

OBSERVING THE REALITY OF PUBLIC SECTOR AUDIT IN ERADICATION OF CORRUPTION

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CHRONICLE	ABSTRACT
<p><i>Article History:</i> <i>Received : Dec 14th, 2022</i> <i>Revised: Jan 10th, 2023</i> <i>Accepted: Mar 25th, 2023</i></p> <p>Keywords: Public sector audit; Corruption; BPK</p>	<p><i>This study aims to examine the reality of public sector audits in efforts to eradicate corruption in Indonesia. The analysis covers a number of aspects related to the implementation of public sector audits in supporting the eradication of corruption. The data was obtained using the perspective of seven experienced BPK auditors. In-depth interviews were conducted using semi-structured questions. The research results reveal a number of realities regarding public sector audits, namely the nature of public sector audits which are not specifically designed to routinely detect corruption, differences in the authority of examiners and law enforcers, and the relationship between auditors and auditees in the audit process. Therefore, to be more proactive in increasing the effectiveness of the public sector audit function in order to support the eradication of corruption, extensive efforts are needed both by individual auditors and by the BPK institutionally.</i></p>

1. Introduction

The Financial Audit Agency (BPK) as a public sector audit institution mandated by the 1945 Constitution to examine state finances has an important role in managing state finances. Based on this strategic role, the public places high demands on BPK's performance, including in terms of eradicating corruption. The public expects the BPK to play an important role in overseeing accountability in the use of resources by the government. Research by Reichborn-Kjennerud et al. (2019) regarding the perceived responsibility of a number of Supreme Audit Institutions (SAI) for efforts to eradicate corruption through an institutional approach, found that there were mimetic, coercive and normative pressures. In addition, it was also revealed that the level of corruption (as a single variable) is not sufficient to measure the effectiveness of SAI's corruption eradication efforts because SAI from more corrupt environments are not explicitly more involved in anti-corruption practices.

Previous research has revealed that public sector audits can influence the level of corruption. Good audits are proven to have a significant impact on corruption in the public sector at the national level so that audits are believed to be able to contribute to the progress of public administration functions through low levels of corruption (Gustavson & Sundström, 2018). Masyitoh et al. (2015) even found that audit opinions had a negative effect on perceptions of local government corruption, meaning that the better the opinion obtained by local government entities, the lower the perception of local government corruption. Research by Masyitoh et al. (2015) also emphasize that audit opinions on government financial reports are different from audit opinions on financial reports of other organizations because opinions on public sector financial reports also assess compliance with laws and regulations and the effectiveness of the internal control system.

However, several cases, especially in Indonesia, have shown that it cannot be denied that an unqualified opinion does not guarantee that a public sector entity is free from corruption. This is a separate issue, so that BPK's contribution in supporting the eradication of corruption is still often doubted. Moreover, Indonesia's Corruption Perception Index (CPI) in 2022 will still be at 34/100 or ranked 110th out of 180 countries surveyed (TI, 2023). This level of corruption index could imply less than optimal performance of related institutions which are expected to play a role in eradicating corruption, including the BPK, which has been in existence for a long time.

Furthermore, audit research that is correlated with corruption generally shows conflict regarding the role of eradicating corruption from the audit function, especially public sector audit. Several studies have shown that an audit can not only prevent but also detect corruption. For example (Jeppesen, 2019) found that public sector audits are not only able to prevent corruption but can also attempt to identify and mitigate acts of corruption and fraud. However, the effectiveness of fraud and corruption detection is often limited by the systemic preferences of the profession which tends more towards prevention than detection of corruption.

There are various factors related to the effectiveness of public sector audits in efforts to eradicate corruption. Therefore, it is important to know the reality of public sector audits in efforts to eradicate corruption. Assakaf et al. (2018) states the lack of literature that specifically explores public sector audits in efforts to eradicate corruption. Existing research is also generally conducted not in the context of developing countries which actually face various corruption issues but in developed countries.

2. Literature Review

Public sector audit is a systematic process that is objectively carried out to test the accuracy and completeness of the information presented in a public sector organization's financial report (Bastian, 2015). Meanwhile, the definition of state financial audit contained in the State Financial Audit Standards (SPKN) is the process of problem identification, analysis and evaluation carried out independently, objectively and professionally based on audit standards, to assess the truth, accuracy, credibility and reliability of information regarding management. and state financial responsibility. Therefore, state financial audits aim to provide adequate confidence through an audit process which includes planning, implementation, reporting and monitoring follow-up to audit results (BPK, 2017).

Corruption has long been a global issue. The existence of corruption is believed to have a negative impact on the management of the public sector. The definition of corruption in Article 3 of Law No. 31 of 1999 is any person who, with the aim of benefiting himself or another person or a corporation, abuses his authority, opportunities or facilities because of his position or position which can be detrimental to state finances or the country's economy (Law No.31 of 1999). The definition of corruption according to the Black Law Dictionary in the KPK Corruption Crime module, is:

“an act done with an intention to obtain some advantage contrary to official duties and other truths "an act of an official or someone's belief which unlawfully and wrongly uses some advantage for himself or another person who contrary to duties and other truths” (KPK, 2019).

Masyitoh et al. (2015) tested the role of the auditor in detecting acts of corruption through the variables of opinion, findings, and monitoring of follow-up audit results conducted by local governments. The results of the study found that audit opinion and audit follow-up had a negative effect on perceptions of corruption in local governments in Indonesia during 2008-2011. Furthermore, audit findings of non-compliance with laws and regulations have a positive influence on perceptions of corruption. Meanwhile, non-compliance that results in losses or potential regional losses has a significant positive influence on perceptions of the level of local government corruption. Another result that was also disclosed was that although weaknesses in the internal control system did not affect perceptions of corruption, weaknesses in accounting and reporting control systems had a significant effect on perceptions of corruption.

Another study conducted by (Liu & Lin, 2012) has empirically tested the role of government audits in China on corruption control initiatives. The results find that the number of irregularities that government audits detect is positively correlated with the level of corruption in a province. This means that the more severe corruption in a province, the more irregularities in the accounts of public sector entities found by local public sector audit institutions. This research also emphasizes the importance of post-audit follow-up efforts because they have a negative effect on the level of corruption. The empirical test results show that effective follow-up efforts can reduce the level of corruption so as to strengthen the effectiveness of government audits

3. Research Method

This study uses a qualitative approach in answering research questions regarding the reality of public sector audits in supporting corruption eradication. Data was collected through in-depth interviews with seven BPK auditors with more than ten years of work experience. Through the perspective of BPK auditors, a number of conditions can be identified that can influence the contribution of public sector audits in efforts to eradicate corruption. The research questions cover a number of aspects related to the contribution of public sector audits in eradicating corruption in Indonesia. The recordings of the interview results were then transcribed and then coded into groups of sub-themes and themes in order to answer research questions.

4. Result

Some information regarding public sector audits in relation to eradicating corruption has been disclosed by participants. In general, the revealed reality is grouped into three points namely;

1. The nature of public sector audits

Several participants emphasized that the nature of routine and mandatory public sector inspections is basically not intended to specifically find corruption. The financial audit by BPK aims to assess the fairness of the financial statements

presented by public sector entities. Even in every inspection that assesses aspects of compliance with statutory regulations, findings of non-compliance do not always constitute a criminal act of corruption. A criminal act of corruption must have deliberate intent, if not, it is only categorized as an error that does not have a criminal element. To reach the stage of proving criminal elements, further procedures are needed outside of routine audit procedures for financial reports. Audits can be forwarded into examinations with a specific purpose (PDTT) or can also be delegated to law enforcement for follow-up.

"So in relation to regional heads who are corrupt, it really depends on the examination and it is not necessarily an agency or institution that has a fair opinion without exception, it is not necessarily free from corruption." (A1)

"So, carrying out an audit must first adhere to that as the objective of the audit. Indeed, in each type of audit there are aspects of compliance that must be seen or tested by the BPK. But it doesn't necessarily mean that non-compliance is something that is corrupt. Because if there is corruption there must be deliberate intention. It could be that non-compliance is an error, not fraud." (A5)

Furthermore, public sector audits are post audit activities so that efforts to prevent corruption directly are difficult for the BPK as an external party. The nature of a post audit means that the auditor's involvement in carrying out its functions for the entity occurs after the transaction or activity occurs. This makes it more difficult for the external audit function to detect corruption compared to other functions such as internal auditors or law enforcement which can more freely trace the transactions of public sector entities at any time, even when the transactions are taking place.

"We, the auditors, check, the term is post audit, after the activities have been carried out, we have the documents, evidence of transactions, then we go in. Meanwhile, most of the criminal acts of corruption that can be detected by law enforcement officers are on-going transactions. That's why there is something called OTT when making transactions. Meanwhile at the BPK it is something that is difficult to detect." (A3)

"If we do more post audits so that it has been carried out then we will carry out an inspection... then we can only remind, for example from the results of this inspection we found many problems, tomorrow again please improve the system, it's like prevention." (A4)

Participants also revealed that there were several things that included criminal acts of corruption but could not be detected through audit procedures. This is because fraud, such as abuse of authority in the form of bribes, which is included in the category of corruption, may not affect financial posture, for example state or regional revenues and expenditures. This results in problems not being detected when audit procedures are carried out.

"For example, the abuse of authority, for example, the occurrence of bribes, the funds of which do not affect state or regional expenditure revenues... This is all related to the authority of certain officials, if we examine the budget, there will be no problem. So there are indeed things outside the scope of audit procedures that we cannot detect using audit procedures." (A3)

Another thing that becomes the nature of public sector audits that participants expressed is the effectiveness of the recommendations that are the output of public sector audits. If effective, the recommendations are considered capable of preventing acts of corruption in the future because public sector entities have made improvements as a follow-up to recommendations from the BPK. However, participants revealed that public sector entities often do not make efforts to follow up on recommendations. This is suspected because the follow-up to recommendations involves various parties and interests.

"Actually, if you want to explore it further, it's related (recommendations) but it also depends on the entity. Even though we are improving our audit recommendations... but the problem is whether he (the entity) follows up or not is the one... but indeed because it is not only from (BPK's side)... But if the recommendations are correct, but there is still no (follow-up), yes because it involves several parties of course. Not just one." (A7)

2. Differences in authority of investigators and law enforcers

The difference in authority between the auditor (investigator) and the investigator (law enforcer) is a reality emphasized by a number of participants. The difference in authority is of course influenced by the difference in roles as mandated by law.

"One thing that needs to be emphasized here is authority. So the examiner is not an investigator nor is he an investigator. The authority of the examiner and the authority of the investigator, the investigator is different. It is investigators who can suppress access to data everywhere." (A4)

Auditors who are mandated as financial examiners do not have a series of powers that are very useful in detecting fraud. On the other hand, law enforcers, both investigators and investigators, for example at the Corruption Eradication Committee, are given special powers that make it easier to detect fraud. For example, investigators do not have the authority to tap and confiscate. This can create limitations in detecting hidden fraud.

"Again, there are different authorities between examiners and investigators. We are limited by a code of ethics and limits of authority which only investigators have. If the KPK is the same as the BPK, surely the conditions will also be the same. Because fraud is hidden and to reveal it requires extraordinary things. That's why they (KPK) can make disclosures because they have greater authority. They can tap, can confiscate all the things they need to carry out investigations. If the BPK doesn't." (A6)

3. Relationship between auditor and auditee

Several participants also revealed the reality related to the relationship between the examiner and the auditee. In general, the participants implied that the communication pattern built by the auditor in the field during the audit process was not repressive. This happens for various reasons as dynamics in the field. It is considered that a good relationship must be established with the auditee because after all the auditor needs the auditee's cooperation in the audit process, especially in terms of providing data. In fact, according to participants, acceptance of the hosting culture of auditing, which cannot be denied is still strong in various regions, is often a strategy for obtaining the required data.

"Maybe we have that authority but we and the auditees are not always pressured, it's not like that. Because we know we don't need data just for this activity, later we will still have other activities... So we ourselves are required to have good inspection communication in the end. We approach it naturally, but when we find something, we identify the problem and we tell the wrong person but still maintain a good relationship like that." (A4)

"Yes, the old culture is the easiest, usually in the past auditors were feared by auditees so they got special facilities in the area. There were also those who felt that auditors were guests so they had to be (entertained). Sometimes the dilemma is also that the auditor has refused, for example. That's the dynamic in the field. But there are also cases where the auditee does not entertain, it is considered lacking. But there are also those who are treated to be uncomfortable. There are also those who think it's a strategy to easily obtain data. (A7)

The relationship that exists between the auditor and auditee during the audit process is certainly a differentiating point between public sector audit institutions and law enforcement agencies. The approach used by examiners is more open (within reasonable limits), especially in terms of following up on findings, showing an interactive communication pattern. This is of course because not all findings also have indications of corruption.

The reality regarding public sector audits stated by participants regarding the nature of public sector audits, the differences in authority of examiners and law enforcers, as well as the relationship between examiners and auditees can have implications for the condition of public sector audits in Indonesia which may be a challenge in making the ability to detect corruption effective. The limitations in the scope of this public sector audit are related to the design of the public sector audit itself. Jeppesen (2019) for example emphasizes that auditors ignore the risk of corruption in audit planning because the corruption aspect is excluded from the definition of fraud in International Standards on Auditing (ISA) 240. Fraud that is considered relevant for auditors in ISA 240 only includes misappropriation of assets and fraudulent financial statements. Khan (2006) even stated that the role of auditors related to corruption is only to help show the possibility of parts that have a risk that acts of corruption can occur. This shows that the function of eradicating

corruption is not the main priority of public sector audit institutions. However, public sector audits are still able to contribute to eradicating corruption. For example, audit findings regarding weaknesses in the internal control system and non-compliance with laws and regulations can be further used to detect potential fraud. Even though not all of the findings indicate corruption, Masyitoh et al. (2015) emphasized that the public sector audit function must also evaluate findings that could potentially be corrupt even though they do not result in material regional losses.

Furthermore, the effectiveness of the public sector audit function in the framework of supporting the eradication of corruption can be increased through additional efforts that may be outside the routine and custom. Gherai et al. (2016) have emphasized that the more extensive the work carried out by the SAI, the greater the contribution it will make to eradicating corruption. Because after all the most important thing is audit quality, not just the presence of SAI. Gustavson & Sundström, (2018) have revealed that only a minority of countries practice good audit principles, namely independence, professionalism and communication of audit results to the public, thereby creating public pressure.

The views of the participants emphasizing the importance of following up on recommendations are in line with the emphasis on previous research. Masyitoh et al. (2015) emphasized that the more follow-up on recommendations carried out by public sector entities, the lower the perception of corruption they have. Liu & Lin (2012) also emphasized that follow-up on findings is more important than the process of detecting findings or even fraud itself because follow-up on audit results can make audits more effective in reducing corruption.

5. Conclusion

As a function that is also required to play a role in the mission to eradicate corruption, public sector inspection actually has fundamental differences when compared with the function of law enforcement. There are three realities related to Indonesian public sector audits which are related to the performance of eradicating corruption, namely the nature of public sector audits, differences in the authority of auditors and law enforcers, and the relationship between auditors and auditees during the audit process. In general, the design of mandatory and routine public sector audits is not specifically intended to detect corruption and in fact requires further efforts and procedures to determine whether findings, for example regarding non-compliance with laws and regulations and ineffectiveness of the internal control system, are indicative of corruption.

It is hoped that this research can become a reference in the public sector's review of the role of eradicating corruption. This research can also be a reference for the literature on the relationship between public sector audits and corruption, which is still minimal empirically. This research tends to cover very specific issues and the data processed tends to be less comprehensive so that future research can deepen broader issues related to the role of public sector audits in eradicating corruption. Different research approaches can also be used in future research. Apart from that, future research can also explore in depth topics that are still minimally discussed as stated by

Assakaf et al. (2018), namely the implementation of each type of audit that can contribute to reducing corruption and analysis of which type of audit is considered more effective in eradicating corruption.

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Apendiks

Disclaimer: the perspective expressed by the auditor is a personal opinion and does not represent institutional views.