such as how the national audit office (NAO) is organised, how it is financed, and how it is related to other public institutions. Second is the independence of personnel in audit institutions. This is concerned with the extent to which personnel of an audit office or body are protected from external influences, in particular from auditees. Third is establishing the operational independence of the audit body by asking how the body operates or performs its functions on a daily basis or whether the audit body operates or performs its audit function without being dependent on any interested parties. Moreover, Funnell (1996: 113-114) argued that sometimes public sector audits have only ever enjoyed a form of conditional independence, instead of substantive independence. Substantive independence encompasses legal, political and financial independence, which means that the audit office is independent from the Executive in organising its institution, human resources, regulations and finance.
According to Gendron and Cooper (2001: 279), independence is a social construction from a variety of resources, including audit and organisation laws, professional regulations, audit practices, education about civics and the operation of democracies. Moreover, Guthrie and English (1997: 13) argued that the value of a public sector audit is in its independence that is bolstered by legislative, mandate and appropriate budget.

From this literature, the following sections explain some aspects that bolster the independence of audit institutions, namely: statutory, financial, and audit board and auditor’s independence. Related with the issues of negotiation between auditors and their client, Wang and Tuttle (2009: 222-243) suggested mandatory rotation which imposes auditors become not too close to their auditees and maintains independency in auditing.

**Statutory Independence**

White and Hollingsworth (1999: 92-93) explained that the independence of public external auditors can be established by legal means through a constitution or laws, and also through professional requirements such as those covered by audit standards for auditors. This indicates that audit independence is established by constitutions, charters or other basic legal documents that address the procedures and requirements for audit reporting and the obligations of auditees and auditors. For instance, the independence of the Japanese Board of Audit is established under the Constitution, which is free from the influences from the Cabinet\(^\text{11}\). Likewise, the State Audit Office of Finland, which is under the Constitution, is free of subordination to the Ministry of Finance\(^\text{12}\).

Houghton and Jubb (2003: 304) argued that the most effective method for taking action in order to solve problems affecting independence in auditing is to apply forcefulness and strict obedience to rules in order to control auditing from any improper influences. Windsor and Rasmussen (2009: 283-284) also argued that depending only on rules and professional code of ethics will only frustrate efforts to achieve actual and perceived auditor independence, as ethical conduct is complex and requires more than the moral situation of the professional code. They also argued that auditors were more willing to be independent when auditees are in a poor financial condition instead of a good one. Shah (2007: 355) believed that in countries where democratic ‘trappings’ are still new or superficial, and although legal and institutional frameworks are provided to ensure its independence, the role of the SAI in detecting fraud and corruption may be shaky as its independence is still unstable or insecure.

For instance, in the case of the independence and autonomy of the Comptroller General of the Bolivarian Republic of Venezuela (CGR), this audit institution gradually attained its independence and autonomy. Only after the constitutional reform of 2000 did CGR gain its independence completely in regard to its auditing powers (Russián 2006:24-26). In terms of the implementation of the State Audit Law, the Republic of China enacted a new audit law in 2006 (to replace the 1995 version), which improved the audit and supervision system, strengthened audit duties, enhanced audit powers, and standardised audit practices (INTOSAI 2007c10-14). Besides, the Office of the State Audit of Vietnam had its first state audit law in January 2006 (INTOSAI 2006b8-15).

Financial Independence

The activities of any audit institution inevitably depend on the audit resources available, including the budget. Priono (2002:8-11) believed that the independence of audit
institutions to allocate their budget directly from the Parliament and to manage their own audit budget is essential for conducting their audit functions. To be independent, funding for the audit office is taken out from the Executive or bureaucracy and approved or determined by Parliament (Guthrie and English 1997: 12). Control over an audit institution’s budget in the process of negotiations with the Ministry of Finance or Treasury affects the independence issue (Barrett 1996: 137-146). According to Bowerman et.al. (2003b: 7), the budget of the National Audit Office (NAO) in England and Wales is outside of government and Treasury control. The Treasury only has an indirect influence through its approval in specifying NAO’s resources and policy accounting.

White and Hollingsworth (1999: 98-100) argued that in maintaining audit independence, the budget of an audit institution should not be exclusively controlled by the Executive in terms of audit activities, the number and skills of staff and auditors that can be employed, and the investment by the audit institution in the development of training and technology.

**Figure 2.2 Independent Budget Process of the Audit Institution Office in Germany**

They described the independent budget setting process that is implemented by the audit institution of Germany (the Bundesrechnungshof). This is presented in Figure 2.2 as a circle diagram to show the continuing linkages process. The Parliament has the responsibility to ensure a sufficient budget for the audit institution. The proposal of the national audit office (NAO) budget is not approved by the Executive, but by the Parliament after discussions with the Ministry of Finance. NAO conducts audit work through funding from an annual Parliamentary vote, while the Public Accounts Commission (PAC) controls the estimated budget for NAO. Therefore, the audit office providing an independent budget for audit institutions is also important to maintain its independence. As argued by Windsor and Rasmussen (2009: 268) the independence of auditors decreases if they are economically dependent on, or accept compensation from, auditees.

In the case of the Ghana Audit Service (GAS), although its audit independence was stipulated in the 1992 Constitution, its financial independence from the Treasury Department was only gained since January 2004 (Winful 2007:25-27). In relation to funding, the 1997 Australian Auditor General Act stipulated that a separate allocation of funds by the Parliament for the Australian National Audit Office (ANAO), and the involvement of the Joint Committee of Public Accounts (JCPA) in estimating ANAO’s budget (English and Guthrie 2000: 110). Audit Board and Auditors Independence

Power (1994: 16) argued that the public issue of auditor independence becomes more critical than their competency. Independence of the leadership of audit institution and auditors in terms of appointment and dismissal of audit institution Members protects them from being influenced by auditees and prevents limitation of their scope of duties (Priono 2002:8-11).
In the case of the Board of Audit and Inspection of the Republic of Korea, to ensure its independence, like the Chief of Justice and the Prime Minister, the Chairman of the Board is appointed by the President with the consent of the national assembly (INTOSAI 2001:12-14). The Australian National Audit Office (ANAO) acts independently in auditing the financial statements and administration of Commonwealth public sector entities and reports to the Parliament, the Executive, Boards, Chief Executive Officers (CEOs) and the public (Barrett 2003: 8).

Russell and Regel (2000: 211) posed two questions for ensuring auditor independence. The first was: “Are the auditors free from all the bias and influences affecting objectivity?” The second: “Do persons and the organisations involved with the audit respect and support the independence and integrity of the auditors?”

Houghton and Jubb (2003: 305-308) underlined threats in controlling auditor independence. First is the threat of efficiency, where most external oversight of audit institution occurs after economical damage and does not put attention toward prevention. Second is the threat of effectiveness, where potentially exists in cases when auditors provide non-audit services to auditees, such as reviewing auditees’ works that develops into fee-dependency. Fearnley and Beattie (2004: 117-138) also believed that “the provision of non-audit services undermines independence in appearance and threatens the credibility of audits”. These arguments indicate that providing audit services for auditees reduces auditor independence.

Jasmadi (2002:18-21) also pointed out personal constraints for BPK Members and auditors in performing independently in auditing. These personal constraints include a special relationship with the auditees officially, both personally and financially; prejudice against the auditees that may have severe consequences for the audit; and difficulty
defending independence if auditors do auditing at the same organisation repeatedly for long
time/period; and coming from the same political party with the auditees. Rakgailwane
(2004:30-34) argued that a personal relationship with auditees “could jeopardise” auditors’
independence and stop them from maintaining their “actual and perceived political
neutrality”.

Independence can significantly influence the power of auditors and the audit
institution in accessing information from auditees (Guthrie and English 1997: 13). Similarly, White and Hollingsworth (1999) argued “objectivity can be maintained by setting
up ‘Chinese Walls’ within an audit institution”. Montondon (1995:59-69) believed that to
provide an objective report, auditors should be sufficiently removed from political
pressures and conduct their audits without fear of political repercussions. Similarly, Brown
(1979: 14-15) and Power (1994) believed that independent auditors who are free from any
influence and conflicts of interest are necessary for objectivity in public sector audit work.

Shah (2007: 355) saw three dimensions in addressing the independence of auditors.
The first is the structural independence dimension, which come from the independence of
the Board Members in doing auditing process and to report its audit results. The second is
independence in the audit environment, which ensures auditor independence while
conducting the auditing work without any influence, limits and pressure from the auditees,
such as limiting access to data and information from officials, and modifying the audit
report. The last dimension is personal independence, where auditors are free from personal
conflicts of interest or bias that may affect their impartiality in auditing or providing audit
report results. Moreover, Gietzmann (2002: 186) believed that “the desire of auditors to
maintain their independence is also determined by economic forces, such as present and
future fee income”. These statements indicate that the independence of auditors needs
substantial support from audit institutions, the audit environment (including auditees) and the audit system in appreciating auditor performance.

**Integrity and Professionalism of Auditors**

According to Funnell (1996: 114-115), integrity and professionalism is the ability of auditors to carry out their work in an unbiased and honest manner. He defined integrity as “the staunch observance of accepted standards of honesty which must underlie all professional decisions and actions.” Public sector auditing practice requires the highest standards of integrity, professionalism, openness, and transparency in increasing efficiency in using public resource allocations (Bartel and van Rietschoten 1993: 34, Doig 1995:151-152). Soedibyo (2006:25-28) defined auditor professionalism as “a professional capability for auditors in maintaining a consistent quality of service and independence in public sector audit”. Thus, integrity and professionalism, which requires auditors to adhere to a strict moral or ethical code, and professionalism, are important to perform independently as auditors.

The auditor’s professionalism and integrity significantly influence the objectivity of reports. In addition, this factor is closely related to independence. Some references indicate the importance for auditors to maintain their independence and integrity to act professionally, in particular in cases where auditors encounter pressures and conflicts from management of audited entities (Barkess et.al. 2002:14; Culvenor et.al. 2002:12-23; Ferguson and Rafuse 2004:10-15; Krishnamoorthy et.al. 2002:3-13; Moore 1993:39-50). In addition, Barrett (1996:137-146) stated that conflicts of interest have a bad influence on auditors and audit teams in performing professionally and objectively.
In the public sector, auditor competency in non-financial performance measures, which are more output-oriented, is recommended for performance audits (Chowdhury 2005: 896). Gendron et al. (2007: 101-102) found that the professionalism and expertise of auditors of the Auditor General in the Canadian province of Alberta are essential in controlling the government’s accountability and supporting performance audits to assess the performance measures of the New Public Management (NPM) process. Furthermore, Wheat (1991: 388) emphasised the necessary qualifications of performance auditors are to be proactive and independent auditors, to initiate audits and to adhere to the accepted government audit standards, and to see the public or its representatives as their clients rather than as auditees. However, an auditor’s integrity is fragile as audit standards can be violated by the auditors (Houghton and Jubb 2003: 301).

Abbott (1983, 1988) examined the development of professionalism and professional ethics mechanisms. He argued that although professional codes of ethics and other enforcement mechanism are universally used in the professions, in practice, professional ethics are still questionable. In fact, informal enforcement among those of a higher professional status, daily norms enforced by group compliance, the mechanism of informal norms, situational values and similar means of social control are all more important to fulfill the professional obligations (corporate and individual) than formal codes (Abbott 1988: 2-7). He also underlined two levels of professional obligations, namely corporate and individual, that are governed by both formal and informal rules (1988: 2). His statements indicate that the values of the auditors’ profession are reflected in the way auditors carry out audits and ethical audit standards, not from the presence or absence of codes of ethics.
Healy and Palepu (2001:405-40) believed that the differences in audit standards, the legal framework that governs the audit profession, enforcement of standards and rules, and professional training requirements influence the credibility of audit reports and financial statements. They also argued standards and a legal basis for audits, and also their enforcement are necessary for the credibility of the audit report.

**Auditors’ Proficiency and Experience**

Auditing work requires qualified staff and auditors that collectively have the necessary qualifications and competencies to support the full range of auditing. Lee (1998: 223) argued “the lack of competence due to the lack of expertise and experience forces the auditors to rely on client management in terms of asking questions and assessing responses”. Frantz (1999:59) argued that level of auditor skill influences the quality of auditing as required by audit standards. This means that lower audit fees and a limited number of qualified auditors in the public sector can influence the capability of an audit institution in conducting its auditing scope, both in number and quality of audits.

Gendron et.al (2007: 101-129) developed a better understanding about the professions of public sector accountants and auditors and the production of professional expertise in implementing new public management reforms in the Canadian province of Alberta. They also analysed and observed how auditors construct their expertise in audit performance measures (both financial and non-financial) through the production of guidance documents and the issuance of recommendations. Auditor expertise is judged through an examination of the audit office and auditees’ responses.

According to Mulgan (2003: 87), traditionally, audit offices have mostly been professional accountants. However with the expansion of the role of government auditing from financial auditing to performance auditing, a wider variety of skills are required in
auditors. In terms of performance audits, it is crucial for auditors to be familiar with other disciplines (that is, to be multidisciplinary), besides accounting and management. Other disciplines may include computer science, economics, research methodology, social science, public policy analysis, law, engineering, agriculture and pharmacology (Al-Nofaie 2003:22-24).

The expansive and dynamic growth in IT in delivering government services has affected the nature of auditing. Coe and Borthich (1984: 67-74) suggested auditors for having skills in implementing computer’s application and IT. The Australian National Audit Office (ANAO 2001: 28) had problems in implementing an IT system for financial auditing due to a lack of staff expertise in management systems and reporting that required development of its personnel in special skills to conduct IT auditing. By undertaking an IT audit, there is a greater chance of success in ensuring availability, security and integrity of information processing to support government sector objectives.

Some authors emphasise the importance of competencies and skills of auditors, including knowledge, experience, skill or other operational competencies to promote the quality of performance and to maximise the effectiveness of audit activities (Al-Nofaie 2003:22-24; Ferguson and Rafuse 2004:10-15; Flint 1988). Another example regards the skills required for auditors to test non-compliance with laws and regulations, such as ‘internal revenue code regulations’ concerning income tax expenses (Ramos 2006: 89). Howieson (2003: 100) suggested developing competency in “technologies, abstraction, system thinking, experimentation and the capacity for communication and collaboration”, Skaerbaek (2009: 2) found the need for auditors’ capacity in performance measurement, indicators and methodology in examining the effectiveness, efficiency and economy of public agencies. Hoadley (2006: 192) suggested upgrading administrative skills for audit
personnel, while Crawford and Stein (2002: 122) found high auditor competency in risk management important.

In constructing expertise, the Auditor General can apply two strategies to reduce self-doubt (Gendron et al. 2007: 104-105). The office developed two strategies to overcome these obstacles. The first strategy requested by auditors to have expertise when they need specific qualifications in performance auditing to provide rational recommendations for auditees. The second strategy required auditors to develop their expertise through individual programs and the work of specific departments. Building networks with a variety of national and international organisations, such as public accounting offices, professional bodies and public policy groups, can also develop auditor and accountant expertise in measuring organisational performance. The strategy led auditors to defer considerations on whether specific measures are ‘relevant’ and help to check auditors’ findings.

Building competency and skills among auditors requires training, technical assistance and other development activities (Kefi 2005:1-3; Rakgailwane 2004:30-34). Similarly, Flint (1988: 48) emphasised that the first requirement of qualifications for auditors regards their competency in both knowledge and skills as the result of education, training and experience. However, according to Lee (1998: 223-224), training is insufficient if the nature of the audit subject matter requires skills not held by financial experts. The presence of personnel who have full knowledge and the highest relevant competency supporting their performance in auditing is one of the success factors for effective government auditing (Torres 2004:447-56). Professional training improves auditor competency, expertise and skills, and significantly contributes to the production of credible reports (Healy and Palepu 2001:405-40).
There are four types of training identified for auditors and staff of SAIs: (1) introductory training for new auditors to provide information about the roles and functions of SAIs, (2) technical training to improve auditor skills in performing auditing tasks, (3) managerial training for employees to obtain skills for working in auditing units, and (4) continuing training to enhance or maintain auditor or staff capability (Mazur et al. 2005: 10-14). One aspect of professional development is developing an e-learning strategy through information and communication technologies, including the internet, to enhance the future learning environment in audit institutions (Callaghan 2004: 16-19).

According to Moyes et al. (1999: 157-235), certified public accountant or auditors, the level of education, and auditing experience all have a positive affect on auditor income. They argued that compensation from audit offices is influenced by auditor proficiency and experience. Proficiency is measured by the level of education and auditors who obtained certification auditor profession with a minimum bachelor degree in accounting. Moreover, longer experience and greater professional maturity improve the ability of auditors to detect fraud and material irregularities. This means that the compensation for auditors is influenced by their ability, proficiency and professionalism.

To summarise, professionalism and integrity are values for auditors that are important for performing independently and objectively in auditing and reporting. The formal rules, including audit standards, code of profession ethics and its enforcement mechanism are universally used. However, in practice there are still possible deficiencies. In line with the expanding role of auditing to performance auditing and the dynamic growth in IT in government, auditors need skills from a multidisciplinary background, besides accounting and finance. Building auditor competencies and skills are required through training and education, technical assistance, and other individual program such as e-
learning strategies or building networks with a variety of national and international organisations such as public accounting offices, professional bodies and public policy groups.

**Internal and External Quality Assurance**

Wilkins underlined (1995: 421-429) the importance of internal and external quality assurance for assessing the quality of audit office performance. For internal quality assurance, there are regular reviews of audit reports, including communication with auditees agencies to find out the quality of audit results. External assessment of an audit office’s quality performance is conducted by external, independent peer reviewers. From three national audit offices in the United Kingdom (National Audit Office-NAO), Sweden (Riksrevisionsverket-RRV) and Australia (Australian National Audit Office-ANAO), Wilkins explained that NAO received comments from academic reviewers, the media and Parliament, while RRV obtained feedback from auditees, Members of Parliament, the Ministry of Finance and the research community as their external reviewer to assess the quality of audit. Wilkins (1995: 421-429) argued that the review of audits has a significant influence on the performance and progress of audit offices.

Internal auditing has a responsibility to examine the financial management and performance of its own organisation and review the results with internal management (Burke et.al. 2006: 104). In addition, Felix et.al.(2001:513)argued that there are positive influence of the work from internal auditorsto the workload of external auditors. This means that the good performance of internal auditors in conducting financial and performance auditing can help external auditors in conducting further examinations.
Wilkins (1995: 427) emphasised the importance of peer reviews at least once every three years to assess the performance of an audit office. In addition, Nicoll (2005: 105) pointed out that the audit work and management of SAIs are reviewed as they act as a role model for government entities. Aldons (2001:34-42) also believed that the quality of an audit report improves when the auditors know that their work will be reviewed and that sanctions for poor quality work will be applied.

Fargher et.al. (2005) investigated the factors determining the extent of the audit review process. Their study found that time pressure and the attitude of the reviewer toward detail are significant factors, while client risk was not a significant factor. They claim that these factors are similar in both the private and public sector due to professional audit standards, which provide guidance in implementing and providing a framework to promote the quality of audit work. Standards in the public sector are adopted from private sector audit standards.

The above statements indicate that external and internal reviews of audit work influence the independence, professionalism and quality of the audit.

**Resources of the Audit Institution**

The power of an audit institution in controlling the government has to be supported by sufficient resources for their auditing work. These resources include funding for auditors and staff, computers, comfortable and conducive offices and other equipment. Gendron et.al (2007: 101-108) described the need for greater attention by Auditor Generals for the necessary resources for audit work, especially in conducting research and developing experience and networks for establishing expertise in measuring government performance. The lack of resources in audit offices that occurs in some developing countries can affect
the effectiveness of audit work (Rakgailwane 2004:30-34). For instance, public auditing in Sri Lanka was found to be weak in contributing to financial accountability and good governance due to insufficient human resources, information technology, audit methodology and infrastructure (Hemaratne 2005:23-25).

**Budget and Human Resources**

The audit work must have sufficient budget to support the objectives. The audit budget is an “important element that should not be left under the control of the organisation under audit, because the budget impacts on the audit activity’s capacity to carry out its duties” (Thorne et.al 2001). Houghton (1998: 79) argued that there are consequences when public sector auditor salaries and other conditions of employment are uncompetitive compared with the private sector. These include making it difficult to recruit both newly qualified graduates and experienced personnel, and affecting the morale of auditors in maintaining their credibility and objectivity.

For maintaining the independence of auditors, an audit office needs enough budgets to cover the appropriate incentives for a professional auditor. Craswell (1997: 19) believed in the importance of auditor independence from the auditees. In this regard, he (1997: 19) argued that providing remuneration is a strategy to reduce the risk of losing the independence of auditors by prohibiting auditors to supply any services and accept money from auditees. However, the strategies increase the audit costs that should be spent by the audit agencies.

**Offices and Information Technology (IT) Resources**

In line with the expanding scope of audit institutions in controlling public sector activities, technology and the growing size of offices has developed significantly (Scott
Besides, with the complexity of computer systems and growing computer use in government institutions, to ensure effective and efficient audits, auditors also need access to computer resources (Coe and Borthick 1984:67-74). Lapsley (2009: 1-20) also argued that audit technology has important implications for policy makers, managers and citizens to deploy auditing.

Skaerbaek (2009: 4) argued “employees of audited entities may change in various ways when auditors and others initiate changes in accounting and auditing technologies”. The Auditor General’s Office of Thailand, which concentrates on the accuracy of documents and compliance with the law for audit procedures, needs computer processing of accounting information to provide timely reports and to reduce reliance on paper in assessing the documents and accounting records (Henry and Attavitkamtorn 1999: 447). These statements indicate that IT resources, which include computers, communication technology, IT applications and systems, have significant advantages in processing accounting and auditing reports.

The greater use of computers provides more productivity, lower audit costs and better audit methodology (Nicoll 2005: 16). In addition, the development of communication technology can save time, allowing auditors to communicate with people involved prior to and after audits, and to send timely audit reports (Russell and Regel 2000: 171). The current situation provides challenges for auditors to access data and information, particularly from websites and the internet. A website that contains information relating to the activities of the audit office, relevant regulations and documents (such as state or government audit standards, Code of Ethics for government auditors) is useful for sharing information between SAIs, clients and other interested groups. This is because they are able to see the audit reports on various ministries and new publications related to the audit office.
Examples of new SAI websites in 2002 are the Office of the Comptroller and Auditor General (C&AG) of Bangladesh\textsuperscript{13} and the Indonesian State Audit Board (BPK)\textsuperscript{14}.

In a simple system, auditors may be able to audit without computers. However, this may become more difficult when auditing entities that use complex data processing. Coe and Borthick (1984:67-74) found an increase in unresolved audit findings on misuse and abuse of public finances as a result of the lack of computer technology and of auditors knowledgeable in computer auditing. Moreover, they suggested that auditors can use computersto improve audit tools and methods in verifying and validating the account balances of financial statements based on government accounting standards. Deck (1985:52-62) argued that computers and IT resources are beneficial tools that can increase auditor capability in detecting fraud by examining record keeping and processing transactions electronically for audited entities.

Audit institutions have to cope with successive developments in management methods for large masses of information and new technologies (Kefi 2005:1-3). For instance, a geographical information system or GIS (computer hardware, software and geographic data to analyse geographically referenced information) can be used for audit purposes such as auditing housing subsidies and to audit disaster response and management (Rentenaar and Williams-Bridgers 2006:17-21).

2.2.2 Factors Influencing Acting on Information

In a democratic political process, the accountability of government is reviewed and scrutinised by an external audit institution to facilitate the checks and balances system

\textsuperscript{13}www.cagbd.org (accessed 23/03/2005).
\textsuperscript{14}www.bpk.go.id (accessed 23/03/2005).
(legislative, judicial and Executive) in public governance (Grace 2005: 576). Moreover, Grace (2010: 581-582) argued that to provide a synergy and coherence to the checks and balances mechanism, the audit office, through its audit reports information, acts as a catalyst to help public bodies improve their performance and accountability. The following sections provide a literature review on the factors that influence the quality of information in audit reports in relation to the capacity of audit office and auditees to act on that information.

**Political Support from the Legislative**

Parliamentary Members have a significant role and function in improving public administration and holding the Executive to account. Moreover, the role of the Legislature in controlling and enforcing the accountability of the bureaucracy is the key element in the relationship between politics and administration. Aldons (2001: 34-42) believed that Members of Parliament have the political power to hold the Executive accountable to the public.

The Legislature has a significant role in ensuring public satisfaction about the performance of government bureaucracy. Uhr (1982: 31-32) stated that “although Parliaments cannot and should not be governed, they should call the governors to account, demanding an explanation of how current measures are consistent with general policy guidelines authorised by Parliamentary vote”. Uhr’s statement clearly indicated that Parliament has the function of reviewing the processes of government administration. This is also supported by Day and Rudolf (1987: 10-12) who argued that political accountability is employed by Parliament to hold government to account for their actions after reviewing audit reports.
Gendron and Cooper (2001: 306) emphasised the close relationship between state auditors and the Legislature. Funnel (1994: 178) argued that the audit office has the role of examining information on the Executive’s spending and taxation income and to report the results to Parliament. Moreover, he argued that the Parliament must have the will to admonish and call the government to account to the public. Moreover, Simms (1999: 34) argued that to ensure the accountability of government, an audit institution examines the accountability of public sector bodies and reports the audit results to Parliament. The reports are reviewed by Parliament to hold the government to account to the public for managing and using public resources, and in order to uncover poor administration and corruption (Evans 1999: 87; Simms 1999: 34).

The function of Parliament to hold government accountable in using public resources and improving public administration has been applied by most of the national audit institution in OECD countries (such as: the Supreme Audit Office in the Czech Republic; the National Audit Offices in Denmark, Finland and the United Kingdom; the Federal and Lander Courts of Auditors in Germany; the State Audit Office in Hungary; the Board of Audit and Inspection in Korea; the Prime Ministry High Auditing Board in Turkey and the Australian National Audit Office in Australia), which assist the Congress or Legislature in scrutinising the public administration (Bertsk 2000: 63 and Houghton and Jubb 1998: 30).

Eckardt (2008:1-17) studied the interaction between political institutions and public sector performance in Indonesian local governance. From a randomised sample of 177 districts, he found that the political power of regional Legislatures in controlling government is through the implementation of sanctions for non-compliance by officials, which has forced them to reduce opportunistic behavior and improve their performance.
The reports from state auditors support the essential roles and functions of Parliament in forcing the government or Executive to provide possible action to improve its accountability.

In reviewing audit reports, a separate committee can assist Parliament to conduct its function by sending a complete audit report to be commented on by both the Parliament and Executive (Brown 1980: 260). The comments from the Executive are published as part of the audit reports. For example, in Britain, there is a Public Accounts Committee that receives audit reports of SAI to support the Parliament in questioning the Executive on its performance and accountability (Yoedono 2002b:6-7). Besides, in Australia, there is the Joint Committee of Public Accounts and Audit (JCPAA) which works closely with the Auditor General and ANAO and has the power to hold government officials accountable to the public. Audit institutions can monitor the progress of audit reports followed up by the Legislative (Brown 1980: 260).

**Support from the Executive**

One of the measurements for effective auditing is the improvement of public sector accountability through audit results and recommendations (Wilkins 1995: 429). The Executive has a responsibility to followup audit results that contain findings and recommendations for better government performance (Taylor 1996:147-56). This means that an external audit agency examines the accountability of the Executive’s state finances and performance, and reports the finding to the public agencies that have responsibility to follow them up.

Scott (2003: 205) stated that “auditors might be effective as meta-regulators” on the bases of control than hierarchy, which means that although auditors have no authority to
put on sanctions for auditees, but they can report and publish their findings in respect of regularity or qualification of the accounts that shaming their auditees. According to Humphrey (2002: 60 quoted in Scott 2003: 213), “meta regulation highlights the potential in using governance power to steer the internal governance rather than securing direct control”. This means audit institutions can evaluate the policies of public agencies to determine whether the regulation of government has met its objectives. Recommendations and findings from audit institutionsshould then be followed up by enforcement from the Executive itself or Parliament.

Brooks and Pariser (1995:72-83) suggested that audit recommendations have to be followed up by officials and managers of audited entities. This means that the following up of audit reports greatly depends on the commitment of government. They also suggested someaspects to provide effective follow-up audit reports to increase accountability. The first is to create a climate for an effective audit follow-up system, such as (i) requiring followup by administrative regulation; (ii) providing audit laws with the requirement of prompt corrective action by audited entities with a commitment demonstrated to implement the audit recommendations; (iii) enforcing penalties on agencies thatignore audit recommendations. The second aspect is to set up procedures to ensure effective solutions to audit recommendations, such as evaluating audit recommendations to see their impact on the financial and operational accountability in using public resources of agencies. This includes providing corrective action plans to monitor and assess implementation and the reviewing of recommendations, and highlighting key recommendations that require special attention due to a potential negative impact in the future. The last recommendation is to utilise the followup of audit recommendations for accountability, for example, monitoring the status of audit recommendations to explain why corrective action is not necessary,
approving a government agency’s budget request after audit recommendations have been implemented, and designing follow-up audit recommendations to bring audited entities into compliance with laws and regulations.

The accountability of the Executive “presumed that the political Executive is responsible to the Parliament” (Simms 1999: 34). This means that the Executive has a strong significant influence in developing independent auditing and following up the audit results in response to Parliament.

**Law Enforcement Support**

There is interaction between the international development in New Public Management (NPM) to administrative law on auditing and audit standards. Guthrie (1990) argued that there is a significant relationship between restructuring the accounting and auditing system, and standards in public sector administration and policy. Moreover, Nicoll (2005: 35-44) underlined the critical role of administrative law to require agencies to develop audit standards to perform efficient and effective audits of government entities. This is argued by Rahman and Goddard (1998: 198) who said that administrative law can require agencies to hold their performance and comply with accounting and auditing standards to verify the financial and management information that is provided. Moreover, according to Quick and Rasmussen (2002: 147-148), for auditors who do not obey the rules and auditing standards, sanctions and punishment are not only in the form of money, but can also be in the form of influence on their reputation by publishing the names of auditors who have been punished.

In addition, financial management and reporting of the public sector and accrual-based accounting system practices in government institutions have significantly influenced
the audit process and the standards with which auditors must comply (English and Guthrie 1991). China is an example of a country in Asia that has achieved remarkable development progress in economic reform since its government regulations reestablished accounting and auditing standards based on international best practices (Chen et.al. 2005).

In the public sector, financial audit standards adopted from private sector management and reporting practices, while performance audit standards are determined by the mandate of legislation to auditors in determining the objectives of the audit (Nicoll 2005: 36-38). As Gendron et.al (2007: 116) explained, audit standards are the result of good practices developed through continuous study, consultation and shared information between auditors and peers about the principles of providing audit services.

Compliance with audit standards can maintain auditors confidence in reporting and providing audit opinions and recommendations (Nicoll 2005: 35). Abdolmohammadi (2009: 27-42) argued that there are personal and organisational variables that contribute to the use of, and compliance with, audit standards. He believed that the length of professional Memberships, certification, continuing professional education, academic degree and years of experience are important factors to improve the usage of, and compliance with, the standards. Hodgdon et.al. (2009: 33-55) revealed that compliance is positively related to the auditor’s choice, thus they reinforce the importance of developing institutional mechanisms (such as enforcement) to encourage compliance with the standards. This means, regulations and enforcement may supersede the use of or compliance with standards.

All audit findings that indicate criminal activity or corruption should be followed up by law enforcers or investigators. Fraud findings from auditors can be considered as the beginning stage in the process of further deep examination (Dempsey 1985:39-51). Reports
from internal and external auditors that indicate criminal activity can be used for initial or preliminary evidence for further investigation.

Audit institutions have no power to apply formal sanction on auditees (Scott 2003: 211). This means that although auditors have spent time and effort on different types of auditing (compliance, fraud and performance audits), audit institutions have no capacity to impose any sanction for any finding of irregularities, fraud and other criminal actions of public agencies.

Law enforcement can be a tool to ensure that audit findings that indicate criminality will be preliminary evidence at court and will reduce fraud and thus the possibility of auditees repeating their crimes (Soedibyo 2004:12-14). Audit institutions can establish auditing functions properly and effectively if the auditors are sure that there will be followup from law enforcers on their findings that indicate corruption and fraud.

**Public and Media Support**

Through the principle of transparency, the public and media have the right to access all information in the public sector. Miyakawa (1999: 91-92) argued that public concern about how their money is used by the government has become inevitable in a modern society. Moreover, with the development of democracy, public exposure can affect public perception of government (Evans 1999: 88). As the Executive is responsible to the people, poor performance in government programs can be directly criticised by the community through interest groups and the media (Simms 1999: 34).

Civil society can also be involved in persuading government to change from being supplier-oriented and ignoring performance in public services, to being consumer-oriented and responsive to public demands; and they can also be involved in assessing SAIs in
carrying out their audit roles and functions (Pyun 2006: 20-23). The satisfaction of the public and auditees as the secondary clients of an audit institution is one factor that influences the performance of an audit office (Wilkins 1995: 429). This means that the awareness of civil society about government performance and about the functions and role of public sector auditing is essential to improving accountability.

The media can help audit institutions inform the public about the performance of government and public sector agencies. Gonzalez et.al (2008: 439) emphasised the role of the media to convey information on audit reports that can inform public opinion on the performance of public sector agencies. He (2008:435) also found that the awareness of SAIs about the important role of media as a communication strategy for providing the public with an overview of what their activities are and what they do relating to public sector auditing.

With support from the media, the public can get information transparently about government accountability in operating and handling public funds and public services. Mulgan (2008a: 345) found the role of the media enables the public to find out information about government activities. Aldons (2001:34-42) believes that the media, in particular press and radio, are major instruments for the checks and balances needed in a representative democracy. To maximise the effectiveness of information about audit report findings being transmitted to the public, SAI should cooperate with the media (Mazur et.al. 2005:10-14). The media have no formal authority or power to review, but they can bring considerable informal pressure to hold the government, particularly Ministers and public servants, to be accountable to the public (Mulgan 2000: 89).

Some lessons can be drawn from the experience of six developing countries (India, South Africa, Mexico, South Korea, and Argentina) that involve the public in auditing
(Ramkumar 2007:15-19). In India and Mexico, the public uncovered misappropriation of funds that was not reported by government auditors. South Africa and Argentina publish government audit reports and then the public demands that government agencies take action and the Legislature reviews the government’s audit reports. In the Philippines and South Korea, citizens ask for special audits on government projects in the case of financial and procurement irregularities. Finally, South Korea, the Philippines and India have a ‘citizen audit request’ system to support citizen participation in government auditing. This means that the critique from the public and media encourages the government and Parliament to respond to the information in audit reports.

2.3 Analytical Framework of Reporting Information in Public Sector Auditing

The effectiveness of reporting and acting on audit information in the public sector (measured by content and quality of audit report information, dissemination of audit report information and action taken on such information) depends on a number of factors such as the degree of independence, integrity, professionalism, independent peer review, and audit resources. Also, the level of support from the Executive, Legislature and law enforcers in following up audit results and the level of cooperation between audit institutions with the public and media. The analytical framework of this study is summarised in Figure 2.3.
The next chapter describes the development of the external public sector auditing environment in Indonesia to provide important background for the analysis presented from Chapter Four to Chapter Seven.
Chapter 3

The Historical Development of Indonesian Public Sector Auditing (from the Dutch Colonial Period to the Reformation Era)

This chapter reviews the historical development of public sector auditing practices in Indonesia as the background to the research. External auditing in the Indonesian public sector has a long history, which can be divided into three crucial periods, namely: (1) prior to Independence until during the Old Order (1945-1965), (2) during the New Order Era (1966-1998), and (3) during the Reformation Era (1999-present).

3.1 Public Sector Auditing from the Dutch Colonial period to the Old Order (1945-1965)

Prior to the independence of Indonesia, the colonial bureaucracy and the Dutch administration dominated public administration and auditing in Indonesia. Javanese culture was also strongly influenced by the bureaucracy culture with patrimonial practices and power concentrated in the sovereignty. Prior to Indonesian independence in 1945, audit functions were conducted by the Algemene Rekenkamer (the Dutch’s Audit Institution). Forms of administration were governed based on the formative period of Dutch colonialism, exemplified by the administrative institutions in Yogyakarta and prevailing until the end of the 18th century. According to Hoadley (2006: 9), “Javanese politics were dominated by diadic ties forged between sovereign and vassal (gusti-kawula) resulting in a highly centralised, if brittle, state with little delegation of authority or intermediate organisations”. Boediono (2005: 322) noted that independence in Indonesia had to start
with weak civil service traditions and incompetent civil servants. This condition burdened the state budget and provided continuing problems in reforming the performance of the public sector.

In addition, public sector auditing was carried out by ARK (Algemene Rekenkamer), which was the official name of the SAI during the Dutch occupation period in Indonesia. On-site auditing was formally conducted by BPK due to the absence of adequate available documents, data and information for auditing. Although on-site auditing necessities required large travel costs, this was still applied instead of desk audits (with no visits to the auditee).

Since Independence Day on 17\textsuperscript{th} August 1945, the founders of the Republic of Indonesia realised the importance of auditing for examining state finances. The first Head of Supreme Audit was the first President of the Republic Indonesia, Soekarno. The Board Members of BPK were Ministers. BPK began officially performing its constitutional assignment on 1\textsuperscript{st} January 1947 in Magelang\textsuperscript{15}. To perform its duty, BPK used Indische Comptabiliteitswet or ICW (laws for financial accountability for the East Indies) and Instructie en verdere bepalingen voor de Algemeene Rekenkamer or IAR (instructions and further provisions for the office of the state audit) as the basic regulations used by the Algemene Rekenkamer (Auditor Magazine 2003:20-21). This meant that since BPK was formally formed in 1947, the head and Board Members of BPK were under the power of the Executive and were still using the East Indies laws.

The Parliamentary system under the original 1945 Constitution (before the amendment), applied unikameral, which meant the People’s Consultative Assembly (MPR)

\textsuperscript{15} This is based on information from a Board Member IV of BPK in the press conference on 5\textsuperscript{th} January 2007 in the auditorium of BPK, Jakarta.
held the highest institutional authority as the representative power of Indonesian people. MPR determined the Constitution, and elected both the President and vice-President. As a result, the position of President was under MPR. More than half of MPR Members were also Members of Parliament (DPR).

The formation of state institutions in Indonesia was adopted from the Netherlands. For instance, the position of MPR had a similar function to that of the King or Queen in Netherlands. The position of BPK (*Algemere Rekenkamer*) under the original 1945 Constitution was similar to the institution referred to in the constitution of the Netherlands as one of the ‘highinstitutions of state’ (in Dutch ‘*hoge colleges van staat*’) along with the Supreme Court (MA or *Hogeraad/Landraad*), Parliament (DPR or *Volkraad*), Supreme Advisory Council (DPA or *Raad van Nederlandshe Indie*), and the President (equal with *General Governor*) (Asshiddiqie 2005: 204). Consequently, BPK gave its reports to MPR. Asshiddiqie (2005: 7) noted that under the 1945 Constitution, there was a lack of a checks and balances mechanism between the Executive, Legislative and Judicative. Figure 3.1 presents the position of BPK under the 1945 Constitution and the People's Assembly (MPR), which was adopted from the colonial (Netherlands) structures and practices.

Therefore, basically, the position of BPK under the 1945 Constitution was more firmly under the MPR, within the state structure. As stated by Board Member IV of BPK, the establishment of BPK is stipulated in the Constitution as a ‘social contract’ with the people of the Republic of Indonesia:

The establishment of BPK started from the Independence Day in this country. BPK was founded based on the Constitution. In the theory of the state formation, the establishment of this state started from the same hopes, the same desires and the same

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16 The speech and presentation of a Member IV of BPK at *Sosialisasi* of BPK on 6th December 2006 in the auditorium of BPK, Jakarta.
goals, as stipulated in the Constitution as a ‘social contract’ between all the people in this state.

**Figure 3.1 BPK under 1945 Constitution and People’s Assembly (MPR)**

This statement indicates that the purpose of BPK’s establishment should not be separated from the Indonesian peoples’ desires, which is stated in the 1945 Constitution, Paragraph 5, Article 23 (GOI 2006c: 57) as follows:

> In order to audit the accountability of the state finances, an Audit Body shall be established, the regulations shall be prescribed by statute. The results of the audit shall be made known to Parliament.

However, the term ‘an Audit Body’ with the authority to conduct external auditing in this paragraph was not clear. Since the power of the President in the 1945 Constitution was strong, BPK had no independence from the influence and power of the Executive. An audit body in this statement could be interpreted to mean that the roles and functions of BPK were the same as those of other central and local government internal audit institutions, namely the Financial and Development Supervisory Board (BPKP), General Inspectorates (for the Ministry level), Primary Inspectorates (for the non-ministerial institution -at central level), and Regional Inspectorates (province and district/municipal Inspectorates), and other...
Internal Control Units (SPI) in the public sector. As a result of this proliferation of auditing bodies, the cost of auditing was high; public sector audits were poorly structured with overlapping functions, and were ineffective. Moreover, the auditees took too much time and energy to serve all the auditors from the different supervisory institutions.

From the 1950s until 1958, Indonesia applied a Parliamentary system, based on the Constitution of the Federal Republic of Indonesia and the Provisional Constitution of the new Republic of Indonesia. BPK operated under the title of Finance Control Council (Dewan Pengawas Keuangan). The office of the Board was located in Bogor¹⁷, where it was known as the seat of Algemene Rekenkamer, the Court of Audit of the former Netherlands East Indies’ Government (BPK RI 2003:20-21).

The 1945 Constitution was re-imposed by Presidential Decree on the 5th July 1959 (BPK RI 2003:20-21). From 1959 until 1965, Indonesia applied ‘Guided Democracy’ (demokrasi terpimpin), which centralised power in three aspects: political elite over society, the Jakarta centre over the provinces, and the charisma of President Soekarno as the leader of central government level (Lev 2000: 12-13). Moreover, the army simultaneously had dual functions (dwifungsi) in defense and security (military affairs) and also in society and politics (civilian affairs) (Hoadley 2006: 112-113). The dual functions allowed domination of bureaucratic and Executive positions (in both central and regional governments) by retired military personnel. This affected the lack of autonomy of the bureaucracy, including BPK. Although the first Law on BPK was enacted in 1965, the law did not fully comply with the terms of the 1945 Constitution, since the President dominated the Board. Over the years, BPK lacked authority and resources, which affected the quality of public sector

¹⁷ Bogor is located 60 km south of Jakarta, the capital city of Indonesia.
administration and services. Boediono (2005: 322) noted the low quality and performance of the Indonesian public sector and that it needed serious attention. The influence of politics and the government on the BPK led to declining performance and capacity of public sector agencies to achieve the Constitution’s message to be accountable in using public finances.

3.2 BPK under the New Order Era (1966-1998)

During the New Order Era, the centralisation of power was solely controlled by President. Moreover, the Guided Democracy system still continued. In terms of fiscal revenues, about 90 per cent of total revenues were handled by the central government, although the government functions were decentralised to the regions (Ferrazzi 2000: 108). In addition, the army became more powerful in the New Order Era. Lev (2000: 15) stated “the army became the primary beneficiary group of the most powerful government in the history of modern Indonesia”. This means that in the New Order Era, Indonesia was led by a highly centralised authoritarian regime with a military base. Therefore, the political elite did not worry much about potential disruption from the public.

McLeod (2005: 369) argued that during the Soeharto Era (1966-1998), the reward for good performance in the public sector institution was strongly aligned with meeting the President’s objectives rather than corresponding with society’s objectives. He (2005: 369-370)also coined the concept of Soeharto’s franchise system of government which included the Legislature, the judiciary, the legal bureaucracy, the military/police, the bureaucracy, SOEs, and the state banks. Rosyadi and Kurniasih (2009: 20) argued that although the neutrality of the government was legally stipulated, in practice, all bureaucracy was controlled by the power of President as the head of the Executive or government. Therefore, all public institutions, including courts, police, audit boards and most
bureaucratic offices lost their autonomous status and the bureaucracy was forced to comply with the power of the political party, instead of working in the public interest.

During the New Order Era, corruption became systemic under the power of the President (Soeharto) and his cronies. One of the reasons was the weakness of the Indonesian legal system and the redistribution of income occurred on the basis of kekeluargaan (family) or kemitraan (partnership). McLeod (1993: 35) argued the ambiguity of the written laws that had only minor modifications since the Dutch Era, meaning they were not suitable to the needs of Indonesian economic and social development. He emphasized the very low salary of public sector employees. The officials had additional income from their clients (public) and as a result they sank further into corruption which was widespread and profound. This was supported by Houben (2000: 55) who argued that under the New Order Era, “possibilities of internal drain (or economic distortions) grew to unhealthy connections between those who seek personal economic benefits and political power holders who offer exclusive opportunity”. Therefore, the long-term unreliability of the legal system, which was not applicable to Indonesia’s vastly changed economic and social development, led to an inherently poor bureaucratic culture.

The Law on BPK (1965) was replaced by Law Number 15 of the Year 1973. Article 1 of the Law on BPK (GOI 1973) stated:

The Audit Board is a High State Institution, which in the implementation of its tasks shall be independent from the influence and power of the Government, but shall not be superior to the Government.

This article clearly states that BPK as an audit board has to be independent. However, BPK was influenced or controlled by the government and suffered many limitations in conducting audits. President Soeharto as the head of state was answerable to the MPR, BPK, and DPA, whose chairmen were directly appointed by the President. During the New
Order Era, O’Rourke (2002: 287) argued that BPK “had never been much more than a showcase agency” as it had never conducted its roles and functions effectively due to the Executive controlling its organisation and resources.

The limitation of BPK’s roles and functions were indicated with the following facts (Yoedono 2002a:7-9). Firstly, BPK had the authority to audit only the central government and not regional governments, state-owned enterprises (SOEs), and regional-owned enterprises (ROEs). During the New Order, BPKP (internal audit institution under the Executive) had the greater authority in public sector auditing. Secondly, BPK could not audit local government because of its limited number of regional offices and no budget for larger auditing in local level government. Finally, BPK audit reports were only for Parliament Members and BPK Members had no jurisdiction to report its audits to regional Parliaments. As a result, BPK audit reports could not be an information resource related to the condition of public finances for legislators and decision makers in the public sector.

Also, the practice of collusion between private companies and the government grew uncontrollably. Therefore, the BPK’s roles and functions were reduced by the New Order government and its performance was unsatisfactory with limitations in its authority, audit objectives and resources.

Moreover, the development of financial management in the public sector was also stagnant. As a result, financial audit reports could not explain economic conditions as the foundation for anticipating the future actions and strategies for state administrators. Ramcharan (2000: 64) emphasized the weaknesses of public financial management since the economic crisis in 1997 that had severe implications for all sectors in Indonesia, including the banking sector and for Indonesia’s crony capitalism. The weaknesses of Indonesia’s public sector accounting and auditing system, combined with decentralisation,
resulted in higher rates of corruption, collusion and nepotism (KKN) at both the Executive and legislative, which led Indonesia ranked the 5\textsuperscript{th} most corrupt country out of 102 most corrupt countries in 2002 (Dwiyanto et.al. 2003: 106). Indonesia has been struggling to reduce the corruption through financial and auditing reforms. The Corruption Perception Index (CPI)\textsuperscript{18} of Indonesia increased from 1.9 in 2002 to 2.8 (rank 111 over 180 countries) in 2009 (Choi 2011: 27).

3.3 Audit Reform under the Reformation Era (1999-Present)

Due to the bureaucratic culture present during the New Order Era, reform of the bureaucracy, seen as a prerequisite of good governance, has provided a big challenge as power was dispersed horizontally and vertically, which has had implications for the dispersion of corruption (Lele 2009: 84). Indonesian people’s demand for ‘good governance’ as necessary for the country’s development (Bakti 2000a: 3) has forced the Constitution to be amended.

Audit reform started in 2001 when the third amendment of the 1945 Constitution (Seno 2002: 4-6) declared BPK’s status and function to be the only state external audit institution and required improvements in its independence and professionalism. The amended Constitution builds up a ‘checks and balances’ system that had been lost for nearly 55 years (1946-2001). In addition, the chairman of BPK is no longer appointed by the President to conduct its audit function without interference from the Executive. The function of BPK in examining the management and accountability of government and in assisting the legislative to conduct its role has been strengthened. The third amendment of

\textsuperscript{18} The score were published annually by Transparency International (TI). A higher score means less (perceived) corruption.
the 1945 Constitution (2001) provides one special Chapter (VIIIA) on BPK, consisting of Articles 23E, 23F and 23G. These articles strengthen the position, roles and functions of BPK as an audit institution coherently and clearly. All BPK Members are high officials of the state, but not government officials; they are not subject to criminal proceedings in conducting their duties and must have the prior consent of the Head of State.

Figure 3.2 Position of BPK under the Third Amendment of the 1945 Constitution (2001)

Figure 3.2 (above) presents the position of BPK under the third Amendment of the 1945 Constitution (2001) as parallel with MPR, DPR, the President, Supreme Court, Constitutional Court (MK), the Senate (DPD) and the Judicial Commission (KY). The People’s Consultative Assembly (MPR) has been curtailed. The power of the Executive has been transferred to the Legislative both at the central and regional level, as the standard practice of democracies. Moreover, after the amendment of the 1945 Constitution, power between MPR and DPR was separated. The amended has provided a clear fundamental ruling directive to reform state governance with strong commitment and strategies.
3.3.1 Policies in Accountancy and Auditing for Transparency and Accountability

In the Reformation Era, the Indonesian government has reformed laws on state finance and auditing (2003-2004). These laws reform the accounting system from using a single entry accounting system to a double entry system, and from cash-based accounting into a modified accruals-based accounting system\(^{19}\) that helps BPK in examining the financial and non-financial performance of public sector agencies. This is also noted by McCrae and Aiken (2000: 285), who said that public sector accounting in other developed countries has adopted an accruals-based accounting system from the private sector to focus on performance in government financial reports. Financial reports from public sector agencies are required to be based on the new government accounting standards (GOI 2005) where all public resources are recorded in integrated government reports that help the internal and external auditors to monitor the financial and liquidity conditions of both central and regional governments.

The Law on State Finances (GOI 2003b)\(^{20}\) forces the government to apply the new government accounting system (SAP) to improve the transparency and accountability of public sector agencies in managing state finances. Articles 30 and 31 of this law stipulate the requirement for BPK to audit Executive agencies’ financial statements including balance sheets, budget realisation, cash flow statements, and notes to financial statements, and to submit the audit results to Parliament no later than six months after the end of the budget year. This regulation was effectively implemented in 2006 and BPK audits began adhering to the new system in 2007.

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\(^{19}\) According to Pallot (2003: 135-136), accruals-based accounting system ensure cost responsibility, encourage ongoing monitoring of assets and enable systemic costing and charging for services.

\(^{20}\) This was approved to replace the Netherlands’ regulation of state finances during the colonial era, namely the Statute Book of 1933 No. 320 of IAR.
During the New Order Era, economic policies were influenced by developmentalism and crony capitalism. This resulted in significant government debt increases and economic growth and development becoming concentrated in a few groups or individuals (Bakti 2000b: 40). There was a lack of fairness and transparency relating to the use of public finances and resources. After the audit reform, all foreign aid projects or loan programs had to be audited by BPK. An economist and middle official of Bandung City local government (Interview A17) argued that the requirement of Parliament’s approval in obtaining foreign aid received a lot of interference from legislators. Moreover, he thought that the Indonesian government is unable to be flexible in determining fiscal policies, which slows down the government’s capacity to improve economic conditions. This statement is an example of an auditee who disagrees with the new regulations related to reporting state/local government loans as an indication of lack of transparency, accountability and competency at government level.

Besides the Law on State Finance (2003), Article 56, Paragraph 3 of the Law on State Treasury (GOI 2004c) stipulates that government is required to submit financial statements to BPK within three months of the end of the financial year. BPK also has additional work in regulating state losses. These include the mechanism of officials to pay state losses based on audit findings and also the sanctions, and the responsibility of employers or the heads of units to report any state losses to the heads of departments or regional governments and BPK (BPK RI 2007a: 6). This law puts pressure on the BPK to follow technical procedures to implement the law. The Head of the Law Bureau stated:

BPK is arranging the procedure of compensation for state losses for the treasurer and in consultation with government, in this case, the Ministry of Finance, Ministry of
Law and Human Rights and the Ministry of Internal Affairs (for regional treasurer). We hope in two months it will be done.\footnote{This is based on an interview on 19th February 2007 at BPK office, Jakarta.}

Moreover, according to a key informant from the Law Bureau of BPK during the second fieldwork study\footnote{This is based on an interview during the second fieldwork from 4th August to 11th August 2007 in Jakarta.}, in early 2007, BPK completed the regulations of compensation for the procedure for any kind of state loss. This indicates that BPK has a lot of work to complete the operational regulations for criminal activities leading to state or regional losses.


The Indonesian government did not change its Audit Law from the Netherlands/colonial era until the Audit Law was legalised on the 19th July 2004 to replace the *IARStaadsblad* 1933 Number 320. The Audit Law (GOI 2004b) regulates the following:

(i) definition of auditing and auditors, (ii) scope of auditing and auditing standards, (iii) freedom and independence of audit work, (iv) access to information for auditors, (v) authority to evaluate internal controls, (vi) audit results and followup, (vii) imposition of compensation for state losses, and (viii) administration of criminal penalties for any person who does not comply with the responsibility to follow up the BPK’s audit findings.

Detailed explanations of the content and implementation of the Audit Law are provided in the following Chapters.

After two years discussion, on 30th October 2006, the Law on BPK replaced the former Law on BPK (GOI 1973) to provide a legal basis for public sector auditing that harmonised with the third amendment of the 1945 Constitution in 2001 and state finances law package of 2003-2004 (GOI 2006a). There are four important changes from the former Law on BPK, namely: (1) restating the mandate, function, position and responsibility, (2)
enlarging the number of Board Members, (3) establishing regional offices in all provinces, and (4) confirming the only external audit institution in the Republic of Indonesia. This law was initiated by DPR instead of BPK itself. To reform Indonesian public sector auditing and the organisation of BPK, the Law on BPK was based on international best practice for public sector auditing. On 8th January 2007, BPK celebrated its 60th anniversary (1947-2007). This means that since the establishment of BPK, this was the first time that BPK is under the Law on BPK, which provides the legitimate power and authority to be a free and independent audit institution to achieve effective public sector auditing.

**Regulation on State Finances Audit Standards and Code of Conducts (2007)**

Paragraph 6, Article 6 of the Law on BPK (GOI 2006b) requires BPK to regulate further for implementing its duties auditing state finance management and accountability. BPK provided new audit standards. The process of providing this new audit standards should be carried out precisely (due process) and based on benchmarks from international best practice as required by Article 5 of the Audit Law (GOI 2004b).

The consultant team of BPK came from the economics faculty of the University of Indonesia and SAIs from the United States (GAO), Netherlands (ARK) and New Zealand (ANZ). Feedback was getting from public hearings, which come from professionals; researchers; academics; government officials; and the public. The new audit standards of BPK, namely *Standard Pemeriksaan Keuangan Negara* (SPKN), were launched in January 2007. Table 3.1 (below) presents the differences between SAP and SPKN (BPK RI 2007g).

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23 This is based on presentation of the Tortama IV of BPK on 6th December 2006 in the auditorium of BPK, Jakarta.

24 This is based on information and documents from the Organisation Bureau of BPK collected on 9th August 2007.
Table 3-1 Differences between Former (SAP 1995) and New (SPKN 2007) Audit Standards

<table>
<thead>
<tr>
<th>Description</th>
<th>SAP 1995</th>
<th>SPKN 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of paragraphs</td>
<td>27 (20 main paragraphs and seven additional paragraphs)</td>
<td>46 (33 main paragraphs and 13 additional paragraphs)</td>
</tr>
<tr>
<td>Development concept</td>
<td>Not clearly regulated</td>
<td>A part of the professional standard of SPKN, formed a SPKN committee.</td>
</tr>
<tr>
<td>Users</td>
<td>BPK and other state internal audit institutions and public accountants based on contracts</td>
<td>BPK, public accountants and other parties that work for and on behalf of BPK</td>
</tr>
<tr>
<td>Requirement of staff capacities in conducting state audits</td>
<td>Individuals had to be registered accountants</td>
<td>Has expertise in the field of finance, collectively has certification, responsible person, should have a valid professional certificate.</td>
</tr>
<tr>
<td>Uncover internal audit weaknesses</td>
<td>General (narrative)</td>
<td>Findings (condition, criteria, causes, effects)</td>
</tr>
<tr>
<td>Responses to recommendations</td>
<td>Not available</td>
<td>Shall be conducted</td>
</tr>
<tr>
<td>Non-compliance</td>
<td>Not regulated</td>
<td>Regulated separately</td>
</tr>
<tr>
<td>Title of state finances audit report</td>
<td>Auditor independence report</td>
<td>Report of audit result on the financial statements.</td>
</tr>
</tbody>
</table>

Source: Adapted from information from the Jakarta BPK office and was made available in the interview during the second field study on 9th August 2007.

Table 3.1 suggests that SPKN regulates important issues including responses to recommendations, auditor requirements, internal audit weaknesses, users, and non-compliance. Starting on 7th March 2007, BPK auditors, public accountants on behalf of BPK and other internal auditors25 began using SPKNas guidelines for planning, implementing, evaluating and reviewing audit reports.

In addition, on 22nd August 2007, BPK introduced a Code of Ethic to regulate the integrity and professionalism of leaders of BPK Board Members and auditors in performing their duties and using their authority. As believed by Dalglish and Miller (2010: 16), integrity is one of the most significant abilities for a leader in emerging changes of

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25 This includes auditors from various institutions, experts who perform audits, or supervisory bodies that act as internal auditors of institutions, such as the internal audit unit in the Central Bank of Indonesia and other state-owned bank.
globalisation. However, as long as BPK employees are public servants, they have to obey regulations from BKN (State Personnel Board). Hoadley (2006: 127) found that leaders and civil servants in Indonesia do everything according to the golden rule of ‘as long as the boss is satisfied’ (asal Bapak senang) and rewards and performance were not based on merit system. The seniority and paternalistic system still strongly drives public administrators and auditors and if they do not satisfy their boss, it might be difficult for them to keep a good performance record.

Table 3-2 Legal Changes since Audit Reform (2001) in Indonesia

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Constitution</td>
<td>Government auditing was stipulated in only one paragraph of the 1945 Constitution</td>
<td>BPK roles, functions and position are stipulated coherently and clearly in one chapter, three articles and seven paragraphs in the third amendment of the 1945 Constitution.</td>
</tr>
<tr>
<td>2</td>
<td>Laws about BPK</td>
<td>Laws about BPK from 1946-1973 did not view BPK as an independent audit institution</td>
<td>The new Law on BPK (2006) is based on international best practice and stipulates roles and functions of BPK to be an independent audit institution</td>
</tr>
<tr>
<td>3</td>
<td>Government Audit Standards</td>
<td>Some important items were not stipulated in former BPK audit standards (SAP 1995)</td>
<td>In 2007, BPK's SPKN is developed from international best practice with guidelines for three types of public sector auditing (financial, performance and specific purposes audits)</td>
</tr>
<tr>
<td>4</td>
<td>Code of Conduct</td>
<td>A Code of Conduct was not available, only auditors’ declaration without legal enforcement</td>
<td>Code of Ethical Conduct and an Honorary Board of Code of Ethics were established in 2007 to maintain the performance and professionalism of BPK Board Members and auditors.</td>
</tr>
</tbody>
</table>

Source: Adapted from different legal sources related to government auditing before and after the audit reform of 2001

Therefore, since audit reform, the authority and power of BPK has become stronger with the amendment of regulations. Table 3.2 (above) summarises the legal changes related to public sector auditing in Indonesia before (1946-2000) and after (2001-present) the 2001 audit reform. This table shows that before audit reform, the legal basis of government auditing was ambiguous, which resulted in ineffective government auditing functions. After audit reform, some significant changes in the roles and functions of BPK and its standards
occurred. The legal changes were developed based on international best practice to provide effective public sector auditing implementation and to maintain the integrity and professionalism of BPK Board Members and auditors.

3.3.2 Reforming Audit Institutions in Indonesia

Before the audit reform, the roles and functions of internal and external audit institutions lacked clarity and often overlapped. The duplication and unclear functions among audit institutions caused ineffectiveness, with high costs of auditing activities and increased pressure on auditees being reviewed. As a result, although Indonesia had experience with public sector auditing for more than five decades (1945-2001), the audit system still suffered from a lack of accountability and quality in examining public sector institutions. The following sections describe the audit institutions related to BPK functions before and after audit reform.

Limited and Duplicated BPK Functions Pre Audit Reform (2001)

During the New Order Era, before audit reform, Presidential Decree Number 31 in 1983 mandated the government to establish an internal audit institution, namely the Financial and Development Supervisory Board (BPKP), which sat under the Coordinating Minister for Development Supervision and Administrative Reforms. BPKP was considered the right arm of the President and had responsibility for both internal inspections and external auditing. Nonetheless, this caused a duplication of audit functions between BPK and BPKP to conduct post audit function (BPK RI 2005a; BPKP 2004; BPKP 2005). However, BPK and BPKP had huge differences in budgets and resources.

Table 3.3 shows that BPKP had a much greater auditing resources. The amount of budget and representative offices of BPK were much higher compared with BPK. As a
result, BPKP had stronger power to conduct auditing with larger number of auditees in regional governments, while BPK could only audit a limited number of public sector agencies at the central and local levels. Moreover, BPKP had better quality and numbers of auditors. Thus, BPKP had more than double the number of auditors with much better qualifications to audit SOEs compared with BPK. In addition, BPKP also had a greater number of computers as a modern technology to support audit tasks compared to BPK. This resulted in reducing the BPK’s power and operational capability and impeded its achievement of goals and purposes in auditing public sector agencies.

Table 3-3 Resources of BPK and BPKP (2004)

<table>
<thead>
<tr>
<th>No</th>
<th>Resources</th>
<th>BPK</th>
<th>BPKP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personnel</td>
<td>2,850</td>
<td>7,200</td>
</tr>
<tr>
<td></td>
<td>- Staff administration</td>
<td>418</td>
<td>2,200</td>
</tr>
<tr>
<td></td>
<td>- Auditors</td>
<td>2,382</td>
<td>5,000</td>
</tr>
<tr>
<td>2</td>
<td>Level of education</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Senior high school and diploma</td>
<td>776</td>
<td>1,478</td>
</tr>
<tr>
<td></td>
<td>- S1 (Bachelor Degree)</td>
<td>1,754</td>
<td>5,110</td>
</tr>
<tr>
<td></td>
<td>- S2 and S3 (Master and Doctorate Degrees)</td>
<td>320</td>
<td>612</td>
</tr>
<tr>
<td>3</td>
<td>Representative offices</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>4</td>
<td>Computers</td>
<td>1,202</td>
<td>2,400</td>
</tr>
<tr>
<td>5</td>
<td>Four-wheel vehicles</td>
<td>136</td>
<td>210</td>
</tr>
<tr>
<td>6</td>
<td>Budget</td>
<td>Rp.273 billion</td>
<td>Rp.421 billion</td>
</tr>
</tbody>
</table>


The issue of duplicated functions of BPK and the internal audit institutions was argued by the BPK Chairman (Kontan 10th March 2007) as follows:

The function of the internal controller is to build the effectiveness and efficiency of the state financial management accountability system. It will avoid duplication and conflict of authority, thus it will create work harmonisation. The government should organise these internal control institutions.

This statement suggested that the functions and roles of internal audit institutions are crucial for effective public financial management and performance of public sector
organisations. Effective internal auditing can help external auditors to better examine the financial accountability and performance of public sector agencies.

After audit reform, the Presidential Decree on BPKP Number 103 of 2001 (GOI 2001) replaced the Presidential Decree on BPKP in 1983. The law stipulated the roles and functions of BPKP as professional government internal auditor in the area of financial and development supervision. Moreover, Article 114, Paragraph 4 of Presidential Decree Number 9 of 2004 (GOI 2004a) stated that BPKP does not have the responsibility to conduct audit functions for regional government agencies. Since then, BPKP has only helped government agencies in managing and reporting state finances based on the new government accounting standards. In addition, BPKP provides manuals of accountability for public sector agencies through government internal auditors or APIP (Aparat Pengawasan Internal Pemerintah). The manuals include guidance on operational audit planning, monitoring and evaluation of follow-up activities; technical sampling (random sampling) during the process of audits; and government loss indemnity and strategies against national corruption.

Since the 1999 decentralisation policy, regional Inspectorates have the full authority to audit and control regional governments in managing public resources. However, most of regional Inspectorates still lack the necessary number of qualified internal auditors. As a result, BPKP also helps regional government in managing public finances.

Therefore, since audit reform, the Indonesian government and legislative restructured the function of audit public sector institutions to obtain effective and well functioning audits for the accountability framework. The Constitution and existing laws confirm that BPK is the only external audit institution and the Central and Regional Inspectorates are internal audit institutions.
Table 3-4 Indonesian External and Internal Audit Institutions and their Report to Main Stakeholder(s)

<table>
<thead>
<tr>
<th>Audit Institutions</th>
<th>External Auditing</th>
<th>Internal Auditing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central Level</td>
<td>Regional Level</td>
</tr>
<tr>
<td>BPK</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Report to Main Stakeholders</th>
<th>External Auditing</th>
<th>Internal Auditing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Central Level</td>
<td>Regional Level</td>
</tr>
<tr>
<td>National Parliament or DPR(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional Parliament(s) or DPRD(s)</td>
<td></td>
<td>Minister/head of institution(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Governor(s)/Regent(s)/ Mayor(s)</td>
</tr>
</tbody>
</table>

Table 3.4 (above) presents the structure of Indonesia’s external and internal government audit institutions in terms of their functions and reporting. Internal audit institutions report to the head of Ministry/institution/local government, while BPK reports to the Parliament. Therefore, internal audit institutions are a part of the Executive, while BPK is a state audit institution that is independent from the influence of the Executive and other parties. This indicates the clear and separate roles and functions of external and internal audit institutions in Indonesia. BPK audits all public agencies and reports to DPR (Parliament) and DPRDs (regional Parliaments). Internal auditing in central government is conducted by general Inspectorates that report to the Minister or head of public sector agencies at the central level. The regional inspectorate conducts internal auditing for regional government and reports to the head of the regional government (governor, Regent, or Mayor). For state-owned enterprises/regional-owned enterprises, there is an internal controller unit (SPI). All of these internal audit institutions have the function of controlling and auditing the internal management of public sector agencies.

Organisational Change of BPK

Since BPK has a new mandate and greater authority to conduct all external auditing of public sector agencies, the Audit Board has committed to achieve its strategic purposes.
BPK has the vision “To become a state finances audit institution, which is independent, professional and plays an active role in improving the accountability and transparency of state finances”, and the mission “To audit state finance management and accountability in order to improve the accountability and transparency of state finances and to play an active role in achieving good, clean and transparent governance”. The mission is broken down into four strategic goals: (1) to establish BPK as an independent and professional state finance audit institution, (2) to meet the needs and expectations of stakeholders, (3) to establish BPK as the central regulator in the field of auditing state finance management and accountability in accordance with its legal and legislative mandates, and (4) to encourage the achievement of good governance of state finance management and accountability (BPK RI 2006a: 3-4). The strategic objectives indicate a new commitment and value of BPK to provide better performance for its stakeholders.

To achieve its purposes, BPK has reformed its organisation to improve operational capabilities both internally and externally, including rightsizing organisation, improving staff competency, providing better information technology and so forth. Although the priority of BPK in the short and middle terms is still very much concerned with financial audits, it is also eager to help the functions of Parliament by conducting specific purpose auditing and to conduct performance auditing for examining public sector agencies’ efficiency, effectiveness and economy.

3.4 Conclusion

Prior to Indonesian independence in 1945, public administration and auditing was dominated by the Dutch administration and Javanese culture, which strongly influenced the bureaucratic culture with patrimonial and patronisation practices. The President was a state leader who elected by the representative of Indonesian people and was powerful and
strongly influenced to the bureaucracy and government, including the BPK. Although the past position of BPK was under the 1945 Constitution and MPR, BPK had no independence from the government or was less powerful than the government. The audit reports from BPK were reported to Parliament which was majority dominated by the Golkar party, as the ruling party and single winner in the election. Hence, during the New Order Era, corruption became systemic under the power of the President (Soeharto) and his cronies. There were no external audit institutions independently examining public financial management and government accountability.

The duplication of audit functions in the public sector occurred not only between BPK and internal audit institutions, but also among the internal audit institutions themselves. BPKP, an internal audit institution, had the same roles and functions as BPK in conducting post audits, instead of examining the planning and management of the internal public sector agencies’ financial budgets and reports. However, BPKP had a much higher budget, and more qualified auditors, representative offices, and other audit resources from which to conduct public sector audits. As a result, BPKP had a greater auditing scope in regional governments, SOEs and ROEs, while BPK only audited central government. This meant the function and role of BPK to examine the public accountability of public sector agencies was diminished by the reduction in resources and audit scope. The duplication of audit functions burdened both state finances and auditees.

Since the third amendment of the 1945 Constitution (2001), the roles and functions of BPK as the only external audit institution are stated clearly. BPK has gradually been given greater power to examine the public accountability of public sector agencies under the Audit Law (GOI 2004b). Since then, BPK has reformed its organisation and strengthened its roles and functions. Table 3.5 compares the functions; laws and types of auditing,
position, and standards before and after audit reform. The table illustrates the Reformation of the system and regulations of public sector auditing in Indonesia.

**Table 3-5 Comparison of Internal and External Public Sector Auditing before and after Audit Reform (2001)**

<table>
<thead>
<tr>
<th>No</th>
<th>Public Sector Auditing</th>
<th>Before Reform</th>
<th>After Reform</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>External audit institution(s)</td>
<td>BPKP, BPK</td>
<td>Only BPK</td>
</tr>
<tr>
<td></td>
<td>- The function of BPK</td>
<td>Limited auditing of central government</td>
<td>Auditing all state finances of central and local governments, SOEs and ROEs</td>
</tr>
<tr>
<td></td>
<td>- The function of BPKP</td>
<td>Auditised central government, SOEs and ROEs</td>
<td>Supporting internal auditing functions</td>
</tr>
<tr>
<td></td>
<td>- Reporting to</td>
<td>The President and Parliament</td>
<td>Direct to Parliament and regional Parliaments</td>
</tr>
<tr>
<td></td>
<td>- Types of Audit</td>
<td>Financial and compliance audits</td>
<td>Financial, performance and specific purpose audits</td>
</tr>
<tr>
<td></td>
<td>- Position of BPK</td>
<td>A high institution (a limited power of state institution)</td>
<td>A state institution (stronger position)</td>
</tr>
<tr>
<td>2.</td>
<td>Internal audit institution(s)</td>
<td>Bawasda, IG, SPI, Main Inspectorate</td>
<td>BPKP, Bawasda, IG, Main Inspectorate</td>
</tr>
<tr>
<td></td>
<td>- The function</td>
<td>Post auditing</td>
<td>Pre-auditing for management of state finances</td>
</tr>
<tr>
<td></td>
<td>- Basic laws</td>
<td>Colonial-era of the Netherlands, IAR (1933)</td>
<td>Law on State Finances (2003), Law on Treasury, and Audit Law (GOI 2004b)</td>
</tr>
<tr>
<td></td>
<td>- Accounting standards</td>
<td>Not available</td>
<td>Based on Government Accounting standards (2005)</td>
</tr>
</tbody>
</table>

How effective are the new audit legislations in delivering promised outcomes for improving the Indonesian public administration remains a big question. This study examines the quality of, and the factors influencing, BPK reports to improve public accountability of government and public administration. Some Indonesian scholars have written academic publications on aspects of public sector auditing such as Bastian (2007) from Gajah Mada University, Harun (2007) from Tadulako University, Pujiono and Jati (2007) from Surabaya University and Udayana University, respectively. However, all the
authors come from the accounting department of their universities and analysed Indonesian public sector auditing from accounting problems, policies and practices perspective. Harun (2007) and Bastian (2007) gave a little mention about Indonesia’s public sector audit laws and institutions, but none gave an overall systemic account of the quality of audit reporting and the reasons for its effectiveness or ineffectiveness. This thesis intends to help remedy this research gap and to provide a reliable overview and analysis of BPK’s current performance.

In order to assess the effectiveness of government audit reports in Indonesia, Chapters Four and Five examine criteria related to the quality, content, communication of and action on the information in BPK audit reports.
Chapter 4

Quality of BPK Reports: Content of Information

Chapters Four and Five of this thesis assess the quality of information in public sector external audits in Indonesia. These chapters provide insights into the quality of information in public sector audit reports based on the theories and concepts described in Chapter Two. Here in Chapter Four, the quality of BPK reports is assessed against three criteria relating to the content of information: (1) scope of audits; (2) access to reliable evidence; and (3) objectivity and credibility of information. Each criterion outlines the laws, regulations and rules as “the heart of both the theory and the practice of public administration” (Drewry 2003: 257) to understand the policies of Indonesian external public sector auditing. Following is an examination of survey results, comments and statements from the personal interviews conducted with key informants. The final section draws some conclusions about the quality of the information content in BPK audit reports.

4.1 Scope of Audit

The scope of auditing is an important criterion to assess the quality of audit information in terms of how deep and how broad the content is in providing opinions and recommendations on public sector agency performance. The following sections describe the legal basis and scope of the Audit Board of the Republic Indonesia (BPK) reports.
4.1.1 Legal Basis for Audit Scope of BPK

Since audit reform in 2001, the BPK’s auditing scope has been stipulated by the third amendment of the 1945 Constitution. After this, the government provided new policies related to the audit scope of BPK, namely: Article 2 the Law on State Finances (GOI 2003b)\(^26\), the Audit Law (GOI 2004b), and the Law on BPK (GOI 2006b). The scope includes all state finances, which are defined as all state rights and obligations that may be appraised against a monetary value\(^27\), wherever the resources are and for whatever purposes they are used. State finance audits not only examine state and regional government revenues and expenditure budgets, but also a range of other entities. These include state-owned enterprises (SOEs); regional-owned enterprises (ROEs); foundations; pension funds and companies that provide official services; and private social institutions that receive government funds, foreign aid, and other government assistance.

Moreover, the Audit Law (GOI 2004b) emphasises the role of BPK in auditing all state finances for three types of auditing: financial, performance and specific purpose audits. The Law on BPK (GOI 2006b) also stipulates the duty and authority of BPK to audit the management and accountability of public sector agencies, including government organisations, the Central Bank of Indonesia (Bank Indonesia –BI), SOEs, ROEs, public services agencies and other agencies that use state money.

\(^{26}\)“State’s right to collect tax, to expend and to distribute money, and to make loans”; “State’s obligation to organise public service tasks of the state governance and to pay the third party’s claim”; “State revenues”; “State expenditure”; “Regional revenues”; “Regional expenditure”; “State properties/regional properties which are managed by themselves or other parties in the form of money, commercial papers, receivable, goods as well as other right, which may be appraised by money including property separated at the state-owned enterprises (SOEs)\(^26\) or regional-owned enterprises (ROEs)”; “Other parties’ properties, which are possessed by the government in the frame of organising the government task and/or public interest.”

\(^{27}\)As well as everything that is in the form of money and goods which may become state property in respect of the implementation of rights and obligations, including all state revenues and expenditure.
The Law on BPK (GOI 2006b) and audit standards (BPK RI 2007g: 13) stipulates the objectives and different audit scopes. For this purpose, auditors are required to consider the users’ needs and apply their knowledge, skills and experience. Different methodologies, level of analysis and evaluation can be employed for determining the scope of an audit. BPK audit standards provide information about the purpose and scope of auditing that is stipulated in Paragraph 8 of the SPKN (BPK RI 2007g: 83).

The responsibility of auditors to describe the scope and methodology of auditing in performance audit reports was stipulated in Paragraph 9 (BPK RI 2007g: 84). The auditors are required to explain any audit problems in the reports and to avoid misunderstanding by stating the audit objectives that are not covered in audit reports. These legal bases for audit objectives, scope and methodology legitimize BPK to conduct its functions in enhancing the reliability of reported financial and performance information in public sector organisations. In addition, since the Law on BPK (2006) was enacted, BPK can set its own priorities for its auditees, audit methods and procedures, and audit scope and policies, which enables BPK to be more independent in providing its audit opinions and recommendations.

In addition, the responsibility of auditors to audit the compliance of auditees with the provisions of laws and regulations to measure accountability of auditees to the public is stipulated in SPKN 2007. The focus of compliance auditing is actually to encourage the public sector to comply with regulations.
4.1.2 Comparing Different Audit Scopes of BPK before and after Reform

BPK’s auditing scope differed significantly before and after reform. The following sections describe these differences for each type of auditing.

Scope of Audit before Audit Reform

Before reform and especially during the New Order Era, BPK was under the control of the government, which resulted in BPK auditing having a very limited scope. In terms of audit objectives and entities, BPK only focused on financial and compliance auditing for central government and very small entities in regional governments. Performance auditing was not conducted based on international best practice and did not cover the 3Es (efficiency, effectiveness and economy) as defined in international audit standards (ISSAI 3000 2004).

Under the New Order Era, the President was the solely most powerful of the Government of the Republic Indonesia. He had power in making both economic and politic decisions. The President limited the role of BPK. BPK could not audit all state revenues, cash deposits and finances expenditure. The government prohibited BPK from conducting audits on some state revenues, such as mining contracts (including oil and gas), non-tax revenue, state debt stock and tax revenue\(^{28}\). Moreover, none of the government’s gold mining assetssuch as the Central Bank of Indonesia (the Bank of Indonesia), the National Airline Company (Garuda Indonesia Airways), the National Oil Company (Pertamina), stateowned banks (the Mandiri Bank, BNI, etc), and other SOEs, were

\(^{28}\) Nevertheless, BPK still does not have access to audit tax revenues.
subject to BPK audits. Audits of state expenditure were limited to the central government and expenditure from the state budget (APBN) only. Most regional governments were audited by the government internal audit institution BPKP. The Chairman of BPK during a Seminar at Udayana University, Denpasar, Bali (Nasution 2005a) stated:

During the New Order, there was no fiscal transparency. The audit of BPK was limited only in the expenditure side of the central government budget. During that time, the revenue side of central government budget, the non budgeter budget, SOEs and ROEs and other foundations that used state facilities were not audited by BPK. On the other hand, our experience on crises connection, started on: Pertamina crises on 1975; Duta Bank and Bukopin Bank crises during 80’s until; the financial and economic crises during 1997-1998. These crises showed the loss of the entire non budgeter budget, SOEs and ROEs, and all the foundations that are related to the official services became ‘contingent liabilities’ of the state finances that burdened all citizens or people. Government debt that rose very high this time, after the economic crises, was caused by the expropriation of debts outside the official central government budget.

In this statement the BPK Chairman expressed his dissatisfaction with the limitations imposed on BPK’s scope of auditing before audit reform that eventually led to the lack of fiscal transparency, accountability and bad governance in public sector. In addition, BPK could not provide audit opinions for the management and accountability of state finances because there was no authority for auditing. This situation shows that BPK could not conduct its roles and functions as it was supposed to do which then led to the lack of transparency and accountability in Indonesia’s public sector financial management.

Furthermore, most of SOEs and ROEs in Indonesia, including the State Oil Company (Pertamina), the National Electricity Company (PLN) and state banks suffered from the impact of a financial and economic crisis caused by their poor performance in finance and
services. The Central Bank of Indonesia\textsuperscript{29} and state-owned bank were never audited by BPK. According to Friend (2003: 365), in his book ‘Indonesian Destinies’, BPK in 1999 reported 48 banks had misused about 95 per cent of the Rp.144.5 trillion of funds from the Central Bank of Indonesia during 1997-1998 allocated to support emergency credit liquidity to soften the impact of the economic crises. This case, called BLBI (Liquidity Aid of Indonesia Bank), burdened the government budget and all of the Indonesian people.

Therefore, it was clearly apparent that BPK’s limited auditing scope affected the lack of transparency, performance and accountability of public sector agencies. BPK had no authority and capacity to audit all state finances and was under government control. This condition led to financial and economic cases after the crises that burdened the ‘contingent liabilities’ of state finances.

**BPK Financial Auditing After Reform**

Since reform, BPK has focused on financial and compliance audits to provide audit opinions on public sector agencies’ financial statements. Both central\textsuperscript{30} and local government (33 provinces, 370 cities, 95 regencies, 6131 districts, 73,405 villages\textsuperscript{31}), 776 SOEs and ROEs (including state-owned bank), and the Central Bank of Indonesia have to provide financial statements based on the new government accounting standards (2005).

\textsuperscript{29} The responsibility to audit the Central Bank of Indonesia (BI) is mandated by Article 59 of Law on the Central Bank of Indonesia (GOI 1999).
\textsuperscript{30} Central government consists of more than 76 audited entities, namely, 20 departments (ministries), 3 coordinator ministries, 10 state ministries, 5 institutions at the same level as ministry (State Secretariat, Cabinet Secretariat, the Attorney General, Indonesia National Army, and Police of Republic Indonesia), 25 non-department institutions, 8 High State Institutions, 1 Central Bank of Indonesia, other institutions.
BPK has confirmed its first audit priorities are financial auditing for the central government (LKPP), financial statements of department (LKD), financial statements of institutes (LKL), financial statements of the Central Bank of Indonesia (LKBI) and financial statements of loan guaranteed institution (LPS). Additionally, the specific purposes audit has become another priority at the request of Parliament. For example, audits of the National Electricity Company (PLN), the Fertilizer Company and Pertamina and for saving state expenditure electricity, refined fuel oil and fertiliser subsidies.

### Table 4-1 Auditees and BPK Audit Opinion period 2006-08

<table>
<thead>
<tr>
<th>Year</th>
<th>Audit Opinion from BPK</th>
<th>Total Auditees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WTP</td>
<td>WDP</td>
</tr>
<tr>
<td>Group of Entities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Gov. Entities</td>
<td>9</td>
<td>365</td>
</tr>
<tr>
<td>Local Gov. Entities</td>
<td>6</td>
<td>39</td>
</tr>
<tr>
<td>Year 2007</td>
<td>21</td>
<td>314</td>
</tr>
<tr>
<td>Central Gov. Entities</td>
<td>17</td>
<td>31</td>
</tr>
<tr>
<td>Local Gov. Entities</td>
<td>4</td>
<td>283</td>
</tr>
<tr>
<td>Year 2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Central Gov. Entities</td>
<td>34</td>
<td>30</td>
</tr>
<tr>
<td>Local Gov. Entities</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Sources:
Data from
4. BPK website, [www.bpk.go.id](http://www.bpk.go.id) (last accessed on 20 January 2010)

Notes:
WTP = Unqualified Opinion
WDP (Wajar Dengan Pengecualian) or Qualified Opinion
TW (Tidak Wajar) or Adverse Opinion
TMP (Tidak Memberikan Pendapat) or Disclaimer

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32 This audit will give an opinion on LKPP that has been compiled by the Ministry of Finance. The audit on LKPP is emphasised at certain posts that change every year according to the assessment of internal controls and the audit risks.
Table 4.1 (above) presents the number of auditees and audit opinions given by BPK on central and local government financial statements during the period 2006-2008. The table shows a significant increase in the number of auditees for both central and local government as a positive indication of the development in the scope of financial audits. However, BPK audit opinion showed the poor performance of both central and local government with transparency and accountability on the information presented in their financial statements. Although a significant number of government entities received ‘unqualified opinions’ (WTP) and ‘qualified opinions’ (WDP), there were still a significant number of ‘adverse opinions’ (TW) and ‘disclaimer opinions’ (TMP) for central and local government agencies. There are significant variation of government entities’ operational ability to apply the new government financial system and accounting standards. Commitment of government leaders to provide transparent and accountable financial reports and the competency of staff to implement the new government accounting standards can influence the performance of government financial statements. Besides, since government entities have been audited by BPK, auditors never again found state money in state officials’ private accounts.

Law (2001: 75) noted that in the New Public Management, financial annual reports have been used as a mechanism to evaluate the accountability of an organisation and suggested local policing plans to provide reports which contain the information necessary for accountability. BPK’s disclaimer audit opinions on financial statements of government suggested poor financial performance and accountability mechanisms by the Indonesian government. This situation can stimulate distrust from the public, including taxpayers and investors, regarding government accountability in managing their money. This is also
supported by a statement from a senior economist of Econit (Koran Tempo 12th March 2007) that, “the impact of BPK’s opinion on LKPP has had great impact on the macro economy of Indonesia. BPK’s opinion gave a poor impression to the public of the government capability in managing public funds”. Therefore, the value of transparency, accountability, fairness and trust in the Indonesian public servant environment was still low and influenced public dissatisfaction with government performance.

**Scope of Financial and Compliance Auditing**

After reform, in terms of the number of financially audited entities, BPK has improved its scope of audits for public financial transparency and accountability. However, this study revealed that BPK’s financial auditing still does not cover all public sector bodies as mandated by the laws. Up until 2005, BPK only performed financial auditing for about 50 per cent of the total auditees (BPK RI 2005a), partly because the total number of regional government agencies increased substantially. In 2005, BPK only audited 34 of 76 entities from central government agencies; 33 provinces; 214 of about 370 cities and regencies; and only 28 ROEs and 22 SOEs from more than a hundred. In 2006, BPK audited less than 80 per cent of the total reports or about 296 of a total of 370 regional government entities in regencies, provinces and cities (Biris Indonesia 9th March 2006). One crucial problem was that not all government entities could provide and submit financial statements based on the new government accounting standard. For example, in

33 In 2007, the total number of regional government entities increased to be 498, includes 370 regencies, 96 cities and 33 provinces after expanding region policy.
2007, the East Nusa Tenggara, the Maluku, and the West Papua Provinces\textsuperscript{34} did not submit their financial statements to be audited by BPK.

Another difficult task for BPK to fulfill the amended Constitution is its limited power to audit the tax office, especially the tax revenues\textsuperscript{35}. The Chairman of BPK commented cynically as follows:

The Tax Law issued by the New Order regime prevented BPK from auditing state tax revenues. Such control in the past made BPK a ‘rubber stamp’ for the legitimising of the Government’s actions.

The above statement from the Chairman of BPK indicates how firmly BPK was under the control of the New Order government in the past. BPK could not audit tax revenues. The Law on Taxation (GOI 1983 and GOI 1994) impaired BPK’s ability to audit tax revenues, which was one of the main sources of national income in the country (about 70 per cent of total income). This was opposed by the Chairman of BPK as a lack of accountability and transparency in the tax office (Jakarta Post 15\textsuperscript{th} January 2008). As the tax office revenues could not be audited, there was no significant evidence or evaluation of the transparency and accountability of the government in managing taxpayer money.

The government predicted a target of tax revenues in 2006 to be only Rp.30 trillion (\textit{Rakyat Merdeka} 2\textsuperscript{nd} December 2006a). Moreover, the government reported that tax revenues were only about 13.3 per cent of Gross Domestic Product (GDP) (Jakarta Post 15\textsuperscript{th} January 2008). BPK could not access data to examine the accountability and

\footnotesize{34}This is based on the information from BPK’s audited entities of regional governments and regional-owned enterprises (ROEs) semester I of 2007. Available from: \url{http://www.bpk.go.id/doc/hapsem/2007i/disc1/pdf_ikhtisar/lampiran_II.pdf}. (Accessed 29/01/2008).

\footnotesize{35}The speech of the BPK Chairman in a one day seminar for the commemoration of the 60\textsuperscript{th} Anniversary of BPK, on 9\textsuperscript{th} January 2007, 10 AM.
performance of the tax office in targeting tax revenues as the most important potential income in Indonesia. As a result, the tax revenues targets provided by the government were not reliable. The expenditure of taxpayer money could not be rigorously accounted for indicating a lack of accountability of public money.

Article 34 of the second amendment of the Law on Taxation (GOI 2000) stipulated that an official of the tax office is not allowed to give out confidential information concerning taxpayers to outside parties. BPK could not examine tax revenues due to confidentiality of taxpayer’s personal data. After the Law on Taxation (GOI 2007b) was amended for the third time, BPK’s authority to get information and data for auditing remains limited. The law stipulates that BPK auditors can access tax revenue data and information only if they receive permission from the Minister of Finance (Hasan 14th January 2006; Murdono 30th September 2005; Pelita 6th February 2008). The Ministry of Finance is under the President (government), and has a lower position in the state structure, than BPK. However, the law stipulates BPK must ask permission from the Minister of Finance for auditing tax revenues. The Ministry of Finance issues the list of documents that can be audited by BPK and these exclude tax revenues (GOI 1990). For getting clearer authority, BPK asked Parliament and the Constitutional Court (MK) to review the tax law. However, BPK has still not received a positive response. The Chairman of BPK said cynically (Rakyat Merdeka 2nd December 2006b) as follows: “Only the Directorate General of Taxation, and God, knows the tax information”. He also argued:

It is ridiculous to limit the access of BPK to audit the tax service accounts because of the fear that BPK auditors may disclose information to other parties. As stipulated by the law, BPK auditors are banned from distributing data and information during auditing. (Jakarta Post 15th January 2008)
This statement indicates that BPK has the mandate to audit all state finances, including the money that Indonesian taxpayers paid to the government. The Chairman of BPK found inappropriate if BPK has to get permission from the Ministry of Finance for auditing the tax, because the Law on Audit (2004) stipulates sanctions for any auditors who misuse data and information from auditees.

Besides tax, BPK could not audit go public SOEs or the revenue of the Supreme Court. The law fatwa of Supreme Court 16th August 2006 (Sulistio 15th March 2007) prevents BPK auditing Supreme Court revenue. Moreover, the Investment Coordinating Board (Badan Koordinasi Penanaman Modal or Bapepam) prohibited BPK to audit go public SOEs (Mangku 2006a). According to the Decrees of the State Minister for SOEs (Kementrian Negara BUMN)36, SOE financial statements37 can only be audited by the public accountant’s office (GOI 2003a). These rules are contrary to the Law on State Finances (GOI 2003b) which stipulates SOEs as companies that are partly owned by the government (Triadji 2003:10-17), and therefore should be audited by BPK.

**Scope of Performance and Specific Purposes Audits after Audit Reform**

As mandated by the Law on Audit (2004), BPK conducts not only financial auditing, but also performance and specific purpose audits.

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36 The Decree of State Minister for SOEs (Kementrian Negara BUMN) is regulated in Letter Number S-19/MBU/2004 on 21st January 2004.
37 Audit of financial statement for managing state finance and accountability is mandated in Article 30, Paragraph 2 of the Law on State Finances (GOI 2003b).
Specific purpose audits\textsuperscript{38} in particular address the commitment of the President of the Republic of Indonesia, Bambang Yudhoyono, to fight against corruption as a national priority. He reiterated a zero tolerance for corruption as a part of the national anticorruption movement was declared in December 2004 (Pradana 2005). This movement affected the role of BPK as an important institution to achieve anticorruption objectives (Nasution 2005b; Joedono 2003: 8). In line with the objective, the government has increased income from tax revenues and non-tax revenues in both central and local governments, including regional charges (retribusi). As a result, BPK has given a higher priority to auditing the accountability of government in managing state revenues. However, the Law on Taxation has impeded the authority of BPK to audit tax.

Performance audits that were planned for 2007 were postponed because BPK was still preparing its instruments and auditors\textsuperscript{39}. According to the explanation from the BPK Chairman stated in a national newspaper (\textit{Bisnis Indonesia} 18\textsuperscript{th} January 2008), BPK will move its focus on auditing in 2009 to not only financial auditing but also to performance auditing. A BPK Board Member confirmed this (\textit{Kompas} 6\textsuperscript{th} January 2007) in the following statement:

\begin{quote}
If government financial statement reports have been provided based on government accounting standards (GOI 2005), auditors of BPK will find it easier to conduct financial auditing, then they will concentrate more on performance audits. All government agencies have to provide good public services and their performance will be audited by BPK. We plan to conduct performance auditing in the next two years. At the moment, we are still concentrating on auditing government financial reports.
\end{quote}

\textsuperscript{38}This is stipulated by the Audit Law (GOI 2004b). Information on specific purposes auditing which were conducted by BPK from semester I of 2005 to semester I of 2007 is presented on BPK’s website: \url{http://www.bpk.go.id/}

\textsuperscript{39}This information was based on the explanation from key informant from BPK in Jakarta on 10\textsuperscript{th} August 2007.
This statement indicates BPK’s optimism to conduct performance auditing effectively in 2009. BPK still focuses on financial auditing in line with the implementation of new government accounting standards for transparency and accountability of public sector agencies in managing state finances. The broadening of BPK’s auditing scope to include performance auditing is essential for promoting a culture of effectiveness and efficiency in the provision of public services for Indonesian society. The first priority of BPK performance auditing is the performance of state-owned bank for accelerating the restructuring of Non Performing Loans (NPL), and state academic institutions for better performance in tertiary level education. Indonesian government agencies are still preparing performance indicators as a part bureaucracy reform to help BPK in conducting performance auditing. Moreover, BPK has received assistance from the National Australian Audit Office (ANAO) to provide training for auditors and consultations to conduct performance auditing. This is similar to the case of Argentina’s SAI, which has strengthened its performance auditing tools and methodology with assistance from the National Audit Office of the United Kingdom (INTOSAI 2007a: 4).

Table 4.2 (below) presents the number of BPK audited entities for performance and specific purpose audits at the central and local levels from 2005 to 2007. The table indicates that although BPK did not implement performance auditing widely, BPK did conduct this type of auditing during that period. In addition, BPK only conducted performance auditing for central and local government and ROEs, but not for SOEs. In 2007, BPK only focused on performance auditing for certain programs at four agencies, namely: (1) the Ministry of Health, (2) the Ministry of Agriculture, related to the control of avian flu and the influenza epidemic, (3) the Rehabilitation and Reconstruction Board
(BRR) *Nangroe Aceh Darussalam-Nias* related to post-tsunami disaster development, and
(4) the Ministry of Foreign Affairs. However, these performance audits examined
financial accountability rather than evaluated the efficiency, effectiveness and economy of
those programs.

Table 4-2 Audited Entities and Value (in Billion Rupiahs) of Performance and Specific
Purposes Audits 2005-2007

<table>
<thead>
<tr>
<th>No</th>
<th>Year and Group of Entities</th>
<th>Performance Audits Value</th>
<th>Specific Purposes Audits Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>2005 Central government</td>
<td>17</td>
<td>0.38</td>
</tr>
<tr>
<td></td>
<td>Regional gov. and ROEs</td>
<td>43</td>
<td>2.09</td>
</tr>
<tr>
<td></td>
<td>SOEs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>2006 Central government</td>
<td>11</td>
<td>2,290</td>
</tr>
<tr>
<td></td>
<td>Regional gov. and ROEs</td>
<td>15</td>
<td>871</td>
</tr>
<tr>
<td></td>
<td>SOEs</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>2007 Central government</td>
<td>4</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>Regional gov. and ROEs</td>
<td>-</td>
<td>n.a.</td>
</tr>
<tr>
<td></td>
<td>SOEs</td>
<td>-</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: Data from
1. Summary of Audit Results of BPK semester II of 2007
2. Summary of Audit Results of BPK Semester I of 2007
3. Summary of Audit Result of BPK Semester II of 2006:
4. Summary of Audit Result of BPK Semester I of 2006:

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40 This is based on data of BPK reports on central government, semester I 2007
In 2005, BPK audited the fuel and oil subsidy’s reducing program (PKPS MMB), the subsidy on electricity and fertilisers, and also evaluating mining contracts. These were the selected audit priorities for BPK because the subsidy on fuel and oil, electricity, fertilisers and mining contracts are a high state expenditure burdening state finances (Handayani 2006). Regarding this, the BPK Chairman said the following:

The financial problems in SOEs and ROEs cannot be separated from problems in the state finances. Financial losses of these enterprises are the ‘contingent liabilities’ of government that have burdened the state finances. Corporate governance in Indonesia is still bad, because of too much involvement from the government in appointing managers and deciding policies. In general, managers of SOEs and ROEs consist of government officials who only expect additional income of their salary from these enterprises.

This excerpt indicates that BPK could not audit SOEs, which provided ‘gold income’ for high officials in the Indonesian public sector. SOEs mainly manage natural resources and other important public services and products and these are usually managed badly and unaccountably with widespread corruption, collusion and nepotism. Although SOEs had good public resources and monopoly market, they operated inefficiently and ineffectively. This situation harmed public funds while benefiting only certain high officials who worked for the President, but not for the public. Since the global economic crisis in 1997, the impact of poor SOE management has burdened Indonesian state finances.

In 2006, regional governments conducted specific purposes auditing for the election of local government leaders at provincial, city and district levels. For central government, BPK conducted specific purposes auditing on funding assistance to political factions; expenditure and non-tax income; the State Audit Reform Sector Development Project (STAR-SDP); and international aid and donors, such as ADB, the World Bank and
Besides, specific purpose auditing focused on auditing income, expenditure and costs at both central and local levels\textsuperscript{42}. For SOEs, BPK conducted specific purposes auditing, in relation to the accomplishment of social values and prosperity, such as the subsidy for fertilisers, fuel, and electricity. As the government planned to raise electricity rates in 2006, BPK audited PLN to examine its operational capacity and to evaluate the possibility of efficiency to reduce the need for these rate increases (Jakarta Post 11\textsuperscript{th} March 2006).

In 2007, besides auditing for the leaders of regional government’s election, BPK also audited the balanced budgets, income, expenditure, inventory of assets, and political party funds. BPK also focused on auditing capital and goods expenditure, non-tax income and implementation of capital budget expenditure\textsuperscript{43}. In addition, BPK audited the cost of the main electricity power supply in the period 2002-2006 to help the work committee of Commission VII of the Parliament with the policy and strategy of PLN for the public service obligation (PSO) and subsidy program (Rakyat Merdeka 17\textsuperscript{th} February 2007).

Since audit reform, BPK has conducted specific purpose audits for environmental accountability of public sector policies to give recommendations to Parliament Members on government policy decisions. For example this occurred in cases including the mudflow disaster of Lapindo at Sidoardjo (East Java), the flood disaster at Jember, the landslide at Purbalingga, and the damaged forest in Java(Suara Pembaharuan 6\textsuperscript{th} January 2006).

\textsuperscript{41} This is based on information from BPK’s audited entities of regional governments and ROEs, semester I of 2007, \url{http://www.bpk.go.id/doc/hapsem/2007i/disc1/pdf_ikhtisar/lampiran_II.pdf} (accessed 3/11/2007).
\textsuperscript{42} This is based on information from BPK’s audited entities of regional governments and ROEs, semester II of 2006, \url{http://www.bpk.go.id/doc/hapsem/2006ii/ikhtisar/Bagian_1/Lamp-2.pdf} (accessed 17/08/2007)
\textsuperscript{43} This is based on information from BPK’s audited entities of central government, semester I of 2007, \url{http://www.bpk.go.id/doc/hapsem/2007i/disc1/pdf_ikhtisar/lampiran_1.pdf} (accessed 5/11/2007).
BPK cooperates with other SAIs for environmental audits. A Memorandum of Understanding (MoU) was signed in 2007 with the SAIs of Malaysia, Thailand and Brunei Darussalam\(^44\) for cooperative auditing and to protect and conserve natural biodiversity. The MoU covers environmental issues such as the haze from forest fires and slash and burn land clearance that seriously affects neighboring countries, the spread of avian influenza and the security of the Malacca Strait to ensure the secure shipping as well as potential pollution threats from shipping. The BPK Chairman explained to a Jakarta Post reporter (Hudiono 17\(^{th}\) May 2006) the following:

The focus of this agreement would mainly be on the auditing of compliance with environmental regulations. This would include government policies and the activities of both public and private sectors. If there is an incidence of pollution for example, we will assess who is responsible, what actually happened and what’s being done to handle it and how the regulations are enforced. Take Jakarta, for example, the province’s regulations on the environment are there, but we can see for ourselves how bad the pollution here is right now.

This statement reflects BPK’s commitment to examine environmental matters and regulations and provide recommendations for central and regional governments to be concerned about sustainable planning and development for public accountability. The National Audit Department (NAD) of Malaysia is a good example of a developing country audit body that has developed performance-based assessments with indicators to investigate fraud and to conduct environment audits (Buang 2007).

Besides environmental audits, BPK improves its capacity to perform investigative auditing. BPK audits international and local aid to uphold international and public trust in the government in managing development assistance. BPK has audited international and

\(^{44}\) Researcher attended this joint commitment and signing of the memorandum of understanding of these four countries on Monday, 8\(^{th}\) January 2007 in the Pola Room of BPK Office, 2 -4 PM, Jakarta.
national aid for the Tsunami disaster in Nangroe Aceh Darussalam (NAD) and Nias (North Sumatera). BPK has also recommended that the Indonesian government develops and builds up an administrative system for the delivery of humanitarian aid.

BPK audited international aid for the Provincial Health Project II (PHP II) that was funded by IBRD (International Bank for Reconstruction and Development) in the Health Department of the Ministry of Health, (BPK RI 2007a: 24). BPK’s audit of international aid from the World Health Organisation (WHO) for the maintenance of health for poor people resulted in positive comments from the World Bank’s Mr. Andrew Steer (BPK RI 2007a: 24), who said:

The activity of the audit is an encouraging sign. We will continue to carry out the cooperation related to institutions in Indonesia in the effort to protect projects from abuse, especially projects funded by the World Bank. Good coordination will improve the surveillance.

The statement indicates optimism and motivation from the World Bank for running health projects for poor people in Indonesia with the cooperation of BPK to audit accountability of officials in managing the aid. In 2005, four BPK auditors reported that about 20 per cent of the World Bank’s total expenditure (equivalent to US$420,000) on the development of a community health program in the Ministry of Health could not be accounted for (SAI Indonesia 2006: 10). The findings of BPK proved the lack of financial and performance accountability of officials and the Ministry of Health to manage the project and to respond the needs of poor people.

To summarise, before audit reform the scope of BPK was very limited with its lack of authority and capacity to audit public sector agencies. BPK only audited central government while internal audit institutions such as BPKP audited most of the
substantial state income from state-owned enterprises (SOEs) and regional governments. Since reform, the scope of BPK has become broader and includes financial, performance and specific purposes audits. BPK has gradually conducted comprehensive financial and compliance audits for all public sector bodies. Although up until 2007, opinion from BPK on financial audit reports of the public sector indicated dissatisfaction with still many disclaimer opinions issued on both central and local governments’ financial statements. This indicated a lack of transparency and accountability and also a lack of competency and ability from within government agencies to implement the new government accounting standard.

Since reform, as mandated by law, BPK audits the performance of public sector agencies. However, this type of audit has not been implemented effectively as BPK alongside auditees are still preparing relevant performance indicators. Additionally, BPK has to provide auditors for performance auditing both in number and quality. For specific purpose audits, BPK conducted environmental audits to protect further environmental damage and investigative audits related to elections for heads of regional governments, international/ national aid, and other anti-corruption programs. BPK also conducted audits to support Parliament Members and government in policymaking, such as policies for subsidies on electricity, fuel and fertiliser.

4.1.3 Survey Results and Comments on Scope of BPK

This section describes perceptions of respondents from this study on the information in the content of BPK reports in terms of the scope of auditing. Figure 4.1 (below) indicates that in general, respondents significantly agreed that BPK reports
provide clear information on the auditing scope and objectives. This is pointed out by the interviewed auditors, of whom 29 per cent indicated that they ‘strongly agree’ and 58 per cent ‘agree’. From auditees, 9 per cent indicated that they ‘strongly agree’ and 73 per cent ‘agree’. The optimism of respondents was encouraged by the contrast in BPK performance reports from before and after audit reform. However, most respondents focused only on the scope of financial and/or compliance audits in line with the application of new government accounting standard, rather than performance audits, which had not been implemented effectively.

Figure 4.1 Survey Results of ‘BPK Reports Provide Clear Information for Audit Scope and Objectives’


In the overall responses, this survey recorded 12 per cent of participants ‘as neutral’ and 3 per cent whom ‘disagree’. For the auditors’ group, only 9 per cent of respondents indicated ‘neutral’ and 4 per cent ‘disagree’. On the other hand, about 15 per cent of the auditees’ group responded ‘neutral’ and 3 per cent ‘disagree.’ Some of the negative views revealed comments and statements during interviews of BPK auditors included:

- “BPK had limited the scope of auditing” (Interview B17, an auditor of AKN I).
- “BPK only audited the huge or big budget items in state finances” (Interview B21, an auditor of AKN IV).
- “BPK did not cover auditing for all SOEs” (Interview B23, an auditor of AKN V).
“BPK could not audit tax income” (Interview B13, an auditor of AKN I).
“Overlapping auditing among auditors with internal auditors at the same time and the same entities had reduced BPK’s scope of auditing” (Interview B11, an auditor of AKN III).
“Before audit reform, under the former of Law on BPK (1973), BPK only audited implementation of state budget for central government” (Interview B24, an auditor of AKN V).
“Limitation of BPK’s scope of auditing hindered this audit institution from carrying out its roles and functions in examining the accountability of state finances” (Interview B16, an auditor of AKN II).

These excerpts indicate the auditors’ disappointment on the limitation of the auditing scope, which demonstrated the incapacity of BPK to scrutinize the accountability of the Indonesian public sector. Moreover, auditors also indicated pessimism regarding the scope of BPK audits for tax revenues and SOEs. BPK could not examine the compliance of taxpayers and the accountability and transparency of the taxation office as stipulated by the tax law. Therefore, BPK never evaluated the performance of tax administrators. In addition, a Board Member of BPK commented on the issue of SOEs in a national magazine, as follows:

The problem of SOE is the problem of ‘pie’ auditing, like a struggle to obtain a fortune. SOEs manage the state finances, don’t they? Is it right that each cent of the state finances has to be audited by BPK? There are no exceptions. In principle, all of the state finances have to be audited by an audit institution, called BPK (Forum 17th December 2006:32).

The above statement indicates problems facing BPK to audit SOEs. In 2008, BPK submitted files for proposing a judicial review of the tax and SOEs laws that impede its roles and functions. This means that the authority of BPK to cover the entire scope of state finances of Indonesian public sector agencies is still impeded.

There are two examples of non-compliance cases were found by BPK that was published in national newspapers. Under the funding of Banten Province budget of 2004-2005, there were 19 projects were not comply with the government regulations. (Koran
Tempo 27th June 2006). The auditee claimed that there was a miscarriage of justice by BPK which had audited the projects before 20th December 2005 and concluded that the projects were not finished by the scheduled date, thus making them seemingly in breach of the law. The vice head of the project argued, “We still have 10 days to complete all these projects, but BPK had judged it an illegal act” (Koran Tempo 27th June 2006). The statement indicated that auditee found unfairness on the BPK reports that the project was not completed on time, before the end of the financial year. In accordance with the requirement for auditors to report auditees’ non-compliance with laws and regulations, this argument from the auditee seemed bias. To prepare a non-compliance report and to present findings with regard to fraud, violations of provisions of laws and regulations, the auditor had applied proper auditing procedures. The complaint by the auditee was subjective and indicated a lack of transparency and accountability.

Furthermore, some auditors have pointed out common findings regarding non-compliance with laws and regulations in auditees’ financial statements:

- “Some procedures of management state finances were not based on the provisions of laws and regulations and financial statements were not accordance to the new government accounting standard” (Interview B21, an auditor of AKN IV).
- “Ineffective procedures of verification, income reconciliation, grants and purchases in managing state finances” (Interview B20, an auditor of AKN III).
These statements are examples of non-compliance with laws and regulations that were found by auditors. The Chairman of BPK also revealed in a national seminar that other examples of non-compliance found by BPK:

BPK found the irregularities in government’s management of state finances. For example: the procedures of verification and income reconciliation of tax and non-tax, the management of government account statements at the Central Bank of Indonesia (BI) and state-owned banks, account management of the investment budget and regional development, asset management in SOEs and state management assets from the incomplete BPPN re-structured program.

This excerpt indicates that the government failed to demonstrate that they had managed public resources responsibly. This situation can reduce trust and confidence in government to govern transparently, efficiently and effectively. In addition, several articles about BPK findings of central and local governments’ non-compliance were scrutinised and written by journalist of some national newspapers and magazines. For example, articles on irregularities in non-tax state revenue management, such as the payment of a traffic ticket at the high court (Riyadi and Barus 14th June 2006), unreported non-tax revenue in 11 ministries (Hudiono 17th May 2006), and non-tax charges or tariff in local government (Bisnis Indonesia 3rd June 2006).

Additionally, a journalist was written about BPK findings on incorrect counting and reporting the actual value of aid funds for Tsunami victims in Aceh and Nias (Taufiqurrahman 2006). Another example is an article about ineffective procedures in 17 departments regarding the purchase of goods and services, with state losses valued at Rp.137.63 billion (Bisnis Indonesia 17th May 2006; Suara Pembaharuan 16th May 2006).

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45 Prof. Anwar Nasution in keynote speech at a National Seminar, titled ‘Accountability of State Finance Management as Effort to Combat Corruption’, Brawijaya Accounting Fair 2006, Economic Faculty of Brawijaya University, Malang, 3rd June 2006.
A final example is reports of the inefficiencies and losses in government investment funds managed by SOEs (Hudiono 17th May 2006). All these cases revealed many irregularities, such as misuse and graft in public funds. All the irregularities occurred since the New Order Era, but still existed in the early Reformation Era.

The duplication problem of roles and functions between BPK and BPKP was getting clear, since the audit reform of 2001 as BPK has mandated as the only external audit institution in Indonesia. The Chairman of BPKP, Didi Widiyadi, stated that “BPK is an external audit institution based on the 1945 Constitution, while BPKP is an internal audit institution based on Presidential Decree. This is designed for checks and balances”. (Suara Pembaharuan 5th December 2006 and Tagukawi 2006). Since then, BPK has significantly increased its scope of financial auditing in terms of quantity and it is also preparing for performance auditing in the near future.

Six respondents expressed their opinions regarding performance and specific purpose audits as follows:

- “BPK is not ready yet to conduct performance audits” (Interview B10).
- “BPK is still looking for the techniques, procedures and shape of performance audits that are suitable and appropriate for this type of auditing” (Interview B5).
- “Opinions and arguments are still developing to decide whether an audit can be labelled as performance auditing” (Interview B24, an auditor of AKN V).
- “Audited entities are not ready to be audited for performance audits” (Interview A10).
- “Audit’s objectives are mentioned in all audit reports to set the scope of the audit, in particular, on performance audit reports” (Interview B15, an auditor of AKN III).
- “BPK conducted performance and specific purpose audits only for audited entities that had actual problematic issues and these were based on demands or orders from the Parliaments” (Interview B14).
- “BPK conducts compliance audit as a part of performance audit” (Interview B17, an auditor of AKN I).
These excerpts imply that BPK is still looking for the right format for developing performance auditing in its internal organisation. On the other hand, public sector agencies are also preparing performance measurements and indicators for their organisations. This means that BPK is still undergoing a process to examine the accountability of government agencies for their efficiency, effectiveness and equitable conduct.

In summary, as mandated by the Constitution, BPK’s financial audit scope has expanded extensively for examining the transparency and accountability of all public sector bodies. The workload for BPK has increased in terms of the number of agencies and the audit scope, which includes financial, performance and special purpose audits. However, until 2009, BPK still could not audit tax revenues and some SOEs. Moreover, the lack of competency in government agencies to apply the new government accounting standards(2005) resulted in the late submission of their financial statements, which caused BPK to examine their financial accountability. Although BPK has made significant improvements in increasing the number of audited entities for financial auditing, including compliance audits, the audit scope of BPK is still limited in enhancing accountability as it has not yet focused on actual outcome and performance audits. BPK is still continuing to develop the instruments and measurements to examine the performance of public sector agencies. Specific purpose audits were demanded by Parliament, such as request for investigative audits for cases with indications of corruption, environmental audits, financial audits of financial report of head of regional government elections and international aid.
4.2 Reliability of Audit Evidence

Quality audit reports require reliable evidence. Employing sufficient, relevant, valid, accurate and reliable data are important for a good quality audit report. The following sections describe about reliable data and information of BPK as one of measurement to examine the quality of audit reports.

4.2.1 Laws and Regulations as the Basis of Strong Audit Evidence

As stipulated by the Audit Law (2004) and the Law on BPK (2006), any organisation that uses public/state finances must give BPK auditors access to any documents and/or data to be audited. The right of auditors to access all documents and data for auditing and to ask for the required documents from officials or other parties is stipulated in Articles 10 and 11 of the Audit Law (GOI 2004b). Auditors have the authority to access all auditees’ documents includes access to all types of goods, documents and data under the authority or control of auditees. Moreover, they can seal cash boxes and lock up goods and documents relating to state finance arrangements; take pictures, records, and retrieve any sample as a tool for auditing; and ask for information from anybody.

In order to avoid the misuse of BPK powers in accessing data and information, fraud provisions are regulated by Article 25 of the Audit Law (GOI 2004b). Sanctions and a penalty of at least three years jail or a fine of no more than Rp.1 billion are stipulated in this article to prevent officials, Board Members and auditors of BPK misusing documents provided by audited entities. In particular, it relates to dealing with information and data collected before and after auditing, and before reporting to the Parliaments or to the public. In addition, Article 24 of the Audit Law (GOI 2004b) stipulates punishment by
imprisonment for a maximum one and a half years and/or a penalty of no more than Rp.500 million for anybody who deliberately withholds any data and information from BPK auditors. This includes anybody who intentionally does not carry out their obligation to provide documents and/or refuses to give the information required for the smooth running of the auditing of state finance management and accountability. It also includes those who intentionally avoid, obscure, and/or fail to implement auditing instructions (Article 10) and those who refuse a request from BPK without providing written reasons for refusal (Article 11).

Moreover, anybody (auditors) who intentionally forges or falsifies documents submitted for auditing may be subject to imprisonment for a maximum of three years and/or a penalty of no more than Rp.1 billion. Article 24 of the Law on BPK requires the government institutions as auditees to cooperate with the auditors in terms of providing data and information (GOI 2006b).

The BPK Regulation, Number 1 of the Year 2007, on audit standards provides guidelines for an accurate, valid and reliable audit report (BPK RI 2007g). Paragraph 42 (BPK RI 2007g: 91-92) emphasises the importance of an accurate audit report and the impact of an inaccurate audit report. In addition, Paragraph 43 (BPK RI 2007g: 92) describes how auditors should provide information that is valid, accurate and reliable. Audit reports must contain information supported by competent and relevant evidence in

46 According to the Law on BPK (GOI 2006b), state finance management is “all activities carried out by the state finance management officer in accordance with their position and authorities, covering planning, implementation, supervision and accountability.”
47 According to the Law on BPK (GOI 2006b), state finance accountability is “the government obligation to carry out state finance management in an orderly manner, in compliance with the law and legislation, efficiently, and economically, transparently, and accountably, with due observance of fairness and appropriateness.”
an audit worksheet. In case there are significant data with respect to audit findings, but auditors cannot examine the data as they need more evidence, then the auditors must clearly indicate in their audit reports that such data are not examined and that they do not have any findings or recommendations based on that data.

How the evidence, audit standards and reference can help auditors to provide an accurate and reasonable audit report is stated in Paragraph 44:

Evidence in audit reports must be reasonable and represent the accuracy of matters reported. Correct description means an accurate explanation on the audit scope and methodology, and the presentation of findings is consistent with the scope of audit. One of the ways of ensuring that audit reports have met audit standards is by exercising quality control, such as a reference of the process. The reference process is a process in which an auditor who is not involved in an audit process conducts an examination to find whether or not the facts, numbers, or dates have been reported accurately, the findings are supported by audit documents, and conclusions and recommendations are logically based on the supporting data.

In summary, since the introduction of the Audit Law (GOI 2004b) and the Law on BPK (GOI 2006b), BPK auditors have gained a clear authority to access any data and information from auditees. These laws promote the openness and transparency in the government environment and power to BPK to scrutinise the performance and accountability of the public sector agencies. The sanctions are also stipulated for any person who deliberately does not providedata and information as required by the auditors and also for those whomisuse the audit data and information.

4.2.2 Survey Results and Comments on Strong Audit Evidence

Figure 4.2 (below) presents respondent’s perceptions on strong audit evidence used in BPK reports. Out of the total 129 respondents, 85 per cent ‘agreed’ and ‘strongly agreed’ that BPK auditors use ‘strong evidence’ in auditing. Of 78 auditors, 88 per cent responded
positively, including 28 per cent who ‘strongly agreed’ and 60 per cent who ‘agreed’.

From 51 auditees, 62 per cent ‘agreed’ and 18 per cent ‘strongly agreed.’ These responses indicate that auditors were the most convinced that they had strong data and information for auditing, especially after the power and authority granted through law to BPK to access data and information.

**Figure 4.2 Survey Results of ‘Information in Audit Reports is Supported by Strong Evidence’**

![Survey Results](image)

Source: Fieldwork survey from 5th November 2006 to 25th March 2007 in Indonesia

Auditees provided a positive perception, since the new Law on BPK (GOI 2006b) requires auditees to be more transparent and accountable in presenting their reports and providing all the data and information needed by BPK auditors. Three auditees pointed out the importance of strong evidence for auditors as follows

- “The audit report is the result of objective auditing that was supported by valid and accurate information” (Interview A7).
- “Valid, accurate and reliable information is the basic standard of the auditing work to provide an objective and accountable audit report” (Interview A5).
- “As far as the audit findings are based on evidence, the audit findings are objective” (Interview A8).

These comments implied that auditees understand the importance of evidence in auditing. Moreover, they also positively support the data collection required by auditors.
On the other hand, few respondents responded negatively. About 10 per cent were neutral and only 5 per cent disagreed that BPK used strong audit evidence in reporting audit information. A key informant from a non-government organisation (Interview F1) provided the following opinion about the lack of power auditors have to access data and information during auditing:

BPK needs power and more authority to get any kind of data from any department. Any single cent of state finances shall be reached by BPK. When BPK conducted auditing at the Ministry of Finance or other ministries, every cent of the state money shall not be hampered by anyone. So, they could not hamper BPK auditors during auditing. Although as mandated by the Constitution, BPK is an independent audit institution and free from any influences of government, other parties, and other institutions, before the new Law on BPK (2006), BPK had no power to access valid and accurate data or information for auditing.

This quotation points out that BPK cannot access reliable and accurate data or information from auditees because of the lack of transparency in the public sector. The key informant emphasised how powerless BPK is in accessing data and information from the Ministry of Finance and the weaknesses of BPK in accessing accurate data and information prior to the passing of the Law on BPK (2006). The Chairman of BPK, speaking in front of Parliament stated, “BPK had no power to seal, search and seize documents and other related items necessary for auditing and inspection” (Nasution 2005b). This statement indicates the lack of power BPK has in accessing public sector agencies before the issuing of the Law on BPK (2006).

Some criticisms from auditors about difficulties in accessing data and information from auditees are as follows:

- “Auditors had difficulty in getting sufficient valid and accurate information from auditees” (Interview B17, an auditor of AKN I).
- “Not all auditing work was supported by accurate and valid information” (Interview B19, an auditor of AKN II).
“BPK had no access in computer systems of auditees and using electronic data” (Interview B18, an auditor of AKN I).

These excerpts show dissatisfaction from auditors about the data and information made available for auditing. In addition, in line with the transformation of public administration from paper based to electronic data and information, auditors found that they had no free access to the electronic data.

According to the Chairman of BPK, some regulations still impeded and limited the power of BPK auditors in accessing data and information for auditing, such as information related to tax revenues, official foundations and SOEs entering the stock market (Bisnis Indonesia 12th March 2007). In a statement to a national newspaper, the Director of Institute for Development of Economic and Finance (INDEF), Fadhil Hasan, also pointed out tax revenue that could not be audited by BPK (Kompas 13th March 2007):

The public have been forced to believe the tax restitution information is uncovered by the directorate general of taxation office, because the directorate institution is very close and cannot provide data on taxpayers and revenues openly. Even BPK auditors found it was difficult to enter the database of tax office for auditing.

Responses and statements from auditees and auditors indicated that although the power of BPK to access data and information for conducting auditing had improved under the laws that followed audit reform, unfortunately BPK still had difficulty in accessing data and information in some institutions that used state finances. This situation indicated the lack of transparency and openness in public administration, which boosted corruption, collusion and nepotism in the public sector working environment.

To conclude, under the new law of BPK (2006), auditors have the power to access any data and information in every government agency for auditing purposes. The sanctions for auditees who do not provide the necessary data and information, and for auditors who
misuse the data and information, have been stipulated. The clear power and authority of BPK auditors to access data and information for auditing indicates a positive commitment from the government to act transparently and accountably and also generated positive perceptions from the respondents. However, based on the research evidence, although the power of BPK to access data and information has been strengthened, BPK is still impeded in accessing data and information from auditees, such as in the case of tax revenue data and the audit data for go public SOEs.

4.3 Objectivity and Credibility of Audit Report Information

This section analyses the objectivity and credibility of BPK reports based on research data and information from regulations, documents, reports, media, and key informant’s perceptions and comments. Objective and credible information is one of the criteria to provide a quality audit report that can be trusted and useful for the main stakeholders, namely the Executive (audited entities), Legislative institutions (DPR, DPRDs, DPD) and the public.

4.3.1 Regulations and Rules for Objectivity and Credibility of Information

Since audit reform, state finance audit standards (SPKN 2007\^48) have stipulated the operational basis for requiring auditors to maintain their objectivity in performing audits consistent with the public interest. This means auditors must provide an objective audit report, respond objectively to officials responsible for following up audit reports, and disclose confidential information on audit reports objectively. The standards give clear

\^48 The standard was issued in January 2007 and was implemented on 7\(^{th}\) March 2007.
guidelines for auditors to provide audit reports that are informative, professional and objective. The standards emphasise that auditors must not exaggerate in their reports the deficiencies of auditee performance. This regulation adopts from the United States of government auditing standards concerning objectivity (US GAO 2005).

Guidelines for auditors to objectively evaluate and review officials’ responses are also stipulated in the audit standards (BPK RI 2007g: 88-89). This means that auditors should not only present their findings and opinions clearly and directly, but also objectively in reviewing auditees to encourage further improvements. The audit standards also provide guidelines regarding disagreements between auditors and auditees on audit findings. Discussion and communication with audited entities or auditees shall not change to a ‘negotiated’ mode of report that risks compromising the findings and recommendations that would normally part of an audit report.

Article 29, Paragraph 1 of the Law on BPK (GOI 2006b) refers to the norms in the Code of Ethics that must be complied to by the Board Members and auditorsof BPK in carrying out their duties to preserve their dignity, honor, image and credibility. Article 35 of this law (GOI 2006b) also mandates that the quality control system of BPK shall be reviewed by the Audit Board of a Membercountry of the International Organisation of the Supreme Audit Institutions (INTOSAI).

To ensure the general quality of audit reports, auditors present their results based on the guidance provided by the audit standards (BPK RI 2007g). The audit standards provide new guidelines for the credibility of audit reports. The basic rule of providing a credible report is based on Paragraph 48, of the standard (BPK RI 2007g: 93):
To be convincing, a report must be able to answer questions in regard to auditing, to present logical findings, conclusions and recommendations. The presented information must adequately convince report users to acknowledge the validity of the findings and the benefits of the recommendations. Reports prepared in such a manner may assist the officials in charge to stay focused on matters requiring attention and may assist in taking corrective measures in accordance with the recommendations in the audit report.

Thus, to be credible, the report has to fulfill the audit objectives by presenting valid findings, and the summary and the recommendations logically. Moreover, the credibility of a report is also determined by the presentation of evidence, so that audit report users are confident of the facts and analysis presented.

SPKN 2007 provides clear guidelines for presenting a credible audit report. Auditing that is conducted based on standards can provide credible information in the reports through the objective collection and testing of evidence from auditees (BPK RI 2007g: 10). If an auditor carries out the assignment in this manner and reports the results in accordance with the auditing standards, then the report will be able to demonstrate the quality improvement in the management and accountability of state finances and government decisionmaking.

Therefore, post Reformation Era, the regulations demonstrate the responsibility of auditors to provide objective and credible reports. The following section analyses the objectivity and credibility of BPK audit reports.

4.3.2 Survey Results and Comments on the Objectivity and Credibility of Audit Reports

The survey on the objectivity and credibility of BPK audit reports resulted in various perceptions that are described in the following sections.
Positive Results and Comments

Figure 4.3 (below) presents respondent perceptions regarding the objectivity of information in BPK audit reports. There were significant positive responses from respondents regarding the objectivity of information provided by BPK in audit reports. Overall, sixty-two per cent of the respondents agreed the information was objective, while among the auditor group, 80 per cent of the 78 BPK auditors responded positively.

Figure 4.3 Survey Results of ‘Information in BPK Audit Reports is Objective (Using Appropriate Audit Techniques and Professional Judgment)’

Source: Fieldwork survey from 5th November 2006 to 25th March 2007 in Indonesia

For Legislative Members, 64 per cent ‘agreed’, while from the total of 55 auditees, 70 per cent ‘agreed’ and 12 per cent ‘strongly agreed’. The responses from the Legislature Members are spread only between two categories, 64 per cent ‘agree’ and 36 per cent had a ‘neutral’ perception. These two variations of perception among the Members of the Legislature may be because they come from different commissions and have a different experience regarding the objectivity of BPK audit reports. The overall positive response from auditors reflects significant optimism that they can uphold their objectivity as they feel secure to uncover the audit findings and have protected by laws and regulations. This means that auditors can readily deal with sensitive issues faced in their findings and can
report the results in an unbiased manner and objectively. A senior auditor from BPK (Interview B 23) states as follows:

From my own perspective and experience as an auditor, so far, the audit report of BPK is sufficiently objective. There is no problem in this matter. In the rare event that some matters could be said to be lack of objectivity, these would have been dropped only if the reasons were strong. Even if a matter has to be dropped we have strong reasons. For example, after a discussion with the audit team, we have decided that this situation just arose from a misunderstanding. But I have heard from another AKN (the group of state finances auditors) that its audit findings are no longer available following their arrival at the top of an institution. But this situation has been changed gradually, especially, since the fall of President Soeharto in 1998.

This excerpt indicates optimism that auditors have been able to maintain their objectivity since the reform of BPK and the new commitment to uphold transparency and accountability to the public in this Reformation Era that is very different from the authoritarian government in the past.

Moreover, a positive response also came from a central government auditee who said:

In the New Order Era, after BPK reported the audit findings, these reports became confidential documents. So, the public could not evaluate objectively the audit findings that were reported to DPR (Parliament). In contrast, since the audit reform, BPK is braver to uncover corruption practice, mark-ups and misuse of state finances. We can read these reports every semester. These reports are also reported to DPR or we can read in the printed media or in BPK’s website.

This statement indicates significant optimism that the provision of objective information in audit reports is improving. After reform, media publications and public participation have supported BPK in its efforts to uncover KKN (collusion, corruption and nepotism), which had long been rooted in the Indonesian bureaucracy.

Figure 4.4 Survey Results of ‘Information in BPK Audit Reports is Credible (Trusted by Stakeholders)’
Figure 4.4 (above) presents responses regarding the question about the credibility of information in BPK audit reports. The respondents, consisting of auditors, auditees from central and local governments and Members of the Legislature, mostly responded positively.

The Legislature Members from the different commissions responded in a narrower median range that the other groups as their perceptions were only in two categories, ‘agree’ and ‘neutral’. Seventy per cent of them responded positively. Dr. Harry Azhar Aziz\textsuperscript{49}, argued that the effective implementation of the Audit Law (GOI 2004b) and the Law on BPK (GOI 2006b), which stipulates the responsibilities of auditors and auditees in providing credible information, is important. He stated:

Basic Reformation on the management and accountability of state finances system started from the arrangement and implementation of the law framework. Complete Laws consist of three laws on state finances plus the Law on BPK (2006) can provide transparency in management and accountability of state finances. However, experience proved that ‘the devil is in the implementation.’ Consequently, it is relevant for us to ask: How far had we collectively implemented these laws for the same goals to provide good government and governance in Indonesia?

\textsuperscript{49}Dr. Aziz, a Member of Parliament from Commission XI (Finance, Banking and Development Planning) and his statement was made during a presentation at the One Day Seminar on Public Sector Auditing to commemorate the 60th Anniversary of BPK in Jakarta on 9\textsuperscript{th} January 2007.
This excerpt sends a message about the importance of implementing the laws on state finance and the Law on BPK. Dr. Aziz argued the trustworthiness of the audit process and subsequent audit reports depends on how effectively the audit laws are implemented.

Eighty-five per cent of auditors responded positively, agreeing that information in BPK audit reports is credible. BPK reforms in its regulations, institution, management, personnel, and audit quality standards provoked optimism from respondents about the credibility of audit reports. A high official of BPK argued as follows:

We have new state finance auditing standards this year as tools for measuring the quality of BPK audit reports. Starting from 2007, BPK’s quality of auditing will be reviewed by SAI from other countries; is audited by an independent KAP; is assessed by peer review; and is controlled by the Honorary Board of Code of Ethics to assure credibility of information in BPK audit reports.

This quotation presents another view that other institutions and independent reviewers also evaluate BPK’s credibility. For examining its financial accountability, BPK is audited by KAP. In terms of the quality of audit reports, they are peer reviewed by another SAI. In addition, a Member of Parliament believed that the new regulations and audit standards can support BPK in providing credible information in its audit reports.

Respondents from the auditees’ group responded positively with 70 per cent ‘agreeing’ and 10 per cent ‘strongly agreeing’ that BPK provided credible information in audit reports. A high official and internal auditor of a state-owned enterprise (Interview A1) supported this view as follows:

BPK had a better performance after the audit reform, which gradually becomes more mature and experienced in auditing. BPK auditors know the problems better and deeper. As a result, the auditing systems and materials provide more focused and sharper findings. This condition helps us to provide corrections based on BPK audit reports.
This statement indicates optimism and confidence regarding the performance of BPK. The informant also found that BPK auditors were competent in identifying the problems of public sector agencies and in analysing the findings for providing opinions and recommendations for improved public administration.

In addition, a Member of Parliament from Commission I (Interview C4) provided a positive response about the objectivity and credibility of BPK reports as follows:

Since the audit reform in 2001, BPK has shown a lot of progress and more power to reform the government auditing system, including willingness to be an independent audit institution free from outside influences. Further, BPK has shown its power as an audit institution. If the performance of BPK was unsatisfactory, DPR warned BPK. Consequently, BPK had to maintain its performance in providing credible and objective audit reports.

This statement implies that the Member of Parliament respects some of BPK’s efforts to reform its institution in performing their audit roles and functions, including reforms in providing credible and objective audit reports. The Parliament Member s appreciated the desire of BPK to be objective and credible and to audit without political or other interference.

**Negative Results and Comments**

Besides the positive responses, this study also revealed a few negative responses on the objectivity of information in BPK reports. From the total respondents, 14 per cent were ‘neutral’, 6 per cent ‘disagreed’ and 1 per cent ‘strongly disagreed. From the auditor group, 13 per cent were ‘neutral’ and 6 per cent ‘disagreed’. Auditors who audited local government complained that they had problems in reporting objectively due to pressure from the Regent (the head of a district) or the Mayor (the head of a city) who may have been involved in KKN and fraud (Interview B21, an auditor of AKN IV). This
situation demonstrated a lack of accountability and transparency from elected leaders in local government. Elected leaders did not act responsibly for the community and showed inefficiency and ineffectiveness in the provision of public services and in managing public resources. In addition, two local government auditors criticised the objectivity of information in BPK reports as follows:

- “The objectivity of BPK audit reports depended on the objectivity of the auditors themselves. In some cases, the auditors could not conduct the audit fully objectively” (Interview B 20).
- “Institutionally, BPK was an independent institution, but not personally. The auditors did try hard to be objective. Yet, there were some limitations that affected them and consequently objectivity was limited” (Interview B16, an auditor of AKN II).

The first statement indicates that the objectivity of reports can depend on the auditors personally, in other words it is much related to the professionalism and integrity of those conducting the audit. The second excerpt indicates that objectivity in reports not only depends on the auditors, but also the often strong influence presented by auditees and audit offices.

In addition, during the interview, some auditors expressed their feelings of insecurity when they should disclose bad or poor findings from their auditees who come from the local governments in the audit reports (Interview B21, an auditor of AKN IV). This indicated a lack of clear guidance to protect auditors when they objectively uncovered bad practices and poor performance by the government. Besides, there is a lack of immunity and protection for auditors who uncover criminality, corruption and fraud, and this has affected the objectivity of auditors in providing audit information.
Two auditors revealed impartial views by BPK auditors who audited the central government and which affected objective information being presented in their audit reports:

- “The BPK audit reports were sometimes not objective, because auditors were neither independent nor objective.” (Interview B15, an auditor of AKN III)
- “A few auditors had a political relationship with auditees.” (Interview B23, an auditor of AKN V)

These two statements indicate that auditors cannot provide objective information in the reports because their independence was compromised by the influence of auditees and political parties.

Moreover, an auditor of the Ministry of National Education raised the issue that audit reports have been altered and were not based on real facts:

Some audit reports did not provide objective information, because they had been altered. The objectivity of the audit report depends on who are the auditors and the auditees, however, there were a few audit reports that were influenced by outsiders (Interview B14).

Similarly, a BPK high official explained the practice of altering reports during the New Order Era:

BPK and other high state institutions, including Parliament, was only a ‘rubber stamp’ for the government. Before being submitted to Parliament, BPK audit reports were sent to the government office, in this case the State Secretary’s office, to be altered. If these reports could influence national stability, the issues raised could not be mentioned in BPK’s reports. That was the practice in the New Order Era.

These two excerpts explain that BPK audit reports were altered which indicates that the reports were not objective. In the past, audit findings from BPK that had potential influence on national stability were altered by the State Secretary office before they were

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50 This is presentation from one high official of BPK for visiting economic faculty students of Gajah Mada University to BPK in the Pola Room of BPK office, Jakarta.
submitted to Parliament. BPK was not free of influence from the Indonesian government. Although this practice is much reduced compared with the past, it seems that BPK still alters some reports. An auditor who audited the Ministry of the Defence of the Republic of Indonesia revealed this, describing a situation where audit findings disappeared after they arrived at the top management level of BPK and before they were published (Interview B13, an auditor of AKN I):

I conducted an audit of the Ministry of the National Army. As an auditor, I did my best to provide an objective auditing report based on the real conditions. Then, I reported my audit findings and discussed them with my audit team. This audit report had to be signed and approved by a supervisor of the audit team, the Chief Auditor of State finances and a Board Member of BPK before it was published or was sent to the audited entity and Parliament. However, we found that some of these findings that were quite sensitive and may influence the performance of this Ministry for the public did not appear in the audit report. I think the Board Members of BPK were not brave enough to publish these findings. So, the objectivity of the audit report in my case also depends on the Board Members.

This statement implies that after audit reform in 2001, some BPK audit reports were still being altered by the Board Members of BPK, for example, as in the case of audited entities strongly involved with aspects of security and national stability, such as at the Ministry of Defence, the Air Force, the Navy and the Police. The reason for altering these audit findings is likely due to concerns of public security and safety or other political reasons. However, a high official of BPK from AKN I (Interview B12) argued that the information was not publicly disclosed does not necessarily mean the reports lacked objectivity. He (Interview B12) explained that the unpublished findings in this case were due to the Board Members of BPK choosing not to make the poor performance of the Ministry open to the public.
From the auditees’ group, 11 per cent indicated ‘neutrality’, 6 per cent ‘disagreement’ and 1 per cent ‘strong disagreement’ regarding the objectivity of information in audit reports. The most frequently expressed concerns were about the lack of objectivity of information in the reports due to questions or doubts about auditor impartiality. There was skepticism among auditees as indicated by the following negative views:

- “The auditors are normal humans so they cannot be free from pressure” (Interview A14).
- “Sometimes, BPK auditors were influenced by other parties or were not conducting auditing in an objective manner” (Interview A13).
- “There were self-interest factors influencing auditing” (Interview A16).
- “The audit reports were not fully objective, because BPK was not a fully independent institution” (Interview A4).

These comments indicate subjectivity in BPK reports due to a lack of auditor independence created by influence from auditees, political parties, or self interest and a lack of support from the audit office. Similarly, auditees at the local level also criticized the objectivity of information in BPK audit reports:

- “Not all the BPK audit reports contained the truth” (Interview A20, with an auditee from Local Government of Bandung City).
- “The auditors were not independent or objective, I hope this will end and will not happen in the future” (Interview A25, with an auditee from Local Government of Jambi Province).

These statements indicate that local government auditees have found bias and a lack of objective information in BPK audit reports. They expected more objective information in the report.

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51 This is based on short interviews with auditors during the fieldwork survey from 5th November 2006 to 26th March 2007 in Jakarta regional office of BPK and Bandung regional office of BPK, Indonesia.
52 This is based on interviews and comments from respondents during the fieldwork survey 5th November 2006 to 26th March 2007 in Jakarta and Bandung.
53 As also a postgraduate student of STIA LAN Bandung.
Parliament Members come from different Commissions also flagged the lack of objectivity in BPK audit reports:

- ‘The BPK audit reports were not objective, because they were not based on real facts or real conditions” (Interview C3, from Commission VI).
- “Some audit reports were objective but some were still questionable, such as the audit reports of BPPN” (Interview C7, from Commission XI).
- “Auditors and auditees of BPK had a principle of a ‘win-win’ solution” (Interview C2, with Commission VII).
- “The objectivity of audit reports was only in terms of auditing procedures and the financial system, but not in terms of the report contents” (Interview C9, with a Member of Kuningan regional Parliament, Commission C).
- “There were still some auditors who were not independent and objective, because they accepted bribes” (Interview C10, with a Member of West Java Province Regional Parliament).

These statements indicate that auditees found BPK auditors do not perform objectively. There is also such a sense of pessimism from auditees toward objectivity of BPK report because there are easily bribed. Besides, practice of negotiation also common, that resulting in the audit reports of BPK do not show the actual audit findings. Although the negative and neutral responses from Members of the Legislature interviewed were not statistically significant, the negative views expressed by Parliament Members of the different commissions and groups of political parties were considered.

In terms of the credibility of information in audit reports, from the survey results12 per cent of auditors were ‘neutral’ and 3 per cent ‘disagreed’. Thirty-six per cent of the Members of the Legislature had a ‘neutral’ response; and 11 per cent, 8 per cent and 1 per cent of the auditees surveyed responded with neutrality, disagreement and strong disagreement, respectively. Two BPK managers and a Member of Parliament made the following criticisms:

- “Credibility of the BPK audit reports was about 65 per cent; but I had doubts about 35 per cent” (Interview B4).
• “The audit reports were not credible, because BPK auditors were not independent” (Interview B10).
• “Some audit reports were not objective; as a result, they were also not credible” (Interview C1).

The above negative statements indicate significant doubt about the credibility of audit reports, even when the statement comes from a BPK informant. The informants also found that the lack of credibility in audit reports is due to the BPK auditor’s lack of independence and objectivity.

In conclusion, this study revealed both positive and negative responses and comments on the objectivity and credibility of information in BPK audit reports. However, the survey revealed largely positive perceptions of the information in audit reports and optimism regarding the reforms designed to provide objective and credible audit reports. Survey supported by respondents from BPK, auditees and Members of Parliament. However, criticism and negative views have showed that these claims were overly optimistic. Some negative comments presented during the interviews provided more open and honest statements, which reduces the overall optimism to some degree. The key informants doubt the objectivity and credibility of audit reports due to BPK’s lack of independence. The study revealed that BPK auditors faced considerable pressure from high officials or elected people who were not acting responsibly to the public. For example, at the local level the pressure from the Regent or Mayor. In addition, audit reports on the Ministry of the National Army were altered. These negative views presented a more balanced viewpoint and showed that there is still room for BPK to improve the objectivity and credibility of its audit reports.
Chapter 5

Quality of BPK Reports:

Communication of and Acting on Information

Chapter Five provides data and analysis of criteria related to the quality of BPK audit reports in terms of the communication of and acting on the information in those reports. As in the previous chapter, before presenting evidence and findings, each section examines the legal and regulatory basis relevant to each criterion. This is followed by an assessment of respondents’ perceptions and comments and finally the chapter closes with conclusions.

The following sections examine three criteria related to the communication of information in audit reports: understandable information, precise and informative formatting, and timely reporting.

5.1 Understandable Information

It is clear that an audit report should be easy to understand by all stakeholders. In the case of Indonesia, the stakeholders of BPK are Members of Parliament, audited entities and the public. Understandable information means that the information is simply presented and easily understood by readers so that misunderstandings between auditors and stakeholders are avoided.

5.1.1 Basic Rules for Clear and Understandable Reports

The responsibility of auditors to provide a clear and understandable report is stipulated in the BPK regulation on state finance auditing standards (BPK RI 2007g: 93).
The regulation requires that information in the reports is easily read and understood by: (i) using as clear language as possible; (2) using simple and non-technical language to simplify presentation; (iii) avoiding unfamiliar technical terms, abbreviations and acronyms that are not defined clearly; and (iv) not using acronyms too frequently. In addition, the audit standard stipulates that a report must answer questions with regard to auditing, present logical findings, provide conclusions and recommendations and present information that sufficiently convince readers that the findings and recommendations are valid. Auditors must try to avoid misunderstandings by the reader in respect to the work performed and not performed in the context of achieving the audit objectives, particularly if the auditing is limited by time or resource constraints. Therefore, the BPK audit standard has provided guidance for officials and auditors in charge of auditing to focus on matters requiring attention and in taking corrective measures to prepare audit report recommendations clearly and to avoid misunderstanding.

For performance auditing, the tone of the report must encourage decision makers to take action based on the findings and recommendations. Auditors must keep in mind that their objective is to convince and should avoid language that may result in a defensive and opposing attitude from audited entities. This means that although criticism of performance is often needed, audit reports must also focus on improvements.

5.1.2 Survey Results and Comments on Clear and Understandable Reports

During the survey, respondents were asked whether information in BPK audit reports is clear and easy to understand. Figure 5.1 (below) shows significant varying perceptions between auditors, auditees and Members of Parliament. Comparing the respondents from Parliament Members and auditees groups, auditors group had higher
percentage of ‘agree’ perception that information in BPK reports is clear and easy to understand. However, negative and neutral responses from respondents were also found: 17 per cent were ‘neutral’, 7 per cent ‘disagreed’ and 1 per cent ‘strongly disagreed’. The highest percentage of negative responses ‘disagreeing’ came from the Members of Parliament group, followed by the auditee group where 10 per cent ‘disagreed’ and 1 per cent ‘strongly disagreed’.

Figure 5.1 Survey Results of ‘Information in BPK Audit Reports is Clear and Easy to Understand’


Members of Parliament from both central and local levels had the following criticisms:

- “Some financial and auditing terms in BPK audit reports were not clearly defined and difficult to understand for the Members of Parliament” (Interview C5, with a Member of Parliament).
- “We need information in audit reports which is easy to understand” (Interview C8, a Member of Parliament).
- “Please correct audit reports' language, so the Members and the public can easily understand” (Interview C10, a Member of regional Parliament).
- “Some auditing or financial terms were not familiar for us. We could not understand the meaning of these terms” (Interview C9, a Member of Regional Parliament).

These quotes implied that stakeholders found the information in BPK audit reports difficult to follow and understand. In addition, the reports provided too many auditing and financial terms that were not defined clearly. As a result, the Members and other stakeholders who had no knowledge or background in finance and accounting found it difficult to understand.
the report. Less audit and finance terms (technical language) in the reports would have made it easier for them to understand.

Auditees also expressed negative views on understanding BPK audit reports:

- "Not all information in audit reports is easy to understand; sometimes, different perceptions and misunderstanding appeared" (Interview A24, an auditee from Cianjur District).
- "Need further communication between the auditors and the auditees to provide better understanding of information in reports" (Interview A8, an auditee from the Ministry of Finance).
- "We could not understand the accounting and auditing terms" (Interview A21, an auditee from Bandung City).
- "We were sometimes confused by information provided in BPK audit reports" (Interview A13, an auditee from Ministry of Foreign Affairs).
- "We still could not understand why BPK provided ‘disclaimer’ to the central government’s financial statements” (Interview A3, an auditee from National Electricity Company-PLN).
- "Some statements in audit reports were difficult to understand for auditees; we had to ask for further explanation from BPK” (Interview A18, an auditee from state-owned bank).

These criticisms revealed that auditees experienced difficulty understanding audit reports and misinterpreted information. As a result, auditees had to ask for further explanations from BPK to obtain the same interpretation with auditors. Most of the public sector finance division had no personnel with accounting or finance backgrounds as auditing and financial accounting were never a priority during the Soeharto Era. The problem of understanding audit BPK reports, not only at local government level, but also at the central government level, even in state-owned bank.

BPK managers and auditors realised that some terms in audit reports were not understood by the readers. They argued that the ability to read and to understand BPK audit reports depends on stakeholders’ educational background and knowledge. Their comments were as follows:

- "Understanding audit reports depended on the ability of the stakeholders to understand them, some of them were not well educated and sufficiently
knowledgeable to understand BPK audit reports” (Interview B23, an auditor of AKN V).

- “Some auditing and financial terms could not be understood by the stakeholders. Educational backgrounds of stakeholders affected their ability to understand audit reports” (Interview B17 an auditor of AKN I).
- “For some stakeholders, BPK audit reports were difficult to read and understand. For example, the Members of Parliament are highly dependent on assistance from expert staff rather than their own ability to review the BPK reports” (Interview B27, a manager of BPK from publication sub division).

These statements implied that auditors noted the limited capacity of stakeholders in understanding reports. An auditee of good educational background supported these views, stating “audit reports from BPK in general were easy to understand”. Moreover, two Members of the Legislature with backgrounds in economics, accounting and management also commented positively on the BPK reports. As a new democratic country, voters in Indonesia selected Members of Parliament not based on their capacity to provide effective programs for the public, but more on their fame and popularity. Sudibjo (2009b: 165) confirms this, pointing out that many artists and other incompetent people were elected as Members of Parliament. Some 15 artists were elected as Members of Parliament (2009-2014), such as Tantowi Yahya, Inggrid Maria Palupi, Venna Melinda, Jamal Mirdad, Nurul Arifin and so on, while Wanda Hamidah was elected as Member of Jakarta Province Parliament and resulted in a controversy. A Parliament researcher (Interview F6) mentioned, “The lack of ability of the Members of Parliament at central and local levels should be considered by BPK auditors”. This statement indicates that auditors should be consider educational background of their readers, when they write audit findings for their main stakeholders, in this case is the Members of Parliament.

The survey results indicate various perceptions on whether or not BPK audit reports provided clear and understandable information. The study revealed that information in BPK reports was difficult for stakeholders to understand, especially when technical terms on
auditing and finance were used, but not well defined. Although auditors argued that the ability to understand audit reports depends on the competency of stakeholders, this study found that presenting clearer and simpler information in the report could avoid misinterpretation and help citizens to understand the reports.

5.2 Precise and Informative Formatting

A precise and informative audit report format is closely linked to clear and understandable information. This section analyses formatting in audit reports and how it supports or hinders the delivery of findings and recommendations.

5.2.1 Basic Rules for Precise and Informative Audit Report Formatting

State auditing standards (2007) provide guidance for auditors to provide precise and informative reports. The audit standard requires auditors to prepare a report summary to present important information to be acted on by users. This summary contains audit objectives and the most significant audit findings and recommendations in a logical, accurate and correct manner. Moreover, the standards provide guidance for an informative format summary, which (i) presents relevant facts to provide clarity and understanding for the users, (ii) uses headings, subheadings and topic sentences (main subject) to facilitate reading and comprehension, and (ii) provides visual aids (such as pictures, schemes, graphics and maps) to explain complicated issues.

Furthermore, Paragraph 52 of audit standards (BPK RI 2007g: 94) provides guidelines on how auditors can provide a precise or brief report that is no longer than necessary to convey and support the message. Reports with too many details can diminish their quality by concealing the important messages, creating confusion or reducing the
interest of the reader. Unnecessary repetition should also be avoided. Although there are many opportunities to consider the contents of a report, a comprehensive but brief report can attain a better result.

Therefore, the state finance audit standard emphasises the requirement for a brief report that avoids too many details and repetition. Under this standard, BPK has direction for providing better quality audit reports that meet the needs of stakeholders.

5.2.2 Survey Results on Precise and Informative BPK Audit Report Formatting

During the survey, respondents were asked whether they agreed that BPK provided a precise and informative audit report format. The questionnaire results are shown in Figure 5.2 (below) and reveal mainly optimistic responses, with 51 per cent of total respondents ‘agreeing’ and 21 per cent ‘strongly agreeing’. The highest ‘strongly-agree’ response was provided by the auditors’ group, with over 40 per cent, while the highest ‘agree’ response, 66 per cent, was provided by auditees.

Figure 5.2 Survey Results for ‘Format of BPK Audit Reports is Precise and Informative’

![Survey Results](image)

Source: Fieldwork survey from 5th November 2006 to 25th March 2007

BPK adopted a new format for its audit report summaries in 2007, meaning reports (i) identify important issues by using different coloured fonts, (ii) provide a succinct
summary comment beside relevant paragraphs, (iii) explain the auditing and financial terms used in the report, (iv) use graphs, diagrams and tables to provide clearer illustration of facts, and (v) analyse findings. These summary audit reports were part of an effort from BPK to provide comprehensive but brief audit reports that would encourage Members of Parliament to review the reports. BPK’s efforts to improve the format of audit reports encouraged positive responses, such as the following comments made by Members of Parliament:

- “BPK audit reports are getting better and easier to read with the summaries of the reports” (Interview C2).
- “With the summary of audit reports from the General Secretariat of Parliament, BPK audit reports became easier and more interesting to read” (Interview C5).

These excerpts indicate that Members of Parliament, as primary stakeholders of BPK, have taken much interest in audit reports due to innovations in how the reports are presented. One example is created for a summary format of BPK audit reports.

Besides the largely positive views, some neutral and negative responses were also recorded. The highest neutral response, 38 per cent, came from Members of Parliament. Furthermore, 9 per cent of the Members of Parliament, 7 per cent of auditees and 4 per cent of auditors disagreed that BPK provided precise and informative audit report formatting. This is supported by the following negative opinions made by Members of Parliament:

- “BPK audit reports were too complicated, too thick, and too long” (Interview C4).
- “Think about being ‘user friendly’ for audit report formatting. Present audit findings with the highest priority cases, such as high amounts of money involved or high materiality findings, to be reviewed by the Members, with attractive formatting, such as causative format” (Interview C3).
- “Audit reports were too thick” (Interview C6).

An example of an audit report summary of Semester I of 2007 is available from the BPK website: [www.bpk.go.id](http://www.bpk.go.id) (23/01/08).
“I was reluctant to read BPK audit reports, because of their old style formatting with long statements and their thickness. I had no time to read them” (Interview C1).

These excerpts indicate evidence that BPK report formatting was not satisfactory, because the text written in audit reports was too long with too many pages and had lack clear tables, pictures and charts to help readers. The Vice President of Indonesia stated (Kompas 4th December 2006) that BPK audit findings were too thick, like an encyclopedia, and because of this the President and Ministers could not read all of them. He said, “We need just their summaries”.

In addition, an auditor from the Australian National Audit Office (ANAO)\(^{55}\) (Interview F3) suggested adopting ANAO’s report format with headings, subheadings, short summaries, tables and figures, a combination of font colours on a white background, and a moderate numbers of pages. Moreover, that reports should emphasise important information by using different font sizes and styles, to help ensure an interesting presentation and benefit reader understanding. The ANAO auditor emphasised that the way auditors present reports is important and significant as it affects the reader’s willingness to read them.

Therefore, audit reports from BPK were too thick, too long, too complicated and lacked interesting presentation. This situation created difficulties for stakeholders in reading, absorbing and understanding the information provided. Since 2007, BPK has provided a new summary audit report format and has continued to innovate, introducing more appealing lay out, pictures, pie charts, and even short stories. Moreover, BPK has

\(^{55}\) This auditor visited BPK on March 2006 while the researcher was collecting data during the fieldwork.
attempted to obtain information from report producers and readers about expectations regarding audit reports, in particular, from Members of Parliament and government.

5.3 Timely Reporting

Timely reporting is the third criterion related to the communication of information in audit reports. Reporting audit findings and recommendations within a specific timeframe for stakeholders or users is essential for communicating the report effectively.

5.3.1 Basic Laws and Rules on Timely Reporting of Information

Before the issuance of the Audit Law (2004), there were no regulations on the timeframe for reporting BPK audit results. There was no required timeframe when BPK reported its findings to Parliament; the regulation only stated “audit findings or reports must be issued to the Legislature” (Soedibyo 2003:22-24).

Since the Audit Law (GOI 2004b) was issued, audit reports need to be submitted by BPK to Members of the Legislature no more than two months after BPK has accepted financial statements from the government entities. For performance and specific purpose audits, the timeframe depends on the agreement with the Legislature. The Audit Law also stipulated the latest timeframe to submit BPK semester audit report summaries to the Legislature, the President and the head of regional governments, as no later than three months after the semester ends. In addition, the new auditing standards (BPK RI 2007g) accommodate guidelines to provide timely audit reports. In order to maximise information, audit reports must be presented in a timely manner, as audit reports presented late will not be valued by the users.
Hence, the Audit Law (2004) stipulates that once BPK has received the financial statements from government bodies (both central and regional) they then have two months in which to submit the audit reports to Parliament and government heads. Moreover, summaries of semester audit reports\textsuperscript{56} are to be submitted not more than three months after the semester ends.

### 5.3.2 Survey Results on Timely Reporting

Figure 5.3 (below) shows respondent’s perceptions regarding timely reporting of BPK reports. Of the BPK auditor group, 43 per cent ‘strongly agree’ and 30 per cent ‘agree’. Largely positive responses from auditees were also indicated by 65 per cent responding to ‘agree’ and 3 per cent responding to ‘strongly agree’ on the punctuality of BPK audit reports. These positive responses indicate optimism of respondents about the timeliness of audit reports from BPK since the Audit Law (2004) stipulated the relevant timeframes. Since 2005, BPK has also submitted its audit report summaries every semester.

**Figure 5.3 Survey Results on ‘BPK Reports its Audit Results in a Timely Fashion’**

<table>
<thead>
<tr>
<th>Perceptions</th>
<th>Auditors</th>
<th>Auditees</th>
<th>Members of Parliament</th>
<th>Overall responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>43</td>
<td>13</td>
<td>30</td>
<td>65</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>21</td>
<td>31</td>
<td>85</td>
</tr>
<tr>
<td>Neutral</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>Disagree</td>
<td>9</td>
<td>3</td>
<td>9</td>
<td>20</td>
</tr>
</tbody>
</table>

Source: Fieldwork survey 5\textsuperscript{th} November 2006 to 25\textsuperscript{th} March 2007

\textsuperscript{56} Some SAIs provide annual audit reports of legislative bodies and the government, while in Indonesia, BPK provides semester audit reports.
The study also received negative responses. Thirty-nine per cent of Legislature Members interviewed ‘disagreed’ and 15 per cent responded ‘neutral’, while 29 per cent of auditees responded ‘neutral’ and 3 per cent ‘disagreed’ that BPK reporting was punctual. The negative responses were supported by arguments from auditors as follows:

- “The audit reports were mainly submitted on time, however, a few audit reports were late due to the late submission of financial statements from audited entities” (Interview B22 an auditor of AKN IV).
- “BPK audit reports were not issued on time, because we did not have enough auditors but a huge number of audited entities” (Interview B18, an auditor of AKN I).

These excerpts indicate delays in auditees providing financial statements caused the late submission of BPK reports to stakeholders. Another constraint was the expanding number of BPK auditees, which did not balance with the number of available auditors. This situation also caused late audit reports. Moreover, auditees also provided negative views such as the following:

- “BPK audit reports were sometimes late and were not done on time, which influenced follow-up and feedback from the management” (Interview A4).
- “BPK audit reports from BPK were often late” (Interview A20).
- “BPK audit reports from BPK were out of date and too slow, not on time whenever auditees or Parliament needed them” (Interview A15).
- “Audit reports from BPK were too late and out of date; we need more truly useful audit reports” (Interview A18).

These excerpts affirmed the statements from auditors that BPK reports were usually late. Therefore, BPK audit reports information had overdue data and information. This suggests that the BPK reports cannot be helpful to provide recommendations and input for public sector institutions to reform their performance. The reports seemed only as the output of the formality audit results and lacked of their functions to improve the performance and accountability of public sector institutions. Additionally, criticisms from the Members of Legislature are as followed:
“The Members of Parliament need factual and up-to-date audit reports. We need the issuing of audit reports immediately. Auditing reports from BPK were too old and not interesting to the Members” (Interview C3, a Member of Parliament from Commission VI).

"If possible, we need audit results of BPK faster" (Interview C4, a Member of Parliament from Commission I).

"BPK audit reports were not timely" (Interview C11, a Member of Parliament from Commission IX).

"The timing for audit reports was not timely, in particular at the regional level. Lack of transparency and accountability from the Governor (Interview A1, Head of West Java Provincial Government)

"Political willingness of regional government was the central problem of regional level auditing" (Interview C9, a Member of Kuningan regional Parliament from Commission C).

"BPK audit reports have to be on time according to the schedule. This is important so it will not affect the budget plan of regional government” (Interview C10, a Member of West Java Province regional Parliament).

These excerpts indicate that Members of Parliament as main stakeholders of BPK found that audit reports were not timely. This condition disappointed reports’ readers as the information was provided outdated. They believed that timely audit reports were useful for following up on the information in the reports. They suggested faster and timelier audit results to be reported to ensure up-to-date information for the Members. A Member of a regional Parliament (Interview C9) argued that the late BPK reports were due to the heads of regional governments not submitting their financial statements on schedule. This in turn also caused delays in auditing financial statements and contributed to the late submission of audit reports to Members of Parliament.

Since 2007, BPK has committed to submitting timely audit report summaries to Parliaments at both the central and local level. Although 105 regional governments did not submit their financial statements on time, BPK submitted its audit report summary\(^\text{57}\) to Parliament on time on 10 October 2007 (BPK RI 2007c). Thus, later regional government

\(^{57}\text{This is BPK audit results which had been summarised or provided only the importance information. Complete data and information can be seen in the BPK audit reports.}
financial statements did not prevent BPK from submitting audit report summaries of central and local governments on time to Legislative institutions.

To summarise, timely audit reporting is stipulated by the Audit Law (2004) and is included in audit standards. The survey results indicated more positive responses from auditors and auditees’ groups than from Members of Parliament who doubted the timeliness of audit reports. Negative views were also revealed which suggested BPK did not successfully fulfill the requirements to provide up-to-date and timely audit reports for stakeholders, in particular Members of Legislative institutions.

5.4 Acting on Information in BPK Reports

The following sections discuss the criteria related to acting on information in audit reports, namely, the publication of audit reports, realistic audit recommendations and follow up of audit findings and recommendations.

5.4.1 Publication of Audit Reports

Publication of information in audit reports for the public is the first criterion related to acting on information in audit reports. It is necessary for the public to be informed about the financial accountability and performance of public sector agencies through BPK reports. With this information, the public can then push the government to act more accountably in managing public resources.

Laws and Regulations Related to the Publication of Audit reports

After BPK audit reports are submitted to Members of Parliament, these reports must be published or immediately declared to the public as stipulated by Article 19, Paragraph 1
of the Audit Law (GOI 2004b) and Article 5, Paragraph 4 of the Law on BPK (GOI 2006b). However, the publication of confidential information is also governed by law and legislation (Article 19, Paragraph 2 of the Audit Law). The BPK audit standard (2007) stipulates that any confidential information should be regulated to provide a reasonable explanation of any unpublished information in the audit reports. Certain information is allowed to be disclosed and submitted to certain authorised parties, in accordance with laws and regulations. Furthermore, the audit standard (BPK RI 2007g: 53) provides guidelines for BPK auditors to assess specific non-publishable information and to take into account public interest and provide reasons for decisions regarding the non-disclosure of specific information in the report.

In the case of performance audit reports, Paragraph 33 of audit standards reporting (BPK RI 2007g: 89) requires auditors to indicate the characteristics of information that is deleted, which must take into account the public interest and to evaluate the provisions that prohibit the disclosure of such information. If the auditors decide to delete particular information, they must state the nature of the deleted information and the reasons for such deletion. Moreover, the audit standards (BPK RI 2007g: 90) indicates that information may be excluded from the audit reports or not be publicly disclosed if this information affects public safety and security, for instance, detailed findings with respect to the security of assets.

To conclude, the Audit Law (GOI 2004b) and the Law on BPK (GOI 2006b) establishes the responsibility of BPK to publish audit results for transparency in state management. Besides, this is also indicates the willingness of government to provide the
public with the right information on public administration while considering the protection of private data and confidential state information.

Publication of Audit Reports Pre and Post Audit Reform

In the past, before the Law on Audit (2004) was issued, BPK had limited access to the public and the media and almost all audit reports were not published as they were considered to be state secrets and confidential documents. From 1945-2004, audit results were never published and BPK was very remote from the public. In this period, there was no information available about BPK audit findings in the media. If there was news about BPK, it was presented in a small column in the middle part of newspapers or magazines, which indicated it to be news of limited interest.

In contrast, since BPK was mandated to publish its audit reports for the public every semester (after reporting to Parliament) print and internet media have published BPK findings on irregularities, corruption, and other criminal offences. This has supported transparency by providing public information on government officials’ accountability. However, this study revealed that in the period 2001-2004 that BPK did not publish audit reports on its website, but begun doing so since 2005. To better support the publication of BPK audit reports and other information through the internet, the capacity of its local area network (LAN) and website has been expanded.

With relation to mainstream media articles (print, radio and television) about BPK and its findings, Table 5.1 (below) presents the approximate number of special BPK news items in 2006.
BPK audit reports have become an interesting and important topic for public attention and are often discussed among various public groups, in particular instances of irregularities, fraud and corruption in state finances. After being submitted to the Legislative institutions, audit results are announced in the newspapers and discussed in business, management, finance and economic magazines. News about BPK has made the headlines of print media and increasingly features on television and radio, which indicates the high level of public interest in audit findings and role of BPK in examining government accountability. BPK findings can also be useful to complement formal punishments for officials who have not complied with laws and regulations. Criticism of government performances helps the public to be more careful in making their electoral choices and to understand the role of BPK, the government and the Parliament in the democratic process.

Table 5-1 Examples of Approximate Numbers of News Articles of BPK’s Findings/Results in 2006

<table>
<thead>
<tr>
<th>No</th>
<th>Month</th>
<th>Number of News Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>January</td>
<td>61</td>
</tr>
<tr>
<td>2</td>
<td>February</td>
<td>56</td>
</tr>
<tr>
<td>3</td>
<td>March</td>
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<td>4</td>
<td>April</td>
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<td>5</td>
<td>May</td>
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<tr>
<td>7</td>
<td>July</td>
<td>157</td>
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<tr>
<td>8</td>
<td>August</td>
<td>136</td>
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<tr>
<td>9</td>
<td>September</td>
<td>59</td>
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<tr>
<td>10</td>
<td>October</td>
<td>131</td>
</tr>
<tr>
<td>11</td>
<td>November</td>
<td>108</td>
</tr>
<tr>
<td>12</td>
<td>December</td>
<td>84</td>
</tr>
</tbody>
</table>

Source: Adapted and processed from Clippings of BPK, the Public Relations Division of BPK, Jakarta, 2007
Publication in Corruption and Irregularity Cases

BPK findings in corruption cases are an interesting subject for discussion in the media. Four examples of BPK corruption findings are: (1) corruption over the procurement of an army helicopter (M1-17) in the Department of Defense, which was bought from Swift Air Company in Russia, which had been closed since 1999 (Indo Pos 8th June 2007; Loppies 2007; Republika 8th June 2007; Setyawan 2007; Wilmar 2007); (2) state finances lost Rp.28.7 billion 58 (US$3.24 million) 59; (3) the BULOQ (Logistic Agency) case where the agency accepted illegal funds from commodity procurements with the loss of millions of Rupiah; and (4) the case of BLBI (Liquidity Aid of Indonesia Bank), which involved about Rp.144 trillion (US$15.8 billion) 60 for recapitulated banks during the Bank Rush 61 as a result of the economic crises in 1997 (Republika 13th January 2006), and in which 90 per cent of the money was accounted for (Kwik Kian Gie 2008). The publications of BPK reports and media about corruption provided hard evidence that the Indonesian public service used public money for its own purposes rather than carefully and accountably.

Moreover, at the local level, BPK findings on irregularities of government agencies and Parliaments were also published in national and local media. One example was an irregularity to a value of Rp.13 billion (US$1.45 million) 62 in the DKI Province government budget of 2004 due to excessive payments made to Members of Parliament and

58 In 8th June 2007 US$1=Rp. 9102.
59 This was implicated to four public prosecutors, namely, the former Director of Budget Implementation, Directorate General of Planning System Defense, Department of Defense; the former Head of the Financial Centre, Department of Defense; the former Head of the Treasury Office and State Cash Jakarta VI; and the Swift Air and Industrial Supply company in Jakarta;
60 In 8th June 2007 US$1=Rp. 9102.
61 As a result of lack of trust from the customer of bank.
government projects, and irregularities in expenditure (such as expenditure without proof) (Ihsan et al. 2006c; Koran Tempo 4 January 2006; Rakyat Merdeka 6th January 2006; Suara Pembaharuan 16th May 2006). In 2004, an irregularity amounting to Rp.3.2 billion (US$384,826)\(^{63}\) was found regarding the budget of Tangerang City Government and Parliament for welfare and health, housing, maintenance and operational costs, and other activities to support the head and Members of Parliament (Ihsan and Johansyah 2006b; Johansyah 2006a). That same year, the Tangerang Regency Government budget also showed irregularities, in this case to the value of Rp.6.1 billion (US$657,327)\(^{64}\) (Ihsan and Cipta 2006a; Johansyah 2006b). Another example was an irregularity of Rp.3.3 billion (US$355,603)\(^{65}\) in the 2004 budget of Bekasi City government and Parliament budget for 2004 (Wahyuni 2006b) and indicating irregularities and corruption valued at Rp.7.6 billion (US$818,655)\(^{66}\) in the 2004 budget of West Java Province (Indo Pos 14th March 2006). A final example was regarding the 2004 budget of Kupang City where a loss in state finances valued at Rp.2.55 billion (US$284,784)\(^{67}\) occurred when the money was wrongly used by Members of the regional Parliament (Pukan 2006).

BPK audit findings of SOEs were also published in the media. For example, findings regarding the National Electricity Company (PLN) were published. One was an indication of corruption in the funding bonus (tantiem\(^{68}\)) valued at Rp.4.34 billion (US$457,034)\(^{69}\), which can only be distributed if the company has made a profit and in this

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\(^{63}\) In 16th December 2004, US$1=Rp. 9280.  
\(^{64}\) In 16th December 2004, US$1=Rp. 9280.  
\(^{65}\) In 16th December 2004, US$1=Rp. 9280.  
\(^{66}\) In 16th December 2004, US$1=Rp. 9280.  
\(^{67}\) In 16th December 2004, US$1=Rp. 9280.  
\(^{68}\) Bonus that is given by profit companies at the end of the year to their executives and employees.  
\(^{69}\) The following exchange rates as of 13th June 2006, US$1=Rp. 9496.
case PLN made a loss (Din 2006; Rakyat Merdeka 16th January 2006; Republika 14th January 2006). The other case regarded procurement for a truck at Borang gas power electricity station in South Sumatera that was bought for Rp.122.43 billion (US$12.9 million), far above the normal price (Yasin 2006). Another audit related to a proposal from PLN to increase electricity rates and reduce subsidies (Supriyanto 2006a; Jakarta Post 10th March 2006; Jakarta Post 11th March 2006).

In addition, Mangku (2006b) published BPK findings regarding corruption and irregularities involving some SOEs, as follows:

1. The National Telecommunication Company (PT. Telkom) case with indications of trillions of Rupiahs corruption (Rakyat Merdeka 2nd December 2006a);

2. Irregularities in using the investment fund account or RDI70 outside their proper business with a total value of Rp.6.2 trillion (US$ 652.9 million), such as PT Rajawali Nusantara Indonesia (RNI) valued at Rp.1.6 trillion (US$ 168.5 million), PT. Dirgantara Indonesia valued at Rp.7.3 billion (US$ 768,745) plus the sub loan agreement with the government valued at Rp.1.06 trillion (US$ 111.6 million), and PT. Djakarta Lloyd valued at Rp.122.6 billion (US$12.9 million);

3. A finding that involved opinions from BPK on SOE financial statements71 with 53 per cent (81 SOEs) judged as very healthy or healthy, 34 per cent (53 SOEs) as not healthy; and 13 per cent (20 SOEs) which were unable to be judged (disclaimer), because

70 Investment Funding Account or Rekening Dana Investasi (RDI) refers to state loans that were given for state owned enterprises. State loans for RDI came from foreign debts with low interest.

71 There are 154 SOEs in Indonesia.
they did not submit financial statements to BPK and the auditors doubted the truth of the information and data presented in their financial statements.

(4) Irregularities and Non-Performing Loans (NPL) of state-owned bank: (a) 97 irregularities were found and 4.6 per cent of NPL to a value of Rp.2,628 trillion (US$276,758 million) state loss at BNI’46 (Evy 2006; Indo Pos 12th January 2006; Republika 13th January 2006; Jakarta Post 12th January 2006; Wahyuni 2006a; Wahyuni 2006b); (b) 23.4 per cent NPL of Mandiri Bank which was much higher than normal NPL (maximum 5 per cent) (Republika 13th January 2006).

All this evidence reveals the serious determination of BPK to publish various audit findings to the public. BPK’s openness has raised the level of public trust in its performance of to safeguard state finances. Media seemed to be more interested in reporting information related to irregularities or corruption scandals, rather than public sector efforts to improve efficiency, effectiveness and overall performance. The publication of audit reports enables the public to be aware of how state finances have been used and to evaluate the performance of public sector entities in upholding their public accountability.

**Survey Results and Comments on the Publication of Audit Reports**

During the survey, auditors and auditees were asked whether they agreed that BPK had published its audit reports. Figure 5.4 (below) shows that positive responses dominated, with 44 per cent ‘agreeing’ and 30 per cent ‘strongly agreeing’. An auditor from BPK stated that, “Publication of BPK reports is to enhance the state finance system in Indonesia which has been lacking in transparency”. Moreover, the Chairman of BPK stated in a national magazine (Bisnis Indonesia 12th March 2007):
The lack of transparency in the state finances system caused the public to be reluctant to pay tax and to buy state debt letters (SUN). The lack of transparency of the state financial system can also drive suspicion and conflict between the regional, ethnic, and religious groups in this heterogeneous country.

This statement implied that the financial system in government was not managed professionally. As argued by Perkasa (2009: 107), much of the regional state budgets were irresponsibly used for personal interests. He also provides evidence of traditional financial management by the Papua government in spending public money without bills or signatures from the receiver. The head of BPK emphasised that transparency of public funds can provide information for the public, including: taxpayers and domestic/foreign investors. Moreover, regional governments, which contribute significantly their natural resources for national budget revenues, ensure all revenues were managed in accountable manner by the central government. Transparency builds public and regional government trust that their resources are managed accountably.

The positive response from auditors and auditees about the publication of BPK reports and findings indicates transparency in the public sector and are shown in Figure 5.4 (below).

**Figure 5.4 Survey Results of ‘BPK Published Its Audit Reports’**

![Bar chart showing survey results](chart.png)

However, 32 per cent of auditees responded ‘neutral’ and 18 per cent ‘disagreed’ that BPK had published audit reports. An auditee observed, “BPK audit reports were not published transparently.” This criticism was disputed by a BPK who said, “Some information about audit findings were not published on the orders of the Parliament in consideration of its bad impact on the public”. Another auditor also referred to the practice of not publishing all findings in the reports at the request of auditees. This means that even though BPK has published its findings, there was still a degree of dissatisfaction with audit publications due to unreported findings, meaning there was a failure to uncover the real condition of auditee performance in order to protect them from public pressure. A draft Law on State Confidential Information is currently being discussed in Parliament\(^{72}\) and aims to stipulate what information can be made public.

In addition, a Member of Parliament from Commission VI stated that “BPK printed reports were not widely available and were difficult to find”. BPK submits its audit reports to Parliament, after which the secretariat of each commission sends the reports to individual Members according to their tasks and functions. Currently, BPK is improving its capacity to publish audit reports on its website. However, a BPK auditor argued that some Members of Parliament, in particular at the regional level, were not familiar with accessing information from the internet and were not favoring this approach. Sudibjo (2009a: 20) argued about the lack of quality and integrity of Members of Parliament at the central level during 2004-2009, with indications of many absence in meetings and hearings. He also stated that he found about 60 per cent of the Members of Parliament lack of qualification as state officials, based on educational backgrounds, ability to operate computer,\(^{72}\)

\(^{72}\) This is based on information received from a BPK auditor on 19\(^{th}\) November 2007.
communications with email and using internet. The worse condition was for the qualification of Members of regional Parliaments, as the lack of information system resources and infrastructure in some regional areas, than at the central level.

This study also recorded comments from auditees that indicated their unwillingness for BPK to publish audit findings in particular circumstances:

- “I prefer audit findings not to be published when the followup has not been finished. But audit findings which have been followed up can be reported to the public and presented on the official website” (Interview A12).
- “To some extent, auditees mind if BPK’s audit findings are published and made available to the public. I hope BPK auditors will consider this matter” (Interview A2).

These comments could be interpreted as implying that some auditees lack transparency and accountability to the public in their requests for audit findings and the results for their organisation to not be published. This was similar to past practice when audit findings were never published. As the Chairman of BPK stated in a national newspaper, Suara Karya, “BPK audit reports during the situation in the New Order Era could not be described as the real condition of state finances which were in a serious condition, with KKN (corruption, collusion and nepotism)” (Handayani 12th January 2006). Backman (2008: 207-216) forecasted the economic condition in Indonesia as having no future if the Indonesian government does not reduce KKN in the public sector. These statements indicate that transparency is based on the freedom to get information related to the public interest.

A Member of BPK (Interview B1) with extensive experience of interacting with high government officials stated that, “The accountability culture of government officials in Indonesia is very low. High officials think that they know everything, so they are reluctant to be criticised and reveal their mistakes”. These comments reflect the lack of transparency and accountability of leaders or managers in the public sector. The paternalistic culture of
the Indonesian political apparatus was still strong. Many officials in the public sector could not criticise their leaders. This is still happening in Jayawijaya District, where a strong practice of client-patron relations between staff and their leaders caused blood relationship and brotherhood (Mutiarin, 2009: 130). As a result, when the leader resigned, all staff under the former leader was replaced with the new leader’s people. This situation has worsened the performance of bureaucracy in Indonesia. BPK found it difficult to change auditees’ mind-set to being more transparent and accountable in managing public finances and providing better performance and services.

Another auditee commented on the possible misuse of BPK audit reports. He said that publishing BPK audit results sometimes had a negative effect on auditees, because it can lead to negative perceptions from Indonesian community. In addition, a writer from a local newspaper provided an article about the publication of some audit reports that were misused for political interests (LM Sinaga 11th March 2006). Both media and non-government organisations have sometimes used BPK audit findings and reports on sensitive cases (such as corruption and other criminal cases) as political tools. For example, cases of corruption or misuse of state funds by certain political high officials can be used by political opponents to bring down of the officials. This situation indicates that democratisation in Indonesia is less than ideal. Most Members of Parliament were motivated by money instead of working as representatives of the Indonesian people (Sudibjo 2009a: 19).

There has also been disagreement about publishing BPK audit reports or audit findings by auditees in state-owned bank. BPK’s Chairman stated to a reporter of a national newspaper (Riza 2006), “There is a campaign by politicians, authorities or certain
employees to stop BPK reporting its audit results to the public”. In the case of non-performing loans and irregularities of the Indonesia State Bank (BNI’46), BPK published the relevant audit results on its website, including findings about debts and bad creditors of some state-owned bank. These publications have been criticised by bankers who feel afraid that the BPK publications can cause a lack of trust from their customers. Djunaedi in Suara Karya newspaper (27th April 2006) commented that the publication of audit findings in relation to these national banks caused a low credit expansion of some national banks, a slower economic recovery and a reduction in the general rate of fiscal expansion. This means that BPK publications on non-performing national banks potentially impact the behavior of bank customers.

The Chairman of BPK argued strongly with bankers’ views as follows (Nasution 2007):

BPK has to provide its audit results to the public, because public finances are used by the government to recover the national banking conditions that are known to have been misused and abused. As a consequence, the banking risks would be returned to the public.

This statement implies that transparency through BPK publications on public sector performance is important for transparency of public funds, although there might be some complaints about BPK findings regarding the poor performance of national banks.

Some confidential information is related to state defense (such as guns, technology inventions, supplies), international relations (such as results of analysis by diplomats in bilateral issues, policy in politics, economics, and accreditation materials), law enforcement process (such as investigations by police or other law enforcers), national economic survival (in the field of monetary, fiscal, industrial and trade economics), the state coding
system, the state intelligence system, and state vital assets (such as military installations, training areas, and arms manufacturers).

To summarise, BPK audit reports are now published to provide the public with information on the performance of government and how government funds are spent. A public awareness program has been conducted to raise public understanding of BPK’s roles and functions in promoting participation in effective public sector auditing. The survey of this research found that respondents agreed that BPK audit reports have been published. However, some respondents, including politicians and auditees, were unhappy with the publication of BPK audit findings. Auditees covered up their cases and tried to stop BPK from publishing information about them. They argued that information in BPK reports could provide a bad impact on their organisations, for example, information on non-performing loans (NPL) and irregularities in national banks that made customers distrustful and encouraged them to move to foreign banks.

5.4.2 Realistic Audit Recommendations

A realistic audit recommendation is related to acting on information in audit reports. Realistic recommendations can be defined as recommendations from auditors that are concrete and applicable to improve performance in the management and administration of auditees. Audit recommendations are provided in performance audits to improve economy, efficiency and effectiveness in managing audited entities’ resources.

73 This is based on Article 4 of the draft Law on State Confidential (GOI 2007a).
Regulations and Rules for Realistic Audit Recommendations

The new auditing state finances standard (BPK RI 2007g: 88) requires auditors to convey recommendations on corrective measures to improve performance in problem areas of public sector agencies (Paragraph 24). Based on this standard, audit recommendations are to provide potential corrections, to improve compliance with laws and regulations, and to encourage follow up of previous recommendations that were not done. In providing constructive and realistic recommendations, the BPK standard provides guidelines that are: (i) aimed at problem solving, (ii) oriented to real and specific actions, (iii) aimed at authorities to take action, (iii) focused on concrete solutions, and (iv) aimed at reasonable expenses/costs.

Therefore, the new audit standard (2007) provides direction for recommendations to promote continuous improvement and performance accountability of the public sector focused on efficiency, quality and results.

Survey Results on Realistic Audit Recommendations

This section discusses respondents’ perceptions about whether or not BPK auditors provided realistic recommendations. Figure 5.5 (below) shows the survey results indicated mainly positive responses. Sixty per cent of BPK auditors ‘agreed’ and 3 per cent ‘strongly agreed’, while for auditees 52 per cent ‘agreed’ and 4 per cent ‘strongly agreed’. However, the results also revealed ‘neutral’ responses with this category selected by 54 percent of Members of Parliament, 36 per cent of auditors and 33 per cent of auditees. Moreover, ‘disagree’ was selected by 19 per cent of the Members of Parliament, 1 per cent of auditors and 11 per cent of auditees.
Some of the negative views of the auditees from government entities were expressed as follows:

- “The audit findings and recommendations of BPK were the same every time” (19/3/2007).
- “Not all the audit recommendations were possible for implementation” (19/12/2006).
- “Not all the auditors’ recommendations could be implemented; we need recommendations to solve our organisation’s problems” (10/01/2007).
- “Not all BPK’s recommendations were easy to implement” (4/2/2007).
- “Some recommendations from BPK were not easy to implement or were not clear. We needed more explanations from BPK” (14/2/2007).
- “Not all the audit reports of BPK could be followed up soon, because we need a long process in the case of corruption” (28/02/2007).
- “Auditors only provided their findings as the problems, without explained what causes, how the effect and how to solve the problems” (20/08/2009).

These excerpts indicate three points. Firstly, audit recommendations were not followed up by auditees as the same recommendations were again suggested in subsequent reports. Secondly, auditor recommendations were not applicable. Thirdly, audit recommendations were not oriented to realistic actions. These criticisms imply that auditors were unable to provide constructive and realistic recommendations. This indicates a lack of expertise and professionalism in providing recommendations as required by the audit standard.
A high official from BPK argued that a lack of honesty and accountability in providing public services and public performance made audit recommendations more difficult to implement (Interview B2). Moreover, a senior BPK auditor with more than 10-years of auditing experience argued the following (Interview B3):

BPK’s findings were informed to auditees without potential recommendations. They contain only facts, criteria, causes and effects. After we get comments from auditees on these findings, the audit team provides a draft of audit reports including recommendations to be discussed with their supervisor and Board of Members. After that, the final audit reports and recommendations are published.

This excerpt indicates that auditors analyse the phenomenon and problems with auditees before providing audit reports in order to provide constructive and realistic recommendations. In addition, an auditor from ‘a BPK regional office’ (Interview B21) explained as follows:

Before providing audit recommendations, there was no communication between auditors and auditees. BPK’s audit recommendations were made after auditors completed auditing and came back to BPK’s office. Audit results were discussed with team Members, supervisors and BPK’s high officials. After that, final audit reports were submitted to Parliament and auditees. Audit recommendations were made only to reduce the ‘causes’ of the organisation’s problems but not to address the real causes of problems. Lack of auditors’ ability to provide realistic recommendations affected the difficulty of auditees in implementing them.

This statement confirmed the process of providing recommendations as stated by the prior informant. Besides, the auditor acknowledged the incompetence of BPK auditors in providing constructive recommendations that are easily and practical for auditees to carry out.

To summarise, realistic and constructive audit recommendations to improve public administration and performance are essential for effective audit reports. The research revealed that auditees found difficulties in following up audit reports and recommendations. Moreover, there was lack of responsiveness of auditees to make changes for improvement
based on auditors’ recommendations. Auditees found that auditors could not provide realistic recommendations that could be implemented in the short or medium term by auditees. As a result, BPK recommendations do not change from year to year.

### 5.4.3 Following up Audit Findings and Recommendations

Following up audit reports is the third criterion related to acting on information in audit reports. Audit reports become largely worthless without any follow-up from Members of Parliament, auditees and authorised investigators.

#### Laws and Regulations for Following up Audit Reports

Requirements for Members of Legislative institutions to follow up on BPK reports is stipulated by Article 23E of the third amendment of the Constitution (GOI 2006c: 62), the Audit Law (GOI 2004b) and the BPK Law (GOI 2006b) and are part of Parliament’s functions for budgeting and controlling public sector accountability. These Members are expected to follow up BPK reports by reviewing the reports and acting within their authority to force the government in following up BPK recommendations. Members have the right to ask for government accountability in the use of resources and in performing public services.

The responsibility of auditees in responding to audit reports is stipulated in Article 20 of the Audit Law (GOI 2004b). Responses and clarification from auditees are required to be submitted not more than 60 days after the reports are accepted. Followup by government shall be notified in writing to BPK by the President (for central government), by Governors (for provincial governments), by Mayors (for city governments) and by Regents (for district governments).
In regard to enforcing officials to carry out their responsibilities in following up audit findings and recommendations, Article 20, Paragraph 5 of the Audit Law (GOI 2004b) stipulates administrative sanctions for any officials who do not comply with this law in accordance with employment regulations. Furthermore, Article 26 of this law (GOI 2004b) stipulates a criminal sanction of imprisonment for at least 1.5 years and/or a maximum fine of Rp.500 million(US$55,19474) for infringements.

The mandate to follow up findings of criminal activities in audit reports is stipulated in Article 8, Paragraphs 3 and 4 of the Law on BPK (2006). All evidence of crime found in audit reports should be reported to the relevant authority in accordance with the provisions of laws and regulations no later than a month after its acknowledgement. The audit reports are to be used as the basis of investigation by the authorised investigator in accordance with laws and regulations. Authorised investigators include the police, the Attorney General’s Office and the Commission of Corruption Eradication (KPK). BPK has a responsibility to monitor follow-up actions from audited entities and to provide written reportsmonitoring the results of this to Parliament and the government. On the other hand, the Executive should report their follow up results to BPK in writing.

These regulations can be used to bring pressure on Parliament, the government and on the authorised investigators to follow up audit reports and findings. Moreover, legal accountability applies in these regulations to ensure compliance with the law.

74On 2nd November 2007, US$1 = Rp. 9,059
Followup on BPK Reports before and after Audit Reform

Before audit reform (pre 2001), the follow-up procedure for audit reports was divided into three stages (Marsidi 2002: 14). Firstly, one month after receiving audit reports, the Ministers had to respond to audit findings, conclusions and recommendations from BPK. Secondly, if government agencies did not respond to audit reports, BPK would report them to the President. Finally, if this did not work, the case was sent to Parliament for a final decision. Nonetheless, the application of these procedures was unsuccessful because the government controlled the Parliament and political parties and ensured they supported the President’s purposes. There were no external controls and government accountability was lacking.

After audit reform (2002-2006), data indicates that government faced serious problems in following up BPK reports. National daily newspapers (Sam 2006, Susapto 2006 and Suara Pembaharuan 16 May 2006) revealed that the level of followup of BPK audit reports was very low. From 2003 to 2005, 16,433 cases regarding the misuse of state finances to a value of Rp.132.49 trillion (US$146.69 million), were found by BPK. However, only 6,920 cases (42 per cent) were followed up, while the rest, valued at Rp.34.22 trillion (US$ 61.11 million), were not addressed by government.

In addition, significant BPK findings for various government procurement projects included inefficiencies and losses of state finances up to a value of Rp.253.75 billion were not followed up. Another Rp.1.5 trillion in questionable debt reductions and bad loans involving a number of dissolved banks were also not followed up (Hudiono
17th May 2006). Moreover, in semester 1 of 2006, followup of BPK audit reports was only 36.15 per cent.

Table 5-2 Followup of Cases and their Value (in Billion Rupiahs) of State Losses during 2005-2006.

<table>
<thead>
<tr>
<th>Entities</th>
<th>State Losses</th>
<th>Followed Up</th>
<th>Not Followed Up</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases Value</td>
<td>Cases Value</td>
<td>Cases Value</td>
</tr>
<tr>
<td>Central Government</td>
<td>701</td>
<td>7,713</td>
<td>104</td>
</tr>
<tr>
<td>Regional Government</td>
<td>2,330</td>
<td>1,352</td>
<td>226</td>
</tr>
<tr>
<td>SOEs</td>
<td>23</td>
<td>4,762</td>
<td>-</td>
</tr>
<tr>
<td>Total Year 2005</td>
<td>3,054</td>
<td>13,827</td>
<td>330</td>
</tr>
<tr>
<td>Central Government</td>
<td>165</td>
<td>16,056</td>
<td>18</td>
</tr>
<tr>
<td>Regional Government</td>
<td>1,530</td>
<td>1,869</td>
<td>3</td>
</tr>
<tr>
<td>SOEs</td>
<td>261</td>
<td>1,321</td>
<td>5</td>
</tr>
<tr>
<td>Total Sem. I 2006</td>
<td>1,721</td>
<td>19,246</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Adapted from: Kompas, 6th January 2007. 'Tata Pemerintahan: BPK segera terbitkan standar pemeriksaan' (State administration: BPK will launch auditing standards soon), Jakarta.

Table 5.2(above) summarises the number of cases and the value of state losses revealed by BPK audit findings in 2005 and semester I of 2006 and indicates a very low follow-up rate (only 10.8 per cent of cases in 2005 and 1.51 per cent in 2006). Although few in number, the followup of state losses contributed about Rp.2.597 billion in 2005 and Rp.199.5 billion in 2006 to the state treasury.

BPK auditors complained that there was a lack of attention by auditees to follow up audit reports:

- "We need auditees to pay more attention to following up BPK audit reports" (an auditor of regional government, 15/3/2007).
- "Many audit reports and recommendations from BPK had not been followed up by auditees" (several auditors, March-August 2007).
- "Most government entities still lack willingness to change the bureaucracy" (several auditors, March-August 2007).

75This information was presented by Tortama IV of BPK in the auditorium of BPK, Jakarta, on 6th December 2006.
These quotations are in line with statements made by the Chairman of BPK, who was strongly critical about audit findings and recommendations that had not been followed up. He also emphasised monitoring results which indicated a low response from government to follow up audit findings. Moreover, he made the following complaint about the lack of follow up of BPK findings in front of Lampung local government officials, representing 32 entities (one province, 11 districts and cities, three SOEs and 18 ROEs):

> About 173 audit findings with a value of Rp.1.5 trillion (44.94 per cent) were followed up, however, there were still 212 findings with a value of Rp.1.76 trillion (55.06 per cent) which had not been followed up. The low rate of accomplishment of follow-up audit reports in Lampung has to be improved. I hope the heads of regional government, regional Parliaments, and law enforcers will pay more attention to the follow up of audit reports (Lampung Post 9th March 2007).

This statement indicates a low level of follow up of audit reports (less than 50 per cent) in Lampung Province, which was caused by lack of responsiveness of its leaders and senior staff (heads of departments, bureaus and agencies within the civil service) to provide substantial changes in the era of public sector reform. Nevertheless, BPK has no authority to punish auditees who do not follow up audit reports. In this case, the Governor of Lampung claimed that he had followed up all BPK’s audit findings (Lampung Post 10th March 2007) and stated, “We are determined to bring to reality Lampung as a model of good government management of state finances”. His statement adduced his commitment to follow up BPK findings in order to be an institution that is accountable in managing public finances and complying with laws and regulations.

76 The researcher attended this event at the Parliament Nusantara Building I, Jakarta, on 15th May 2006.
77 This was stated during the submission of the summary of BPK’s audit findings, semester I of 2006 for Lampung Province on 8th March 2007.
The Head of Auditama IV (Tortama IV)\textsuperscript{78} emphasised the importance of following up audit reports and the responsibility of BPK to monitor this:

No matter how many audit findings and how actively BPK audits state finances, without significant follow-up from audited entities, it will be difficult to provide better government performance. As mandated by the law, government officials are required to follow up audit reports. BPK examines government’s financial statements and performance, and then writes this down in audit reports. BPK has the responsibility to monitor followup of its audit reports then report the results to Parliament. BPK cannot prosecute for any committed crime.

This statement emphasises how important it is that audit reports are followed up. The Law requires auditees to follow up BPK.

However, based on monitoring data, Table 5.3 (below) shows the significant numbers of audit finding cases which finished or still under process or had not been followed-up 2008. Data indicates significant BPK findings on the inefficiency of state expenditure in the public sector.

\textbf{Table 5.3 Follow up of BPK Audit Findings (numbers and value of cases) at the Central and Local Government and SOEs in 2008}

\begin{tabular}{llllll}
\hline
Institution & Total & | & Status Completed & | & \\
 & & | & Finished & | & Under Process & | & No Follow up \\
 & & | & Cases & | & Cases & | & Cases \\
 & & | & (Percentage) & | & (Percentage) & | & (Percentage) \\
 & & | & Value & | & Value & | & Value \\
Central Government & 13,794 cases & | & 7,062 cases & | & 3,130 cases & | & 3,602 cases \\
 & & | & (23.3\%) & | & (48.52\%) & | & (28.18\%) \\
 & & | & Rp. 52 trillion & | & Rp. 108.31 trillion & | & Rp. 62.91 trillion \\
Local Government & 76,733 cases & | & 29,399 cases & | & 13,588 cases & | & 33,746 cases \\
 & & | & (24.16\%) & | & (44.03\%) & | & (31.81\%) \\
 & & | & Rp. 100.3 trillion & | & Rp. 182.75 trillion & | & Rp. 132.04 trillion \\
SOEs & 2,954 cases & | & 1,000 cases & | & 1,292 cases & | & 662 cases \\
 & & | & (50.75\%) & | & (41.28\%) & | & (7.97\%) \\
 & & | & Rp. 63.82 trillion & | & Rp. 51.92 trillion & | & Rp. 10.02 trillion \\
\hline
\end{tabular}

Source: Processed from website BPK RI (\url{www.bpk.go.id} accessed on 13\textsuperscript{th}March 2009).

\textsuperscript{78}This was presented by a BPK senior official on \textit{Sosialisasi} 6\textsuperscript{th} December 2006 in the BPK auditorium, Jakarta.
Table 5.3 shows a significant number of cases with huge valued of money (totally Rp. 204.97 trillion), were not followed by auditees, at both the central and regional government, and SOEs. It seems that the process of following up audit findings and recommendations were very slow. For instance, of about 2954 cases relating to state-owned enterprises (SOEs), follow up of findings for 662 were not completed. Almost 25 per cent of BPK reports were followed up by central and local governments and more than 50 per cent by SOEs. This contributed more than Rp. 216 trillion to the state treasury. The most inefficiency was in local government, central government and SOEs respectively.

An official of BPK (Interview B9) argued that BPK only has the responsibility to monitor the follow-up of audit reports to auditees and investigators. This is his argumentation:

**BPK auditors and officials monitor followup of audit reports. The monitoring includes audited entities and law enforcers (such as police and the Attorney General). Monitoring results are reported to Parliament and authorised investigators for indications of crime and corruption.**

This excerpt indicates that BPK monitors the follow up of audit reports from public sector agencies and from investigators for audit findings that indicate criminal activity. The monitoring results are sent to Members of Parliament to be reviewed and followed up.

**Survey Results and Comments on the Following up of BPK Reports**

Respondents from government, ROEs, SOEs, and Members of Parliament were asked their perceptions on the follow up of BPK audit reports. Figure 5.6 (below) shows the survey results. The positive responses obtained from auditors included 38 per cent who responded ‘agree’ and 23 per cent who responded ‘strongly agree’, while from Members of the Legislature, only 18 per cent responded ‘agreed’. From auditees, 53 per cent responded
‘agree’ and 20 per cent responded ‘strongly agree’. The highest percentage of positive responses came from auditees followed by auditors while the smallest percentage of positive responses came from Legislative respondents.

**Figure 5.6 Survey Results of ‘BPK Audit Reports are Followed up’**

![Bar chart showing survey results with percentages for strong agree, agree, neutral, and disagree categories for auditors, auditees, members of parliament, and overall responses.]


The positive response of the survey results is supported by comments from auditees and Members of Parliament as follows:

- “An audit report of BPK was followed up by auditees gradually” (Interview A6, an auditee from the Ministry of Education).
- “All audit findings were necessary to be followed up and must be followed up” (Interview A4, an auditee from the national oil company Pertamina).
- “At the Ministry of National Education, follow-up of BPK audit reports is the priority” (Interview A7, an auditee from the Ministry of National Education).
- “Follow-up of BPK audit reports is the real output. We also concentrated on the benefit of these audit reports. However, we found it’s hard to complete all the requirements from auditors” (Interview A17, an auditee from Centre of Education and Training for Apparatus).
- “Parliament has followed up BPK audit reports by calling the officials and asking for their followup on BPK's audit findings. They argued that it was only administrative problems and it will take time to follow up the problems” (Interview C8, a Member of Parliament from Commission V of PKB fraction).
- “We always follow up the BPK audit reports” (Interview C11, a Member of Parliament from Commission I of Golkar faction).

These excerpts indicate a good level of responsiveness from auditees and Members of Parliament in following up BPK audit reports. Their comments also imply the moral
accountability of individuals and organisations to followup BPK reports for providing better performance and services to the public.

There were also negative and neutral responses in the survey results. For the auditors’ group, 29 per cent gave a ‘neutral’ response and 10 per cent ‘disagreed’. Among the Legislature Members, 73 per cent gave a ‘neutral’ response and 9 per cent ‘disagreed’, while for the auditees’ group, 17 per cent responded ‘neutral’ and 10 per cent ‘disagreed’. This indicated that almost three-quarters of the Legislature group responded that they did not believe or were doubtful about the follow up of BPK audit reports. This is supported by comments from Members of Parliament and an auditee:

- “Some BPK audit reports were followed up (such as the cases of SOEs, state-owned bank and the Central Bank of Indonesia). However, some have not been followed up yet, such as the case of the Ministry of Finance” (Interview C6, a Member of Parliament from Commission IX of PAN faction).
- “To overcome the problems, follow-up of audit findings and recommendations needs Reformation in the bureaucracy” (Interview C8, a Member of Parliament from Commission XI of PKB faction).
- “Only a few of the BPK audit reports were followed up. Some entities said it was only an administrative problem and it needs Reformation of the bureaucracy”. (Interview C4, a Member of Parliament from Commission I of Golkar faction).
- “BPK audit reports could not be followed up. These audit reports and data findings from BPK were not enough evidence and further processing was needed” (Interview C1, a Member of Parliament from Commission II of PAN faction).
- “None of BPK audit reports were followed up completely at Commission VI. It was because information from BPK was still biased, such as the case of SOEs (the National Oil Company or Pertamina and Jamsostek). Further auditing is needed” (Interview C3, a Member of Parliament from Commission VI of PAN faction).
- “Not all BPK’s audit results could be followed up at once, because we need a long process in the case of corruption” (Interview A7, an auditee from Ministry of National Education).

All these statements indicate three problems faced by Members and auditees in following up BPK reports, namely (1) the lack of capacity, capability and commitment of public sector agencies in reforming their institutions, (2) BPK reports were still too recent to be followed up, and (3) the practice of corruption is rooted in the Indonesian public sector and
is difficult to eradicate in the short term. These problems also indicate the auditor’s lack of capability to provide realistic and constructive recommendations.

Hence, auditees argued that following up BPK audit reports was not easy and may require a long-term process. A Member of Parliament provided an anecdote to explain that if BPK conducted audits, those were only a ‘yellow light’, but if the Commission of Corruption Eradication (KPK) conducted audits that was a ‘red light’ (Suara Pembaharuan 16th May 2006). This statement illustrates the difference responses of auditees to BPK and KPK findings. KPK results that indicate corruption cases received more attention than BPK’s, which only uncovered cases related to public administration including public financial losses. For instance, BPK audit findings for cases related findings ‘mark-up’ or raise prices of public goods and services from the market price\(^79\), were not followed up for several years. Auditees could not return because they said this money has gone. However, there were no sanctions from auditees’ internal management for such non-compliance (Interview A5, an auditee from Ministry of Home Affair). This example indicates that the Executive in the Ministry Home Affair did not follow up audit reports of BPK seriously.

In the case of regional government, two Members from regional Parliaments argued as follows:

- "Regional Parliament could not follow up the audit report, only the Ministry of Internal Affairs, which has the power to push the regional government officials to follow up BPK audit findings” (Interview C10, a Member of Regional Parliament from West Java Province).
- "Based on the Law Number 32 and Law Number 33 of Year 2004, the authority of regional Parliament is only to give strategic notes about performance to the Governor. It is the Minister of Internal Affairs who should follow up BPK reports and push the regional government to follow up the audit findings” (Interview C9, a Member of Regional Parliament from Kuningan City).

\(^79\) Auditees have to return the difference in the price is raised and market price.
These excerpts indicate the inability of Members of regional Parliament to push the Ministry of Internal Affairs to improve the performance of regional government personnel and institutions in following up audit reports. This might be due to the ‘political psychology’ of the relationship between the Executive and Legislature. He/she also stated as follows:

The followup of BPK audit findings depends on the bravery of the Parliament as the institution that has the right to control the Executive and the Law Enforcers to follow up these findings. The relationship of the Executive and the Legislature cannot work in the condition of tight control. In some cases, some of the Executive were protected by the Legislature. For instance, the Members came from the PDIP party and the cases of audit findings were connected with Ministries led by the PDIP. In this case, the Members were difficult reviewing BPK reports. There was ‘political psychology’ between the Executive and the Legislature.

This statement implies that since Indonesia has become a democratic state, there are increasing issues about the relationship between politics and administration. The principle of independence for the Members of Parliament seems difficult to implement as conflicts of interest become more dominant.

To summarise, although the mandate for public sector agencies to follow up BPK audit reports has been provided in audit regulations, the evidence shows that the rate of follow up of BPK findings and reports is still very low. This study revealed that Members of Parliament found it difficult to encourage public sector agencies to follow up on BPK reports. Public sector agencies were aware of the importance of following up on BPK audit findings, but auditees, in the short term, found it hard to follow up and to meet all the data, information and recommendations as requested by BPK auditors.
5.4.4 Conclusion on the Quality of Information in BPK Reports

Regarding information in public sector audit reports in Indonesia, this study revealed that since audit reform in 2001, the roles and functions of public sector auditing have been strengthened. Laws and regulations related to public sector auditing have been reformed based on international based practices. Moreover, BPK has improved its internal quality processes in reporting audit information.

The survey results comprised overwhelmingly positive responses on the criteria concerned with public sector audit report information, although respondents also expressed their dissatisfaction about the information in BPK reports, which undermined the positive responses. There are three reasons to explain these varying results. The first reason is in the Indonesian bureaucratic culture, there is excessive loyalty to colleagues and seniors with the same work organisation/corps (Hoadley 2006:121). As a result, opinion of bad or poor conditions of their own organisation or colleagues is difficult. The second reason is that the questionnaires may lead to different perceptions for respondents. Further explanations for respondents during interviews enabled a better understanding of, and answer to, the questions raised by the researcher. The respondents also felt more comfortable with providing further explanation of what they really felt during interviews rather than in formal questionnaires. A personal approach to the respondents can help them to express their pessimism or disappointment more clearly and openly. Another explanation is that respondents who filled in the questionnaires were mostly low and middle managers, and auditors. They may have had difficulty in being frank on the negatives or weaknesses of an audit report, feeling that it may impact adversely on their position. Personal interviews encourage respondents to be more frank than impersonal surveys (Cohen et al. 2000: 276,
Face-to-face interviews provided more open and honest explanations from respondents in this study than those from the survey questionnaires. The statements from respondents and the media also add further balance to this study. Therefore, although negative responses or even neutral responses to the survey only constitute a small percentage of those surveyed and interviewed, they cannot be ignored. More reliable findings can be drawn from the comments made during the interviews.

This study revealed that BPK has made significant improvements to the content of information in audit reports during the implementation of its new mandate for examining financial reports, including compliance audits and conducting specific purpose audits. The content of BPK reports provides information that is open to the public regarding the public sector’s accountability in managing public resources and complying with the rules. However, there was significant evidence that BPK still lacks audit scope. BPK still cannot audit tax revenues as it is not allowed to access data and information from the Directorate General of Taxation Office. For performance audits, BPK is still not fully implementing effectively as BPK and auditees are still preparing performance standards, measurement and methodology of public sector bodies.

Although the survey on the quality of information in BPK reports showed 80 per cent positive perceptions, the study found dissatisfaction from respondents on the lack of strong audit evidence, objectivity and credibility in BPK reports, which potentially reduced optimism about the quality of the information in BPK reports. The empirical evidence showed that BPK auditors were still afraid to objectively and credibly uncover audit findings of public sector agencies, because they did not feel safe. Moreover, auditees and
Members of Parliament found that BPK auditors could be bribed. Moreover, BPK auditors also found have had bad behaviors that reducing their integrity and independence.

Communication of information in audit reports mainly had positive comments, with more than 73 per cent of respondents indicating that the reports had understandable information, were precise and were in an informative format. Forty-six per cent responded positive regarding timely reporting of BPK reports. A degree of optimism was seen as a result of better formatting with the introduction of summaries in audit reports for the Members of Parliament and auditees, and a timeframe for auditing and submission of the reports. Since 2005, BPK has reported audit results to the Legislative institutions every semester in a timely manner. However, this study revealed a degree of disappointment about the lack of clarity with the use of some technical auditing and financial terms in the reports. Moreover, in terms of formatting and timely reporting, respondents found that BPK audit reports were too thick, too long, too complicated, out of date, and late, all of which made stakeholders reluctant to read all the reports. Moreover, the lack of capacity of agencies to provide timely financial reporting based on accounting standards caused BPK to be unable to submit audit results in a timely manner to the public. Now, BPK does not wait for agencies that are late in submitting their financial reports.

In terms of acting on the information in audit reports, this study revealed significant changes in BPK’s publication of reports through the media and on the BPK website. This prompted positive responses in the survey results of 74 per cent. Transparency builds public trust that resources are managing accountably. Dissatisfied responses regarding publication indicated a lack of auditees’ accountability and transparency and evidence. Moreover, unreported BPK audit findings with security and confidential reasons, and missing audit
reports after arriving at high levels of officials at BPK are unacceptable to auditors and the public.

In relation to the realistic nature of BPK audit recommendations, this study found that ‘auditors have made an effort to convey constructive and realistic recommendations based on audit standards, which was viewed positively by the respondents and informants. However, negative views were revealed as well, that BPK recommendations are not realistic to the existing conditions of public sector institutions, which resulting in difficulties of auditees to follow up BPK reports. Because not followed up, BPK recommendations were the same annually. The criticisms imply a lack of capacity of BPK auditors to provide constructive and realistic recommendations as required by the audit standards. On the other side, a lack of public sector honesty and accountability in providing excellent public services and performance made audit recommendations more difficult to implement.

On the following up of audit reports, 73 per cent responded positively that this had happened for BPK audit reports. However, in evaluating documentation and media publications, the study revealed evidence that there was a low rate of followup. This means that the government has failed to follow up BPK audit findings and recommendations due to the following reasons: (i) the lack of capacity, capability and commitment within public sector agencies to reform their institutions, (ii) BPK reports were still premature to be followed up, and (iii) the practice of corruption is rooted in the Indonesian public sector. These factors meant that audit reports were not easy to follow up and may require a longer-term process.
Table 5.4(below) summarises the improvements that have been achieved so far in public sector auditing in Indonesia. It also contains suggestions for further improvements based on the criteria related to quality and content of information, and communication of and acting on information in audit reports. The table shows that since the Indonesian public sector audit was reformed, BPK has had more power to examine the management and accountability of public agencies. Although the roles and functions of BPK are obviously much better now than before audit reform, this study reveals that BPK reports still did not fully take into account user information needs.

Chapters Six and Seven evaluate the factors influencing the effectiveness of information in BPK audit reports.
Table 5-4 Summary of Improvements and Areas for Further Improvement for Public Sector Audit Reports since Audit Reform (2001)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sub criteria</th>
<th>Improvements</th>
<th>Impediments/Room for improvement</th>
</tr>
</thead>
</table>
| Quality of Information | Strong audit evidence information        | ● Strengthening power of BPK to access data and information from auditees.  
● Sanctions for auditors who misuse data and information from auditees. | ● Access taxpayer data and information on tax revenues from tax office, and data of SOEs involved in stock markets.                                                                                   |
|                        | Objectivity and credibility of information | ● Strengthening BPK auditor independence and professionalism, and review of BPK audits from SAIs from another country. | ● Security, welfare, education and training, rewards and punishment for auditors to improve their independence, integrity and professionalism in providing objective and credible information. |
| Content in audit reports | Compliance with laws and regulations   | ● New system of regulations and standards based on best practice to be complied.  
● Partly implementing rewards and punishment. | ● Auditors and auditee compliance with laws and regulations.  
● Law enforcement and implementing rewards and punishment effectively.                                                                                                                                  |
| Audit scope and methodology |                                          | ● Requirements to conduct financial, performance and specific purpose audits.  
● Auditing of all public bodies.  
● Broader and deeper scope of auditing in line with the complex problems in providing public services and improving public administration. | ● Public agency ability to provide financial statements based on government accounting standards to support BPK in auditing financial accountability.  
● Performance measurements, indicators and auditors for performance auditing.  
● Audit the taxation revenues and public sector corporate (SOEs involved in the stock market).                                                                                                    |
### Table 5.4 (Cont)

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sub criteria</th>
<th>Improvements</th>
<th>Room for Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication of information</td>
<td>Clear and understandable information with informative formatting</td>
<td>• New format for audit reports; emphasising important findings with simple and short statements; supported with data, figures, various font, colours, good quality paper and an interesting cover.</td>
<td>• A user friendly report based on stakeholder needs.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Provide innovation and creativity in qualified audit reports, both performance and content.</td>
</tr>
<tr>
<td>Publication of audit reports to</td>
<td>All public agencies and Members of Parliament receive printed reports.</td>
<td>• Unreported confidential information in audit reports.</td>
<td></td>
</tr>
<tr>
<td>the public</td>
<td>BPK website provides electronic audit reports every semester.</td>
<td>• Transparency and public accountability in some public bodies.</td>
<td></td>
</tr>
<tr>
<td>Acting on information</td>
<td>Realistic audit recommendations</td>
<td>• Significant effort from auditors to provide constructive and realistic audit recommendations.</td>
<td>• Increasing public accountability of public sector bodies to implementing BPK audit recommendations.</td>
</tr>
<tr>
<td>Followup of audit findings and</td>
<td>BPK monitors followup of audit findings and recommendations by public agencies.</td>
<td>• Auditor competency to provide realistic audit recommendations.</td>
<td>• Sanctions for public agencies that do not followup audit findings and recommendations.</td>
</tr>
<tr>
<td>recommendations</td>
<td>Reporting the results of monitoring to the Legislative for further actions.</td>
<td></td>
<td>• Oversight from Parliament.</td>
</tr>
<tr>
<td></td>
<td>Signed joint agreement with the Legislative and auditees to encourage followup of the reports.</td>
<td></td>
<td>• Seriousness of audited entities to follow up BPK reports.</td>
</tr>
<tr>
<td>Followup findings that indicate</td>
<td>Signed joint agreements with authorised investigators and PPATK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>criminality and corruption</td>
<td></td>
<td></td>
<td>• Increased commitment and law enforcement from authorised investigators to follow up criminal indications in audit reports.</td>
</tr>
</tbody>
</table>


Chapter 6

Factors Influencing the Content and Communication of Information in BPK Reports

After Chapters Four and Five examined the quality of information in Indonesian State Audit Board (BPK) reports, Chapters Six and Seven examine the factors influencing the effectiveness or ineffectiveness of the quality of information that were explained in Chapters Four and Five. This chapter evaluates the factors influencing the quality of information in terms of its content and communication in BPK audit reports, while Chapter Seven focuses on the factors influencing the quality of information in terms of acting on BPK audit reports.

There are three key factors influencing the content and communication of information in BPK reports, namely: (1) independence and autonomy, (2) professionalism and integrity, and (3) audit resources.

6.1 Independence and Autonomy of an Audit Institution

The independence of the audit office from the direction of the Executive government, bureaucracy and auditees is the key factor influencing the effectiveness of the quality information in public sector audit reports. Without independence, BPK and its auditors are unable to provide credible and objective information in audit reports. The following section analyses the independence of BPK, including its auditors, budget and resources.
6.1.1 The Independence of BPK

This section compares the independence of BPK before audit reform, under the original 1945 Constitution, and BPK after audit reform, under the third amendment of the 1945 Constitution. Moreover, it evaluates the implementation of new policies on audit independence that are influencing the content and communication of information in BPK audit reports.

The Independence of the BPK before the Reform

Before audit reform, Article 23, Paragraph 5 of the ‘sacred’ (sakti) 1945 Constitution stipulated the independence of BPK. The desire for BPK to be an independent and free audit institution was developed by the ‘founding fathers’ of the Republic of Indonesia at the time of Independence, Soekarno and Hatta. The Member IV of BPK (Interview B2) explained that the historical establishment of BPK occurred at the same time as the legalisation of the 1945 Constitution on 18th August 1945. He emphasised that the existence of BPK under the Constitution is a social contract between the Indonesian people and the government made at the time the state was formed. This means the existence of BPK was mandated by people of the Republic of Indonesia.

However, despite the government understanding this message of the Constitution it did not carry out the mandate as the public expected. The power of the President to influence most bureaucratic offices, including BPK, removed the genuine autonomy mandated by the Constitution. BPK had no power to be free from the Executive government’s direction and BPK audit reports were tailored to suit the government’s interests. An official of BPK (8th December 2006) underlined the government’s control of BPK, because during the authoritarian regime of the New Order, all BPK reports had to be
checked with the government, (in this case was the State Secretary Office). The reason was for national stability reasons. He said that BPK was only a “rubber stamp” for the government. His opinion implies that BPK was firmly under the control of government and could not perform independently. The government was not transparent, altering the content of audit reports that could damage the government’s reputation and make the public uncomfortable with the government’s performance.

During the New Order Era, Indonesia applied guided democracy. In this situation, all personnel in the bureaucracy had to be loyal to the President and his interests. The Soeharto regime ignored people who gave opposing opinions or open criticism. BPK could not scrutinise the accountability of the government, because it had insufficient freedom to access all relevant information in public sector agencies. For example, BPK could not examine the accountability of government in managing public resources, including natural resources (such as coal, crude oil, gold, forest, lead, copper, and natural gas), national banks, electricity, telecommunications, transportation and logistics. The monopoly market of public goods and services under government authority without control from BPK and the Legislature resulted in the absence of ‘checks and balances’ in state finances. The Chairman of BPK explained why BPK lacked independence in the past to a business magazine (Eksekutif January 2007:18-23), as follows:

The Suharto era in the past was an authoritarian regime. No one was brave enough to say ‘No’ at that time or you would be ‘dipetras’ (shot mysteriously). In the past, BPK was under the control of the government. What was happening had to be permitted by the Ministry of Empowerment Apparatus (MENPAN). Control also extended to the employees and all the personnel of BPK, because all were public servants. In the past there was also control over the budget of BPK. Then all the audit results had to be discussed first with the government to prevent the national instability. In the case of the objects of the audits, none of the material assets at that time could be audited or touched by BPK, including the National Oil Company (Pertamina), the Central Bank (the Bank of Indonesia), state banking and also BULOG (Logistic Agency). Thus, BPK did not disturb national stability.
This statement implies that during the authoritarian regime, BPK and its resources were under government direction. The government interfered with the independence of auditors, including selecting the auditees and sample objects of BPK audits. Soeharto’s leadership was authoritarian and compelled all the bureaucracy to abide with his rules. All state companies that provided enough income and strategic benefit for the nation were audited by BPKP (as a part of the Executive), instead of by BPK.

**The Independence of BPK after Audit Reform**

Since audit reform, the independence of BPK has been bolstered by the Constitutional mandate. BPK is confirmed to be the only independent external body to audit state finances in the Republic of Indonesia. The amended Constitution has legally embedded BPK as an independent SAI and to have a major function in improving the transparency and accountability of the public sector. Furthermore, the Audit Law (2004) and the Law on BPK (GOI 2006b) stipulate the independence of BPK in terms of its budgeting, personnel and other aspects of auditing. Besides, after the audit reform, the appointment, tenure, and reappointment of Board Members of BPK are also stipulated under the Audit Law (2004) and Law on BPK (2006), to maintain BPK’s independence.

After gaining independence, BPK has carried out its audit roles and functions to help Members of Parliament, as the most prominent client, to improve the accountability and transparency of government. The public expects their resources to be managed accountably by the government for the prosperity of the people. BPK is improving its capability to conduct performance audits in accordance with the Lima Declaration\(^{80}\) and

\(^{80}\) The Lima Declaration is the founding principles of Supreme Audit Institutions (SAIs), issued in the 9\(^{th}\) Congress of INTOSAI in Peru and attended by more than 100 countries. Although the declaration was made 30
other international audit standards\textsuperscript{81} to provide advice for public policy. Under the new audit legal system, BPK is strengthening its independence to improve government transparency and accountability (Aritonang 2005: 4).

The Head of Parliament\textsuperscript{82} argued about the strong willingness of the Indonesian people for BPK to be strong and independence audit institution. He believes that if BPK conducts its audit functions properly and correctly, government efforts to eliminate corruption and reduce poverty. The purpose of the state to achieve the welfare of the Indonesian community, according to the Preamble of the 1945 Constitution, will be achieved faster. For this purpose, BPK continues to reform its internal organisation from conditional independence to substantial independence.

**Figure 6-1 Perceptions of ‘BPK is an Independent Audit Institution’**

![Perceptions of ‘BPK is an Independent Audit Institution’](image)

Source: Fieldwork survey from 5\textsuperscript{th} November 2006 to 25\textsuperscript{th} March 2007

To further analyse the independence of BPK, this study collected data and information from key informants and respondents, including BPK auditors, auditees, and Members of Parliament. Figure 6.1 (below) shows the survey results indicated positive

years ago, the spirit and the meaning of this declaration are still very important to the system of administration and government.

\textsuperscript{81} INTOSAI, AFROSAL, ASOSAI and BPK’s audit standards and guidelines.

\textsuperscript{82} Keynote spokesman, H.R. Agung Laksono, at the One Day Seminar on Public Sector Audit, on 9\textsuperscript{th} January 2007, at Jakarta Convention Centre.
responses on the independence of BPK. Of the auditees’ group, 65 per cent ‘agreed’ and 8 per cent ‘strongly agreed’, while from the auditors’ group, 49 per cent ‘agreed’ and 35 per cent ‘strongly agreed’.

Most BPK auditors were aware that the full independence of BPK is essential (Interviews B13-B24). They also show optimistic that under the new Law on BPK, BPK can be independent from the government. The opinions imply on determining the position of BPK as an external audit institution which should behave and act independence as stated in the amended constitution and new laws. However, the most important question is how successful BPK is in performing the independently according to the new laws. An auditee from central government (Interview A10) also expressed this, arguing that how BPK manages its independence and authority is crucial.

This study obtained negative views on the independence of BPK from respondents. In the survey, 20 per cent of auditees responded ‘neutral’, 5 per cent ‘disagreed’, and 2 per cent ‘strongly disagree’. Of the auditors surveyed, 9 per cent responded ‘neutral’, 6 per cent ‘disagreed’ and 1 per cent ‘strongly disagree’. They also criticised the lack of BPK’s substantive independence as follows:

- “BPK is not a fully independent institution” (Interview B23, an auditor of AKN V).
- “I am not sure that politically BPK is an independent institution” (Interview A23, an auditee from Water Drinking Regional Enterprise Sukabumi).
- "It is only hope, the fact is not" (Interview B17, an auditor of AKN 1).
- “BPK is still not independent, as far as BPK still under the same unit of government” (Interview B6, a manager of BPK).
- “BPK has not been an audit institution that is independent” (Interview A20, an auditee from Bandung City local government).
- "Auditors of BPK can still be bribed" (Interview A11, an auditee from Ganjur District local government).

These comments from different groups of informants, directly argue that BPK lacks substantive independence. This indicates that BPK has not been fully independent from any parties as expected and mandated by the Constitution and laws. The statements imply there
was still influence from political parties and the government (auditees) on the BPK and its auditors. Moreover, the last comment about bribe practices is the most interesting statement in helping to explain the reason why BPK auditors were not performing independently. Bribing auditors usually carried out in public sector audit, and have been done decades. As a result, pessimism shows from auditors, auditees and Members of Parliament who know bribing practices really happen.

The following sections provide further detailed analysis about BPK’s independence in terms of budgeting, board Members and auditors.

6.1.2 Independence in Budgeting

This section analyses the independence of the BPK in managing its budget as an essential resource for auditing the Indonesian public sector. Budgeting independence is crucial to maintain the independence of an external audit institution from the influence of other parties. The following sections describe the new legal basis of BPK budgeting, compares independence in budgeting pre and post audit reform, and analyses data and information from respondents and key informants about the independence of BPK in budgeting.

Independence in Budgeting Pre Audit Reform

Before reform, BPK’s budget was funded from the State Annual Budget (APBN) and determined by the government (the Ministry of Finance). Government reduced the functions of BPK by providing a very limited budget to support its roles and functions as a state audit institution. This situation resulted in a limited budget for BPK to improve its auditor numbers and quality, to increase the welfare and professionalism of its personnel, and to acquire modern office stationery and information technology. The government in the
past aimed strongly to restrict the capacity of BPK to examine government accountability in ways that could disturb national political stability.

**Independence in Budgeting Post Audit Reform**

Since audit reform, Chapter VIII on Budget, Article 35 of the Law on BPK provides for the jurisdiction of the BPK’s budget to be funded separately from the state budget, to be proposed by BPK to Parliament (DPR), to be discussed in the introductory discussion of the state budget plan, and to be conveyed to the Minister of Finance in determining BPK’s budget estimates. In addition, Article 32 of the Law on BPK stipulates that BPK has to be audited by a public accountant annually to examine its accountability in managing budget. The public accountant must be appointed by Parliament (DPR) based on the proposal of BPK and the Minister of Finance, with each of them having to propose three names. Additionally, the selected accountant must not have performed any duty for or on behalf of BPK or provided any service to BPK during the last two years. The audits coming from the public accounting office should be presented to Parliament and be sent to the government.

The above provisions regulate the budget resources of BPK to maintain its independence from the government and to provide its budget according to state audit needs. Since the application of the BPK Law (2006), the budget of BPK is no longer under the direct control of the Executive, because the BPK budget is directly determined by Parliament after reporting to the Minister of Finance. Moreover, the BPK Law (2006) stipulates the process for examining BPK accountability in managing its budget.

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^83 This was presented by Dr. Omo Dahlan, the Head of Auditama IV, on Seminar on *Sosialisasi of BPK* on 6th December 2006 in the auditorium of BPK, Jakarta.
Since reform, the budget resources of BPK have been separated from the annual state budget of government. The budget is approved by Parliament after a discussion with BPK and the Ministry of Finance, based on the budget proposal from BPK. Besides, for specific purpose audits, such as the Bank of Indonesia and IBRA (the Indonesian Bank Restructuring Agency), BPK obtains a special budget allocation through the Ministry of Finance after getting approval by Parliament.

**Figure 6.2 BPK Budgeting Resources**

The increasing budget independence of BPK is due to good coordination with the Ministry of Finance and Parliament (DPR). Figure 6.2 (above) illustrates the process of getting budget resources and the auditing accountability of BPK’s budget. Three main state institutions are involved in this process, Parliament, the Ministry of Finance and BPK. To maintain independence in budgeting, four steps are followed. First, BPK’s planned budget is separated from the state budget plan and the proposed budget plan is submitted for approval from the Parliament after a discussion about the need for state audit activities. Second, after the budget is approved, Parliament informs the Ministry of Finance of BPK’s
audit needs so the budget can be inserted in the annual state budget plan. Third, to examine
the accountability of BPK to the public, Parliament appoints an independent Public
Accountant Office (KAP) of three auditors proposed by BPK. The final step is the
publishing of the audit results of KAP on BPK accountability.

An example of the budget process for BPK was the case of auditing the basic costs
for the supply of electricity and an increased electricity tariff proposed by the National
Electricity Company (PLN) in 2006. BPK accepted an official letter about requesting
a Board Member of BPK to lead audit work at PLN with the assistance of 30 auditors, from
Parliament and the Chairman of BPK. After Parliamentary approval was sent to BPK and
the Ministry of Finance, the Director General of Treasury provided an audit budget for this
specific audit (Koran Tempo 3rd February 2006).

During the fieldwork, this study found different points of view from the respondents
and key informants about the independence of the BPK in budgeting. Before the
independence of BPK in budgeting was clearly defined by the Law on BPK (2006), its
budgeting was determined by the Ministry of Finance, which affected BPK’s independence.
Two BPK auditors (17th October 2006) argued that although judicially independent, BPK
was still not entirely financially independent as its budget was still included in the central
government budget from the Ministry of Finance. They complained about limitations in
resources, including salaries, remuneration and training for auditors. Because of these
conditions, they admitted receiving money from auditees to support their work, including
for transportation, accommodation and meal costs during auditing. Auditees used the
financial weakness of BPK auditors to influence the objectivity of audit results. The
statements from informants about practice of bribery and lack of BPK auditors’
independence are indications lack objectivity of findings. This practice had been running
for so long that it caused auditees to doubt that BPK was an honest and independent audit institution. However, since audit reform in 2001, the BPK budget is much higher.

Moreover, a Member of Parliament worried that the authority of BPK meant the audit institution became a ‘super body’, because no other institution examines BPK’s budget accountability (Koran Tempo 6th February 2006). However, this concern cannot be accepted because an independent KAP now audits BPK’s transparency and accountability. This is also controlled by the Parliament and the public after the KAP audit results are published and are reviewed by SAIs from other countries as mandated by the Law on BPK (2006).

6.1.3 Independence of Board Members and Auditors

This section evaluates the independence of the Board Members of BPK and auditors pre and post audit reform. The legal basis and data and information from documents, comments and statements from key informants are provided as supporting evidence.

Independence of the Board Members Pre and Post Audit Reform

Pre Audit Reform

In the past, there was no legal basis to establish the independence of the Board Members and auditors of BPK. BPK had no independence in the election, appointment and dismissal of its Board Members, including the Chairman and Vice Chairman. Parliament only proposed three candidates for Board Membership, while the government proposed

84 The Board Members of BPK are different from normal auditors. The Board Members of BPK act as leaders who have to make decisions for BPK and are answerable for these decisions to third parties.
four Members. During the New Order regime, the Chairman of BPK was appointed and dismissed by the President, based on the proposal of Parliament (Article 10 GOI 1973). This means that the election process for Board Members of BPK in the past could not uphold the independence of this audit institution.

The President had the final decision over who were to be chosen as Chairman, Vice Chairman and also ordinary Board Members. This practice prevented the leaders of BPK from being independent from the President and thus the government and the Executive. The Chairmen of BPK had no power to manage their own organisational structure (Kompas 11th August 2005). A conflict of interest was highly visible as the President appointed the Chairman and the Vice Chairman positions and as a result the appointees were deeply indebted to the President. A key informant from Public Relations Division of BPK (Interview B5), affirmed this, describing the close relationships between former BPK leaders and the President as follows:

In the past, the Chairman of BPK was proposed by the Members of Parliament, but he was appointed by the President, as a result, anyone who was the Chairman of BPK in the past had a close relationship with the President, for instance, Sri Sultan Hamengkubowono (1964-1966), Dadang Suprayogi (1966-1973), Umar Wirahadikusumah (1973-1983), M. Jusuf (1983-1993) and JB Sumarlin (1993-1998). All these Chairmen of BPK had a close relationship with President Soeharto during the New Order. Satrio Budihardjo Joedono was the Chairman of BPK from 1998-2004 and had a close relationship with President BJ Habibie at that time.

This situation became a serious factor causing the ineffectiveness of BPK in examining the transparency and accountability of public sector. Seno (2004b:4-7) also agreed that the Chairmen and the Vice Chairmen of BPK were influenced by the Executive.

The Board Members of BPK in the past were former high officials from government offices, such as from the Central Bank of Indonesia, the National Army and the Ministry of Finance. However, even though they worked for BPK, they still had working
relationships with their former organisations as BPK auditees. Moreover, they also provided consultation services. Indeed, these practice significantly influenced the independence of BPK Members.

Moreover, BPK’s independence was also reduced by its roles and functions not being supported by the public and Parliament nor by internal legal regulations or a code of ethics. The New Order Era government conditioned BPK like this in order to prevent the audit institution from working properly and impeding the power of government. As a result, the government managed public resources for its political purposes without control from other institutions, including the Parliament and BPK. This meant that public resources were managed unprofessionally, with unsatisfactory public services and without concern for public need and accountability.

Post Audit Reform

To strengthen the independence of BPK since audit reform, Article 23F, Paragraphs 1 and 2 of the third amendment of the 1945 Constitution (2001) and Articles 16 and 17 of the Law on BPK (2006) stipulated the appointment and dismissal of BPK Board Members, including the Chairman and Vice Chairman. Since the new appointment system was implemented, leaders of BPK have significantly more autonomy and independence. The Board Members of BPK are in a public professional position that is appointed by Parliament to strengthen BPK’s independence.

The appointment process of the Board Members of BPK is depicted in Figure 6.3 (below). DPR proposes all candidates for BPK Board Membership to be considered by DPD (processes 1 and 2). After that, all candidates are announced to the public (process 3). Parliament (DPR) then makes the final decision on appointment and selection after consideration by DPD and input from the public (processes 4, 5 and 6).
Before assuming their position, selected Members of BPK read an oath in accordance with their respective religions under the guidance of the Head of the Supreme Court of Justice (process 7). The President attends this ceremony. After the ‘swearing-in’, elected Members may meet in a special session to select among themselves who is to become Chairman, the Vice Chairman and ordinary Members of the Board (processes 8 and 9). The process of electing Board Members has extended the impersonal and neutral position of BPK in relation to the Executive and the Legislature.

In 2004 and 2009, BPK conducted an election process for its Members by applying ‘fit and proper test’. A key informant (Interview B7, a manager from BPK argued that the
BPK Chairman, Professor Anwar Nasution, was different from the previous Chairman pre-reform. Mr. Anwar had a strong commitment to reform BPK as an independent audit institution to better enable it examine the management and accountability of public sector toward providing a clean and good government; free from corruption, collusion and nepotism (KKN). In addition, he was brave enough to criticise weaknesses regarding transparency and accountability of Indonesia’s public sector (Masirom and Widyatmoko 2007). This was not the case under the former Chairmen of BPK before reform.

The requirement of Board Members to maintain their independence, to perform their duties, and to exercise their authority is stipulated by Article 3 of the Law on BPK (2006). Board Members are required to observe their professional oath and pledge, act neutrally and impartially, avoid any conflict of interest, and avoid situations that may affect the objectivity of an audit. Besides, the Members are prohibited from holding a concurrent position in other state institutions, other agencies managing state finances, or domestic or foreign private companies. They cannot participate as Members of any political party or demonstrate attitudes and behavior that may cause their independence to be questioned.

Independence of Auditors Pre and Post Audit Reform

Pre Audit Reform

Before audit reform, since the BPK leaders were appointed by the President, the personnel of BPK were also influenced by the government (that was the Ministry of Empowerment Apparatus (MENPAN). The Chairman of BPK stated to media (Eksekutif January 2007: 18) that all BPK personnel were public servants. This means that the rules

85 He has a PhD in Economics from Tufts University and was the former Dean of the Economic Faculty, University of Indonesia, and former Deputy Governor of the Central Bank of Indonesia.
for and salary of BPK personnel, including its auditors, were the same as for other civil
servants. The personnel management of civil servants was under the regulations of the State
Personnel Board (BKN), including policies for recruitment, career development and compensation.

A BPK official (15/03/2007) expressed his disappointment and dissatisfaction
with the inflexibility of the audit institution in developing the quality and quantity of its
auditors. He argued that BPK auditors and staff had little incentive to perform. Even if they
performed better than their peers, promotion was based on seniority rather than
performance, and auditors had little opportunity to increase their productivity by
undertaking additional training and education. This practice was the same as the salary
system employed for the Indonesian civil service. With few incentives such as promotions;
BPK auditors augmented their earnings from auditees. As a result, BPK auditor morale was
low and continued to significantly reduce their independence in auditing. BPK audits were
never effectively implemented in the Indonesian public sector.

Post Audit Reform

The Law on BPK regulates how BPK auditors can maintain their independence. In
this law, it is clearly stated that auditors shall not (i) have an immediate family relationship
or a relationship by marriage with anyone who has the responsibility towards the audit
itself, (ii) have any financial interest either directly or indirectly in the auditee, (iii) have
worked or provided services to the auditees within the last two years, (iv) have a private
relationship with the auditees, or (v) be involved either directly or indirectly in the activities
of the auditees, such as providing assistance, consultation services, a development system,
or preparing and reviewing the auditees’ financial statements. These regulations have
guided auditors to be independent from personal, external and organisational disruptions
that can affect their independence in providing audit opinions, conclusions, considerations and recommendations.

Moreover, audit standards (BPK RI 2007g: 17) have stipulated the responsibility of auditors to maintain independence in mental attitude (independence in fact) and independence in appearance. Being independent constitutes being impartial and intellectually honest as well as thinking in a way that is free from conflict of interest. Taking an independent stance means avoiding relationships that can affect the behavior and objective appearance of auditors in performing an audit. A continuous assessment of the relationship between auditors and audited entities is needed to maintain objectivity and independence. This means that auditors must avoid situations that could cause third parties who know relevant facts and conditions to conclude that the auditors concerned are unable to maintain their independence, thus causing them to be unable to provide an objective and impartial evaluation of all matters related to the implementation and reporting of audit results.

Furthermore, auditors need to take into consideration two kinds of disruption to independence, namely, personal, and external or organisational (BPK RI 2007g: 40). If one or more of the aforementioned disruptions to independence affect the ability of individual auditors in performing their auditing tasks, the auditors concerned must reject the audit assignment. In the event that the auditors, due to certain reasons, are unable to reject the audit assignment, the aforementioned disruptions must be indicated in the audit scope section of the audit report. The following paragraphs explain in detail these two types of disruption.

Paragraph 24 of audit standards (BPK RI 2007g: 45) ‘external disruption’ section, states the requirement for auditors to be free from political pressure. How BPK auditors
ensure their independence in performing their duties and exercising their authority is reinforced in Article 6 of the Regulation on the Code of Ethics of BPK (BPK RI 2007h). In addition, other examples of behavior that is inappropriate for auditors include submitting to other parties’ intimidation or pressure; leaking information obtained from audited parties; and being affected by any particular prejudice, interpretation, or interest, including the personal interest of the auditors or of other parties regarding the audit findings.

To avoid personal disruptions, according to the audit standards of BPK (SPKN 2007), Paragraph 19 (BPK RI 2007g: 25-27), audit organisations must have an internal quality control system to help them determine whether their auditors’ independence is exposed to personal disruptions. This includes prejudice against individuals, groups, organisations or program objectives that may result in impartial implementation of the audit. It also includes having past responsibilities in decision making or management of an entity affecting the implementation of the entity’s activities or programs currently underway or being audited.

However, this study revealed criticisms about the lack of independence of BPK auditors from Members of Parliament and auditees, as follows:

- “Auditors of BPK are not fully independent, because I still hear of the negotiation system with the auditees” (Interview C5, a Member of Parliament Commission I, PAN fraction).
- “A few of the BPK auditors are still weak in terms of independence” (Interview C9, a Member of Kuniangan Regional Parliament).
- “Auditors were not independent or objective, I hope this is the last and will not happen in the future” (Interview A13, an auditee from the Ministry of Foreign Affair).
- “BPK auditors could not be independent, because they are always willing to accept the money that we give, but they only want to receive in cash and not transfer to their account” (Interview A19, an auditee from Ministry of Public Works).

These criticisms raised serious issues about the lack of BPK auditors’ independence. The practice of negotiation and receiving money from auditees resulted in reducing the
independence of auditors in performing objective and credible reports. The statement from a Member of Parliament (Interview C5) supported by a key informant (Interview A19, an auditee from the Ministry of Public Works) admitted that auditees are able to obtain information about BPK auditors to find out about their characters and behavior, so that the negotiation process can run smoothly.

To provide further information about bribery practices for BPK auditors from auditees, an informant who worked for more than 5-years in the finance section of a regional government explained her experience (Interview F4, an ex-auditor of BPK) as follows:

As long as I was dealing with BPK auditors, they all could be bribed. We tried to spend a lot of money to serve them during auditing. They asked for us to pay their hotel and food bill; entertainment, like karaoke and cinema; shopping; and gifts on the day they returned to their hometown. I think this practice still occurs in all regional government agencies.

This excerpt provides evidence of how BPK auditors do not act independently in audits, because they can be bribed or have accepted bribes. This statement supports statements that already stated before from auditees of central and local government who had similar experiences when BPK auditors visited and audited their offices.

On the other side, BPK auditors defend themselves by expressing the difficulties they face in avoiding influence and pressure from auditees, as follows:

- "The Law on BPK could not protect us if we experienced pressure from the auditee; for instance, after the audit, the auditees refused to sign the audit findings and said, 'Change this audit report or you will die'. We need protection, don't leave us to take on all the risk ourselves, BPK has to take further action" (Interview B21, an auditor from AKN IV).
- "I audited a plane. After I took some photographs and obtained evidence, I found irregularities to do with this plane. Yet, the auditee said, 'you can choose to uncover these findings or you can choose to get off this plane safely'" (Interview B13, an auditor of AKN I).
- "If an auditee refuses to be audited, what can we do after that? We need basic rules on audit standards and audit management guidelines as soon as possible as
a followup to the Law on BPK, so we can show them the basic rules” (Interview B24, an auditor of AKN V).

The auditor from AKN IV had difficulties in facing auditees from regional government who had no responsibility to be transparent and accountable in managing public finances and resources. Besides, these auditees threatened to kill and harm BPK auditors if they revealed the real situation in the audit reports. BPK auditors felt that the risk to be borne was very high and that BPK did not support them fully. A similar experience was had by the auditor from AKN I (Interview B17) who audited the Ministry of Defense and was threatened with not getting off the plane safely if s/he reported the findings as they were. Another experience was from an auditor from AKN V (Interview B24) who has to audit SOEs, but the SOEs rejected the BPK auditors because they had already been audited by KAP. This refusal indicates that BPK auditors were not appreciated as the only external auditors examining the transparency and accountability of the public sector. These experiences prove that although BPK has legally embedded independence, there are still extensive opportunities to improve its independence, such as providing a new draft of the Audit Management Guidelines (PMP) that was issued on 19th February 2008. Besides, BPK provided audit guidelines of 100 financial audits on 19th May 2008, 200 performance audits on 5th June 2008 and 300 special purposes audits on 27th February 2009 that can help auditors during auditing.

Since audit reform, BPK has the authority to organise its human resources.

According to BPK’s human resource division (Interview B8), BPK has the authorisation to independently manage its own employees in any aspect related to audit quality, such as to establish the Code of Ethics; recruiting, deploying, developing, and organising its own personnel; and determining the qualifications, positions and provision of BPK auditors. Although BPK personnel are civil servants or PNS (Pegawai Negeri Sipil), since audit
reform, BPK has had more flexibility in organising its human resource management and is no longer subject to the strict rules administered by MENPAN. The reform of BPK personnel is intended to enable BPK become an independent and autonomous audit institution.

Since audit reform, the major Inspectorate (ITAMA) of BPK has made some efforts to review the performance of personnel and audit reports. According to a middle officer and an official of the ITAMA unit (Interview B4), they realised that their unit has a significant role in examining and supervising the performance of BPK auditors and staff. Since audit reform, the unit has worked hard to provide the operational and procedural standards for evaluating the work performance of its personnel. The internal controller or Inspectorate unit of BPK keeps improving its capacity to evaluate and monitor the integrity and independence of auditors to fulfill the mandate of the Constitution by strengthening the roles and functions of BPK internal controlling system. The Code of Ethics employs with reward and punishment to BPK auditors. Moreover, the public services unit (Interview B7) collected data and information about BPK from stakeholders (Members of Parliament, auditees and public) in 2007. An officer from the unit argued that BPK still has a lot of work to do to meet stakeholder expectations and the mandate of the Constitution.

For assuring the independence and quality of BPK audits as mandated by the Law on Audit (2004) and the Law on BPK (2006), BPK has been assessed by external peer reviewers from other countries. The peer review is appointed by BPK after obtaining Parliamentary approval. Following the passing of the laws, BPK was reviewed by the Auditor General of New Zealand in 2004. In 2009, the Netherlands Court of Audit reviewed BPK and assessed the follow up of the previous peer review recommendations. The results and recommendations from the Netherlands Court of Audit were published.
on the BPK website and identified both positive achievements and areas for improvement. The reviews have significantly influenced improvements in BPK audit quality and performance.

6.1.4 Conclusion on BPK Independence

To conclude, before audit reform, BPK was not independent as mandated to be by the sacred *(sakti)* 1945 Constitution. The President was a powerful influence on all of the bureaucracy, including BPK. As a result, BPK could not provide objective and credible information in its reports because the reports were sorted and checked by the government for national stability reasons. Moreover, BPK had a limited budget with which to maintain its independence.

Since audit reform, the independence of BPK has been secured and strengthened by the amendment of the 1945 Constitution (2001), the Law on BPK (2006) and the state finance audit standards (SPKN 2007). Some significant reforms have been made to enable BPK to become an independent audit institution. In terms of budgeting, approval of BPK budgeting does not come from the government, but from the Parliament based on the needs of BPK. In terms of leadership, the new appointment process for Board Members of BPK, including the Chairman and Vice Chairman, has resulted in the independence of BPK leaders from the government. In terms of human resources, BPK has more flexibility in recruiting, developing, terminating, rewarding and punishing Board Members, auditors and staff, without being subjected to the strict rules of MENPAN and BPK.

Besides these positive indications of improving BPK independence, this study reveals that BPK has not been successful in becoming an independent audit institution. Evidence shows the deficiencies of BPK auditors in achieving substantial independence,
especially due to the fact that they are still inappropriately accepting money from auditees and are still open to negotiation or cooperation to uncover the audit findings between auditors and auditees. These practices significantly reduce the independence of auditors.

Since 2004, a SAI has been involved as an external peer reviewer has assessed the independence and performance of BPK. The roles of peer reviewer and internal inspector have significantly influenced BPK efforts to keep improving the quality of its audit reports through maintaining its independence.

6.2 Integrity and Professionalism of BPK Members and Auditors

Professionalism and integrity are significant in providing objectivity and credibility of information, selecting audit methodology, providing clear and understandable information, a precise and informative format and realistic audit recommendations in audit reports. This section describes the legal basis for BPK’s professionalism and integrity and analyses its professionalism and integrity pre and post audit reform.

6.2.1 Legal Basis for BPK’s Integrity and Professionalism

Article 29 of the Law on BPK (GOI 2006b) stipulates the responsibility of BPK to provide a Code of Ethics containing the norms to be complied with by every Member and auditor to maintain their dignity, honor, image and credibility. To enforce the implementation of the Code of Ethics, Article 30 of the Law on BPK (GOI 2006b) stipulates the formation of an Honorary Members of the Code of Ethics Board. In 2007, BPK carried out this mandateby providing the Code forming the Honorary Members Board consisting of BPK Board Members, professional practitioners and academics.

Article 7 of the BPK regulation on the Code of Ethics (BPK RI 2007h) stipulates that BPK auditors are not allowed to receive gifts of any kind, directly or indirectly.
Moreover, Article 8 requires BPK auditors to (i) employ prudent, accurate, and careful principles, (ii) keep state or professional confidentiality, audited parties’ confidentiality and only disclose information to authorised officials, (iii) avoid performing actions beyond the scope of their duty and authority, (iv) demonstrate a high commitment to their work in accordance with the SPKN, (v) update, develop and improve their professional abilities in performing their auditing duties, (vi) respect and trust as well as mutually assist each other to enable good cooperation in performing their duties, (vii) maintain good communication and discussion about issues occurring in the performance of their audit task, and (viii) use public resources efficiently, effectively and economically.

To motivate improvements regarding auditor professionalism, BPK requires auditors to develop their respective functional positions in implementing their duties as mandated by Article 9(h) of the Law on BPK (GOI 2006b). Moreover, the Law on BPK requires BPK to ensure Board Members’ integrity, professionalism, and to protect their immunity and security. Second, in implementing their duty and authority; Members, auditors and other parties that work for and on behalf of BPK shall be granted legal protection and security assurance by the competent authority. Finally, in the event of claims by other parties in relation to its duties and authorities, BPK shall be entitled to legal aid on the state’s account in accordance with laws and regulations.

6.2.2 Professionalism and Integrity of BPK Pre Audit Reform

Before audit reform, BPK auditors lacked professionalism and integrity. BPK recruited auditors with different educational backgrounds (from accounting, economics, law, sport and literature) that were not based on the goals and needs of the organisation. In addition, BPK personnel had very limited opportunities to improve their professionalism through education and training both inside and outside Indonesia.
The Centre of Training and Development of BPK was not managed effectively and professionally. One example is that with training and education courses, auditors’ qualifications were never tested before or after the course (Soedibyo 2004:12-14). This meant that there was no evaluation after training delivery and the results of a training and education program were never reviewed for further action, such as: for the benefit and impact on audit quality, and for rewarding the outstanding trainers for better position in his/her career and development. As a result, BPK’s auditors and other personnel had little motivation to take up training courses (Seno 2004a:4-6) and as a result the quality of BPK auditors and staff grew very slowly (Priyono 2004:8-11). BPK auditors (13-15 March 2007) support this, arguing that trainers from the centre of training and education were very unqualified and that the trainers and materials offered little help to auditors in improving their competencies.

In terms the backgrounds of BPK auditors, they were divided into two groups (Yoedono 2003:16-17). The first group was auditors who audited state-owned enterprises (SOEs) and regional-owned enterprises (ROEs) was, in general, called an ‘accountant’. All auditors with a background in accountancy are under the professional organisation of the Indonesian Accountant Association (IAI), which was developed alongside the implementation of the Code of Ethics and accountancy professional standards. The second group is auditors without a background as accountants also have an ‘umbrella’ organisation of their own, a professional association called the Indonesian Auditors’ Association (IAuI). This association did not develop as well as IAI and lacked both an auditors’ code of ethics and audit standards.

The above situation means that in the past, BPK had no formal rules in the form of a code of ethics for its own BPK personnel, though auditors who were Members of IAIwere
under its professional Code of Ethics. However, being a Member of an Auditor’s association did not mean that auditors acted in the public interest. Social control from community for public sector auditing was very weak. BPK Members and auditors also had no formal regulations for immunity, legal protection and security assurance. These shortcomings significantly harmed the integrity of BPK Members and auditors in auditing the public sector.

A key informant from BPK (Interview B25, a trainee in Centre of Education and Training of BPK) described the problems faced by BPK in relation to its professionalism and integrity. He emphasised that in the past BPK provided low salaries, lacked a clear audit manuals and technical audit guidelines for different types of audits, and did not have enough budget to improve the quality and professionalism of its auditors. On the other hand, the risks faced by auditors were high as they need to: deal with not properly behavior of auditees, conduct auditing in a very remote location (such as auditing in the middle of the Kalimantan forests).

This interviewee found that the integrity of BPK auditors were significantly reduced by high risk audits, low salaries, a strong bureaucratic culture with promotion based on seniority instead of performance, and a lack of opportunities and budget for developing auditor’s professional development. This argument was supported by LP3ES (Economic and Social Research, Education and Information Agency) (2003:22-27), which argued that BPK could not provide professional and competent auditors as expected if their income was too low. Moreover, BPK could not recruit newly qualified auditors if salaries were too low.
6.2.3 Professionalism and Integrity of BPK Post Audit Reform

As mandated by Article 9 of the Law on BPK (2006), auditors are required to develop competence for their functional position through continual professional education to enhance their audit skills. Since audit reform, BPK has increased trainings, education, workshops, seminars and other programs, both inside and outside of Indonesia, to develop the professionalism and competence of its personnel. A BPK trainer (Interview B28) explained that every BPK auditor must complete at least 20 hours of a total 80 hours education and training package within a one to two year period. This professional education includes audit topics such as: knowledge of audit standards, general knowledge of the auditee environment, skills to communicate effectively both verbally and in writing, statistics, finance and accounting, management, information systems, state administration, government structure and policies, industrial techniques, economic science, social science and information technology (BPK RI 2007g: 22-23).

After reform, BPK also developed two functional positions for auditors, namely, skilled auditors and expert auditors. The development of these positions is relevant to the needs of auditors for undertaken performance audits in the future. For financial and compliance auditing, BPK requires accountants, while for performance audits, it requires other disciplines such as civil engineering, public policy, economics, management and the environmental management and engineering.

To provide good quality auditors and maintain their integrity and professionalism, BPK increased its budget to provide better compensation for its personnel (staff, managers, managers, managers).

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86 This means all professional auditors of BPK shall carry out a total of 80 hours of training and education. This training and education can be done in stages, at least 20 hours in 1-2 year(s).
Members and auditors). Moreover, if an audit requires a very specific audit method, the audit team may involve experts (BPK RI 2007g: 24). The Chairman of BPK\textsuperscript{87} underlined four reasons for increasing auditor income and incentives, namely: (1) there are high risks for auditors in uncovering corruption, fraud and other criminal findings, (2) the remuneration for auditors must be balanced with the value contribution they make to state income/state cash revenue through the audit findings, (3) the income of auditors is obviously relevant to the new recruitment of qualified auditors and their participation in training, education, workshops, seminars and other professional development activities, and (4) the professional performance of auditors is obviously relevant to the quality of audit results and recommendations for restructuring the public sector entities for the wider public interest.

Table 6.1 (below) illustrates improvements made regarding the salaries and allowances of BPK personnel since the implementation of audit reform and the remuneration system on 2006. The remuneration system is linking performance with payment to motivate personnel to perform better. The data indicates a significant increase in the total income of BPK managers and staff compared with other public servants or apparatus in government institutions. For instance, the audit fee for BPK auditors was formerly only Rp.50,000 per day, which meant inadequate travel expenses and shortages in essential supplies like fuel. Since 2006, the audit fee has increased to Rp.200,000 per day, four times higher than before.

\textsuperscript{87}Speaking at the ceremony to celebrate the 60\textsuperscript{th} anniversary of BPK on 8\textsuperscript{th} January 2007.
A consequence of this system is that auditors have not been allowed to receive any fees from auditees in order to maintain their professionalism in providing credible and objective reports, as mandated by Article 7 of the Law on BPK. This effort is to reduce the possibility of corruption, collusion and nepotism (KKN) between auditors and auditees. A Member of BPK commented in a national newspaper about the effect of the higher remuneration for auditors: “This is to avoid BPK auditors accepting any auditing fees from auditees” (Handayani 12 January 2006). As a result of better remuneration, BPK acts strongly and firmly with any of its auditors who accept fees or other compensation from the audited entities. A Member IV of BPK (Interview B2) emphasised that if an auditor or any BPK personnel does not perform their audits specifically as regulated, this should be immediately reported to BPK. He also promised to take serious action or punishment to BPK auditors if they did mistakes that reflecting their lack of integrity and professionalism. This comment confirmed the eagerness of BPK to apply sanctions on auditors who accept any fees and compensation from auditees after the remuneration system applied.
6.2.4 Survey Results and Comments on Professionalism and Integrity

Respondents were asked whether they would agree that BPK auditors perform professionally and act with integrity in auditing. Figure 6.4 (below) shows that most respondents had positive perceptions of auditors’ professionalism and integrity. BPK’s efforts of to provide the Code of Ethical Conduct and better remuneration for auditors, induced a positive perception from respondents. Some positive statements on the professionalism and integrity of BPK auditors were recorded during the interview as follows:

- “Now, BPK auditors have a better approach to auditees, are young, have better communication, and are friendly, which enhances their professionalism” (Interview A3, an auditee from the National Electricity Company).
- “Now, BPK auditors are young, have a good educational background, in particular in accounting and finance, and perform with professionalism” (Interview A6, an auditee from the Ministry of Home Affair).
- “All auditors that I know perform with professionalism; BPK’s official letter states that audit fees cover all the auditors’ costs except for accommodation” (Interview A4, an auditee from the National Oil Company).
- “Auditors who work for BPK need legal protection and security assurance” (Interview B13, an auditor of AKN I).

These excerpts indicate that BPK auditors have many new and young auditors. They are well qualified, perform professionally, look fresh, and have a better approach and better communication with auditees. A remuneration system that provides better compensation for auditors becomes a motivation for qualified graduates to apply for positions with BPK. In addition, requirements for BPK to develop auditor skills and knowledge through training and further education induced them to perform well and more professionally.
One excerpt pointed out the importance of legal protection and security assurance for BPK auditors in conducting auditing. This was also stated by an auditor who works in a KAP\(^88\) (Interview F4) and conducts audits on behalf of BPK. She argued as follows:

> Working as an auditor at BPK may not be as comfortable and safe as at KAP. This is because of too many pressures from auditees who lack accountability and there is no protection for auditors who maintain their integrity and professionalism in performing their audits.

This statement indicates that auditors in the public sector need protection when uncovering audit findings and to perform with professionalism and integrity. Another KAP implied that she would feel worried about not maintaining her professionalism and integrity as an auditor if she worked at BPK, because of pressure from auditees and a lack of immunity for the auditors in maintaining their professionalism and integrity. Besides, informal norms and situational values from the public and other parties did not work well as informal protection for auditors and auditees.

However, it would be too optimistic to assume that higher salaries will directly improve auditor professionalism and independence. From surveying whether BPK auditors had no integrity and lack of professionalism, 25 per cent of total respondents gave a ‘neutral’ response, and a ‘disagree’ response was 10 per cent and 4 per cent respectively.

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\(^{88}\) This is based on information from auditors who had moved from BPK to other public accountant’s offices, and was via an interview conducted in Jakarta.
from the auditors and the auditees. Negative views from informants during interviews included the following:

- "The lack of professionalism and integrity of BPK auditors showed in their behaviour" (Interview C1, a Member of Parliament from Commission I).
- "In fact, some auditors had no integrity and were not performing with professionalism" (Interview A7, an auditee from Ministry of National Education).
- "Some auditors have high integrity, some not" (Interview B22, an auditor of AKN IV).
- "Small audit budget, reducing the integrity of auditors" (Interview B11, an auditor from AKN III).
- "Not only have the quality and professionalism of auditors needed attention but also the integrity and professionalism of the BPK Members" (Interview B17, an auditor of AKN I).
- "Some of BPK auditors were not professional, not competent, and had inadequate capacity to be a professional auditor" (Interview B10, BPK middle manager of Research and Development Division).
- "Being professional means high lump-sum payment" (Interview B 25, BPK middle manager of Multiplying Report Sub-Division).
- "The professionalism of BPK auditors was insufficient" (Interview A23, an auditee from Water Drinking regional-owned enterprises Sukabumi).
- "Not all BPK auditors are performing professionally" (Interview B15, an auditor of AKN III).
- "The quality of professional qualifications of BPK auditors is still far from those of Financial Development Supervisory Board (BPKP)'s auditors" (Interview B8, BPK middle manager from Human Resource Bureau).
- "Not all auditors of BPK are qualified and competent" (Interview B6, an auditor from Organisation Bureau).
- "Some auditors were not competent and had inadequate capacity to be a professional" (Interview B26, a BPK middle manager from Legal Affairs Bureau).
- "Now, new auditors of BPK are good in theory and knowledge, however, they still lack of experience in auditing" (Interview A2, an auditee from West Java Province Government).

These excerpts indicate that the respondents and informants thought that the attitude of BPK auditors revealed a lack of integrity and professionalism. These statements also strongly indicate that BPK auditors do not have enough proficiency and experience for public sector auditing. Low salaries for BPK auditors eroded their integrity. These comments also implied that BPK auditors had inadequate individual professional skills and knowledge bases.
For new BPK auditors, although they have obtained a good level of education, they are inexperienced in auditing the public sector. An auditee from the Ministry of Public Works (Interview A19) argued as follows:

Although new auditors were good in terms of civil engineering theories and had enough confidence, they had no experience in auditing public works projects. They were more amazed at our explanations instead of asking questions to examine the projects.

Whilst making this comment, this auditee was laughing and seemed to underestimate and look down at the ability of BPK auditors to find inefficiencies and a lack of accountability in public works projects. This means that BPK auditors, who are clever or good in terms of theory and knowledge concepts, still could not perform well in auditing because they had no ability to deal with auditees who knew their lack of experience.

Moreover, an auditee from local government (16/09/2009) criticised the competence of auditors in understanding the problems facing local government agencies, as follows:

BPK only described all the mistakes and problems, but they did not explain why these problems could happen, how we could solve the problems, what the effects of these problems are in the short, medium and long terms to give us a description of problem solving priorities.

Although BPK auditors found fraud or inefficiency, their ability to explain the causes and effects of the findings was criticised by auditees. Moreover, auditees found a lack of professionalism from auditors in providing the best solutions and recommendations to solve the problems, both in the short and long terms.

6.2.5 Conclusion of BPK Integrity and Professionalism

Before audit reform, BPK lacked integrity and professionalism and training and education did not effectively improve the skills and competence of auditors. Moreover,
BPK had few auditors with a background in accounting and had no code of ethics for its auditors. BPK had no clear audit manual, guidelines and technical guidance.

Since reform, the requirement of BPK to maintain its integrity and to ensure the security and immunity of auditors and Members of BPK are stipulated clearly under the Law on BPK (2006). BPK also has the Code of Ethics (2007). Besides, BPK has implemented a remuneration system to provide fairer rewards for auditors who are more professional and perform better, and also to maintain auditors’ professionalism in providing credible and objective reports. This study found that BPK has strongly attempted to improve their auditors’ competence and professionalism by sending its auditors for training and education both inside and outside the country. All auditors are compulsorily required to develop their competence by completing at least 20 hours of a total 80 hours education and training package within a one to two year period.

Besides positive responses regarding improvements in the integrity and professionalism of BPK, this study also revealed that the competencies and knowledge of auditors was still not as stakeholders’ expected. For new auditors, a lack of experience in auditing public sector agencies resulted in their lack of ability to detect fraud and corruption. BPK auditors also still lack knowledge and experience beyond accounting and finance to examine the performance of public sector agencies and provide realistic audit recommendations.

### 6.3 Auditing Resources of BPK

As mandated by the 1945 Constitution, BPK is the only external audit institution in the Republic of Indonesia required to audit the transparency and accountability of all public
sector entities. To meet this requirement, BPK needs audit resources, including budgeting, personnel, offices, and IT resources and systems.

**Figure 6.5 Survey results of 'BPK has Sufficient Audit Resources'**


Figure 6.5 (above) shows the survey results with regard to BPK having sufficient audit resources, and largely reveals positive responses. Overall, 49 per cent of auditors and auditees ‘agree’ that BPK has sufficient audit resources. However, 33 per cent were ‘neutral’ and 14 per cent ‘disagreed’, indicating dissatisfaction with the level of BPK resources. Both negative and positive comments on BPK audit resources were revealed in this study.

With the support of data and information from documentation and interviews, the following sections examine in more detail the audit resources of BPK pre and post audit reform.

**6.3.1 Budget Resources**

Budget resources are the most essential resources to support the programs and activities of BPK as an independent and professional audit institution. They are needed to build new offices; recruit new qualified auditors; carry out training; provide scholarships, workshops and seminars; support the remuneration system; to improve the quality of audit research; and to procure goods and services and so forth.
However, before audit reform, BPK had inadequate budget from the Ministry of Finance. At the same time, the Financial Development Supervisory Board (BPKP), an internal audit institution, had a much higher budget allocation than BPK. Member IV of BPK (6 December 2006) explained how in the past the function of BPK as an external audit institution was ignored by the government. An internal audit institution, BPKP, had exactly the same duties and functions as BPK, however larger sums of money went to BPKP than to BPK (see Table 6.2 below). Due to a limited budget, BPK had not enough resources to audit all entities, lacked auditor quantity and quality, lacked modern stationery and so on. This indicates the efforts of the Executive to reduce BPK’s position and functions. Budget resources are a key factor for BPK to perform its roles and functions to improve its independence, professionalism and integrity. An ex-auditor (24/11/2006) argued that the reasons he left BPK were to get a better financial compensation and a more promising career path rather than one where promotion was based on seniority. Most important, however, was to escape the bureaucratic work culture. This statement indicates that the bureaucratic and promotion system based on seniority instead of work performance in BPK pushed qualified BPK auditors to work in the private sector rather than remain in the public sector.

Since audit reform, especially from 2006 after the Law on BPK was issued, BPK’s budget has increased significantly, this has had a significant impact on capacity of BPK to audit the public sector. In 2003, BPK audited only 50 per cent of all public sector entities due to its limited budget (Arif 2004: 14). In 2009, after increasing its budget to eight times higher than in 2003, BPK audited all public sector entities, except the tax office and SOEs.

89 He is accountant who was graduated from US, highly skilled and leaved his position as a manager and auditor in BPK for better position in private sector.
According to Member II of BPK (14/02/2007), the increasing budget of BPK has mostly been allocated for: (i) improving the income of auditors and applying a revised remuneration system, (ii) recruiting new auditors and employees, (iii) improving BPK’s telecommunications network, IT and the local area network (LAN) program and website, (iv) opening new representative offices, and (v) modernising and optimising equipment for audit support activities.

Table 6.2 (below) shows that the budget allocated to BPK before audit reform was much smaller than after reform.

Table 6-2 Annual Budget Allocation for BPK before (1993-2000) and after Audit Reform (2001-2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount in Rupiahs (billion)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993/1994</td>
<td>29.27</td>
<td></td>
</tr>
<tr>
<td>1994/1995</td>
<td>33.30</td>
<td></td>
</tr>
<tr>
<td>1995/1996</td>
<td>42.39</td>
<td>Before audit reform</td>
</tr>
<tr>
<td>1996/1997</td>
<td>55.92</td>
<td></td>
</tr>
<tr>
<td>1999/2000</td>
<td>93.09</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>81.01</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>116.44</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>153.96</td>
<td>After audit reform</td>
</tr>
<tr>
<td>2003</td>
<td>199.91</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>238.33</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>329.36</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>690.23</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>1,337.85</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>1,490.84</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>1,725.48</td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from
Since the audit reform (2001), Parliament and government increased BPK’s budget each year. From 2005, budget of BPK had increased more than five times higher from Rp. 329.36 billion (in 2005) to Rp.1,725.48 billion (in 2009). This was after they found significant improvement in BPK’s performance auditing public finance, which was saving state expenditure and increasing state revenue.

The budget resources of BPK come not only from the state budget, but also from loans and grants from other countries, and international donor organisations such as ADB, USAID and AusAID. The increased budget for BPK was intended to improve the quality of audit reports. Since the budget increases, BPK has had a greater role and more accountability in managing its budget. BPK has a strong commitment to improve its strategic plans for ensuring better performance (Ariyani 30th May 2005). In line with the increasing budget, BPK has improved its independence and autonomy to audit the accountability of the public sector in managing public resources (Ciantrini 2004:17-19).

In addition, the organisation of BPK’s Financial Bureau has expanded into three sections: (1) the budget and monitoring section that is responsible for budget planning and monitoring the implementation of budget, (2) the treasury section that is responsible for preparing policies for management and accountability of state finances and the financial statements for BPK, and (3) the accounting section that is responsible for administering accounting data and preparing financial statements.

6.3.2 Human Resources

This section describes BPK’s organisational reform and the quantity and quality of human resources pre and post audit reform.
Organisational Reform

Before audit reform, the Bureau for Personnel organised and managed BPK personnel. The role of this bureau was not complex for the following reasons: (i) BPK had very limited numbers of personnel, (ii) there was no clear development of a professional code of ethics for auditors, (iii) the criteria for recruitment was not as specific as needed, (iv) levels of appointment were based on seniority rather than on performance, and (v) BPK had only two types of auditors (trained and certified).

In addition, the administration and management of BPK personnel was regulated by MENPAN and the State Personnel Board (BKN), exactly the same as the system applied for public service personnel administration. This situation made it difficult for BPK to recruit qualified and professional accountants as auditors and to develop its personnel’s qualifications.

Since audit reform, each BPK auditor became an officer of Parliament rather than being an officer of government. Since 2007, the Personnel Bureau that has only liabilities in personnel administrative functions, has been replaced by the Human Resources Bureau (HRB) and with its strengthened functions it plays an important role in managing human resources as capital and an asset for BPK. The reform of human resource functions includes improvements in recruitment numbers and in the qualifications of auditors and staff to support BPK in conducting its functions for financial and performance audits. However, according to BPK auditors who joined the secondment program at the Australian National Audit Office (ANAO), BPK the organisation has not been divided according to auditors’

90This is regulated by the Law Number 43 of the Year 1999 on Principles of Employment. However, the management of Indonesian civil service is still encountered many obstacles and problems, because the Law has not been run optimally and some civil service aspects are not regulated in detail.
specialisations in financial and performance audits such as is the case in ANAO (Interview F2, at Canberra).

Since 2004, BPK’s organisation has expanded with the opening of new representative offices in different provinces. The HRB has a special section for human resource planning and rotation. This section is responsible for planning and analysing the quantity and quality (competencies) needs of human resources in BPK for general and specific position qualifications. Excellent human resource planning can improve efficiency in recruitment new employees and development career in the future. As argued by Fearnley and Beattie (2001: 117-138), auditor rotation has significantly influenced the auditors’ independence and development competencies. The section is now one of the most significant in BPK for its work conducting planning, recruitment, rotation, dismissal, position analysis and human resources information.

### Table 6-3 Number of Employees who Received Rewards and Punishments (2004-08)

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rewards*</td>
<td>29</td>
<td>18</td>
<td>28</td>
<td>4</td>
<td>10</td>
<td>89</td>
</tr>
<tr>
<td>Punishment</td>
<td>7</td>
<td>35</td>
<td>25</td>
<td>93</td>
<td>41</td>
<td>201</td>
</tr>
</tbody>
</table>

Source: website of BPK ([www.bpk.go.id](http://www.bpk.go.id), Accessed on 27/07/2009)

Note: * Satya Lencana Wira Karya Award

Since 2004, BPK began employing a reward and punishment system for its personnel in separate functional and structural positions, HRB has had a special section for evaluating and developing competition between staff and auditors and for managing functional positions (BPK RI 2007f). Table 6.3 (above) shows the numbers of BPK...
employees who received rewards, namely *Satya Lencana Wira Karya*\textsuperscript{91} for their achievements and also those who received punishment (such as for auditors and staff who broke BPK rules and the Code of Ethics). The table indicates that evaluation was conducted by HRD. For implementing the remuneration system for the welfare and fairness of BPK personnel, there is a welfare section that is responsible for managing the remuneration system and providing consultation and health for BPK personnel.

**Quantity and Quality of Personnel**

An insufficient number of auditors was a key factor causing BPK to be ineffective in performing its audit functions. As mandated by the Law on State Finances (2003), BPK was required to implement auditing for financial statements of all public sector agencies by 2007. However, until 2008, BPK still had insufficient auditors. In 2003, BPK had only 100 audit teams from 2000 auditors in Jakarta and 500 auditors at seven regional offices, which covered only thirty per cent of all auditees (Ciantrini 2004:17-19 and Arif 2004: 13-16). Meeting the increasing demand for qualified and professional auditors in the public sector agencies is crucial for managing and reporting state finances in Indonesia.

By 2010, BPK still needed about 5000 auditors to meet the mandate of the Constitution (Supriyanto 2006b). This was based on the number of entities in 2007, which was about 719, including 86 central government entities, 466 regional government entities, and 161 SOEs. Member IV of BPK (*Bisnis Indonesia* 9\textsuperscript{th} March 2006) described that to audit a single regional government entity; BPK needs four or five auditors, or more than 5000 auditors to audit all public sector entities. However, in 2004, BPK only had 2851 auditors. He also argued that if the IT infrastructure is developed in all regions, the required

\textsuperscript{91} This award is from the government for BPK employees who perform well achievements and dedication.
number could be reduced to about 3000-4000 auditors. This means that the lack of regional government ability in managing and reporting public resources by applying modern technology and network systems resulted in the need for more auditors.

Figure 6.6 Number of BPK Employees for the Period 2000-2008

Figure 6.6 (above) shows the total number of BPK personnel from 1998/99-2008 and reveals yearly increases in the number of employees. According to the head of human resources of BPK (6/12/2006), in 2007 BPK recruited more than 1700 auditors, mainly for the representative offices, to fulfill its audit mandate. Compared to the number of employees before audit reform, the number of employees was increased by about 2600 personnel by 2008. Member IV of BPK argued to a national newspaper that it was a priority for BPK to continue to recruit personnel to provide adequate auditors and administrators for new representative offices throughout Indonesia (Supriyanto 2006b).
### Table 6-4 Recruitment of New BPK Personnel for the Financial Year 2007-08

<table>
<thead>
<tr>
<th>No</th>
<th>Faculty</th>
<th>Department</th>
<th>Recruitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Economics</td>
<td>Accounting</td>
<td>272</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial Management</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Human Resources Management</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development Studies</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Law</td>
<td>Law Science</td>
<td>40</td>
</tr>
<tr>
<td>3</td>
<td>Engineering</td>
<td>Civil Engineering</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Industrial Engineering</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mining Engineering</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Informatics Engineering/</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Computer Science</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Social and</td>
<td>Communications</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Political Science</td>
<td>International Relations</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Agriculture</td>
<td>Agriculture</td>
<td>5</td>
</tr>
<tr>
<td>7</td>
<td>Forestry</td>
<td>Forestry</td>
<td>10</td>
</tr>
<tr>
<td>8</td>
<td>Psychology</td>
<td>Psychology</td>
<td>5</td>
</tr>
<tr>
<td>9</td>
<td>Literature</td>
<td>Indonesian Literature</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>English Literature</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>French, German, Dutch and Russian</td>
<td>4 (1 for each literature)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Literature</td>
<td></td>
</tr>
</tbody>
</table>

| Total | Recruitment as of Year 2007/2008 | 469 |

Source: BPK Announcement Number: 01/S.Peng/X-X.3/12/2007 on Recruitment of Candidate Public Officials for Bachelor Degree at BPK, the financial year 2007/2008 (BPK RI 2007i).

In addition, Table 6.4 (above) presents data on the recruitment of new personnel of BPK for the financial year 2007/08. The figures indicate that the priority was for auditors with a background in professional accountancy, in addition to other educational backgrounds such as financial and human resources management, development studies, law, civil engineering and public relations.

The purpose of BPK’s recruitment is to meet its needs for auditing the finances and performance of public sector entities. To support its internal administration, BPK recruits personnel with backgrounds in literature, social and political science, psychology and law. The highest number of recruitment is still for auditors with an accounting education.
background for financial auditing. Second is recruitment for employees with a law education background. According to the head of Legal Affairs Bureau (Interview B26), about 10 per cent of new personnel have a law background and this is due to the need to review and amend more than 24 laws and regulations that are still hampering the roles and functions of BPK. The data and information above indicate that BPK is still focused on financial auditing rather than performance auditing despite this also being mandated by the Constitution.

The Law on BPK (GOI 2006b) allows it to employ auditors with the status of civil servant or non civil servant, giving it “the authority to employ experts and/or auditors outside BPK who shall work for and on behalf of BPK”. Therefore, BPK employed auditors from KAP for financial audits. KAP auditors are trained and certificated by BPK to meet the required standards and regulations. BPK auditors focused on developing performance audits to be implemented on public sector agencies and on strategic audit matters.

In the case of BPK, the contracting out of financial audit services to auditors from KAP raised some criticism. One criticism was related to the high fees for KAP auditors, which are much higher than for BPK auditors and placed a burden on the BPK budget. Another criticism is related to the quality of KAP auditors who are not familiar with audit systems in the public sector and also with the bureaucratic culture, which can affect their audit opinion. As argued by Mulgan (1997: 106), “Contracting out has the potential to reduce the extent of public accountability by transferring the provision of public services to Members of the private sector who are generally not subjected to the same accountability requirements as public officials”. BPK auditors have direct accountability to the public through the Parliament, while KAP auditors do not.
In addition, Table 6.5 shows the responsibilities and functions of each BPK Member (excluded the Chairman and the Vice Chairman).

**Table 6-5 Fields of Duties and Function of Individual BPK Members, 2007**

<table>
<thead>
<tr>
<th>BPK Members</th>
<th>Fields of Duty and Function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member I</td>
<td>Politics, law, defense and security</td>
</tr>
<tr>
<td>Member II</td>
<td>Economics and national development planning</td>
</tr>
<tr>
<td>Member III</td>
<td>State institutions, people's welfare, state secretary State apparatus, research and technology</td>
</tr>
<tr>
<td>Member IV</td>
<td>Environment, natural resources, and infrastructure</td>
</tr>
<tr>
<td>Member V</td>
<td>Internal affairs, religious affairs, rehabilitation and reconstruction board (BRR) of Nanggroe Aceh Darussalam and Nias authorised development of industrial area Batam, regional finance and regional assets in the regional governments of Sumatera and Java (western regions)</td>
</tr>
<tr>
<td>Member VI</td>
<td>Health, controlling drugs and food, acceleration of development of backward regions, national education, regional finance of government and ROEs of Bali, Nusa Tenggara, Kalimantan, Sulawesi, Maluku, and Papua (eastern regions)</td>
</tr>
<tr>
<td>Member VII</td>
<td>State-owned enterprises (SOEs)</td>
</tr>
</tbody>
</table>

Source: Adapted from:

Table 6.5 (above) presented additional to the numbers of Board Members of BPK from five to seven Members (excluding the Chairman and Vice Chairman). These additional numbers are due to the separating of the duties and functions of regional governments between the western and eastern regions. Moreover, in concern of public awareness about the imbalance between infrastructure development and environment arrangements, there is an additional Member of Board who is responsible for examining infrastructure, environment and natural resources.
6.3.3 Training and Education Centre

In 2002, the former Chairman of BPK argued that BPK should improve its auditor’s training and education in accounting and auditing to improve their professional qualifications in financial auditing as mandated by Constitution (Auditor Magazine 2002:12-15). BPK tried to improve the quality of auditors not only in financial and compliance audits, but also in performance, environment and other specific purpose audits. The Centre of Education and Training runs programs and trainings both locally and internationally for BPK auditors, technical staff, managers and prospective managers. Members of the International Organization of Supreme Audit Institutions (INTOSAI) support the education and training that is carried out abroad.

Currently, BPK has a centre for training and education in Kalibata (Jakarta) and three other education and training units. One is in Medan, North Sumatera (for auditors from the western part of Indonesia), Yogyakarta, Central Java (for auditors from the central region), and in Makassar, South Sulawesi (for auditors from the eastern part of Indonesia) (BPK RI 2007a). The regional training units hold courses to improve the quality and capacity of auditors at representative offices. For instance, the representative office of BPK in Medan held an in-service training course on the ‘Regional Financial Accounting System’ on 16\textsuperscript{th}-23\textsuperscript{rd} March 2007\textsuperscript{92}. The opening of three BPK education and training units in different parts of Indonesia was a strategic effort to facilitate auditors be more intensive in participating in education and training programs by placing the programs closer to their domicile.

\textsuperscript{92}http://medan.bpk.go.id/, accessed on 07/05/2007.
Table 6.6(below) shows the education programs for auditors and managers delivered by the training centres from 2004 to 2006. The data indicates the extensive expansion of education and training delivered by these centres in line with the increasing number of auditors as well as levels of manager as a result of opening new offices. Moreover, BPK also increased the number of personnel pursuing formal education through post-graduate degrees and overseas short courses (non-degrees).

Table 6-6 Number of Participants in BPK Training and Education (2004-06)

<table>
<thead>
<tr>
<th>Education/Training</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training of Managers</td>
<td>26</td>
<td>47</td>
<td>60</td>
</tr>
<tr>
<td>Training of Auditors</td>
<td>445</td>
<td>497</td>
<td>1472</td>
</tr>
<tr>
<td>Training of Technical Staff</td>
<td>2828</td>
<td>3444</td>
<td>1642</td>
</tr>
<tr>
<td>Overseas Short Courses (Non-Degree)</td>
<td>28</td>
<td>49</td>
<td>10</td>
</tr>
<tr>
<td>Formal Education for Post-Graduate Degrees</td>
<td>28</td>
<td>6</td>
<td>36</td>
</tr>
</tbody>
</table>


BPK has cooperated with Members of INTOSAI and ASOSAI to conduct a number of education and training programs on formulating policy, exchanging information, and experience cooperation. For example, auditors were sent, accompanied by supervisors from the UN, to audit in countries involved in conflict, such as Congo, Ethiopia, and Eritrea to gain new knowledge and experience through international practice. Other instances include an international auditor fellowship cooperation program held in the United States and a secondment programs undertaken with the Audit New Zealand Office (ANZO) for planning reporting and developing audit strategies. Also, BPK and the Australian National Audit Office (ANAO), through the Australia Indonesia Partnership for Reconstruction and Development-Government Partnership Fund (AIPRD-GPF), engaged in a partnership framework concerning knowledge and information related to financial and performance

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93 BPK has sent approximately 30 auditors on this program according to a former participant who was spoken to in Canberra on 14th July 2007.

BPK also cooperated with USAID through the Financial Crime Prevention Project (FCPP) to develop an ‘investigative special unit’ from 2006 to 2008, and the Swedish National Audit Office (SNAO) to help facilitating tutoring and monitoring for auditing the Central Bank of Indonesia since 2007. BPK cooperated with ASEAN countries, particularly Thailand, Malaysia and Brunei Darussalam, for environmental auditing, including for cases on forest fires, avian flu, and shipping safety in the Malaka Straits. BPK cooperated with countries affected by tsunamis (such as Sri Lanka, the Maldives, India, Bangladesh, Thailand, Malaysia) and donors (from the US, Netherlands, France, Germany, Japan the UN, the World Bank, and the International Red Cross) audited for the accountability in managing funds, and institutions (BPK January 2007: 20). Moreover the World Bank provides donations to BPK to carry out a Strengthening Investigative Audit Capacity (SIAC).

BPK formed an Advisory Audit Board (AAB) with 10 SAIs from donor states (America, Australia, the Netherlands, Denmark, England, Japan, Norway, France, Sweden and the European Community) to assist BPK in auditing management and accountability of funds in emergency, rehabilitation and reconstruction of Nanggroe Aceh Darussalam and Nias. Regarding cooperation in auditing tsunami funding, BPK held an International Conference with the theme ‘Promoting Financial Accountability in Managing Funds Related to Tsunami Conflict and Other Disasters’, in Jakarta, from 25-27 April 2005. The participants agreed to emphasise the importance of ensuring that management of aid funds
would be more efficient, effective and economic (BPK RI 2007a: 24-25). The Chairman of BPK and the Chairman of SAI South Korea were appointed as the Vice Chairs of the INTOSAI tsunami taskforce (Hsing 2004:25-29). This appointment indicates international appreciation and trust in BPK’s ability to handle the management and accountability of disaster funds. In 2006, BPK conducted audits of the management and channeling of relief funds to the rehabilitation and reconstruction phase (R2) and held ‘The 1st Meeting of The Advisory Board on Tsunami to Audit’ from 24-25 April 2006.

However, this study found criticisms from auditors on the lack of opportunity for BPK auditors to proceed to further education and to participate in training (15/3/2007). Auditees from public works department (20/08/2009) and regional government (21/3/2007) argued that the educational background of BPK auditors is limited to financial or accounting and that they lack knowledge beyond that, such as knowledge of engineering or public administration. These statements indicate that the growing number of auditees and the expanding scope of auditing from financial to performance mean those auditors need to improve their knowledge not only in accounting and finance, but also in a variety of educational backgrounds. This will enable auditors to better perform in auditing the different roles and functions of agencies in the public sector.

However, this study found complaints from auditors about the quality of the training centre, as follows:

- “Prior to audit, auditors have to attend in-house training, however, we found unqualified instructors” (Interview B19, an auditor of AKN II).
- “BPK trainings were unqualified” (Interview B22, an auditor of AKN IV).
- “Training materials that were given not applicable for the audit works” (Interview B11, an auditor of AKN III).

These comments indicate dissatisfaction by auditors about the quality of the content, materials and trainers provided at the BPK centre of education and training. Ineffectiveness
of the education and training centre has significantly limited the development of skills and knowledge for BPK auditors.

6.3.4 Information Technology and Modern Office Equipment Resources

Communication, IT and modern office equipment resources are key for influencing the quality and communication of audit information, including the formatting, and timely publication and distribution of information reports, which in turn can influence stakeholders in following up BPK audit reports.

Before audit reform, BPK suffered from a lack of IT resources. Table 6.7 (below) shows the total number of BPK’s computers, notebooks and laser printers in the period 1994-2003. The data indicates that before reform, BPK had very limited quantities of modern equipment. From 2002, the number of notebooks and scanners improved gradually, including the quantity of personal computers and laser jet printers, which were increased doubled since the audit reform.

Moreover, during 2004-2006, after the expansion of BPK representative offices, the number of notebooks for every audit team, consisting of three to six auditors, increased significantly. Due to breakdown problems, the number of scanners in the central office and in the representative offices of Yogyakarta and Banjarmasin, decreased. This indicates that there was a lack of maintenance for office equipment at BPK.

Besides, as show in Table 6.8 (below), some of the new representative offices are still not suitably equipped with computers, scanners, notebooks and a local area network. BPK has continued to improve IT resources in every representative office by providing modern equipment, and personal computers and notebooks in every office based on auditing needs.
Table 6-7 Number of Computers, Notebooks and Printers at BPK Offices (1994-2003)

<table>
<thead>
<tr>
<th>No</th>
<th>Offices</th>
<th>94/95</th>
<th>96/97</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PC</td>
<td>NB</td>
<td>LJ</td>
<td>PC</td>
<td>NB</td>
<td>LJ</td>
</tr>
<tr>
<td>1</td>
<td>Central Office</td>
<td>125</td>
<td>0</td>
<td>43</td>
<td>231</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>2</td>
<td>Medan RO</td>
<td>6</td>
<td>0</td>
<td>1</td>
<td>21</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>Palembang RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4</td>
<td>Yogyakarta RO</td>
<td>11</td>
<td>0</td>
<td>1</td>
<td>20</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>Denpasar RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>6</td>
<td>Banjarmasin RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>7</td>
<td>Makasar RO</td>
<td>11</td>
<td>0</td>
<td>1</td>
<td>22</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

The Total Number: 153 0 46 294 14 74 370 24 142 369 27 121 646 57 199 2 750 455 248 18

Notes: RO = Representative Office; PC=Personal Computer; NB=Notebook; LJ=Laser Jet Printer; SC=Scanner; n/a = not available
Sources: Adapted from
<table>
<thead>
<tr>
<th>No</th>
<th>BPK Offices</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>PC</td>
<td>NB</td>
<td>LJ</td>
</tr>
<tr>
<td>1</td>
<td>Central Office</td>
<td>747</td>
<td>316</td>
<td>152</td>
</tr>
<tr>
<td>2</td>
<td>Medan RO</td>
<td>51</td>
<td>24</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Palembang RO</td>
<td>44</td>
<td>36</td>
<td>37</td>
</tr>
<tr>
<td>4</td>
<td>Jakarta RO</td>
<td>39</td>
<td>26</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Yogyakarta RO</td>
<td>78</td>
<td>47</td>
<td>46</td>
</tr>
<tr>
<td>6</td>
<td>Denpasar RO</td>
<td>40</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>7</td>
<td>Banjarmasin RO</td>
<td>27</td>
<td>16</td>
<td>24</td>
</tr>
<tr>
<td>8</td>
<td>Makasar RO</td>
<td>39</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>9</td>
<td>Jayapura RO</td>
<td>24</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>10</td>
<td>Banda Aceh RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11</td>
<td>Pekanbaru RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12</td>
<td>Bandung RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13</td>
<td>Surabaya RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>14</td>
<td>Pontianak RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15</td>
<td>Manado RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>16</td>
<td>Samarinda RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17</td>
<td>Palangkaraya RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Kendari RO</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>Total Numbers</td>
<td>1089</td>
<td>517</td>
<td>322</td>
</tr>
</tbody>
</table>

Notes: RO = representative office of BPK; PC=Personal Computer; NB=Notebook; LJ=Laser Jet Printer; SC=Scanner

Sources: Adapted from
2. BPK RI, BPK RI Dalam Angka (BPK Statistics) 2005, pp. 73-83 (BPK RI 2006b).
Due to its IT development, BPK opened a new Bureau of Information Technology in 2006 for managing its IT systems. The IT Bureau’s roles include developing computer system applications and design program, and administering and maintaining the infrastructure of IT operations and other equipment. Moreover, the IT Bureau deals with the development of audit information systems, including improving hardware and software (such as: audit standards applications, applications for specific auditing, and applications for BPK administrative units).

Member IV of BPK (Interview B2) mentioned that BPK has reduced the problem of late submission of financial statements from regional governments by providing on-line-auditing system in 2008. This was done in cooperation with the Ministry of Internal Affairs and begun with the provision of IT equipment to 171 regional governments. An auditee from SOE, the National Electricity Company (Interview A3) argued that communication systems and IT help auditors and auditees in providing more detailed and prompt data and information. The development of IT and modern equipment also helps auditors to provide better formats in their audit reports.

6.3.5 Office Resources

Although BPK’s IT system has been developed and improved, Members of Parliament and auditors had criticisms. Some auditors (Interview B15, B17, and B22) found that the capacity of BPK’s electronic communications network and LAN were slow, unstable and suffered from viruses. Two Members of Parliament (Interview C2 and C3) expressed their problem in opening the BPK website to see the audit reports and complained about the lack of computers and audit references at Parliament’s Library. An
insufficient number of computers, poor access to the internet and few public sector audit books have impeded Members of Parliament in trying to oversee audit reports.

Office accommodation is an essential resource for BPK as it influences the quality of audit reports in terms of the audit scope and the followup of audit reports. In the past, up to 2003, BPK had only one central office in Jakarta and six representative offices in Yogyakarta, Makasar (South Sulawesi), Medan (North Sumatera), Banjarmasin (South Kalimantan), Denpasar (Bali) and Palembang (South Sumatera). This situation resulted in a lack of audit scope. For example, Lampung representative office had to be audited by Palembang office. On the other side, an internal audit institution, BPKP, had a much bigger number of regional representative offices than did BPK. Member II of BPK explained (14/02/2007) that the biggest impediments to BPK were Indonesia’s geography and the infrastructure of transportation and communication needed to reach distant territories in the east of Indonesia, such as Papua and Maluku. Therefore, auditees of BPK were limited to central government and several provinces that could be reached by the representative offices. Most of the regional governments were audited by BPKP, which had the same function as BPK. As a result, regional government entities were more familiar with BPKP than BPK.

Table 6.9 (below) presents data and information of the opening dates of BPK representative offices in every province. Each representative office of BPK has different number of local government audited entities. The data indicates the great improving of the

94 For instance, in 2003, in the regions, the number of representative office of BPKP was 25, with 5,104 BPKP officials, while BPK had only 7 representative offices with 955 BPK officials (BPK RI 2006).
progress numbers of BPK representative office from only six offices in 2001 to 33 offices in 2008. The highest number of auditees (local government and regional-owned enterprises) in BPK representative office is in Surabaya with 38, followed by Semarang with 35, and Medan and Bandung each with 26. The lowest are Mamuju and Yogjakarta BPK representative offices each with only five auditees.

Table 6-9 Opening Dates of BPK Representative Offices (1950-2008)

<table>
<thead>
<tr>
<th>No</th>
<th>Opening Dates</th>
<th>Representative Office</th>
<th>Province (33)</th>
<th>Auditees (456) in 2007</th>
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<td>2008</td>
<td>Mamuju</td>
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Sources: Adapted from:
As mandated by Article 23G of the Constitution (2001) and the Law on BPK (GOI 2006b), BPK should have a representative office in every province. Indonesia’s geographic location, separate by oceans and seas, requires BPK to provide an office in every province as mandated by the Constitution (2001). The representative offices are established by a BPK regulation, taking budget capacity into consideration.

After audit reform, BPK opened 27 new representative offices from the west to the east of Indonesia. Table 6.9 shows that the number of BPK representative offices increased from six (in 2001) to 11 (in 2005). By the end of 2006 the total was 17 (about 50 per cent of the number of provinces). In 2007, BPK opened a further 11 new representative offices followed by another five in 2008. The data indicates that BPK made a great effort in opening 33 representative offices to cover every province in Indonesia by 2008. In 2007, the Chairman of BPK said, “Our target is that by the end of 2008, BPK will have representative offices in every province as stipulated by Amended 1945 Constitution (2001)” (Radar Lampung 10 March 2007). As the data shows, this target was successfully reached.

It is more effective and efficient if BPK has a representative office in every province because auditors can gain a better understanding of their own local auditees, reduce costs, and have a longer time for auditing if the distance between an auditors’

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95 Indonesia is often referred to as the world’s largest archipelago, with around 17,508 islands which span more than 5000 km (around 3,200 miles) Eastward from Sabang in Northern Sumatera to Merauke in Irian Jaya (http://www.indo.com/indonesia/archipelago.html). It had a population of about 235 million people based on the estimation from the US census bureau 2007 (the Economist Intelligence Unit 2008: 2).
domicile and the auditees’ offices is shorter. Therefore, opening the BPK representative offices has helped to provide more effective and efficient auditing of regional governments to encourage their transparency and accountability. Figure 6.7(below) illustrates Indonesia’s geographical spread and the location of BPK representative offices throughout Indonesia.

**Figure 6.7 Representative Offices of BPK in 33 Provinces (2008)**

As the budget for opening representative offices was still not fully covered by the BPK budget, BPK also received loans and grants from other countries and international organisations, such as ADB, USAID, and AusAID. For instance, the opening of the BPK office in Aceh was mostly funded by ADB and USAID. Moreover, some BPK representative offices were opened by building loans from regional government. For example, the BPK office in Pekanbaru province is located in the former office of the
regional income agency\textsuperscript{96}, while the BPK office in DKI Jakarta province is located at the former office of the Information Department\textsuperscript{97}. However, where the BPK does not have its own office and is still hosted in a local government building, this results in BPK auditors lacking a strong position.

6.3.6 Conclusion on BPK Resources

Before audit reform, BPK had very limited resources, including budget, auditors, representative offices and training. Besides, the government and the bureaucracy controlled BPK’s resources. As a result, the quality of findings, opinions and recommendations in BPK reports was deficient.

Since 2004, BPK has managed to secure an impressive increase in the quantity of its resources. These achievements include the following: (i) budget allocation has improved significantly, (ii) the number of new auditors and other staff has increased by more than 1500, (iii) the number of Board Members has increased from seven to nine, (iv) it became compulsory for auditors to undergo 80 hours training, (v) the quantity and quality of BPK’s training and education services have improved, (vi) modern equipment and IT has been added, and (vii) regional offices have been opened in every province. These facts indicate that since audit reform, BPK has gradually increased its resources to be more able to conduct its audit roles and functions effectively.

\textsuperscript{96} Information from the website of Pekanbaru Representative Office (accessed on 10/05/2007): http://pekanbaru.bpk.go.id/index.php?option=com_content&task=view&id=14&Itemid=37

\textsuperscript{97} Information from the website of DKI Jakarta Representative Office (10/05/07) http://jakarta.bpk.go.id/index.php?option=com_content&task=view&id=12&Itemid=27
The analysis of factors influencing audit quality continues in Chapter Seven, particularly in relation to the capacity of BPK and auditees to act on audit information. An overall conclusion on the factors influencing of audit effectiveness/ineffectiveness in BPK is given at the end of Chapter Seven.
Chapter 7
Factors Influencing Acting on Information in BPK Reports

Chapter Seven continues on from Chapter Six in analysing the critical factors influencing the quality of audit information, in relation to the capacity of the Indonesian State Audit Board (BPK) and auditees to act on audit reports. The main factors are as follows: (i) political support from the Legislature in overseeing and reviewing audit reports, (ii) support from the Executive in following up on audit recommendations, (iii) law enforcement support where audit reports indicate criminality or corruption, and (iv) public and media support. The following sections provide analysis on each of these factors.

7.1 Political Support from the Legislature

This section examines the roles and functions of the central and local Legislature in acting on information in BPK reports as a factor influencing the quality of information.

7.1.1 BPK Reports and Parliament Pre and Post Audit Reform

Before audit reform, the original 1945 Constitution mandated BPK to report its findings to Parliament. Nevertheless, as mentioned in the previous chapter, during the New Order Era the State Secretary Office checked BPK audit reports before they were submitted to Parliament. Moreover, there was no evidence that Members of Parliament followed up the information in BPK reports as there was no obligation and responsibility for any parties, including the Legislative and Executive, to act on BPK reports. At that time, the Golkar party held a majority of vote in Parliament, as the President was the head of the
advisory Members of the Golkar party, the most powerful party. The President appointed all his people, from the same party, in almost entire important position in public sector. This situation prevented the implementation of the checks and balances system.

Since audit reform in 2001, the major tasks of the Members of Parliament have been to approve the government budget and oversee the performance and accountability of the government in managing public resources and providing good quality public services. BPK reports provide information to support the Members of Parliament in conducting their tasks to oversee the performance and accountability of the government. The Members of Parliament have the right to ask questions; request information; and express the views of officials from Executive bodies, and Judicative bodies, and Members of society to clarify the information in BPK reports and to review the performance of public sector agencies. To help review the BPK reports, Members of Parliament hire experts and advisers. BPK experts and staff of the Secretariat General of Parliament provide summaries of BPK reports to help Members of Parliament understand the reports and to act on the information by asking about the performance of government.

7.1.2 Communication and Agreement between BPK and the Legislature

The Members of the Legislative are the main stakeholders of BPK. The Legislature has the responsibility to hold the government accountable in using and managing the state budget and public resources. Article 23, Paragraph 1 of the third amendment of the 1945 Constitution (GOI 2006c: 58) and Chapter VIII about Finance and the Law on BPK (GOI 2006), mandates Parliament to review BPK reports.
Figure 7.1 (below) illustrates the relationship of the functions of BPK as auditors and the functions of Parliament (both central and local level) as controllers in state finances. After BPK audits all the financial statements based on the BPK audit standards, BPK reports the audit results to central Parliament, the Senate (DPD) and regional Parliaments (DPRDs). Members of legislative institutions then review and oversee the performance and accountability of the agencies with supporting information from the opinions and recommendations in the BPK reports. They use this information as a basis for approving proposals from the agencies on their state/regional revenue and expenditure budget plans (budget function). After the public sector agencies receive the approved budget, they use it to develop their regions and to provide public services. All revenue and expenditure has to be accounted for and reported in the financial statements.

The relationship between the bureaucracy, BPK and the Legislature (illustrated in Figure 7.1) indicates the essential roles and functions that BPK reports have in supporting the control and budget functions of the Legislature.
Figure 7.1 Process of BPK and Parliament Functions for Public Accountability

Based on government accounting standards (SAP2005)

(1) Financial Statement

Accountability and management of state finances

Auditees: - central/local government - state/regional-owned enterprises

Accomplished (6)

Monitoring the follow-up of audit reports

Recommendations and opinion

State/Regional Budgets (APBN/APBD)

Budget Function

Control Function

(2) Submitted

(3) Audited

Opinion and recommendations reports

Request audit and information

The Audit Board (BPK)

Based on audit standards (SPKN 2007)

Audit Report

Members of Parliament and Senate: DPR, DPRD, DPD

Approved (5)

Source: Processed and adapted from BPK (BPK RI 2007a)
The Head of the Analysis and Budget Implementation for State and Regional Budget Bureau (Biro Analisa Anggaran and Pelaksanaan APBN and APBD) of the Secretariat General of Parliament (Interview D1), explained how Parliament acted on BPK reports:

First of all, BPK audit reports were sent to a plenary session in the Parliament (DPR). After that, these reports were reviewed by a significant DPR Commission. For further analysis and review of these reports, DPR Members have been supported by the Parliament’s Secretariat General. These services are information, analysis and advice in order to perform their duties. For this purpose, the Secretariat General of Parliament trained staff in the technical aspects of auditing and financial management. The staff of DPR secretariat is trained in ways to relate their technical and specialist expertise to the political needs of the Members of Parliament.

This excerpt indicates that BPK audit reports are reviewed by Parliament with the assistance of experts from BPK and the Secretariat General of Parliament. BPK provides experts to the Secretariat General to help Parliament review the audit reports. Moreover, in 2006, the Secretariat General of Parliament formed a new division called ‘BPK Reports and Senate Budget’ to provide assistance to parliament in the process of reviewing audit reports.

Because of the low follow-up of BPK reports, in 2006, BPK signed a Memorandum of Understanding (MoU) with the Legislative institutions at both central and local levels. This covered: (i) submitting audit reports and findings, (ii) monitoring follow-up of the reports by the auditees, (iii) consultation and meetings with Members of Parliament and auditors, and (iv) provision of follow up and reporting after the meeting.

The main objective of the agreement is to improve the effectiveness of acting on BPK reports.

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98 The Bureau, formed in 2006, gives support to DPR Committees and Commissions to review and analyse BPK reports together with the Centre of Information Service Research (Pusat Pengkajian Pelayanan Informasi) and Commission staff.
reports and findings with support from Parliament. The coordination agreement between BPK and the Legislative (Central Parliament, Regional Parliament and Senate) is illustrated in Figure 7.2 (below).

**Figure 7.2 Coordination between BPK and the Legislative**

The joint agreement between BPK and Parliament was signed in 2006 (MoU 2006a) and since then, consultations have been conducted for BPK to provide clarification and further information to Parliament regarding audit findings. Communication between BPK and the Members of the Legislature are conducted regularly to provide good interaction and correct information for the Members in overseeing and reviewing audit reports. BPK has provided regular consultations with Members of Parliament in every commission (from Commission I to XI).
For example, a consultation was held on 27th February 2007\textsuperscript{99} to clarify the ‘disclaimer opinion’ from BPK on the financial statement of the central government (LKPP). It was attended by BPK Members and high officials and by Members of the Parliament’s budget committee. During the consultation time, the majority of the Members of Parliament asked for clarification on how they should take action against the central government to follow up the audit findings and recommendations. Example of questions asked by three different factions (PKS, PD, PDIP) were as follows: (i) two Members from the Prosperous Justice Party (PKS) asked, “BPK, please give us advice on following up audit findings that need further investigative auditing” and “How does the Parliament have to respond to the arrangement of the accountability Bill for implementation of state budget that has a disclaimer opinion from BPK?” (ii) a question from a Member of the Democratic Party (PD) faction: “I need an explanation of the differences between financial statements that have been audited and not been audited”, and (iii) the Indonesian Democratic Party Struggle (PDIP) faction asked “What is your advice to improve state finance management? Where do we have to start from? Who are the human resources in the government who will conduct this state financial reform management?”

These questions indicate the lack of understanding and knowledge of Members of Parliament about what should they do to with information and data presented in BPK reports. This means that the Members still need assistance to conduct their role in controlling government entities to fulfill their accountability duties to the public. The forum of consultation is strongly needed by the Members of Parliament to provide clear

\footnote{\textsuperscript{99} The researcher participated in this consultation that was held the auditorium of BPK office, Jakarta.}
information and suggestions from BPK in performing their duties. After the consultation, Member III of BPK (Angbintama III), proposed “to insert one special paragraph in the Bill of accountability on the implementation of state budget 2005 to encourage the government to follow up the audit results of BPK in a certain period”. Input from BPK becomes important information for the Members. Therefore, consultation and communication between BPK and Members of Parliament is very important for the effectiveness of audit reports in learning what action is required on BPK opinions and recommendations, and also for the Legislature to conduct its budget and control functions.

BPK also signed a MoU with regional Parliaments (DPRDs) in 2006 (MoU 2006b). Some examples of signed agreements between BPK and DPRDs include: (i) BPK representative office of Yogyakarta with the regional Parliament of Central Java Province and its regencies, including Banyumas Regency and Banjarnegara Regency100, (ii) BPK representative office of Jakarta with the regional Parliament of DKI Jakarta Province101 (Indo Pos 9th March 2006), (iii) BPK representative office of West Kalimantan Province with the West Kalimantan regional Parliament, in Pontianak (Pontianak Post 10th March 2006), and (iv) BPK representative office of Lampung Province with Lampung regional Parliament in Bandar Lampung (Republika 23rd March 2006).

Consultations were also conducted between BPK, Members of regional Parliaments DPRDs) and the Senate (DPD). For example, in September 2007 a consultation was held

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100 Joint agreement was held in BPK representative office of Yogyakarta, Jalan HOS Cokroaminoto 52. This is based on the BPK RI Decree Number 12/SK/I-VIII.3/09/2005 about the decentralisation BPK RI to the head of BPK RI Representative Office to submit BPK’s audit results reports on management and accountability of regional government state finances to the Regional Parliament.

101 Joint agreement was signed at DKI Jakarta regional parliament office; on 8th March 2006. The ceremony was attended by the Minister of Internal Affairs, the Chairman of BPK, the Governor of DKI Province, the Head and Members of DKI Jakarta regional representatives.
between BPK and Members of *Daerah Istimewa Yogyakarta*(DIY) Parliament to get information from the Members related to the benefits of information provided in BPK reports and to discuss special purpose audits that were requested as an audit priority (BPK RI 2007c). On 23rd January 2008, the Members of regional Parliaments paid a working visit to the Central BPK office to obtain information directly related to the followup of auditees on BPK reports that contained findings of irregularities, state and regional financial losses, and inefficiency (February 2008a). The Members gave attention to the constraints faced by BPK to conduct its roles and functions. On 25th September 2007, Members of Nganjuk Regency Parliament had a consultation with BPK related to issues with the election budget of the Regent (the head of Nganjuk Regency) (Warta BPK October 2007:5).

Members of both central and regional Parliaments (Interview C1, C3, and C9) argued that they are consistently committed to holding the government accountable to the public. They also found that their relationships with BPK are important. BPK has conducted some specific purpose audits at the special request of Parliament, such as investigative audits for indications of corruption or irregularities, the mudflow disaster auditing at Sidoardjo, and auditing the electricity subsidies policy. A Member of Parliament (7/3/2007) argued that the Legislature will continue to strengthen the roles and functions of BPK, including budget allocation to support BPK’s independence and professionalism.

The Chairman of BPK stated to high officials of local government (Governor, Regent, Mayor, the heads of government agencies) and to Members of Lampung Province Parliament (9 March 2007) that BPK reports support the regional Parliament in carrying out their functions in budgeting and controlling government entities by monitoring and
encouraging government agencies to act on BPK reports and recommendations. BPK are open and transparent and willing to answer all questions posed to its Members and to explain any information in the reports that is not understood. The mutual support of BPK and the Members of Parliament can hold the government accountable in using state finances, managing public resources and providing satisfactory public services.

Since the joint agreement was signed and consultations began, there has been a significant improvement in the followup of BPK reports and findings from the Members of the Legislature. One example is the Member’s rejection of the 2007 financial statement produced by the DKI Jakarta government because of a gap of hundreds of millions of Rupiahs of state revenues from tax of vehicles. This was discovered after the Members of Parliament conducted surprise visits to the tax office (Investor Daily and Seputar Indonesia 5th March 2008). A second example was when Members of the Cianjur City Parliament questioned investigators about their follow up of BPK findings regarding irregularities in tax revenues (Republika 26th February 2007). A final example is the followup conducted by Parliament when it formed a team for budget control of the National Education Department, which has the highest budget allocation of all departments. BPK found ineffectiveness in its program implementation and irregularities in the procurement process of book and school equipment (Seputar Indonesia 22nd February 2008). From 2001 until December 2007, BPK had found 1,254 cases (valued at Rp.286.28 million) which were only followed up about 71.77 per cent or 900 cases.

Therefore, after BPK consultations with Members of Parliament there was significant progress on the follow up of BPK reports. However, this study revealed that Members of Parliament have not used BPK reports optimally for the budget control of the
Executive government. Since 2006, in response to the lack of Parliament Members’ ability to understand and review BPK reports, the State Audit Reform Sector Development Project (STAR-SDP) has supported programs to improve the ability of the Members of Parliament to oversee the performance of the Executive through reviewing BPK reports (Interview F5). These programs help Parliament Members be aware of what sources of information they need to review BPK audit reports. In addition, STAR SDP provides other support services for the Parliament Secretariat to assist Parliament Members.

BPK’s Chairman has recommended a committee, called the Public Accountability Committee (PAC) or Panitia Akuntabilitas Public (PAP), to be formed for the Indonesian Parliament (Bisnis Indonesia 18 January 2008). This committee would be responsible to review BPK reports and to solve weaknesses in basic financial management and administration of state finances in government agencies. Similar public accounts committees are found in other countries. For example, in Australia there is the Joint Committee of Public Accounts and Audit (JCPAA) that has the power to hold government officials to account in the Australian Parliament. It also monitors the followup of audit recommendations towards good public sector governance, helping to make government agencies and officials act in compliance with existing rules, to act efficiently and to achieve their purposes effectively in the use of public funds.

However, the recommendation to form the PAC has not yet been approved. A Member of Parliament from the PKS faction, Nasir Zamil, stated in a national newspaper

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102 This is based on an interview with the deputy team leader of the Asian Development Bank, Program Loan Monitoring Unit State Audit Reform Sector Development Project (STAR-SDP) Loan, No. 2126-INO in Jakarta.
that the proposal to establish such a committee is still being examined (Kompas 21st February 2008). He argued that the main problem is the lack of public accountability of government in public administration and in using public finances rather than the following up of BPK reports by the legislative. This opinion indicates that the Member feels confident that Parliament can perform its duties and functions to improve the fiscal transparency and accountability of government without assistance from PAC. In fact, in following up the weaknesses of the Indonesian state and regional financial administration, Members of Parliament could not perform well. Since the Reformation Era, Members of Parliament have had a budget committee to discuss state and regional government budgets. In addition, the Legislative has commissions that oversee the use of budgets and the performance of each department. However, without a PAC, for instance, Members of Parliament have not been able to check how a government agency acquires expenditure for its activities, including how much is sourced from state/local public budgets and how much from other resources.

7.1.3 Survey Results and Comments on Political Support from the Legislature

During the survey, respondents were asked their opinion about the support from Members of the Legislature for BPK reports. Figure 7.3 (below) presents the survey results and reveals that the responses varied considerably.

Figure 7.3 Survey Results that ‘Members of Parliament Provide Political Support for the Roles and Functions of BPK’
Sixty-one percent of auditors and 73 per cent of auditees responded positively, but only 18 per cent the Members of Parliament ‘agreed’. Respondents provided positive comments as follows:

- “Now, the Members of Parliament have supported BPK audit reports and findings” (Interview B29).
- “Approval for a draft of a new Law on BPK is one example of real political support from the Members” (Interview C5).
- “We will support the important roles and functions of BPK for public accountability” (Interview C3).

These comments indicate that the respondents found that Members of Parliament have supported the BPK reports. One example is that the Members of Parliament approved revolutionary managerial reforms of the public sector by approving the Law on BPK (GOI 2006b) to strengthen the professionalism and integrity of auditing in the public sector. Besides, with support from Parliament, BPK has reformed its organisation, management, leaders and information technology. It has also recruited new qualified auditors and provided a representative office in every province. At the same time, BPK supports the role and function of the Members of Parliament in budgeting and controlling the government agencies to act accountably in improving their public service delivery and public administration.

Source: Fieldwork survey from 5th November 2006 to 25th March 2007
Besides these positive responses, the survey also indicated neutral and negative responses. The Members of Parliament group responded with 73 per cent ‘neutral’ and 9 per cent ‘disagree’. On the other hand, the auditors group responded with 29 percent ‘neutral’ and 10 per cent ‘disagree’. In addition, the study revealed negative comments from Members of Parliament and BPK auditors as follows:

- “We could not support audit reports, because the information from BPK is still biased. May need further explanation from BPK or further investigation” (Interview C8, a Member of Parliament from Commission V)
- “The Members of Parliament have not reviewed audit findings seriously” (Interview B11, an auditor of AKN III).
- “There are still the lack integrity and commitment from the Members in providing political support to uncover and solve some cases of BPK findings and to improve performance of government” (Interview B22, an auditor of AKN IV).
- “Difficult to support BPK audit reports without the ability of the auditees to reform the bureaucracy” (Interview C2, a Member of Parliament from Commission VII).

The first three excerpts indicate the potential for Parliamentary oversight of the Executive to be jeopardised. The Members of Parliament doubted the professionalism and integrity of BPK auditors. On the other hand, BPK auditors found the Parliament’s ability to review BPK reports weak in holding the Executive to account. A researcher from a research unit for Parliament Study (18/2/2007) argued that Members of Parliament have the budget committee to control the pre budget (budget planning) of government agencies, but that Members have not controlled the post budget. Besides, Parliament lacks budget analysis experts to support Members in asking questions and forcing the government to be accountable. Every year, BPK reports which publish to the Parliament and the public (through the BPK website) show the significant number of irregularities of public sector agencies. Moreover, the audit reports also found lack of financial performance of government agencies that show potential losses worth billions rupiah. The last excerpt indicates that Members of Parliament are being defensive by concluding that the problem is
not due to the oversight of the Members, but due to the commitment of government to provide better performance and more satisfactory public services.

7.1.4 Conclusion on Political Support from the Legislature

To summarise, before audit reform, the Members of Parliament never followed up information in BPK reports. There was no obligation or responsibility for the Legislature to act on BPK reports. Parliament’s Members were dominated by the Golkar Party, which of the Golkar’s advisor was the President. As a result, the checks and balances system between the Legislature and the Executive did not effectively apply in the New Order Era.

After audit reform, political support from Members of the Legislature (DPR, DPRDs and DPD) to follow up BPK audit reports has not run optimally, although BPK reports have significantly helped Members of the Legislature to conduct their control and budget functions. In 2006, a joint agreement between BPK and the Legislature was signed with the aim of improving follow up of BPK reports by Members of the Legislature by communicating and consultation on BPK reports. BPK conducts these consultations with Members of the Legislature to explain the audit findings, including answering questions from the Members. Since then, through consultation forums, Members of Parliament (including regional Parliaments) and the senate have obtained guidance and clarifications from BPK to help them better understand the audit results and problems highlighted by the audit reports. Besides, consultations also provide guidance on procedures for government entities in following up audit reports and monitoring this. These efforts have led to positive responses from Members of DPR and DPRDs who are starting to review BPK reports more seriously and putting more pressure on the government to follow up audit findings and recommendations. The Members ask, remind, and pressure the government. As the
Members have the right to control the accountability of government and to approve state and regional government budgets, Parliament can push the government to follow up BPK’s audit findings and recommendations in line with its responsibility to be accountable in public administration.

This study found that the Members of the Legislature control the budget planning of the central and local government entities through budget committees. However, this has not run optimally because Members lack ability and also the support of experts in budget analysis. The control function of the Members of the Legislature as ex-ante oversight has not been yet fully extended to the post-budget actions of government entities. The recommendation to form a Public Accountability Committee (PAC) to control the financial performance of the Executive after implementation programs (post budget) has not been approved.

7.2 Support from the Executive

As mentioned previously, the central government and many regional governments had ‘disclaimer opinion’ on their financial statements, which indicated their poor public accountability and management of state finances. Although the opinions from BPK can influence the decisions of investors whether or not to invest in Indonesia, the government has consistently ignored these opinions. The most severe restriction is that since 2004, the Directorate General of Taxation cannot be audited, although tax revenue is the largest state income in the state budget. The effectiveness of BPK audit reports is also influenced by the commitment of the public sector to follow up BPK’s recommendations. The following section describes BPK’s opinions and findings on public sector accountability and the perceptions and comments received during the survey and interviews.
7.2.1 BPK Opinion and Findings on Public Sector Accountability

Brunori (2002: 1076-1077) argued that in a democratic society, accountability and transparency regarding the quality of a tax revenue system is essential for fiscal decisions and policy. Revrisor Baswir, an economist from the University of Gadjah Mada, estimated leakage in tax revenues at 75 per cent (Investor Daily Indonesia 4th February 2005). He argued that before the state revenue from tax income is reported to government, 25 per cent of the real potential tax revenue was not paid or reported. For instance the target of tax revenue in 2009 was Rp.100 trillion (US$ 9.09 billion)\(^\text{103}\), although the real potential of tax revenue might be Rp.130 trillion (US$13.9 billion). Moreover, when the tax revenues came into government, leakage occurred again at 25 per cent of the total income tax, because the tax administrators were not depositing the tax into the state treasury. In addition, 25 per cent of the total tax revenue was used with a lack of accountability to the public. However, until now, BPK could not access the data and information required to audit tax revenues. As a result, the opinion of BPK on the financial reports of central government for six years (2004-2009) was a 'disclaimer' (no opinion), because BPK lacked enough information to provide an audit opinion. The Chairman of BPK argued that BPK will still provide a 'disclaimer’ opinion on government financial statements if BPK cannot audit and access the tax information (Harian Ekonomi Neraca 20th February 2008).

According to the BPK Vice Chairman, in 2005, BPK had direct communication with the President just once. Although some letters had been sent to ask for direct communication and consultation with the President in regard to reforming state finance

\(^{103}\) Rate US$1 = Rp.11,001 (as of 17th January 2009).
management, there was no response. Based on a discussion between BPK and Parliament’s budget committees\textsuperscript{104}, BPK suggested some options to improve the state finance management of government institutions. Member I of BPK (Angbintama I) reported that BPK sent letters to the President regarding problems with the state finance management system and gave some options and suggestions on how to solve the problems. BPK suggested the Financial Development Supervisory Board (BPKP), which had sufficient and competent auditors, to give assistance in supporting the new state finance management system in central and local government agencies. In addition, Member of BPK III (Angbintama III) suggested improving the state finance management and accountability, starting from the Ministry of Finance to improve its own state financial management. Moreover, the tax office is not transparent and the state revenue system has just started to implement the single account system. Moreover, it is no secret to taxpayers that there is the potential for tax revenue leaks.

According to Member of BPK III\textsuperscript{105}, BPK findings indicate low commitment of the government to improve the state finances system. Moreover, weaknesses in state finance management and accountability are due to the ineffectiveness of budget reconciliation, and the lack of integration of the IT system for financial management with the government accounting system. Moreover, not all public sector agencies have implemented single treasury accounts as stipulated in the Law on State Treasury (2004) (Warta BPK June 2007:2).

\textsuperscript{104}The consultation was held on 27\textsuperscript{th} February 2007 in the auditorium of BPK, Jakarta.
\textsuperscript{105}A consultation between BPK and budget committees Members of Parliament, on 27\textsuperscript{th} February 2007 in the auditorium of BPK, Jakarta
In this regard, the Minister of Finance, Sri Mulyani Indarwati, argued that difficulty of external examiners is caused by a lack of role of internal audit or the Internal Controller Unit (SPI) and the public administrators, who are still working to implement the new government accounting standards (SAP 2005). This is the main reason why the financial reports of the departments (LKD), the Institutes (LKL), state-owned enterprises (SOEs) and regional-owned enterprises (ROEs) received a ‘disclaimer’ opinion from BPK. Sri Mulyani argued that the full implementation of the new system of the SPI and SAP needs a long-term process and stated in Rakyat Merdeka newspaper (17th February 2007) as follows:

BPK and government have the same understanding that improvement in state financial management will need many years of recovery, because it involves the system. So, it is impossible to find a direct solution, because we are still in the process of recuperation. The government law (PP) for SPI has not cleared and not been determined, because the government is still reforming the BPKP as the internal control of government.

In addition, she promised to take seriously the need to provide clear steps and will not tolerate any government agencies, SOEs, and ROEs that are identified by BPK as practicing corruption and irregularities. Moreover, government agencies are still adapting to an accrual-based accounting system as required by the new government accounting standards (SAP 2005). The statement from the Ministry of Finance indicates that although the government works better by various policies and efforts to reform the public sector, there is significant evidence there remains a lack of human resource capacity and overly bureaucratic systems in implementing the new state accounting, financial and auditing standards.

The Minister of Finance continues to encourage government entities, including her Ministry, to submit financial statements and reports no more than 60 days after audit
findings are accepted. This is supported by the Minister of Finance Regulation Number 16/PMK 05/2007 on planning arrangements for follow-up and monitoring the completion of follow-up (Seputar Indonesia 29th September 2007). The Member of BPK II (Angbintama II) complained about the inability of government to take significant professional steps to control obscure state accounts in government officials’ accounts valued at trillions of Rupiahs that were found by BPK (Rakyat Merdeka 17th February 2007). A 2005 case involving 1,303 hidden bank accounts (of government officials) containing Rp.8.7 trillion of state money could be solved if the government has the courage to close these unauthorised accounts and uncover who the owners are.

BPK reported the reluctance of the government in responding to the President about BPK audit results. After that, the President requested all government officials to follow up every BPK finding and recommendation. He also committed to monitoring government agencies to follow up audit findings. The Vice President, Jusuf Kalla, argued that all public officials would be investigated based on BPK audit results. However, it will be a long process to examine cases of irregularities in public administration and criminal cases (Media Indonesia, 2nd December 2006). An example of support from the Executive was their support regarding BPK findings that indicated irregularities in the Ministry of Health and the ‘mark-up’ of health insurance funds for poor people. Another example was when the Executive asked WHO to give a cheap price for Avian flu vaccine for examining virus samples of H5N1 (Koran Tempo 21st February 2008).

In 2007, from a total 76 of government agencies, 31 received a ‘disclaimer’ opinion. 20 of 31 ‘disclaimer opinion’s agencies, they had the highest state budget allocation. BPK found Rp.19.27 trillion of state assets in 19 departments that were not well
administered (*Koran Tempo* 11th April 2008). Although there were indications of leakage of around 30 per cent, BPK could not audit foreign aid funds (*Kuncoro* 13th December 2009). In 2008, the recording of all state and regional inventory and assets begun and was reported to the Ministry of Finance to avoid the loss and misuse of public sector assets. According to Member of BPK I (*Angbintama I*), the poor management of state assets that caused public sector assets to be unsafe, is also one of the reasons for a ‘disclaimer’ opinion on central government financial statements (*Kompas* 11th April 2008). BPK also found fraud relating to many foreign grants in the form of goods, money or assets, because they were not reported to the government, in this case the Ministry of Finance (*Kuncoro*, 13th December 2009).

The President commented in *Bisnis Indonesia* (22nd February 2008) that “Now, our state finance management is still under repair. In the future, we will have a better system to provide the right management of state finances”. He also added that the government is preparing regulations to strengthen the role of BPKP as an internal audit institution of government (*Bisnis Indonesia* 22nd February 2008). In addition, collaborative solutions between BPK and government institutions were conducted to correct the financial statements of these institutions. For instance a discussion was held on 21st February 2008 to follow up the financial reports of the Ministry of Defense and the Indonesian National Army, which receiving the largest state/national budget and assets. From this meeting, BPK presented recommendations to provide better management and accountability for these institutions and expected an agreement that they would follow up BPK reports (*Warta BPK* February 2008b: 2).
The facts and information above indicate the government’s lack seriousness in following up the findings and reports of BPK. The government has not yet fully implemented the new system of state and regional management finance. This resulted in many irregularities and indications of state losses in BPK findings. Moreover, BPK still cannot audit foreign aid or tax revenues. The following section explains perceptions and comments on government support to BPK reports, based on the survey data and interviews.

### 7.2.2 Survey Results and Comments on Support from the Executive

Respondents comprising auditors and auditees were asked whether government provides support for improvements and changes in the public sector, after BPK reported its findings. Figure 7.4 (below) shows the survey results indicate positive responses from the auditees group on government support for BPK, with 57 per cent ‘agree’ and 30 per cent ‘strongly agree’. From the auditors group, 48 per cent ‘agree’.

**Figure 7.4 Survey Results on ‘Government Provides Support for BPK Results and Recommendations’**

![Survey Results](chart)


Some of the positive comments from auditors and auditees are as follows:
“Auditees have responded positively to BPK reports and have the commitment to make some corrections based on auditors’ recommendations” (Interview B17, an auditor of AKN I).

“Under the new laws, audit recommendations from BPK help us to provide better management of state finances and improve the performance of organisations” (Interview A7, an auditee from the Ministry of Education).

“We have a commitment to support the roles and functions of BPK for better performance in the public sector” (Interview A22, an auditee from Bandung city).

These quotes indicate that both auditors and auditees found BPK reports and recommendations important to help public sector agencies provide better public administration, performance and accountability.

On the other hand, there were some negative and neutral responses during the survey. For the auditors’ group, 48 per cent had a ‘neutral’ response, 3 per cent ‘disagreed’ and 1 per cent ‘strongly disagreed’. For the auditees’ group, 8 per cent responded ‘neutral’ and 5 per cent responded ‘disagree’. The survey results indicated that almost 50 per cent of the auditors group responded as being uncertain or doubtful about support from the government. During the interview, auditors and auditees commented as follows:

“To adapt to the reforms in the system of new state finance management in government institutions which is not transparent and disordered, needs longer time” (Interview A15, an auditee from Cianjur District).

“Lack of commitment from auditees to change their attitude and to reform financial administration” (Interview B15, an auditor of AKN III).

The statements indicate that government did not perform transparently and accountably in managing state finances. Significant doubts from auditee and auditor about the ability of government to follow up audit reports and recommendations which can help the bureaucracy reform of financial public administration.

To conclude, the Indonesian government has not fully implemented the new government accounting standards (SAP 2005) as the basis of providing government financial statements. The efforts of the government to reform state financial management
and auditing were noted by the number of positive responses in the survey. Since 2003, the government has reformed the state finance management system, starting from the Ministry of Finance and followed by all other departments. Data and survey results indicate that the government agencies found it hard to provide support for BPK’s audit findings and reports in the short term. Since 2004, the central government has had a ‘disclaimer’ opinion for its financial statement reports. This is because BPK cannot audit the tax revenue office or foreign loans well as the due to the poor management of state assets and lack of transparency and accountability by government agencies. However, the response from government and the support from the President to make changes and to reform public administration based on BPK reports and recommendation, were still low. Up until 2008, some government agencies still showed no significant change in their commitment and behavior to reform their organisations to perform better in public accountability. BPK seeks to hold consultations and discussions with government agencies to improve government support and to provide collaborative solutions for improving anticorruption programs, transparency and accountability, and to implement necessary reforms in public sector agencies. BPK encourages the leaders of institutions and agencies to improve the accountability of state finances in many ways. These include (i) improving their accounting and financial reporting systems and information technology system, (ii) regulating government accounts, (iii) providing inventory and valuation of assets and liabilities, (iv) improving quality assurance from internal auditors, and (v) improving human resources quality who contributed and worked for management finance both at central and local government. For example on 18\textsuperscript{th} July 2008 (Kasnah, November-December 2008: 40), BPK held discussions with all state institutions, including Members
of Parliament, the state secretary and the Central Bank, to obtain support for BPK findings and recommendations

7.3 Law Enforcement Support from Authorised Investigators

This section examines the essential factor of law enforcement support for effective audit reports. As mandated by Article 8 of the Law on BPK (2006), authorised investigators should follow up any BPK audit reports that indicate fraud, criminal irregularities and corruption. Authorised investigators include the Attorney General, the Police and the Corruption Eradication Commission (KPK). In line with the national anticorruption program, since 2004 BPK has focused on audit work in the areas of corruption, collusion and nepotism. Recently, BPK has found increasingly reliable evidence of significant fraud and corruption as the result of investigative audits. There are many BPK reports and findings that indicate of corruption that have to be followed up by the authorised investigators.

BPK found indications of corruption and criminality in several public sector agencies and which were published in local and national newspapers, magazines and television. BPK found false and fictitious documentation and transactions to claim money for budget activities that were never carried out. These fictitious activities included workshops, consulting services, procurement of goods and business travel. BPK reported Rp. 3.85 billion (US$420,000)\(^{106}\) or about 20 per cent of total government expenditure were

\(^{106}\) Rate US$1 = Rp.9,172 (as of 23\(^{rd}\) September 2006).
fraudulent (INTOSAI 2006a:10). The investigative audit reports were sent to DPR and the office of the Attorney General for further action on September 2005.

BPK also found central government entities showing a discrepancy of Rp.257 trillion. These include: (i) the Ministry of Transportation with a discrepancy of Rp.751 million from a total audit valued at Rp.2.51 trillion, (ii) the Ministry of Finance with a discrepancy of Rp.51 trillion with a total audit valued at Rp.207 trillion, (iii) Gelora Bung Karno with a discrepancy of Rp.40 million, and (iv) the Supreme Court with a discrepancy of Rp.464 million from a total audit valued at Rp.502 million.

Two other findings in the audit report of semester II of 2005 indicated corruption involving Rp.201.5 million. The first case regarded the implementation of the Provincial Health Project II (PHP II) in the Health Department in Jakarta and involved a loss valued at Rp.1.75 million. The second case regarded the audit results of the President’s Secretariat found that the Board of Management Complex Kemayoran and Sport Arena of Bung Karno had a total loss valued at Rp.199.75 million.

The Chairman of BPK (Hudiono 17th May 2006) stated that BPK had reported two cases indicating corruption to a value of Rp.201.5 billion to the Attorney General’s Office for further investigation, namely: a Health Ministry Project with potential state losses of Rp.1.75 billion, and the State Secretariat’s management with a value of Rp.199.75 billion-worth of state assets at the Gelora Bung Karno Sports Stadium and the Kemayoran Complex. These were reported to the Attorney General to be followed up and published in the media, but have not been followed up.

Chairman of BPK also explained (Sam 2006) that in the past, all areas of the Bung Karno Sport Arena were allocated for the development of public sports facilities. However,
in reality, some of them were reallocated and re-functioned as commercial areas belonging to the families of high state officials, for instance, the location of Plaza Senayan Building, Hotel Hilton and Hotel Mulia. He also explained another case regarding the land of Kemayoran Airport that in the past belonged to private owners, who sold the land to investors at a low price. Land was sold cheaply by the owner, because the owner thought the land will be used for public purpose (that is for public sport area and training). However, the investors transferred the land to another party to be used for commercial purposes, such as the location for the Palazo Apartments and Mitra Keluarga Kemayoran Hospital.

Moreover, from December 2004 to December 2008, there were 21 cases of BPK reports and findings indicating criminality to the value of Rp.20.22 trillion (Auditor Magazine 2008: 30), that were reported to the Police of the Republic Indonesia (POLRI). Notwithstanding, audit reports that indicated corruption and criminality and were published in media outlets, have not been followed up by investigators or law enforcers. BPK reported the reluctance of the government in responding to BPK audit results to the President. The President asked the Police and the Attorney General to examine audit reports on state agencies that indicated criminal activities (Media Indonesia 2 December 2006). But according to the judgment of some Members of Parliament and other observers, law enforcement officials respond poorly to the BPK audit findings that indicate criminal activities or fraud.

The Attorney General of the Republic of Indonesia, Abdurrahman Saleh argued that law enforcers found obstacles in following up evidence from BPK reports on cases of corruption (Saleh 2007: 8). Although BPK reports found indications of corruption, there
were different perceptions among law enforcers about whether or not the cases actually involved corruption or not. The Attorney General (Saleh 2007: 8) argued that in analysing corruption cases, criminal irregularities and state finance losses, having the same perceptions is important to uncover corruption cases, round up corruptors and apply criminal sanctions. This means that although BPK reported findings indicating corruption to law enforcers and the public, these findings were not enough to lead to any prosecutions. Further investigations from law enforcement were not conducted effectively, because the cases of corruption were still debatable.

7.3.1 Mechanisms and Findings Indicating Corruption

Due to the low follow-up by law enforcers on BPK reports indicating criminality and corruption, BPK provided new mechanisms to improve this situation. The first new mechanism was the signing of a joint agreement between BPK and KPK concerning cooperation and efforts to prevent and eradicate corruption (KPK and BPK RI 2006)\textsuperscript{107}. The agreement covers the coordination of information exchange, personnel assistance, education and training, and further investigation. The Chairman of BPK explained (\textit{Eksekutif} January 2007:18-23) that BPK only report to the KPK findings that indicate fraud and corruption as preliminary evidence. KPK has to follow up the reports by conducting further investigations to prove whether the corruption exists or not.

Article 3 of this agreement focuses on the exchange of information between KPK and BPK in relation to the duty and authority of each party. BPK reports audit findings and

\textsuperscript{107} The agreement was signed by the Chairman of BPK and the Head of KPK on 25\textsuperscript{th} September 2006 in Jakarta.
information that is required by KPK to investigate or handle any cases that indicate corruption. On the other hand, BPK can obtain information from KPK in regard to any complaints or information from the public indicating corruption, and other information required by BPK to conduct an investigative audit. All confidential information to or from BPK and KPK must be given in writing and is signed by the respective heads of BPK and KPK.

The second new mechanism was an agreement signed between BPK and the Centre for Reporting and Analysis of Financial Transactions (PPATK) to more effectively prevent and eradicate criminality related to money laundering (PPATK and BPK RI 2006). The purposes of this agreement between BPK and PPATK are to exchange of data and information, to assist in promoting system against criminality related to money laundering, and to provide trainings and education\textsuperscript{108}. For the transfer of information, both parties agreed that BPK could provide to PPATK information in audit reports that indicates money laundering. On the other hand, PPATK provides information to BPK in regard to abuses of authority and contempt of regulations related to money laundering. Although cooperation among BPK, KPK and PPATK has occurred before, the joint agreements show that further efforts are being undertaken to prevent money laundering and to strengthen more effective cooperation.

The third new mechanism was a joint agreement signed in 2006 between the Attorney General and the police (Kep-019/A/JA/03/2006) to improve the effectiveness of coordination to eradicate corruption (Saleh 2007: 16). However, this cooperation has not

\textsuperscript{108} This agreement was executed in the head office of BPK, on 25\textsuperscript{th} September 2006 and was signed by the Chairman of BPK and the head of PPATK.
run effectively due to different perceptions between the laws enforcers regarding the
definition of state finances. The Attorney General (Saleh 2007: 4) indicated this as follows:

The detailed information on the definition of state finances and state loss are stated in
two administrative laws, the Law on State Finances and the Law on BPK. For
criminal activities, the definition of state finances which are relevant to corruption
shall be based on general provision of Law on Corruption (No. 31/1999). The
definition of state finances mentioned in State Finance and BPK Laws is more
detailed compared to Law on Corruption that is more general. Yet, Law on State
Finance is in the range of administrative law. If it is related to a criminal case, law
enforcers use the definition of state finances based on the Law on Corruption. In
criminal cases, the principle of *lex specialis derogat lex generalis* (the specific laws
overrule the general laws) prevails. Consequently, in handling the case of corruption,
the definition of state finances is based on the specific and special definition
mentioned in Law on Corruption.

This statement means that the definition of state finances stipulated by the Law on State
Finances (GOI 2003b) and the Law on BPK (GOI 2006b) provides the scope of public
finance administration. Considering that state finance has close links with criminal cases of
corruption, the definition of state finances is based on the Law Number 31 of 1999 on
Eradication of Criminal Corruption is:

> All government property in any forms, separated or not separated, including all the
> state property and all the rights and the responsibilities because they are, (1) under
> the authority, management and responsibilities of state institution officials, at both
central and local levels (2) under the authority, management and responsibilities of
SOEs/ROEs, foundations, law boards and enterprises that involve state capital or
companies that involve capital from a third party based on the agreement with the
state.

The Attorney General has argued for a different perception or definition of state finances
in SOEs, which is still under discussion (as stated earlier in Section 5.1.1).

The fourth new mechanism is an agreement between BPK and the Attorney
General made on 25 July 2007 (Kejaksaan Agung and BPK RI 2007) to support the
effectiveness of BPK reports that indicate a criminal matter. The agreement covers coordination between BPK and the Attorney General for the submission of BPK’s audit results to the Attorney General’s office, law enforcement on BPK audit findings that indicate corruption, and their cooperation in education and training.

The joint agreement between BPK and the law enforcers in this example is with the Attorney General as depicted in Figure 7.5 (below), which shows the coordination in following up BPK reports that indicate criminality. BPK submits these audit findings to the law enforcers, including the Attorney General. If the preliminary audit findings from BPK provide sufficient evidence, the Attorney General has to follow up that case by undertaking further investigation. On the other hand, if the preliminary evidence is insufficient, the Attorney General can ask BPK to audit further in order to obtain the required evidence. After BPK audit findings are submitted to the Attorney General, the results of the investigators have to be reported within two months. The agreement also includes the provision of BPK experts or auditors to the Attorney General and vice versa. Appointed officials must propose their requirements in writing. For assistance from BPK auditors in calculating state finance losses, Article 7 of the joint agreement stipulates that not more than two months after accepting the requirement for state finance loss calculation, the result of this calculation must be presented to the Attorney General. Moreover, BPK and the Attorney General conduct joint education and training for BPK auditors and Attorney General officials on the requirements for investigative audits.

109 This is based on Chapter I, Article I, point ‘E’ of the joint agreement between BPK and the Attorney General. Law enforcement is the activity of investigation, prosecution, auditing at court and conducting decision (Kejaksan Agung and BPK RI 2007).

110 This agreement was signed by the Chairman of BPK and the Attorney General on 25th July 2007.
Figure 7.5 Coordination between BPK and the Attorney General Indicating Corruption

BPK auditors calculate state finance loss

BPK’s audit findings indicating corruption fraud

Presentation and discussion

Source: Adapted from the joint agreement between BPK and the Attorney General, 25th July 2007, Jakarta (MOU Kejaksaan Agung and BPK RI 2007).

To implement this joint agreement, as stipulated in Article 10, BPK and the Attorney General respectively appoint and place at least two coordinators, one in the central office of BPK or the Attorney General and the other in a representative office of BPK or the Attorney General.

The head of Parliament\(^{111}\) emphasised the significant role and functions of law enforcers and BPK for eradicating corruption. Further investigation and handling of the corruption cases are the commitment of law enforcers. Since the agreement, support from

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\(^{111}\) Keynote Speech at the One Day Seminar of Public Sector Auditing, on 9th January 2007, Jakarta Convention Centre, Jakarta.
the Attorney General in following up BPK reports has improved. For example, in 2006, the Attorney General followed up four cases of BPK findings that indicated corruption to a value of Rp.85,11 billion and US$4.23 million\textsuperscript{112} (equal to Rp.38 billion) on SOEs and state institutions (\textit{Bisnis Indonesia} 1\textsuperscript{st} December 2006). Moreover, KPK and the Attorney General are following up the BLBI case seriously (\textit{Pelita} 9\textsuperscript{th} January 2008; \textit{Seputar Indonesia} 9\textsuperscript{th} January 2008).

### 7.3.2 Survey Results and Comments on Support from Authorised Investigators

The survey results indicate various opinion from auditors and auditees on the support of authorised investigators for BPK reports that indicated corruption and fraud. Figure 7.6 (below) shows that the majority of respondents were ‘neutral’. Moreover, similar perceptions were presented by both auditors and auditees, only a few responded ‘strongly agree’ and ‘strongly disagree’ and similar percentages responded ‘agree’ (auditors 23 per cent and auditees 22 per cent). The results imply that the support from authorised investigators remained low.

**Figure 7.6 Survey Results of ‘Authorised Investigators Support the Audit Findings of BPK Indicating Corruption and Fraud’**

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure7_6.png}
\caption{Survey Results of ‘Authorised Investigators Support the Audit Findings of BPK Indicating Corruption and Fraud’}
\end{figure}

\textsuperscript{112} The Government of the Republic of Indonesia uses two currencies for payment. Payment in the country uses Indonesian Rupiah (IDR), while for public goods and services to and from abroad, use US Dollar payment.
Auditors and Members of Parliament expressed their opinions on the importance of support to BPK reports from authorised investigators as follows:

- “Follow-up of fraud indications is really dependent on the Police and Attorney General and KPK” (Interview B23, an auditor of AKN V).
- “Audit reports from BPK are not final reports. If there are findings that indicate fraud or corruption, these reports need to be followed up by Police or the Attorney General or KPK for a further investigation” (Interview C6, a Member of Parliament from Commission IX of PAN faction).
- “Ineffectiveness of government auditing is because of the low commitment of law enforcers to follow up this audit result. The institutions of law enforcers themselves have to be improved” (Interview C12, a Member of Parliament from Commission II of PKS faction).

These excerpts indicate that auditors have no authority to take action or follow up for auditees who have criminal indications based on audit findings. The sanction from auditors is substantially limited to shaming auditees through the publication of their audit reports.

A Member of Parliament from Commission V stated (*Suara Pembaharuan* 16th May 2006) as follows:

Law enforcers, such as the Police and the Attorney General should use BPK audit findings as preliminary evidence to solve some irregularities in SOEs and government entities, by requesting BPK to do an audit investigation.

Although this statement indicates that BPK reports are important for the Police and the Attorney General as evidence for further investigation, law enforcers and investigators did not take BPK findings seriously.

Some negative responses were also recorded in the survey results. Of the total respondents, 60 per cent were ‘neutral’, 13 per cent ‘disagreed’ and 1 per cent ‘strongly disagreed’.

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113 This is based on an interview on 14th November 2006, at Parliament House (Wisma Nusantara I), Jakarta
disagreed’. The negative views from auditors and Members of Parliament indicate a lack of willingness of authorised investigators to follow up audit findings. The following statements reflect their criticisms:

- “Police, the Attorney General and KPK have not followed up audit reports optimally” (auditors).
- “Many audit findings or audit reports had not been followed up by the Police and the Attorney General” (Members of Parliament).

These excerpts imply that the Attorney General and the Police were not concerned with following up BPK’s audit findings. Two Members of Parliament from the National Mandate Party (PAN) faction made the following criticisms (Rakyat Merdeka 18th May 2006):

BPK’s audit reports found state losses to a value of Rp.40 trillion, but only Rp.10 billion was returned to state revenues. This indicates that no serious efforts to eradicate corruption were made.

And on the lack of followup by law enforcers:

Law enforcers were not objective in their work. Police caught many suspected people that were under investigation. But strangely, people engaged in criminal activities which clearly caused trillions of state losses were still free and still could be negotiated with, for instance, fraud of BLBI which lost trillions of state funds but were still free and untouchable. It is obviously not fair.

These statements identify a lack of effort from law enforcers in following up on audit findings. One of the Members of Parliament indicated that money returned from those state losses was only 0.025 per cent of the total value and criticised the lack of law enforcement for auditees who perpetrated fraud on state finances.

An auditee who pointed out the misuse of BPK audit findings by investigators commented as follows:

I strongly agree if there is any suspicions of fraud, audit findings have to be followed up for further investigation by the Police, Attorney General or BPK. However, in
some cases, there was deliberate bullying by investigators or Police where fraud was suggested. This situation sometimes caused further fraud.

Supported this view is a statement made by a researcher from Parliament, who said, ‘In some cases, evidence from BPK’s audit findings has been used by law enforcers as a tool to pressure the corrupted audited entities”¹¹⁴.

In addition, a Member of Parliament from Commission IX criticised the lack of coordination between BPK and law enforcers and was cited in a national newspaper (Rakyat Merdeka18 May 2006), as follows:

Lack of coordination between BPK and law enforces has resulted on making no sense of cases. For example, BPK had not yet reported its findings, but the Police had considered irregularities. On the contrary, BPK reported fraud that should be followed up, but the Police did not do.

In a keynote address in 2007, the head of Parliament¹¹⁵ concurred with the above view as follows:

For audit findings that indicate corruption, BPK reported and submitted to KPK, the Attorney General and Police. Therefore, the role of BPK in eradicating corruption is significant. Nevertheless, its role is limited to auditing and then stops. After that, the BPK findings will depend on the commitment of law enforcers to follow up the findings.

This statement implied a lack of coordination between BPK and law enforcers. They work separately and independently. Although BPK had provided audit reports, law enforcers did not use the reports as preliminary data for further investigations.

To summarise, the survey results and data in this study indicate a lack of support from authorised investigators for audit findings that have indications of corruption and

¹¹⁴ This is based on interview with a researcher at Secretariat General of Parliament during fieldwork on 4th January 2007.
fraud. To improve investigator follow-up of such audit findings, four mechanisms were introduced. These are: (1) a joint agreement between BPK and KPK to prevent and eliminate corruption, (2) a joint agreement between BPK and PPATK, related to data for preventing and eradicating corruption, (3) strengthened coordination between the Attorney General and police of the Republic of Indonesia, and (iv) a joint agreement between BPK and the Attorney General to support more effective law enforcement. Since the implementation of these mechanisms, there have been significant changes in support by authorised investigators for BPK audit findings indicating criminal activities.

7.4 Public and Media Support

Prior to audit reform, BPK reports were not made public as they were designated as state confidential documents. The media had no freedom to disclose news that could threaten Indonesia’s political stability. This resulted in little information for the public on the roles and functions of BPK in auditing public sector to support bureaucratic reform.

As democracy has emerged in Indonesia, the public is demanding accountability and transparency in the administrative system. Since the Reformation Era, the public and media have freedom to access information on public sector agencies to ensure their accountability. BPK reports are published to provide the public with information on the transparency, performance and accountability of the government and all agencies that use public finances.

7.4.1 Media and the Public to Disseminate BPK Reports

Since audit reform, the public and media have had significant roles and functions in securing the effectiveness of information in BPK reports. The media is a tool for BPK to
disseminate its work and for the public to criticise the government and urge it to provide better performance based on the recommendations provided by auditors. Within the spirit of transparency, the public and media have access to data and information in the Indonesian public sector and can participate in controlling government policies, decisions, performance and in providing transparency and accountability in public administration.

The audit findings and reports revealing inefficiency, poor public administration and corruption can result in protests and demonstrations against the lack of government accountability. This means that the public and media significantly participate in controlling the quality and accountability of public administration and the quality of information in BPK reports. Besides, the participation and responses of the Indonesian people to the information in BPK reports related to the malpractice by government officials, influence significantly influence the effectiveness of follow up on audit reports.

The public plays a critical role in demanding accountability by the government and Legislature. However, in the case of Indonesia, Satriyo et.al(2003:32-34) argued that the public had insufficient understanding of the meaning of accountability and lacked information of possible benefits of audit reports to their lives as their right to accountability. This resulted from the weaknesses of civil society in promoting public accountability by participating in controlling the performance of state and public sector agencies, including BPK. A 2002 study by LP3ES (Economic and Social Research, Education and Information Agency) found that only 53 per cent of the public in 10 big
cities\textsuperscript{116} of Indonesia recognised BPK from television and only 7 per cent from school (LP3ES 2002). In 2004, another study indicated a significant increase in public knowledge about BPK; 85 per cent of the public knew about BPK’s roles and functions from print media, radio, television and school (LP3ES 2004: 13-18). However, published BPK reports were not evenly distributed throughout the small villages and districts regions where had little access to the media (ADB 2004a). The results indicate that the media plays a significant role in informing the public about the roles and functions of BPK in auditing public funds and resources.

Moreover, the ADB (2004a:52) pointed out, “Public sector accountability is constrained by a weak capacity of oversight institutions and lack of awareness of the public on the role of government institutions, such as the audit institutions”. This meant that the lack of transparency in the government environment as well as in the Legislature created a lack of understanding of civil society and the public to defend their right on the government accountability.

Since 2005, BPK has had programs to increase public understanding of the state audit system and functions and to enhance public capability in controlling and demanding transparency and performance of the government in managing public resources. The program collaborates with the media at both local and national levels and involves television, radio, community, the leaders of religious groups (such as Nahdlatul Ulama and Muhammadyah), academia, professionals, International Organisation of Supreme Audit Institutions (INTOSAI), Asian Organisation of Supreme Audit Institutions (ASOSAI), IAI

\textsuperscript{116} Jakarta, Medan, Yogjakarta, Surabaya, Makasar, Bandung, Palembang, Denpasar, Banjarmasin and Mataram.
(Indonesian Accountant Association), Indonesian Corruption Watch (ICW) and Transparency International, and the bureaucracy (national and local levels). For example, BPK has a public education campaign program with two main purposes, namely: (1) to build good governance, accountability and a transparent environment of government expenditure, and (2) to provide a strong auditing function by the involvement of civil society. Thus, the public education campaign aims to provide understanding for the public on how Indonesian state finances or public money is spent, and what the benefits are for the public. This program is very useful for the public, because before reform, the government were very secretive about public finances.

BPK’s efforts have increased the public’s cynicism and demands relating to the performance and accountability of politicians and bureaucrats. For instance, as a result of the refusal by Supreme Court to be audited by BPK in the case of obtaining court fees, a protest involving theatrical action was mounted in front of the Supreme Court building, organised by NGOs including the Indonesia Legal Resources Centre, the Indonesian Law Aid Institution and ICW (Kompas 26th April 2008). News headlines of print media have focused on findings of BPK. For examples: (1) the case of BLBI, corruption, irregularities in central and local governments; (2) auditees’ financial statements which were not based on the government accounting standard, non-compliance with laws and regulations; and (3) conflict between BPK and Supreme Court. All these BPK findings had provided positive responses from the public for BPK. Indraswati and Desilia (2008: 47-48) emphasised the media’s publication of BPK’s roles, functions, and findings in providing government transparency and accountability.
7.5 Conclusion on Factors Influencing Public Sector Auditing in Indonesia

This study has examined factors influencing the reporting of audit information and factors influencing acting on audit information in reports.

The independence and autonomy of an audit institution is the most important factor influencing the effectiveness of information in public sector audit reports. This includes for the quality of the information (in particular, credibility and objectivity), the content and communication of information, and the capacity to act on information in audit reports (in particular, realistic recommendations). However, before audit reform in 2001, BPK was under the control of government. The Chairman and Members of BPK were appointed by the President and had a close relationship with the government. The role of BPK as an external audit institution failed because auditors were neither independent nor professional. This influenced the objectivity and credibility of BPK audit reports.

The auditors’ professional ethics were dominated by a bureaucratic culture and regulations. Budget resources came from the state budget and were determined by the Ministry of Finance. The personnel of BPK were public servants who complied with the regulations of MENPAN and the State Personnel Board (BKN), the same requirements as for public servant personnel administration. Moreover, BPK’s budget resources were derived from the Ministry of Finance (MOF) through the state budget (APBN) and that impacted on other resources (including personnel, offices and other facilities). In addition, another internal audit institution, BPKP, which had the same function as BPK in carrying out post-auditing, had a much higher budget than BPK. In contrast, BPK had insufficient budget and resources to conduct audits for public agencies. As a result, BPK could not provide good incomes for its auditors or develop their professionalism through training and
education. BPK had no modern equipment, was underfunded and employed underqualified staff. Moreover, BPK auditors had no legal protection or security assurance when uncovering audit findings and this increased their lack of integrity and professionalism. This situation significantly influenced the quality of auditing.

There has been a significant change in BPK independence and resources since audit reform. BPK has maintained its independence in order to obtain trust from stakeholders about its auditing. Survey results on the independence and autonomy of BPK in managing its resources indicate positive perceptions from auditors and auditees. However, these perceptions may not be fully reliable as some negative views were revealed during the interviews to mitigate the optimistic survey results.

After audit reform, the independence of BPK in managing its budgeting and personnel resources has significantly changed. Although BPK personnel are public servants, BPK has more flexibility to manage its human and budget resources. BPK’s budget and human resources have increased gradually based on the needs of organisation. The budget is mostly allocated for auditor remuneration, recruitment of new personnel, improvement of IT and modern equipment, and opening new representative offices. In short, all the budget allocation is used to support the roles and functions of BPK to audit the entire state finances of Indonesia. For public accountability of its financial and performance, BPK had been reviewed by independent peer-review since 2007.

BPK helps the Members of Parliament rather than becoming public servants under the government. BPK resources are based on its needs which are separated from the government budget and approved by Parliament. Furthermore, new processes for
appointing and electing BPK’s Members, Vice Chairman and Chairman have addressed the issue of independence of BPK’s leadership.

The professionalism and integrity of auditors and Members of BPK are an essential factor influencing the effectiveness of information in BPK reports. This study found that before audit reform, BPK had very limited budget and resources to develop its auditors’ skills, competencies and education. Moreover, low incentives and salaries significantly reduced the professionalism and integrity of auditors. The programs and materials from the training and education centre did not provide significant benefits for BPK auditors to improve their skills and competency. In addition, there was lack of opportunity for auditors to pursue further formal education and training both inside and outside Indonesia.

Since audit reform, there have been significant changes that are improving the quality and professionalism of BPK auditors. They have greater opportunities to develop their skills and education both locally and abroad. BPK has taken advantage of international and national cooperation to provide education and training programs to improve professional qualifications through audit trainings, workshops and seminars. Besides the education and training centre in Jakarta, BPK also opened education and training units in Medan (North Sumatera) for auditors from the western part of Indonesia, Yogyakarta (Central Java) for auditors from the central region, and Makassar (South Sulawesi) for auditors from the eastern region. BPK has also gradually increased the salaries and rewards for its Members, auditors, managers and staff. Since reform, the remuneration system has employed a reward and punishment system for BPK personnel. BPK also has established a Code of Ethics and formed the Honorary Board of Code of Ethics to monitor the performance of its Members and auditors. These efforts have
gradually improved the professionalism and integrity of auditors and provide optimism for future improvement.

Before reform, BPK had an inadequate number of personnel. Since reform, in line with the Constitution mandate stipulating that BPK has to audit all public sector agencies, BPK has increased the total number of its personnel by more than 2513. However, BPK still lacks the required number of auditors and staff with accounting, finance and other academic backgrounds to conduct financial and performance audits for all public sector agencies. To meet its needs, BPK employs auditors from Public Accountant Office (KAP) who have been trained and have received the BPK certificate to conduct financial audits on behalf of BPK. Therefore, BPK auditors can concentrate more on conducting performance and investigation audits.

Before reform, BPK had very little modern equipment and had no information technology resources. Since audit reform, the roles and functions of BPK have improved significantly and IT resources and modern equipment has been increased to better support the audit work. BPK now has a Local Area Networking (LAN), the internet and many more computers, notebooks, laser jet printers, scanners and computer applications. However, as a result of additional personnel and offices, it seems that IT resources are still not satisfactory, especially for the representative offices.

Before the audit reform, BPK had only one central office and six representative offices. Following the mandate from the amended Constitution to provide a representative office in every province, by 2008 BPK had opened 27 new representative offices (22 of these during 2005-2007). Thus, in terms of location, BPK is much closer to auditees. The new representative offices influence the quality of BPK reports, because auditors can be
more engaged with the culture of local governments and ROE, have more understanding of local public administrative problems, can provide better audit recommendations and have more time to audit. In addition, auditors can save on traveling time and have fewer expenses for traveling as auditees and auditors live in the same province.

Before audit reform, BPK reports were never responded to by the Legislature. During the Reformation Era, the study found a lack of Parliamentary Members who responded to BPK opinions and recommendations seriously. The study found that Members of the Legislature had limited interest and understanding of the content in BPK reports. To solve this problem, effective communication and joint agreement has been made between BPK and the Members of the Legislature. The increasing number and quality of consultations, discussions and meetings between these two institutions have significantly improved responses from the Members in reviewing BPK reports. Better communication has provided open and clear explanations and information related to audit opinions and recommendations provided by BPK. The findings and opinions from BPK assist the Members to conduct their own functions in controlling the accountability of state finances and in approving the budget plans of the government. BPK helps Members of Parliaments at both the central and local levels in reviewing and overseeing audit reports if they find the reports unclear. The joint agreement also helps Members of regional Parliament to obtain information about the BPK opinion on the financial accountability and performance of regional governments.

Since public demand for the accountability of the Executive in managing resources has increased, information in BPK reports needs to be followed up by public sector agencies. Data indicates low support from government agencies for following up the
information in BPK reports and audit recommendations for improving public administration. Auditees argued that BPK’s recommendations are difficult to implement and the rapid changes of administrative laws related to finances, accounting and auditing are hard to follow. The auditees found difficulties in implementing new Government Accounting Standards (2005). Government has made some effort to help agencies to adapt more quickly to the financial management changes. However, the limited number of qualified human resources and limited commitment of the heads of local government to follow up BPK reports have impeded the improvement of public administration. BPK has conducted consultations and meetings with government institutions to provide collaborative solutions for providing better financial management and accountability in the public sector.

The study found that the information in BPK reports and audit findings with indication of criminality, frauds and corruption, are lack of supports from authorised investigators (the Attorney General, the Corruption Eradication Commission or KPK, and the Police). As there had been a lack of follow up of BPK reports that indicated fraud and corruption, BPK and authorised investigators signed joint agreements to ensure more effective coordination and communication for the follow up of BPK reports. These joint agreements include cooperating in joint legal areas of education and training: from the Attorney General to BPK auditors, and otherwise, education and training related to state finance auditing from BPK to the personnel of Attorney General.

Moreover, BPK and the Centre for Reporting and Analysis of Financial Transactions (PPATK) signed an agreement for cooperation (1) to exchange of data and information, (2) to assist in promoting system against criminality related to money
laundering, and (3) to provide trainings and education. These agreements have all had a positive influence in providing better follow-up of BPK audit findings by the Attorney General, the KPK and the Police.

Since audit reform, the public and media have played important roles in influencing the effectiveness of information in BPK reports. Since 2006, BPK has conducted public awareness programs for disseminating information about its roles and functions to provide better management and transparency on state finances and public money (Natanegara and Leong 9th June 2006). This has been achieved through collaboration with the media. BPK also has cooperation with public service advertising on commercial television and radio, community and religious groups, academia, NGOs, and the bureaucracy. Moreover, BPK has held national public education campaigns to educate the public and to promote public participation in public sector auditing. This study revealed that since reform, the media have been enthusiastic to draw public attention to audit report findings. As a result, the public has started to become aware about the importance of public sector auditing as means of saving public finances from inefficiency, ineffectiveness, fraud, money laundering and corruption.

Table 7.1 (below) summarises the reforms of the factors that influence the quality of information in BPK audit reports and shows that significant improvements have occurred since audit reform.
### Table 7-1 Summary of Reforms in Factors Influencing Information in BPK Reports

<table>
<thead>
<tr>
<th>No</th>
<th>Factors</th>
<th>Sub Factors</th>
<th>Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Independence</td>
<td>Leaders</td>
<td>The election of Board Members is based on a proposal from BPK and elected by the Members of Parliament, while the Chairman is appointed from and by Board Members.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Budget and personnel</td>
<td>Flexibility for BPK to manage its financial and human resources. Budget resources are separated from the annual state budget and are approved directly by Parliament. BPK's financial reports are audited by the independent Public Accountant Office (KAP).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The quality of auditing</td>
<td>Reviewed and audited by an SAI of INTOSAI Member.</td>
</tr>
<tr>
<td>2</td>
<td>Integrity and</td>
<td>Providing the Code of Ethics for the Board of Members and auditors of BPK. Forming the Honorary Board of Code of Ethics to monitor the implementation of the Code. Developing the functional positions for auditors that are separated from structural positions. Applying a remuneration system for auditors, managers, and staff to improve their performance.</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Audit resources</td>
<td>Budget resources</td>
<td>Budget resources based on BPK needs to audit all public sector agencies and to fulfil the demands of the legislative.</td>
</tr>
<tr>
<td>No</td>
<td>Factors</td>
<td>Sub Factors</td>
<td>Descriptions</td>
</tr>
<tr>
<td>----</td>
<td>---------------------------------------------</td>
<td>--------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>Audit resources</td>
<td>Human resources</td>
<td>Increasing number and quality of BPK personnel from different educational backgrounds. Two additional Members of the Board taking it to nine (since 2007). Providing training and education for representative offices in Medan and in Makassar. Developing cooperation with other SAIs in education, training, workshops and conferences for auditors, managers and staff. Creating more opportunities for auditors and staff to pursue their formal education and to improve skills and knowledge inside and outside the country.</td>
</tr>
<tr>
<td></td>
<td>Communications and IT</td>
<td></td>
<td>Significant improvement in number of computers, laptops and other modern equipment. Developing an electronic communication network and website to publish audit reports.</td>
</tr>
<tr>
<td></td>
<td>Office</td>
<td></td>
<td>Having a representative office in every province and opening 27 new representative offices within 3-years (2005-2007).</td>
</tr>
<tr>
<td>4</td>
<td>Political, government and law enforcement support</td>
<td>Government support</td>
<td>Providing a new government accounting standards (2005) with accruals-based accounting system to provide financial statements. Strengthening the function of internal audit institutions in managing state finances.</td>
</tr>
<tr>
<td></td>
<td>Political support to review audit reports</td>
<td></td>
<td>A joint agreement between BPK and Parliament, at both central and regional levels.</td>
</tr>
<tr>
<td></td>
<td>Law enforcement support to reduce corruption</td>
<td></td>
<td>Joint agreements between BPK and KPK, PPATK and the Attorney General.</td>
</tr>
</tbody>
</table>
Chapter 8

Conclusions and Recommendations

This thesis has analysed the effectiveness of Indonesia Supreme Audit Institution (ISAI), BPK, by examining the quality of its performance against a number of criteria for effective auditing (Chapters 4&5) and explaining this performance in terms of various factors that influence the effectiveness or ineffectiveness of auditing (Chapters 6&7). Rather than attempting an overall summary of all the findings, this conclusion seeks to highlight some of the main features of the analysis, with particular emphasis on those aspects where clear differences have emerged in the practice of auditing between the pre- and post-reform periods. The chapter then briefly lists a number of recommendations that arise out of the research, before suggesting areas for further research.

The following sections describe the conclusion of the study, which consist of two parts. The first part is the conclusion of the Indonesian public sector auditing before and after audit reform. Then, the second part explains factors that influence public sector auditing in Indonesia.

8.1 Conclusion of the Indonesian Public Sector Auditing (BPK) Before and After Audit Reform

The following sections are the conclusion of the content, information, communication of and acting on BPK audit report information.
8.1.1 Content of BPK Audit Report Information

There are significant changes in the BPK scope of auditing before and after audit reform. Before reform, BPK had a very limited scope of auditing as indicated by the following three examples. Firstly, the internal audit institution, BPKP (Financial and Development Supervisory Board) under the Executive, had a much larger number of auditees from State Owned Enterprises (SOEs), Regional Owned Enterprises (ROEs), and government agencies at both the local and central level. BPK had far fewer auditees than BPKP and only audited the central government, but not regional governments. Secondly, BPK only focused on financial and compliance auditing limited only to the expenditure from the state budget (APBN). Thirdly, BPK was prohibited from auditing the ‘gold mining state’, such as the Central Bank of Indonesia, the National Airline Company (PT. Garuda Indonesia Airways), the National Oil Company (PT. Pertamina), state-owned banks, ROEs, and other SOEs.

Since audit reform, BPK has had an expanded mandate from the Constitution and the Law on State Finances (2003), the Law on Audit (2004), and the Law on BPK (2006). Its scope of auditing now includes all state finances (both central and local governments, SOEs, ROEs, the Central Bank of Indonesia, public services agencies and other agencies using statemoney. Additionally, it has a broader scope of audit that covers three types of audits (financial, performance and specific purposes audits). Moreover, BPK has been confirmed as the only external audit institution for all public sector agencies in Indonesia, while BPKP is the internal auditor. As a result, the number of BPK auditees has increased dramatically.
In terms of access for reliability of audit evidence, before audit reform BPK had no power to seek, search and seize documents and other related items for auditing. In short, BPK had insufficient access to relevant information and data from auditees. After audit reform, BPK gained the authority to access any data and information for auditing purposes. Moreover, under the new Law on BPK (2006), sanctions apply for auditors, officials and Members of BPK who misuse their power in accessing data and information. However, the Law on Taxation, SOEs and Supreme Court prevents BPK from accessing tax revenue data, and SOE and Supreme Court (Mahkamah Agung) revenues. This situation indicates a lack of transparency and accountability of government agencies.

Before audit reform, BPK could not examine the accountability of government in managing public resources. There was no transparency, objectivity and credibility of audit reports. Audit reports were tailored to suit the government’s interests and had to be checked and sorted by the State Secretary Office (Kantor Sekretariat Negara-Sekneg) in order to prevent the instability of national security. Conversely, since reform, the Law on BPK (2006) and BPK audit standards (2007) has provided basic rules and standards for reporting audit findings objectively and credibly. The quality of information and performance of BPK audit reports are reviewed by the Auditor General of New Zealand in 2004 and the Netherlands Court of Audit in 2009. However, the study found that auditors who were pressured by auditees (for example the Policy Department and the Ministry of National Army to not publish audit findings for national stability reasons) found a lack of protection from BPK to help them perform objectively.
8.1.2 Communication of and Acting on Audit Report Information

BPK reports in the past were difficult to understand because of too many technical financial, accounting and auditing terms. These were difficult to understand for stakeholders with no knowledge or background in finance and accounting. Since audit reform, BPK has provided guidelines for auditors to provide clear and understandable reports for stakeholders. This is described under the new BPK state finance standards (2007). Moreover, BPK provides summary reports that stakeholders find easier to read, not least because they contain a glossary of technical terms.

In terms of the audit report format, before reform, BPK audit reports were difficult to read, were too complicated, were long and were poorly formatted. Since audit reform, BPK reports are presented more simply and precisely in a user-friendly way with an elegant layout, pictures, diagrams and charts. This has ensured many stakeholders are more interested to read BPK reports.

Before audit reform, information in BPK reports was out of date because the reports were too late for sending to Parliament (as this was just a formality and BPK was only a ‘rubber stamp’ for the government). Furthermore, the Indonesian government was very closed and BPK reports were not made public as the reports were included in state confidential documents. There was no transparency. As a result, the media had no freedom to disclose information. In addition, the public had a limited understanding about the importance of the roles and functions of BPK in examining the accountability of government and the performance of public sector agencies in using public funds and other resources.
Since audit reform, audit reports are issued and published on time, are printed and also presented electronically on the BPK website. New laws have required auditees to submit their reports to BPK and auditors to submit the audit reports to Parliament on time. The publication of audit findings has raised the participation of the public in controlling the performance and openness of government agencies. However, the study also found the misuse of published audit reports by the media or opponent parties in regard to sensitive cases such as those involving corruption.

In terms of realistic audit opinions and recommendations, this study found that before audit reform, there was no audit opinion from BPK because auditees did not provide financial reports. Besides, there was no standard for providing realistic audit recommendations. Since audit reform this situation changed; all auditees were required to provide financial reports that include reports on budget revenues and expenditure, balance statements, cash flows, and notes to the financial statements. As mandated by the Constitution and regulations, BPK audits all state agencies and provides opinions for their financial reports and recommendations for better performance in public administration, management and results. However, the study revealed that BPK auditors still lack the ability to provide constructive and realistic recommendations as a part of their expertise and professionalism.

Evidence indicates that the follow up of BPK audit reports is still low. Before audit reform, there was no obligation for auditees to follow up BPK audit findings or recommendations. The Parliament never followed up BPK reports that did not indicate corruption, fraud or misuse of public funds (the reports had been previously screened by the government). Since audit reform, the follow up of BPK audit findings and
recommendations is mandated by an amendment to the Constitution (2001), the Law on Audit (2004) and the Law on BPK (2006). Members of Parliament are the main stakeholders of BPK, and are mandated to follow up audit reports as part of their function to oversee the performance and accountability of government. Follow up of audit recommendations and findings are very important for providing better performance in public administration and management. BPK communicates with auditees and Members of Parliament (at both central and regional levels) to discuss and explain BPK recommendations and findings that have to be followed up. Additionally, BPK signed joint agreements with the Parliament and regional Parliaments. Moreover, BPK monitors and reports on the follow up to Parliament. As BPK has no power to give sanctions or to prosecute auditees who do not follow up audit reports, BPK also signed joint agreements with authorised investigators including the Police, the Attorney General and the Corruption Eradication Commission.

8.2 Conclusion of Factors Influencing Indonesian Public Sector Auditing

8.2.1 Independence and Autonomy of BPK

Before audit reform, there was a lack of checks and balances in state finances and policies. Indonesia was under the control of an authoritarian government, which meant that public sector auditing could not be performed independently. Evidence that public sector auditing lacked independence includes the following:(i) the Constitutional mandate that BPK was an independent audit institution was not respected by state leaders, (ii) BPKP, which was under the government, had exactly the same functions as BPK, the external
auditors, (iii) BPK’s budget was under the power of the government (the Ministry of Finance), (v) there was no independence in the appointment and dismissal of BPK Board Members (BPK leaders were appointed by the President), and (vi) BPK had no authority to organise its personnel.

In contrast, after audit reform the independence of BPK has been bolstered by the following: (i) a clear Constitutional mandate that BPK is the only external audit institution in the Republic of Indonesia which independent from the Executive to improve the transparency and accountability of the public sector; (ii) clear differentiation of the functions of BPKP (as a part of government) and BPK (as an independent body), with no rivalry between the internal and external audit institutions; (iii) an independent budget for BPK (separate from the state budget); (iv) a new system for appointing Board Members, including the Chairman and Vice Chairman. Parliament now makes the appointments, which has resulted in more independence and autonomy of BPK leaders; (v) clear regulations to maintain the independence of BPK auditors and personnel; and (vi) BPK has greater authority to organise its human resources without being subject to the strict rules administered by MENPAN (Ministry of Administrative and Bureaucratic Reforms).

8.2.2 Integrity and Professionalism of BPK Members and Auditors

Before reform, BPK Members and auditors lacked integrity and professionalism, because BPK had no formal regulations to protect their personnel’s immunity and security. It was difficult for BPK auditors to maintain their integrity when they had low incomes, audited high-risk cases and accepted financial support from auditees. Moreover, BPK had no formal rules in the form of a Code of Ethics. BPK also lacked high quality education
and training centers and resources to improve the capacity and skills of its auditors and other personnel.

Since audit reform in 2001, BPK has gradually strengthened its professionalism and the integrity of its Board Members and auditors. The provision of professional training has been one of the most important factors for providing higher quality audits. BPK has also established a Code of Ethics for maintaining auditor integrity and professionalism and its implementation has been supervised by the Honorary Members of Code of Ethics Board made up of audit professionals and academics. Based on the Law on BPK (GOI 2006b), BPK also provides immunity and security to its auditors to avoid pressure and intimidation practices (such as from heads of regional government or from the army). In addition, since BPK has implemented a performance-based remuneration system with incentives for promoting or sanctioning its auditors and staff, auditors are not allowed to accept any money, facilities, tickets and accommodation from auditees. This new system is intended to reduce bribery.

Moreover, BPK has improved its cooperation with other Member countries of INTOSAI and ASOSAI to conduct training sessions, symposiums, seminars and workshops to improve auditors’ skills and knowledge. In addition, BPK has developed the functional capacity of professional auditors who must complete a minimum 20 hours of the 80 hours education within a 1-2 year period. Therefore, BPK continues to pay attention to improving its auditors’ knowledge, skills and welfare in an effort to improve their professionalism and integrity in conducting audits for public sector agencies.
8.2.3 Auditing Resources of BPK

Since audit reform, Indonesian public sector auditing has experienced major changes. This has partly been as a result of external pressures, such as media, reviewers, the general public and auditees, but also from internal pressure to reform the organisation to fulfill its new mandates. To cope with these pressures, BPK has improved its resources such as budget, personnel/human resources, representative offices, modern equipment, computers, laptops, printers, scanners and so forth. It has also redesigned, restructured, and right-sized its organisation based on needs.

In term of budget resources, in the past BPK had a very limited budget. It was funded from the State Annual Budget (APBN) that was determined by the Executive, in this case the Ministry of Finance. As an external audit institution for the public sector, BPK had exactly the same duties and functions as BPKP. However, BPKP had larger sums of money and resources. BPK had fewer auditees than BPKP. BPKP conducted post-auditing for public sector agencies that had higher material assets, such as State Owned Enterprises (SOEs) and state banks. As a result, large companies owned by the state were audited by BPKP, including the National Oil Company (Pertamina), the Central Bank of Indonesia (the Bank of Indonesia), the National Airline Company (Garuda Indonesia Airways), the National Bank of Indonesia 1946 (BNI 46), the logistics agency (BULOG).

Since audit reform, based on the new Law on BPK (2006), the process of determining BPK’s budget and the auditing of this budget is regulated by the Law on BPK (2006). BPK’s budget is determined separately from the state budget with a special allocation from the government based on BPK’s proposal (audit needs). BPK proposes its budget directly to the Parliament. After the Parliament and the Ministry of Finance
determine the budget estimation for BPK, the budget is approved by Parliament. The data and information from the study indicate a significantly increasing budget allocation for BPK. It has been supplemented by numerous grants and loans from international organisations such as ADB, AusAID and USAID. BPK’s financial accountability is audited annually by an independent Public Accountant Office (KAP). BPK’s increased budget has significantly strengthened its audit resources, enabling it to give better compensation and welfare to its employees.

Before audit reform, the Chairmen of BPK had no power to manage their own organisation as all BPK personnel operated under the rules of the Ministry of Empowerment State Apparatus (MENPAN) and the State of Personnel Board (BKN). This included for their salary and rules, as was the case for public servants from other government institutions. BPK had no flexibility in personnel management. Moreover, BPK had a limited number of professional personnel as the professional quality of auditors and personnel grew very slowly due to limited opportunities to improve employee capacity. BPK auditors had no professional organisation for public sector auditors with backgrounds from outside accounting. In terms of personnel planning and career development, BPK employed a strong bureaucratic culture, where promotion and appointment were based on seniority rather than performance.

After audit reform, requirements of the Law on BPK (2006) and audit standards (2007) changed the management of BPK’s human resources. The Human Resources Bureau of BPK has significantly improved the number (more than 2500) and qualifications of personnel. Although there has been a significant increase in human resources, the number and quality of auditors and employees are still not met the needs of BPK. The
bureau also expanded its services and assessment to auditors and staff as capital and assets of BPK. Moreover, the Code of Ethics for BPK Members and auditors implements rewards and punishment and BPK appointments are now based on performance instead of seniority.

For the time being, to meet the needs of auditors to audit the financial reports of a large number of government agencies, BPK has been outsourcing auditors from the Public Accountant Office. Very poor transparency and capacity on the part of auditees to implement the new government accounting standards also makes the auditing job of BPK longer and more difficult. However, this outsourcing cannot continue for too long as the fees for KAP auditors are much higher than for auditors from BPK and are burdening the BPK budget. Moreover, in terms of accountability, BPK auditors have direct accountability to the public, while KAP auditors do not.

In terms of resources for performance auditing, BPK keep improve auditors’ capacity in performance auditing through trainings and education both inside and outside Indonesia. As well as increasing the number of auditors from different educational backgrounds, including economics; engineering; social and political science; law; management; agriculture; forestry; and literature; for conducting performance audit.

In order to improve BPK auditor capacity, training and education have become a key factor for BPK to meet the needs of its stakeholders to provide objective, reliable and credible information in audit reports. Before audit reform, BPK’s training and education development centre of BPK had the following issues: (i) it was not managed effectively and professionally, (ii) it lacked qualified trainers and had poor facilities, (iii) there was no evaluation of training programs, (iv) it provided limited opportunities for BPK auditors.
and staff to pursue their education and develop their skills and professionalism, (v) there was only one training and education centre at Kalibata, Jakarta, and (vi) it did not undertake a clear training needs analysis for auditors.

After reform, BPK has shown a strong commitment to improve the quality of auditors through better quality training and professional development. BPK improves numbers and quality of training and education through development cooperation with other SAIs for education, training, workshops and seminars programs. Besides, BPK has been supported through funding and other aid from international organisations. BPK now also provides continual professional development and education opportunities for auditors and other staff. Compulsory training for auditors includes at least 20 hours of 80 hours education within a 1-2 year period. Besides the centre for training and education in Kalibata (Jakarta), BPK has opened three additional centres in Medan (North Sumatera) for auditors from the western part of Indonesia, Yogjakarta (Central Java) for auditors from the central region, and Makassar (South Sulawesi) for auditors from the eastern part of Indonesia. This is an appropriate development to accelerate improvements in the quality of BPK auditors.

The quality of information in BPK audit reports is influenced by the standard of communication resources, including equipment and information technology. Before audit reform, BPK suffered from a lack of IT resources and modern equipment and had neither an electronic communications network nor website. Since audit reform, BPK made the following improvements: (i) established an electronic communications network and Local Area Networking (LAN) to transfer and report data and information quickly and accurately; (ii) created a website on which to publish audit reports; (iii) increased the
amount of modern equipment such as computers, laser printers, color printers and scanners enabling the production of more interesting and timely reports that are formatted well; and(iv) improved audit information systems and applications to support BPK roles and functions. BPK also opened an Information Technology bureau.

Prior to audit reform, BPK had only one central office in Jakarta and six representative offices while BPKP had representative offices in every province. However, since the third amendment of the 1945 Constitution in 2001, BPK has been mandated to provide an office in every province. BPK opened 27 new representative offices in Indonesia during 2006 to 2008 via budget loans and grants or by using regional government buildings. Opening representative offices has helped BPK auditors to understand better the character of local auditees and has reduced travel costs. This situation has had a positive influence on the quality of auditing in terms of reporting objective and credible information and providing constructive recommendations.

One task of Parliament is to oversee the performance and accountability of the government and to approve the government budget. Before reform, there was no evidence that Members of Parliament followed up the information from BPK reports. The majority of Members of Parliament came from the Golkar Party, as the President was the head of advisory of the Golkar party in the New Order Era. Since Indonesia became a democratic country, political support from Members of Parliament has become essential for the effectiveness of BPK reports. However, this study found a lack of understanding on the content of audit reports by Members of Parliament resulting in the inability of Parliament to act on the information in the BPK reports. To support their main tasks and functions and to improve their effectiveness in carrying out their functions overseeing and reviewing
audit reports, the Secretariat General of Parliament has assisted BPK with trained staff and experts. Moreover, the Secretariat General provides library, a special division of ‘BPK audit reports and senate budget’; and researchers to help the Members to review the BPK audit reports.

Moreover, BPK took the initiative to sign a joint agreement between with Parliament to help the Members of Parliament at both central and local levels in reviewing and overseeing the performance and accountability of public sector agencies. Since then, BPK has held many consultations with the Members of Parliament to clarify information in BPK reports. BPK has also given explanations of what actions the Members of Parliament should take to Government. These efforts from BPK and the Secretariat General have provided positive results and given the Members greater self-confidence to review BPK reports and pressure the government to perform well and accountably. However, Members of Parliament have still not achieved what the public and BPK expected.

From 2004 to 2009, BPK gave a ‘disclaimer’ opinion to all of the financial reports of the central government and to nearly half of those from regional government. This indicates poor government accountability and transparency. The public suspects ‘leakages’ have occurred in tax revenues at both central and local tax offices. However, BPK has been unable to audit tax revenues, the largest item of income in the state finances. This situation has contributed to a lack of trust from foreign and domestic investors and a reluctance to pay tax on the part of the public. Evidence that the government has lacked accountability was shown by the large amounts of foreign debt that could not be accounted for. The Minister of Finance made many attempts to reform state financial management,
however, the bureaucracy lacked capacity and many government leaders lacked commitment to implement the necessary policies and regulations.

There is evidence that public sector agencies have supported BPK audit findings and recommendations regarding making changes and improvements to their public administration. They recognise the importance of BPK audits for improving their performance, however, many public agencies remain unresponsive and lack commitment to act on BPK recommendations. For instance, public agencies have been unwilling to comply with regulations from the Ministry of Finance aimed at improving the state finance system, as indicated by the lack of integration of IT application systems for financial management in the government sector, and the slowness of government in adapting to the accrual-based accounting system. BPK sent letters directly to the President on this matter, but received no response. Through discussions, BPK has tried to raise the awareness of leaders of the public sector agencies about the importance of acting on BPK reports as a means to reform public administration.

For audit reports that indicate corruption and criminality, BPK relies on support from investigators such as the police, the Corruption Eradication Commission (KPK), and the General Attorney. This study found that BPK reported many indications of criminality in the administration of government institutions. For example, in 2006, BPK reported about 20 percent of total expenditure in public sector used fictitious documentation and transactions to claim money valued at US$420,000 (Rp. 3,99 billion)\(^{117}\). It reported many discrepancies and indications of corruption in both central and local government entities.

\(^{117}\) In 13\(^{th}\) June 2006, US$1=Rp. 9496.
However, the followup of audit findings that indicate criminality was still very low (less than 50 percent) despite these findings involving Rp.20.22 trillion between 2004-2008. Despite being reported to the police, most of these cases were never followed up.

In order to encourage investigators to act on BPK findings that indicate criminality and corruption, BPK signed agreements with the Corruption Eradication Commission (KPK), the Centre for Reporting and Analysis of Financial Transaction (PPATK), the Attorney General and the police. The agreements have resulted in better coordination between BPK and investigators and also between investigators themselves, and have also increased follow up. However, despite these improvements, public expectations have not been met and much more needs to be done to alleviate corruption in Indonesia.

BPK understands the important role of the media in informing the public about the roles and functions of BPK and improving the public accountability of the Indonesian government. BPK collaborates with the media in publishing BPK findings to the public and in improving public understanding of state audit functions. As a result, news about BPK reports especially relating to fraud, corruption and inefficiency often makes the headlines of national and local newspapers and provides interesting topics for discussion on radio and television.

In addition, the participation of the media has influenced public understanding about the quality of BPK reports. The public has increased its demands for objectivity, credible data, independence, integrity and professionalism on the part of BPK. Therefore, the public influences not only the accountability of the government in managing public funds and other state resources, but also the quality of BPK reports in providing objective and credible information and findings.
Based on the above descriptions, Appendix C provides a summary table comparing BPK before and after audit reform.

8.3 Recommendations

Based on this comprehensive study of the effectiveness of public sector auditing in Indonesia, some recommendations are suggested to make BPK a more excellent and reputable audit institution. Although some effort has been made and some reforms have been achieved, BPK still needs to improve its weaknesses and to be aware of threats from the external environment. The recommendations are divided into six aspects namely: (1) legal basis, (2) institutional, (3) training process, (4) effectiveness of audit reports, (5) human resources, and (6) Information Technology.

8.3.1 Legal Basis Aspects

- To strengthen the role and functions of the ethics board and Inspectorate unit of BPK (see 6.2.1).
- To implement audit law and audit standards effectively with law enforcement and sanctions for any BPK Members and auditors Member who do not comply with regulations, such as accepting bribes or other gratification from auditees (see 6.1.3).
- To keep proposing judicial reviews of the tax and State Owned Enterprises (SOEs) Laws that impede BPK from auditing national tax revenues and SOEs (see 4.1.2. and 4.2.2.).
8.3.2 Institutional and Resources Aspects

➢ To communicate effectively between BPK, Parliament and government about the importance of accessing data and information for auditing tax revenues, Supreme Court revenues, and SOEs, as mandated by the Constitution (see 7.1.2. and 7.2.1.).

➢ To protect auditors who uncover sensitive cases (such as fraud, corruption and other irregularities) from external pressures, to maintain their audit independence and the quality of audit reports (see 6.1.3. and 6.2.3.).

➢ To build networking with public sector auditors’ professional association, public policy and public administration groups to develop auditor expertise in measuring organisational performance (see 5.4.2. and 6.2.3.).

➢ To create stronger commitment and integrity of BPK Members in providing objective and credible information in audit reports through training and education that focus on psychomotor and cognitive targets, such as revitalisation, integrity and anti-corruption ethics training programs (see 4.3.2. and 6.3.3.).

➢ To improve the quality of audit resources in all new BPK representative offices, mainly for IT that allows auditors to (i) access data and information relating to the activities of the audit office and public sector regulations and documents, (ii) to share information between auditors and other interest groups, (iii) to get faster and cheaper communication with other SAIs, and (iv) to help auditors detect fraud and to conduct audits of disasters (see 6.3.4. and 6.3.5.).
8.3.3 Effectiveness of Audit Reports Aspects

- To pay more attention to performance auditing for assessing the results, outputs, benefits and impacts of public sector organisations in the short, medium and long terms to improve the economy, efficiency and effectiveness of state programs (see 4.2.1.).
- To assist Members of Parliament to understand BPK audit reports to better perform their duties and functions to hold public agencies accountable to the public (see 7.1.2. and 7.1.3.).
- To focus on the follow up of audit reports, with providing concrete and constructive recommendations, clearer and more understandable analysis that takes into account the needs of stakeholders (see 5.4.2).
- To provide more effective monitoring and controlling in the implementation of the followup to audit reports (see 5.4.3).

8.3.4 Human Resource Development Aspects

- To allow more opportunities for graduate auditors to pursue formal and professional education and trainings inside and outside the country to develop their knowledge and skills, especially to improve BPK capacity to conduct performance auditing and to comply with audit standards. Moreover, professional development of auditors through an e-learning strategy opens for the future learning environment in BPK (see 6.3.2, 6.3.3, and 6.3.4.).
- To improve communication building capacity of auditors with stakeholders, both orally and written. Effective communication can improve
understanding of BPK audit findings and reports which also reducing misunderstanding between auditors and auditees (see 5.1.2. and 5.2.2.).

- To improve the credibility of information in audit reports in providing an objective report for gaining greater support and trust from auditees, users and other stakeholders (see 4.3.2.).

- To improve the knowledge and understanding of auditors in information technology for providing timelier audit reports (see 5.3.2.).

- To provide better recommendations for auditees by improving understanding on the problems faced by the bureaucracy, public administration and management. Especially for performance auditing which each auditee has different performance indicators in accordance with the type of public services provided (see 5.4.2. and 5.4.3.).

- To rotate BPK auditors for different auditees to reduce the possibility of cooperative negotiation or negotiation impasses between auditors and auditees (see 6.1.3.).

- To provide a wider variety of multidisciplinary skills, besides accounting and management, for conducting performance auditing (see 6.2.4.).

- To develop the curriculum, teaching methods, trainers and training facilities based on a training needs analysis (see 6.3.3.).

### 8.4 Further Research

This research has opened the gates to public sector auditing in exploring the effectiveness of public sector in Indonesia in depth. It has shown that the study of government auditing in Indonesia is challenging, in particular if it is linked with the
realities of audited entities, Members of Parliaments and resources of BPK at local levels. Many areas, which could not be given proper attention by this study, are recommended for further research. These areas follow:

- to explore more empirical work of actual impact and outcomes of performance auditing in the Indonesian public sector in different groups of entities, such as regional governments, central government (departments and non departments), and state and regionally owned enterprises;
- to evaluate the implementation of law enforcement and criminal sanctions for auditors and auditees to ensure compliance with existing laws and regulations in Indonesia;
- to examine how the implementation of performance auditing will influence the effectiveness and efficiency of public sector bodies in general and will lead to good governance in the Republic of Indonesia;

Nevertheless, there will be challenges in putting these recommendations into practice. For example, it would be difficult to reform the police, the Attorney General and government institutions generally. Moreover, assessing the quality of public policy and management related to the roles and functions of auditing and politics would be quite challenging because it is more complex. However, for Indonesia to be seen as a modern, forward-looking nation, and one that is seriously addressing the problems of corruption, collusion and nepotism, these challenges are well worth facing.
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Appendix A: Questionnaires

Survey Questionnaires of the Public Sector Audit Reports in Indonesia

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<th>Part 1: Information Sheet</th>
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<td>Q1</td>
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If you would like more information about this research, please contact:
Septiana Dwiputrianti
The Crawford School of Economics and Government
The Australian National University (ANU), Canberra, Australia
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Canberra ACT 0200, Australia
Tel: +61 2 6125 4705
Fax: +61 2 6125 5570
Email: crawford-programs@anu.edu.au

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<td>Q1. Position</td>
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<td>Q2. Work Place</td>
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<th>Part 3: List of Questions</th>
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<tr>
<td>The questionnaire below relates to your opinion on the quality of information in BPK audit reports and factors influencing effectiveness or ineffectiveness of the reports, based on your experiences as auditor, auditee, or Member of Parliament. There are five (5) choices from strongly agree to strongly disagree. There are no right or wrong answers. If you have further comments to provide more information of your opinion, please fill in the comments box.</td>
</tr>
</tbody>
</table>

352
<p>| Q3. | Information in BPK reports provides clear audit scopes and objectives. Comments | Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree |
| Q4. | Information in audit reports is supported by strong evidence. Comments | | | | |
| Q5. | Information in BPK reports is objective (using appropriate audit technique and professional judgment). Comments | | | | |
| Q6. | Information in BPK reports is credible (trusted by stakeholders). Comments | | | | |
| Q7. | Information in BPK reports is clear and understandable. Comments | | | | |
| Q8. | Format of BPK reports is precise and informative. Comments | | | | |
| Q9. | BPK results are reported timely. Comments | | | | |
| Q10. | BPK reports are published. Comments | | | | |
| Q11. | BPK auditors provide realistic recommendations. Comments | | | | |</p>
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<thead>
<tr>
<th>Q12.</th>
<th>BPK reports are followed up.</th>
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<th>Q13.</th>
<th>BPK auditors are professional and have integrity.</th>
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<th>Q14.</th>
<th>BPK has sufficient audit resources</th>
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<th>Q15.</th>
<th>Government agencies followed-up BPK reports and recommendations.</th>
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</table>

<table>
<thead>
<tr>
<th>Q17.</th>
<th>Authorised investigators followed up BPK findings with indication of corruption and fraud.</th>
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<table>
<thead>
<tr>
<th>Q18</th>
<th>Public and media support supporting BPK functions.</th>
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<td>Comments</td>
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### Part 4: Consent form

If you agree to participate in the interview, please give your contact details as the consent form.

1. Office Address

354
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<tbody>
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</tr>
<tr>
<td>3</td>
<td>Phone (office)</td>
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<td>4</td>
<td>Mobile</td>
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## Appendix B: List of Interviewees

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<th>Position</th>
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<td>Auditees</td>
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<td></td>
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<tr>
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<td>Local Head of West Java Province</td>
<td>High Official</td>
<td>28/02/2007</td>
</tr>
<tr>
<td>A2</td>
<td>West Java Province government</td>
<td>Middle Official</td>
<td>24/09/2009</td>
</tr>
<tr>
<td>A3</td>
<td>National Electricity Company (PLN)</td>
<td>Middle Official</td>
<td>19/02/2007</td>
</tr>
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<td>A4</td>
<td>National Oil Company (Pertamina)</td>
<td>Middle Official</td>
<td>20/02/2007</td>
</tr>
<tr>
<td>A5</td>
<td>Ministry of Home Affair-Inspectorate General</td>
<td>Middle Official</td>
<td>14/02/2007</td>
</tr>
<tr>
<td>A6</td>
<td>Ministry of Education Inspectorate General</td>
<td>Middle Official</td>
<td>04/01/2007</td>
</tr>
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<td>A7</td>
<td>Ministry of Education Inspectorate General</td>
<td>Internal auditors</td>
<td>04/02/2007</td>
</tr>
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<td>A8</td>
<td>Ministry of Finance Inspectorate General</td>
<td>Middle Official</td>
<td>10/01/2007</td>
</tr>
<tr>
<td>A9 and A10</td>
<td>Planning and Organisation Division of the Ministry of Finance Inspectorate General</td>
<td>Middle manager/official</td>
<td>08/03/2007 (A9) 12/01/2007 (A10)</td>
</tr>
<tr>
<td>A11</td>
<td>Local government of Cianjur District</td>
<td>Internal auditors</td>
<td>20/03/2007</td>
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<tr>
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<td>Secretary of Financial Management Reform Committee of the Ministry of Finance</td>
<td>Middle Official</td>
<td>11/01/2007</td>
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<td>18/1/2007</td>
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<td>5/12/2006</td>
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<td>19/3/2007</td>
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<td>Department of Public Works</td>
<td>Research and Development Centre</td>
<td>20/08/2009</td>
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<td>Local government of Bandung city</td>
<td>Finance Section</td>
<td>19/03/2007</td>
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<td>22/03/2007</td>
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<td>Middle Official</td>
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<td>Position</td>
<td>Date</td>
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### Appendix C: Comparison of BPK Before and After the Audit Reform

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<tbody>
<tr>
<td>1.</td>
<td>Scope</td>
<td>BPK had very limited scope of auditing: BPKP had a large number of auditees (SOEs, central and local governments), compared with BPK (only auditing the central government). Focused only on financial and compliance auditing, that was limited to the expenditure of the state budget (APBN). BPK prohibited from auditing the 'gold mining state', such as the Bank of Indonesia, the National Airline Company, the National Oil Company, State-owned Bank, and SOEs.</td>
<td>Much larger scope of auditing: Mandated to audit all state finances, including all central and local governments. Not only financial auditing, but also performance auditing and specific purposes auditing.</td>
</tr>
<tr>
<td>2.</td>
<td>Data and information as evidence</td>
<td>Had no power to seek, search and seize documents and other related items for auditing. Had insufficient access to relevant information and data from public sector agencies</td>
<td>Clear authority to access any data and information from auditees. Sanctions applied for auditors, officials, and Members of BPK who misuse audit data and information.</td>
</tr>
<tr>
<td>3.</td>
<td>Objectivity and Credibility of audit information</td>
<td>BPK could not examine the accountability of government in managing public resources. No transparency, objectivity and credibility of audit reports. Audit reports were tailored to suit the government’s ‘interests and had to be checked and sorted by the State Secretary Office in order to prevent instability of national security.</td>
<td>The Law on BPK (2006) and BPK audit standards (2007) gives basic rules and standards for reporting audit findings objectively and credibly. The quality of information and and performance of BPK audit reports are reviewed by another SAI.</td>
</tr>
<tr>
<td>4.</td>
<td>Understandable Information</td>
<td>Reports were difficult to understand, due to too many technical financial, accounting and auditing terms.</td>
<td>Reports provide summaries, making them easier to read. Reports provide explanation/glossary of some technical terms.</td>
</tr>
<tr>
<td>5.</td>
<td>Precise and Informative Formatting</td>
<td>Audit reports were difficult to read, being too complicated, long, with poor format,</td>
<td>Simple and precise reports. Interesting and user-friendly report format with elegant layout, pictures, and charts.</td>
</tr>
<tr>
<td>6.</td>
<td>Timely Reporting</td>
<td>Out-of- date audit information. Reports were too late for sending to Parliament (just for formality, as BPK was only a ‘rubber stamp’ for the</td>
<td>Reports issued on time as mandated by Laws.</td>
</tr>
<tr>
<td>----</td>
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<td>7.</td>
<td>Publication of Audit Reports</td>
<td>Reports were never published; resulting in there was no control from the public.</td>
<td>Reports are published both in printed form and electronically in BPK website. Published reports help the public to participate in controlling government performance and accountability.</td>
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<td>8.</td>
<td>Realistic audit opinion and recommendations</td>
<td>Could not provide audit opinion as auditees did not provide financial reports. No standard for providing realistic audit recommendations.</td>
<td>All auditees are compulsory to provide financial reports that include reports of: budget revenues and expenditure; balance statement; cash flow; and notes to financial statement. Follow up of audit reports of BPK has been mandated by Constitution and the Law on Audit (2004) and the Law on BPK (2006).</td>
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<td>9.</td>
<td>Follow-up on Audit Reports</td>
<td>There was no follow-up of BPK audit reports by government as auditees had no obligation to follow up audit findings and recommendations. Members of Parliament did not follow up audit reports as submission of BPK reports was only formality. Audit reports did not indicate corruption/fraud as the reports had been sorted by government.</td>
<td>Follow up of BPK audit reports is mandated by the Law on Audit. Members of Parliament have a major task to oversee the performance and accountability of the government. Many findings indicate corruption and frauds that must be followed up by KPK, Attorney General or Police. Follow up of BPK recommendations are very important to providing better performance in public administration, management and results.</td>
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<td>10.</td>
<td>Independence</td>
<td>Absence of checks and balances in state finances and policies. Under control of authoritarian government and could not perform independently. The mandate of Constitution that BPK was an independent audit institution was not respected by the state leaders of the Republic of Indonesia. BPKP (under the government) had exactly the same function with BPK as external auditors. BPK budget under the power of government (the Ministry of Finance). No independence in the election, appointment and dismissal of the Board Members. BPK leaders were appointment by the President.</td>
<td>Bolstered by the mandate of Constitution as an independent SAI in Indonesia. BPK has a major function in improving the transparency and accountability of public sector. Clear difference of function between BPKP (a part of government) and BPK (independent body), no rivalry. Budget is independent from the government. New appointment system of the Board of Members, including the Chairman and Vice Chairman. BPK leaders have more independence and autonomy and are appointed by Parliament. Clear regulations to maintain the independence of auditors and personnel of BPK. BPK has authority to organize its human resources management and is no more subject to strict rules</td>
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<td>Had no authority to organize its personnel.</td>
<td>administered by MENPAN.</td>
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<td>11.</td>
<td>Integrity and Professionalism</td>
<td>Lack of integrity and professionalism as BPK Members and auditors had no formal regulation of immunity, legal protection and security assurance. No formal rule in the form of a Code of Ethics for BPK personnel and auditors. Difficult to maintain auditors’ integrity and professionalism, as auditors received very low income with high-risk audits, and accepted financial support from auditees. Not enough resources to improve the capacity and skills of BPK auditors and personnel.</td>
<td>Integrity and professionalism of BPK has been improved significantly, with skilled auditors and professional training. New Code of Ethics with detailed rules for maintaining the auditors’ integrity and professionalism implemented and supervised by the Honorary Members of Code of Ethics Board. Auditors not allowed accepting any money, facilities, tickets and accommodation from auditees.</td>
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<td>7.</td>
<td>Budget Resources</td>
<td>A very limited budget, funded from State Annual Budget (APBN) which was determined by government (the Ministry of Finance). BPKP had exactly the same duties and functions as BPK but BPKP had large sums of money and facilities compared with BPK. BPK strongly influenced by government to restrict its capacity to examine the accountability of government.</td>
<td>Process of determining BPK budget and auditing the budget is regulated by the Law on BPK (2006). BPK’s budget determined separately from the state budget with special allocated from the government after getting approval from Parliament based on BPK proposal (audit needs). Budget resources added from many grants and loans of international organization, such as: ADB, AusAid, and USAID. Financial accountability of BPK is audited by an independent Public Accountant Office (KAP) annually. Better compensation for employees (structural, auditors and staff).</td>
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<td>8.</td>
<td>Personnel/Human Resources</td>
<td>The Chairmen of BPK had no power to manage their own organization, as all personnel of BPK were under the rules of the Ministry of Empowerment State Apparatus (MENPAN) and the State Personnel Board (BKN), including their salary and rules, such as other public servant of government institutions, with no flexibility in personnel management. Limited number of professional personnel as the professional quality of auditors and personnel grew</td>
<td>The requirement of the Law on BPK (2006) and audit standards (2007) have changed the management of BPK human resources. The Human Resources Bureau manages BPK auditors and employees as capital and assets of organization Significant improvement of recruitments numbers and qualification of personnel. Availability of the Code of Ethics for auditors and BPK Members.</td>
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<td>very slowly with limited opportunity to improve employees’ capacity. No professional organization for public sector auditors with background from outside accounting. Lack of integrity as there was no clear auditor’s code of ethics; and auditors accepted facilities and inducements from auditees. No clear personnel planning and criteria development, with strong bureaucratic culture, where promotion and appointment were based on seniority, instead of performance.</td>
<td>Implementation of rewards and punishment. Appointment based on performance, instead of seniority. BPK auditors are officers of Parliament and assist the role and functions its Members. Much greater opportunity to improve auditors’ and employees’ capacity through several human resources capacity building programs in BPK.</td>
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<td>9.</td>
<td>Training and Education Centre</td>
<td>Training and education development centres were not managed effectively and professionally, having with qualified trainers and poor facilities. No evaluation after training programs. Auditors lacked of motivation to participate in training programs. Limited opportunities for BPK auditors and staff to pursue their education and develop their skills and professionalism. Only one training and education centre at Kalibata, Jakarta. No clear training needs analysis for auditors.</td>
<td>Continuous professional development of audit skills. The numbers and quality of training and education improved through development cooperation with other SAIs for education, training, workshops and seminar programs. Improvement of support from international organization funding and aid. Opening wider opportunities for auditors and staff to pursue their education. Two other trainings and education centres at Medan (western part of Indonesia) and at Makassar (eastern part of Indonesia). Compulsory training for developing capacity for functional auditors, at least 20 hours of 80 hours education within 1-2 years period.</td>
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<td>10.</td>
<td>Modern Equipment</td>
<td>No Information Technology (IT) Bureau Suffered from lack of IT resources and modern equipment. No electronic communication network and website</td>
<td>New Bureau of Information Technology opened. Modern equipment, audit information systems and applications developed to support BPK roles and functions. Improved capacity of electronic communication and Local Area Network (LAN).</td>
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