

EVALUATION OF PERFORMANCE AUDITING IN INDONESIA: A CRITICAL SYSTEMIC APPROACH TO ADDRESSING PUBLIC ACCOUNTABILITY

Agus Bambang Irawan

2088701

(Bachelor of Economics in Accounting, Brawijaya University, Indonesia;
Master of Business Administration, Monash University, Australia)

Thesis submitted in fulfilment of the requirements for the Degree of
Doctor of Philosophy

Flinders Institute of Public Policy and Management
School of Social and Policy Studies
Flinders University, South Australia
February 2015

ABSTRACT

The research explores the concept of performance auditing and examines the current practice of performance auditing as conducted by the Indonesian Supreme Audit Institution in the Indonesian public sector, in order to reframe how performance auditing and public accountability should be improved. It also concentrates on the relationship between the Supreme Audit Institution and the Parliament, in particular the Public Accounts Committee in regard to performance auditing activities. The thesis strives to make a contribution to the way in which performance auditing influences public accountability, especially after the financial reform that occurred in the 2000's.

This evaluation research uses a complementary method to address performance auditing in terms of environmental sustainability, corruption and fraud issues. Furthermore, the profile of performance auditors and current practice of performance auditing were also examined. The thesis examines performance auditing activities from the perspective of auditors and stakeholders. The research participants comprise members of Parliament, members of the Indonesian Supreme Audit Institution, heads of government institutions and academia, journalists and auditors.

The research shows that the current practice of performance auditing at the Indonesian Supreme Audit Institution require a new approach and strategy in order to promote better accountability of government and to avoid a misdirected system on performance auditing activity. Otherwise, performance auditing will continue as

a routine activity and will have no impact on the improvement of the complex problems in the Indonesian public sector. Moreover, the relationship between the Parliament and the Supreme Audit Institution need to be improved in regard to the process of follow-up performance auditing recommendations.

This thesis aims to makes a contribution to the following matters: (1) examining the theoretical perspective of performance auditing in terms of environmental and fraud aspect; (2) examining the auditors' profile of performance auditing; (3) reframing performance auditing practice conducted by the Indonesian Supreme Audit Institution; and (4) strengthening the institutional capacity of the Parliament, particularly the Indonesian Public Accounts Committee in relationship with the work of the Supreme Audit Institution.

Paper Drawn From the Thesis

The following papers have been drawn from the thesis:

Refereed Academic Journal Publications:

Irawan, A.B. & McIntyre-Mills, J. (2014). Application of Critical Systems Thinking to Performance Auditing Practice at the Indonesian Supreme Audit Institution: Issues and Challenges, *Systems Research and Behavioral Science Journal* (ABDC Ranking A Journal) – Accepted 17 November 2014. DOI: 10.1002/sres.2325.

Irawan, A.B. (2014). The Role of the Public Accounts Committee: An Indonesian Case study. *West East Journal of Social Science* – Accepted 4 December 2014.

Conference Papers:

Irawan, A.B. (2014). The Auditor's Role in Performance Auditing: A Case Study of the Indonesian Supreme Audit Institution. Paper presented in the International Research Conference on Business, Economics and Social Science (IRC-2014), Singapore, 25-26 September, 2014.

Irawan, A.B. (2014). The Role of the Public Accounts Committee: An Indonesian Case study. Paper presented in the 2nd Asia-Pacific Social Science Conference (APSSC-2014), Kuala Lumpur, 7-9 November, 2014.

Declaration of Candidate

I certify that this thesis does not incorporate without acknowledgment any material previously submitted for a degree or a diploma in any university and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

Agus Bambang Irawan
Candidate

Date:/...../.....

Acknowledgment

This thesis is culmination of my PhD research on Performance Auditing and Public Accountability in Indonesia. The thesis could not have been completed without the help of various people. On this occasion, I would like to thank to my principal supervisors Associate Professor Janet McIntyre and co-supervisor Dr. Noore Alam Siddiquee for their invaluable input and guidance that have improved the quality of my research. I remain ever grateful and thankful to them.

Special thanks to my family in Indonesia who always give me support and encouragement for carrying out my study.

I am greatly indebted to AUSAID for granting me an opportunity to pursue my PhD under Australian Leadership Awards (ALA) program scholarship. This program is very valuable for development in my country. Thanks to the Australian Department of Foreign Affairs and Trade (DFAT) that has arranged the leadership workshop program in Canberra and Perth during my candidature. Thanks to all staff at The International Student Services Unit (Elaine Kane, Jane Horgan, Maxine Bald, Klauss Koefer, George Markopoulos, Cassie Bach and Julie Rayner) of Flinders University for their support during my study.

Special thanks to Dr. Paul Nicoll, the Executive Director of the Australian National Audit Office (ANAO), who gave me support and recommendation to apply for the scholarship. I gained valuable insight and discussion about performance auditing during his duty in Indonesia. Also, thanks to Prof. Janek Ratnatunga (University of South Australia) and Mr. Agung Rai (former board member of the Indonesian Supreme Audit Institution) for their support in pursuing the scholarship.

I wish to thank senior officers at the Indonesian Supreme Audit Institution who have granted me permission to conduct research at the Institution especially Mr. Bahtiar Arif (the Head of International Affairs) and his staff. I am also thankful to the head of training centre Dr. Cris Kuntadi and his staff (Mr. Iwan, and Mrs. Dian), and the head of library of the Indonesian Supreme Audit Institution for their help during my field visit. Thanks to Mrs. Maya Damayanti, the Head of the Centre for Information and Data Processing of the Indonesian Parliament, who helped me with data collection in the Parliament.

My thanks go to friends and colleagues at Flinders University for their warm friendship and discussion during my study, especially the colleagues from the 'Working in progress' discussion group and the Indonesian discussion group (*Diskusi Reboan*).

This research was based, to a large extent, on interviews with members and officials from the audit institution and other interested bodies such as government institutions, parliament, professional body, mass media and academic. I would like to take this opportunity to thank all those who gave freely of their time to agree to be interviewed. Their input was invaluable.

Table of Contents

ABSTRACT	I
PAPER DRAWN FROM THE THESIS	III
DECLARATION OF CANDIDATE	IV
ACKNOWLEDGMENT	V
TABLE OF CONTENTS	VII
CHAPTER 1: INTRODUCTION AND RATIONALE FOR THE THESIS	1
1.1 BACKGROUND TO THE STUDY	1
1.2 STATEMENT OF THE PROBLEM	5
1.3 OBJECTIVES OF THE STUDY AND RESEARCH QUESTIONS.....	8
1.4 SIGNIFICANCE OF THE STUDY.....	10
1.5 ANALYTICAL FRAMEWORK	11
1.6 SCOPE AND LIMITATIONS OF THE STUDY	13
1.7 THE THESIS STRUCTURE	14
CHAPTER 2: PERFORMANCE AUDIT AND PUBLIC ACCOUNTABILITY: THEORETICAL ASPECTS	16
2.1 THE DEVELOPMENT OF PERFORMANCE AUDITING	16
2.1.1 Definition of performance auditing	19
2.1.2 The characteristics of performance auditing.....	23
2.1.3 The concept of economy, efficiency and effectiveness (the three Es)	26
2.1.4 The objectives of performance auditing.....	27
2.1.5 The profile of performance auditor	28
2.1.6 The stages of performance auditing	29
2.1.6.1 Strategic planning	29
2.1.6.2 Field work.....	30
2.1.6.3 Performance audit reporting	30
2.1.6.4 Follow-up audit processes	30
2.1.7 Performance audit and new public management	32
2.2 THE THEORY OF PUBLIC ACCOUNTABILITY.....	34
2.2.1 Definition of public accountability.....	34
2.2.2 The purpose and function of public accountability	36
2.2.3 Public accountability and performance audit.....	37
2.2.4 Models of accountability	39

2.3 THE INSTITUTIONAL THEORY.....	42
2.4 THE PRINCIPLE OF AGENCY THEORY	46
2.5 THE SYSTEMIC APPROACH.....	47
2.6 PREVIOUS STUDIES ON PERFORMANCE AUDITING.....	52
2.7 SUMMARY OF THE CHAPTER	53
CHAPTER 3: PUBLIC SECTOR AUDITING IN INDONESIA AND THE SUPREME AUDIT INSTITUTION	54
3.1 INDONESIAN PUBLIC SECTOR AUDITING	54
3.2 THE INDONESIAN SUPREME AUDIT INSTITUTION	58
3.2.1 Organisation and resources.....	62
3.2.2 The role and function of the Indonesian Supreme Audit Institution.....	62
3.2.3 The Supreme Audit Institution practices	66
3.2.4 Types of audits in the Indonesian public sector	68
3.2.5 Auditing standards in the Indonesian public sector	69
3.3 OVERVIEW OF THE INDONESIAN PUBLIC ACCOUNTS COMMITTEE	70
3.4 SUMMARY OF THE CHAPTER	75
CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY	77
4.1 INTRODUCTION.....	77
4.2 EPISTEMOLOGICAL CONSIDERATIONS.....	78
4.3 EVALUATION RESEARCH	81
4.4 RESEARCH APPROACH	84
4.5 RESEARCH DESIGN	85
4.6 METHODS OF DATA COLLECTION.....	87
4.6.1 Participants in interviews and focus group discussions	88
4.6.2 Questionnaire surveys	92
4.6.3 Review of archival data.....	96
4.7 DATA ANALYSIS.....	96
4.8 VALIDITY AND RELIABILITY	97
4.9 ISSUES OF ETHICS.....	99
4.10 SUMMARY OF THE CHAPTER	100
CHAPTER 5: PERCEPTIONS OF STAKEHOLDERS ON THE APPLICATION OF THE PERFORMANCE AUDITING CONCEPT	102
5.1 PERSPECTIVES ON THE CONVENTIONAL OBJECTIVE OF PERFORMANCE AUDITING	102

5.2 PERSPECTIVE ON THE EXTENSION OBJECTIVE OF PERFORMANCE AUDITING INTO THE ENVIRONMENTAL ASPECT.....	106
5.3 PERSPECTIVES ON FRAUD AND CORRUPTION IN PERFORMANCE AUDITING	113
5.4 PERSPECTIVES ON THE PROFILE OF THE AUDITOR’S PERFORMANCE AUDIT	123
5.5 SUMMARY OF THE CHAPTER	133
CHAPTER 6: PERFORMANCE AUDITING IN PRACTICE AT THE INDONESIAN SUPREME AUDIT INSTITUTION.....	135
6.1 PERFORMANCE AUDITING PRACTICE IN THE SUPREME AUDIT INSTITUTION.....	135
6.2 PROBLEMS IN PERFORMANCE AUDITING PRACTICE	136
6.3 MANDATE AND STATUTORY POWER: DERIVATIVE PROBLEMS OF THE PERFORMANCE AUDIT MANDATE	138
6.4 DIFFERENT MINDSET: TOO MUCH FOCUS ON COMPLIANCE ASPECT ON PERFORMANCE AUDITING	144
6.5 EVALUATION ON INPUT OF PERFORMANCE AUDITING ACTIVITIES	149
6.5.1 Skills and specialisation of audit work.....	149
6.5.2 Managing resources of performance auditing activities	154
6.5.2.1 Infrastructure	154
6.5.2.2 Training adequacy.....	156
6.5.2.3 Budget	160
6.5.2.4 Personnel	160
6.5.2.5 Time allocation on performance auditing.....	160
6.4 EVALUATION OF PROCESS OF PERFORMANCE AUDITING ACTIVITIES	166
6.4.1 Performance auditing planning	166
6.4.2 Performance auditing methods.....	167
6.4.3 Evaluation of performance auditing criteria.....	171
6.4.3.1 Lack of performance indicators (measurement problem).....	172
6.4.3.2 Lack of confidence in developing performance audit criteria	176
6.4.3.3 Absence of better practices guides.....	177
6.5 EVALUATION OF OUTPUT: PERFORMANCE AUDITING REPORT	179
6.5.1 Evaluation of performance auditing recommendations.....	180
6.5.1.1 Auditor expertise in developing performance auditing recommendations ...	181
6.5.1.2 Lack of understanding of entity’s business process.....	182
6.5.1.3 ‘Chase Running’/Marathon style	184
6.5.1.4 Unclear performance audit recommendations	185

6.5.1.5 Difficulty in determining causes of problems	186
6.5.2 Evaluation of follow-up performance auditing recommendations	187
6.5.2.1 Comfort zone among public sector officials	190
6.5.2.2 Mechanism of follow-up audit recommendation	191
6.5.2.3 Uncontrollable actions by auditees	192
6.5.2.4 One-off auditing style	193
6.5.2.5 Monitoring performance audit recommendations.....	195
6.5.2.6 Lack of attention from the parliament regarding audit reports	196
6.5.2.7 Lack of punishment in regard to the implementation of performance audit recommendations	198
6.6 SUMMARY OF THE CHAPTER	200
CHAPTER 7: PERFORMANCE AUDITING AS A TOOL OF PUBLIC ACCOUNTABILITY	202
7.1 THE NEED FOR PERFORMANCE AUDITING	202
7.2 PUBLIC PARTICIPATION IN PUBLIC SECTOR PERFORMANCE AUDITING.....	210
7.3 LEADERSHIP IN PERFORMANCE AUDITING	217
7.4 THE WORK OF THE PUBLIC ACCOUNTS COMMITTEE (PAC)	218
7.4.1 Status of the Public Accounts Committee	218
7.4.2 Setting up the Public Accounts Committee	219
7.4.3 The Power of the Public Accounts Committee	220
7.4.4 Selection of Chairman and Membership	221
7.4.5 Working Practices	224
7.4.6 The Relationship between the Public Accounts Committee and the Indonesian Supreme Audit Institution	228
7.4.6.1 The Inquiry mechanism of the Public Accounts Committee.....	229
7.4.6.2 Attention of the Parliament to the Supreme Audit Institution’s Audit Reports	230
7.4.6.3 Parliamentary focus on fraud and corruption	231
7.4.6.4 Inadequate capacity of human resources in the Public Accounts Committee	235
7.4.6.5 Imbalance in institutional capacity between the Public Accounts Committee and the Supreme Audit Institution	236
7.4.7 Role of the Public Accounts Committee in Ensuring Government Accountability .	236
7.5 SUMMARY OF THE CHAPTER	237

CHAPTER 8: DISCUSSION AND ANALYSIS	239
8.1 REFRAMING THE CONCEPT OF PERFORMANCE AUDITING TO ADDRESS ENVIRONMENTAL SUSTAINABILITY, FRAUD AND THE PROFILE OF PERFORMANCE AUDITORS	240
8.1.1 THE INCLUSION OF ENVIRONMENTAL SUSTAINABILITY	240
8.1.2 THE PERSPECTIVE ON THE ISSUE OF FRAUD.....	245
8.1.3 THE PERFORMANCE AUDITOR’S PROFILE.....	248
8.2 REFRAMING PERFORMANCE AUDITING PRACTICE IN THE INDONESIAN SUPREME AUDIT INSTITUTION TO IMPROVING PUBLIC ACCOUNTABILITY	249
8.2.1 PLANNING.....	251
8.2.2 METHODS	251
8.2.3 CRITERIA.....	252
8.2.4 THE AUDIT REPORT.....	252
8.2.5 AUDIT RECOMMENDATIONS	253
8.2.6 FOLLOW-UP AUDIT RECOMMENDATIONS	254
8.2.7 QUALITY OF AUDITING	254
8.2.8 A MISDIRECTED SYSTEM.....	255
8.3 STRENGTHENING THE RELATIONSHIP BETWEEN THE SUPREME AUDIT INSTITUTION AND THE PUBLIC ACCOUNTS COMMITTEE.....	266
8.4 DISCUSSION OF THE CRITICAL SYSTEMS HEURISTICS (CSH) TO PERFORMANCE AUDITING PRACTICE.....	269
8.4.1 CRITIQUE ON THE SOURCE OF MOTIVATION	276
8.4.2 CRITIQUE ON THE SOURCE OF POWER.....	277
8.4.3 CRITIQUE ON THE SOURCE OF KNOWLEDGE	277
8.4.4 CRITIQUE ON THE SOURCE OF LEGITIMATION.....	278
8.5 THE SWOT ANALYSIS OF PERFORMANCE AUDITING IN THE INDONESIAN PUBLIC SECTOR CONTEXT	278
8.5.1 STRENGTHS	279
8.5.2 WEAKNESSES.....	279
8.5.3 OPPORTUNITIES.....	280
8.5.4 THREATS	282
8.6 SUMMARY OF THE CHAPTER	283
CHAPTER 9: CONCLUSION AND POLICY RECOMMENDATIONS	284
9.1 CONCLUSION AND FURTHER RESEARCH	284
9.2 POLICY RECOMMENDATIONS	291
9.3 THE NEXT STEP IN POLICY RECOMMENDATIONS: WHAT CAN BE DONE?	303

REFERENCES	306
APPENDICES	330
APPENDIX 1. QUESTIONNAIRE	330
APPENDIX 2. SEMI-STRUCTURE INTERVIEW GUIDELINES (THE SUPREME AUDIT INSTITUTION)	337
APPENDIX 3. SEMI-STRUCTURE INTERVIEW GUIDELINES (STAKEHOLDERS)	338
APPENDIX 4. DEMOGRAPHIC DETAILS OF RESPONDENT	339
APPENDIX 5. ETHICS APPROVAL	341
APPENDIX 6. LETTER OF INTRODUCTION	343
APPENDIX 7. LETTER TO THE INDONESIAN SUPREME AUDIT INSTITUTION	344
APPENDIX 8. LETTER TO THE PARLIAMENT	346

List of Figures

Figure No.	Description	Page
Figure 1.1	The Analytical Framework	12
Figure 2.1	Stewart's Ladder of Accountability	40
Figure 3.1	The laws and Position of BPK	61
Figure 4.1	Assumption About the Nature of Social Science	78
Figure 4.2	Sociological Paradigm and Organizational Analysis	79
Figure 5.1	Percentage on the Auditor's role in Detecting Fraud	117
Figure 5.2	Percentage of the perception of the auditor's role in Performance Auditing	125
Figure 6.1	Problems Diagnosis in Performance Auditing at the operational level	137
Figure 6.2	Clarity of the Operationalization of the Audit Mandate Based on Position	143
Figure 6.3	Methods and Techniques Used by Performance Auditors	168
Figure 7.1	Audit Opinion of the Local Governments	205
Figure 7.2	Audit Opinion of the Ministries and Government Agencies	206

List of Tables

Table No.	Description	Page
Table 2.1	Definitions of Performance Auditing	22
Table 2.2	Differences between VFM Audit and Management Consulting	24
Table 2.3	Comparison Between Financial Audit and Operational Audit	25
Table 2.4	The Comparison of Agency Theory and Institutional Theory	46
Table 3.1	Indonesian Corruption Perception Index 2005 - 2013	57
Table 3.2	Supreme Audit Institutions and Their Accountability Roles	65
Table 3.3	A Comparison of Audit Types	69
Table 3.4	Summarised of Public Accounts Committees' Practice in Some Countries	73
Table 3.5	The Characteristics of Australian Public Accounts Committees	74
Table 4.1	Pragmatism Assumption	81
Table 4.2	Summary of the Number of Interview Participants	91
Table 4.3	The Proportion of Respondent based on Region	94
Table 4.4	Respondents' Demographic Profile	95
Table 5.1	Perceptions of the Conventional Objective of Performance Auditing	103
Table 5.2	Perceptions of Comparison of the Difficulties of the 3E's Aspect	105
Table 5.3	Perceptions of the Environmental Aspect of Performance Auditing	108
Table 5.4	Perceptions of Auditors' Responsibility in Assessing Environmental Aspect	109
Table 5.5	Perceptions of Auditors' responsibility in Assessing Fraud	116
Table 5.6	Perceptions of the Fraud and Corruption Aspect of Performance Auditing	119
Table 5.7	Perceptions of the Profile of Performance Auditing's Auditor	124
Table 5.8	Perceptions of the Performance Auditor's Independency	130
Table 6.1	Perceptions of the Performance Auditing Mandate	141
Table 6.2	Perceptions of the Structure of Audit Work	151
Table 6.3	Perceptions of Performance Audit Skills and Expertise	153
Table 6.4	Perceptions of the Performance Audit Infrastructure	155
Table 6.5	Perceptions of the Performance Audit Standard and Guidelines	156
Table 6.6	Perceptions of Training Adequacy	157
Table 6.7	Perceptions of the Number of Performance Auditing Training Sessions	158
Table 6.8	Perceptions of Time Allocation on Performance Auditing	161
Table 6.9	A Comparison of Time Allocation on Performance Auditing	165

Table No.	Description	Page
Table 6.10	Perceptions of the Method of Performance Auditing	169
Table 6.11	Perceptions of the Changes of Performance Audit Method	170
Table 6.12	Perceptions of the Performance Audit Criteria	176
Table 6.13	Perceptions of Expertise in Developing Performance Audit Recommendations	181
Table 6.14	Perceptions of the Implementation of Performance Audit Recommendations	189
Table 7.1	Summary of Audit Opinion on Local Government Financial Reporting	205
Table 7.2	Summary of Audit Opinion on Ministries and Government Agencies	206
Table 7.3	Perceptions of Public Participation	211
Table 7.4	Perceptions of the Involvement of the External Parties	213
Table 7.5	Results of the Public Accounts Committee's Monitoring over the Follow-up of BPK's Audit Reports	233
Table 8.1	The Objects of Performance Auditing 2005 – 2011	241
Table 8.2	Mapping of Performance Auditing Practice using Critical Systems Heuristics	271

List of Abbreviations

ANAO	Australian National Audit Office
APIP	<i>Aparat Pengawasan Internal Pemerintah</i> (Government Internal Control Agency)
BAKN	<i>Badan Akuntabilitas Keuangan Negara</i> (The Indonesian Public Accounts Committee)
BAPPENAS	<i>Badan Perencanaan dan Pembangunan Nasional</i> (The State Ministry of National Development Planning)
BPK	<i>Badan Pemeriksa Keuangan</i> (The Indonesian Supreme Audit Institution)
CSH	Critical Systems Heuristics
DPR	<i>Dewan Perwakilan Rakyat</i> (the House of Representatives/the Indonesian Parliament)
IHPS	<i>Ikhtisar Hasil Pemeriksaan Semester</i> (Semmiannually audit report released by BPK)
INTOSAI	The International Organisation of Supreme Audit Institutions
KEMENPAN	<i>Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi</i> (The Ministry of State Apparatus and Bureaucratic Reform)
LAKIP	<i>Laporan Akuntabilitas Kinerja Instansi Pemerintah</i> (Government Performance Accountability Report)
NPM	New Public Management
PAC	Public Accounts Committee
SAI	Supreme Audit Institution
SAKIP	<i>Sistem Akuntabilitas Kinerja Instansi Pemerintah</i> (Government Performance Accountability System)
UKP4	<i>Unit Kerja Presiden Pengawasan dan Pengendalian Pembangunan</i> (The President's Delivery Unit for Development Monitoring and Oversight)
VFM	Value for Money

CHAPTER 1: INTRODUCTION AND RATIONALE FOR THE THESIS

1.1 BACKGROUND TO THE STUDY

First we shape our architecture, and then our architecture shapes us

Winston Churchill, 1943

In the context of this research, “Architecture” as Winston Churchill said to Parliament in 1943 with regard to the rebuilding of the House of Commons, can be seen as a metaphor for government structure, laws and regulations. The reconstruction of a government’s structure and accountability mechanisms are needed in order to create better government performance. One of the means to achieve this process is by improving the role and functions of the performance audit which is conducted by the Supreme Audit Institution.

The paradigm shift in the process of accountability from procedures, control and regulations to accountability for results and performance has paved the way for performance auditing in many countries in the world including Indonesia. Zavelberg (1990) mentioned that there was a change from regularity and compliance auditing to performance auditing. In similar vein, Clarke (2005, p. 44) argued that auditing appears to have shifted from issues of procedural compliance to a growing involvement in performance evaluation and organisational design.

The roles of auditing change in response to public expectations. The public needs to know that the programs or operations carried out in public sector organisations are economical, efficient and effective. Public sector managers are increasingly required to demonstrate what they have achieved, and measures of

performance are crucial to evaluating the success of government programs (Corner & Drewry, 2005).

Performance auditing exists to improve the accountability of government institutions. The relationship between audits and accountability is clearly defined. The process of auditing is important, as without audits there can be no accountability. The common argument is that the audit will ensure accountability – especially in highly decentralised organisations or where lack of trust is prevalent (Greve & Ejersbo, 2005, p. 105). Mackenzie (1966), in his foreword to Normanton’s book, *The accountability and audit of governments*, states that: “Without audit, no accountability; without accountability no control; and if there is no control, where is the seat of power?” (p. viii). Rubenstein (2001) argues along the same lines, but with reference to an analogy that, “Without disease, there is no profession of medicine; without distrust, there is no profession of audit” (p. 235).

Thus, accountability and trust are becoming essential elements of outcomes in the auditing system. In terms of performance auditing, many scholars have suggested that it can be used in order to improve public sector management (Daujotait & Macerinskien, 2008; Politt, Girre, Lonsdale, Mul, Summa & Waerness, 1999; Leeuw, 1996). For example Lonsdale, Ling and Wilkins (2011) agreed that performance auditing has played a significant role in ensuring that governments are held to account for their use of public resources.

Trust and a clear accountability system will lead to strong transparency in public sector governance especially in democratic governments. Ian Ball (2011)

stated that without transparency, there can be neither trust nor accountability.¹ The concept of accountability is a fundamental underpinning in liberal democratic thought. Accountability forms the basis of the trust people have in society's institutions and organisations, so when accountable relationships are undermined, their trust in society's institutions is damaged (Kluvers, 2003, p. 58).

The significance of 'accountability' is also highlighted by Aucoin and Heintzman (2000) who mention that the concept is a cornerstone of public governance and management and it can be achieved through the mechanisms of public scrutiny and audit. Therefore, it is argued that trust, accountability and transparency are the interrelated concepts in order to improve good governance in the public sector. The auditing process is key in providing the checks and balances of various processes in organisations to avoid conflicts of interest and ensure transparency (Courville, 2003). The performance audit reports published by the audit institution provide information and analyses of government activities and give assurance on good government performance. Hence, the performance audit is one of the means to achieve better public sector governance. In this case, good governance in the public sector can also be seen in a broader concept. McIntyre–Mills (2006) mentioned that:

Good governance (that supports democracy and good international relations) is about praxis that can lead to a better balance of social, cultural, political, economic and environmental

¹ This is a statement by Ian Ball, IFAC CEO, in CIPFA's 1st International Conference: Trust and Accountability in Public Financial Management, March, 17 2011, London.

concerns. Thinking idealistically in this manner can ensure a sustainable future for ourselves and future generations. (p. 340).

An *a priori* norm of this thesis is based on the laws and constitution that the Indonesian Supreme Audit Institution or *Badan Pemeriksa Keuangan* (BPK)² should conduct performance auditing to audit the state's financial management and accountability. Also, the demand of accountability and transparency from the public has increased, especially during the reform era. After the Indonesian government released three packages of financial laws in the year 2003-2004 as a result of the financial crisis, BPK's oversight on government's performance has become important.

In addition, the thesis explores the extent to which performance auditing can be used as an instrument to promote public accountability. Public accountability is a part of the democratic process and it needs to consider ways to ensure sustainability of the environment. Stiglitz, Sen and Fitoussi (2010), Flannery (2009), and Stern (2007) have stressed the need to both value the environment and transform what is valued in order to develop a more sustainable economy and the environment upon which the economy depends. Two approaches to ethical behaviour exist. The first is *a priori* norms to guide behaviour and the second is an *a posteriori* guide to the evaluation of performance. When conducting performance audit activities, the elements of public trust and transparency are requirements when delivering audit results to the public. In addition, there is a consideration that

² Indonesian Supreme Audit Institution is called BPK or *Badan Pemeriksa Keuangan*. In Indonesia, external government audit is performed by an independent constitutional authority, namely Badan Pemeriksa Keuangan (BPK). Recognising the importance of a proper institutional framework for government accounting and auditing, the Constitution of Indonesia gives a special status to BPK and contains provisions to safeguard its independence.

the institutional processes such as norms, values and culture will influence the model of performance auditing in Indonesia. Therefore, the context of the thesis considers the relationship of performance auditing and the process of accountability in Indonesia, to what extent performance auditing conducted by the Supreme Audit Institution is effective, and to what extent performance auditing contributes to public accountability.

In this research, a systemic thinking praxis will be used as a framework in analysing performance auditing and public accountability in Indonesia. Systemic problem solving is needed to promote the governance accountability process in Indonesia, especially in the Indonesian Supreme Audit Institution. According to McIntyre-Mills and Vries (2011) a systemic viewpoint helps to make decisions based on exploring values and to consider the social, cultural, political, economic and environmental factors. In addition, some theoretical framework such as the systemic approach, institutional theory and agency theory will be reviewed in order to enrich the literature review and research analysis.

1.2 STATEMENT OF THE PROBLEM

After the economic crisis hit Indonesia in 1997, the Indonesian government attempted to redevelop the foundations of the economy by reforming fiscal laws and regulations (Juwana, 2005). This also promoted the reformation of state financial regulations. The government introduced the package of laws for state finances in 2003 and 2004 to promote better governance. The packages consist of three financial laws including the Law of State Finance, the Law of State Treasury, and the Law of State Financial Management and Accountability. The last law clearly

mandates the Indonesian Supreme Audit Institution (BPK) to carry out performance auditing. Therefore, this provides an opportunity for the BPK to re-establish a proper auditing practice, especially the development of performance auditing to support a democratic institutional system.

Performance auditing in the public sector in Indonesia is relatively new compared to financial auditing. The function of financial auditing is merely to look at the accounts, and to check and give certification of financial statements rather than examining the performance of an institution. Thus financial auditing provides assurance of financial-based rather than performance-based accountability. The development of performance auditing in Indonesia is influenced by several factors, namely social, economic, political, and environmental ones. The necessity for performance auditing was felt during the course of meeting the need for greater information for taxpayers and their representative, the Parliament. This mainly related to the efficiency and economy of the use of resources by the public managers acting on behalf of the executive. These encouraged audit institutions to develop their own institutional capabilities and to apply the highest standard procedures and techniques to ensure that decision-makers can be guaranteed that budgetary resources and assets are utilised in an economical and effective way (Tudor, 2007).

From the social context, the growing demand for performance auditing is a result of society requesting more information regarding better services from public institutions. The goal of performance auditing in assessing the 3E (economy, efficiency and effectiveness) aspect is expected to provide improvement to

government entities and ultimately lead to better service to the public. For example, the Indonesian Supreme Audit Institution is currently working on improving the performance of government institutions by conducting performance auditing, such as in the fields of health, education, agriculture and state enterprises. However, society still requests more about the performance and transparency of the government.³ For instance, in the fields of health services, society believes that the quality of hospital services is relatively poor. The services are considered convoluted, involving too many procedures and lacking professionalism.⁴

From the economic perspective, taxpayers ask whether the government's programs produce value for money. The Indonesian Supreme Audit Institution has the overarching responsibility to provide performance audit reports to the public and to the parliament on various aspects of the performance of government institutions or projects. These reports are the measure by which tax payers know what is being achieved with public funds. Therefore, the Indonesian Supreme Audit Institution is expected to produce their reports clearly, in order to gain attention from the public and the parliament.

From a political perspective, there is a new mandate from Law No. 15/2004 on State Financial Management and Accountability for BPK (Indonesian Supreme Audit Institution) to undertake performance auditing. Lastly, from an environmental

³ For example, in the case of the electricity subsidy for the poor, the society asked BPK to audit the process of reimbursement mechanism (see The Jakarta Globe newspaper 'Government considers a targeted electricity subsidy for poor' January, 26, 2010). Another example was the case of Century Bank scandal; BPK has been requested by House of Representatives to investigate the case in 2009. See the chronology of Century Bank bailout at The Jakarta Globe newspaper, 'The bank century bailout: A chronology', March 02, 2010 or at <http://www.thejakartaglobe.com/home/the-bank-century-bailout-a-chronology/361491>.

⁴ See <http://nasional.kompas.com/read/2012/04/03/11191710/pelayanan> [accessed at 6 April 2012, 20.30 PM] and <http://poskota.co.id/berita-terkini/2011/06/18/prosedur-pelayanan-pasien-miskin-bertele-tele> [accessed at 6 April 2012, 21.00 PM]

perspective, the global issue in the environmental matters raises the concern of international society. The current trend of this issue affects the way an audit is conducted. Therefore, the need to accommodate sustainability issues in public sector auditing cannot be avoided.

In the context of the changes in state financial reforms and the growing need for better public services and greater accountability, the purpose of this study is to explore the role of performance auditing in improving public accountability in Indonesia. Given that the Supreme Audit Institution plays a vital role in the scrutiny of the public sector and government activity (Kiraka, Clark & Martinis, 2002), the study will evaluate the current practice of performance auditing in the Indonesian Supreme Audit Institution.

1.3 OBJECTIVES OF THE STUDY AND RESEARCH QUESTIONS

This study aims to (1) examine the extent to which performance auditing is applied in the public sector in Indonesia since the financial management reforms; (2) explore the auditors' perspectives of the concept of performance auditing; (3) provide details on the stakeholders' perspectives of the performance auditing process conducted by the Supreme Audit Institution, and (4) determine to what extent performance auditing conducted by the Supreme Audit Institution contributes to public accountability in Indonesia. Lastly, the research also attempts to promote the performance audit methodology for a developing country (that is, Indonesia).

Based on the research, the thesis aims to address the way to improve the area of public sector performance auditing which is conducted by the Indonesian

Supreme Audit Institution. Several research questions have been developed, such as:

(1) To what extent is the performance auditing concept internalised by the auditors and stakeholders?

1.1 What are auditors' perceptions of the traditional concept of performance auditing?

1.2 How do auditors and stakeholders perceive the environmental aspects in performance auditing?

1.3 How do auditors and stakeholders perceive the fraud/corruption aspects in performance auditing?

1.4 How do auditors and stakeholders perceive the profile of auditors in regard to performance auditing activities?

(2) To what extent is the performance of the auditing practice undertaken by the Indonesian Supreme Audit Institution effective?

2.1 What is the current state of the performance auditing practice?

2.2 What are the problems and challenges in performance auditing practices?

2.3 What are the factors that enhance and undermine the effectiveness of performance auditing activities?

(3) How can performance auditing promote public accountability in Indonesia?

3.1 Why is performance auditing needed in Indonesia?

3.2 How can performance auditing be improved for the purpose of public accountability?

3.3 What is the relationship between the Supreme Audit Institution and the Parliament, especially the Public Accounts Committee? What mechanisms are applied?

1.4 SIGNIFICANCE OF THE STUDY

To the best of this researcher's knowledge, the study is the first to address the issue of performance auditing in Indonesia; therefore it provides a significant contribution to the literature in understanding the subject of performance auditing in Indonesia. In addition, this research is also the first study which examines the position of the Indonesian Public Accounts Committee since it was established at the end of 2009.

The thesis contributes to the literature in several important respects. First, there has been limited research on the evaluation of performance auditing in the public sector in Indonesia as one of the developing countries. Therefore, the study hopes to fill the existing gaps in previous research, given that most of what has been produced concerning the subject of performance auditing has been written with reference to developed countries. Second, the research provides an important contribution to the development of public sector auditing in Indonesia. Third, public understanding of the importance of performance auditing in achieving public accountability will be improved. Fourth, the research supports the Indonesian Supreme Audit Institution as well as the Indonesian government in order to implement performance auditing in the public sector. Fifth, the research will add to the existing literature on performance auditing especially in developing countries, with an example from Indonesia as a lesson which can be learned for other

developing countries. Finally, the research also contributes to the development of performance auditing in the professional community.

1.5 ANALYTICAL FRAMEWORK

Borrowing from the evaluation framework of Donabedian and the system model of evaluation from Hansen (2005), the analytical framework for evaluating the effectiveness of performance auditing in the Indonesian Supreme Audit Institution was developed. Donabedian's (1966) framework was used in the arena of medical care and has three components in the evaluation enterprise, which are structure, process and outcome (Palfrey, Thomas & Phillips., 2012). Hansen's (2005) system model of evaluation is a system perspective which analyses input, structure, process, and outcome in terms of results. The system model of evaluation fundamentally questions how performance functions as a whole. Within the context of this thesis, the inputs are limited to skills, infrastructure, budget, personnel and time. The process is limited in terms of audit planning, audit criteria and audit methods, while for outputs, these are restricted to audit reports, audit recommendations and follow-up audits by auditees. The public accountability as a result of a performance audit conducted by the Indonesian Supreme Audit Institution is considered an outcome. The relationship between the Indonesian Supreme Audit Institution and the public accounts committee will also be evaluated. Therefore, the analytical framework of the research is as follows:

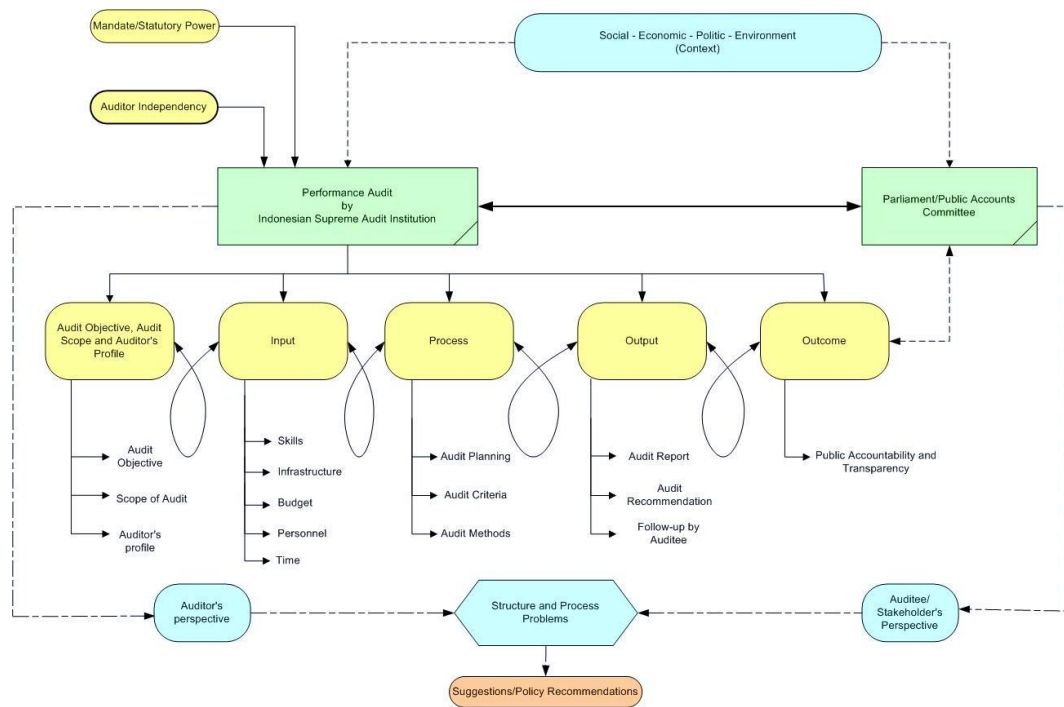


Figure 1.1 The Analytical Framework

The analytical framework (Figure 1.1.) provides guidelines in this research to explain and discuss the empirical chapters. The evaluation of performance auditing will be examined based on the analytical framework above. This research then examines how performance auditing is conducted by the Supreme Audit Institution and what the relationship is between it and the public accounts committee. Data was obtained by inviting auditors and stakeholders to provide several perspectives and thoughts on this evaluation. Based on their perspectives, the research examined the structure and process problems related to the implementation of performance auditing in Indonesia and provided some policy recommendations.

1.6 SCOPE AND LIMITATIONS OF THE STUDY

This researcher writes as an Indonesian and acknowledges that truth is always relative to a particular culture (Okasha, 2002)⁵. The intention of this research is not to generalise a theorem or hypothesis based on a positivist approach. Instead, it aims to explore, describe and elaborate performance auditing as a social construction. This research is based on a descriptive and exploratory case study of the Indonesian Supreme Audit Institution. It uses a complementary approach. These methods are considered appropriate for the investigation of the effectiveness of performance auditing, and the relationship of the performance audit and public accountability in Indonesia. The study focuses on the evaluation of the current states of performance auditing in the Indonesian public sector, especially that which is conducted by the Indonesian Supreme Audit Institution. It also explores the relationship between the BPK and the Parliament (that is, the Indonesian Public Accounts Committee), especially the changes that occurred after the Indonesian government introduced public sector reforms in the 2000's.

Another limitation of the study is the restriction in generalisability due to differences in government environments in Indonesia compared to other developing countries and also with other Supreme Audit Institutions. In addition, this research is examining performance auditing in the public sector environment, not in the private sector. Therefore, the results also cannot be assumed to apply in the private sector environment.

⁵ See Okasha (2002) about cultural relativism. Okasha, S. (2002). *Philosophy of science: A very short introduction*, Oxford: Oxford University Press.

1.7 THE THESIS STRUCTURE

The structure of thesis comprises nine chapters with the structure as follows:

Chapter one comprises the rationale of the thesis on performance auditing in Indonesian public sector auditing. The concern about how performance auditing is needed for better services and accountability is presented. The study limitations are also discussed in this chapter.

Chapter two focuses on the theoretical aspects of the thesis. The relevant theories related to the issue of performance auditing and public accountability are explored. In addition, the institutional theory, the principle agency theory, and the systemic approach are investigated to enrich the discussion.

Chapter three describes the Indonesian context of this research. Interconnectedness between public sector auditing in Indonesia and the role of the Indonesian Supreme Audit Institution is explored. The chapter provides insights into how the Supreme Audit Institution plays its role in the public sector.

Chapter four presents the methodology of the research. The reasons for using complementary approaches are explained. The research approaches and data collection including the survey, interviews and focus group discussions are also explained.

Chapter five presents the empirical data relating to the perception of the performance auditing concept. The chapter focuses on the examination of the conceptual aspects of performance auditing. It also investigates the expanding concept of the performance auditing objective into the environmental and fraud

aspects. The chapter also examines the profile of the auditor in conducting a performance audit.

Chapter six presents the empirical findings concerning the effectiveness of the performance auditing process in the Indonesian Supreme Audit Institution. The problems and challenges of the current practices are evaluated here.

The data on the role of performance auditing as a tool of public accountability are presented in chapter seven. The need for performance auditing and the relationship between the Supreme Audit Institution and the Parliament, especially the Public Accounts Committee, are examined.

Chapter eight discusses the results in chapters five and six through the theoretical lenses. The discussion uses Critical Systems Heuristics (CSH) and a SWOT analysis is developed based on the previous discussion as the basis for providing policy recommendations.

Chapter nine provides the conclusion and policy recommendations of the research. Recommendations for better performance auditing practices in improving public accountability are presented.

CHAPTER 2: PERFORMANCE AUDIT AND PUBLIC ACCOUNTABILITY: THEORETICAL ASPECTS

This chapter explains the key concepts used in this thesis. Theory relevant to the thesis is explored to support the context. The chapter consists of two major sections explaining the performance auditing concept and public accountability theory. Other theories such as institutional theory, principal agency theory and the systemic approach theory are outlined as additional lenses in portraying the performance auditing research.

2.1 THE DEVELOPMENT OF PERFORMANCE AUDITING

The origin of the word *audit* can be traced back to ancient times, however auditing in its existing form was established only in the middle of the 19th century. The term is derived from the Latin word *audire*, which literally means, “to hear”, as in ancient times auditors listened to the oral reports of responsible officials (stewards) to owners or to those having authority, and confirmed the accuracy of the reports (Smieliauskas & Bewley, 2006; Basu, 2006; Kumar & Sharma, 2005).

Some literature points out that the development of auditing follows that of accounting. Past civilizations have identified the concept of writing and measurement. Through the process of evolution, accounting and measuring evolved into more abstract mathematics. This pattern of the gradual evolution of writing has been seen in many very early civilizations, starting with the Sumerians (3000 B.C.), the Egyptians (2500 B.C.), the first Indus River civilization (2500 B.C.), and the start of the Xia dynasty in China (2300 B.C.). In addition, there is evidence that the

government accounting system in China during the Zhao dynasty (1122–256 B.C.) included audits of official departments. As early as the 5th and 4th centuries B.C., both the Romans and Greeks devised careful systems of checks and counterchecks to ensure the accuracy of their reports. Auditing accompanied the development of accounting, and the first recorded auditors were the spies of King Darius of ancient Persia (522 to 486 B.C.). These auditors acted as “the King’s ears”, checking on the behaviour of provincial satraps. The forerunner of modern auditing followed when Luca Pacioli of Italy, known as the father of accounting, introduced the concept of double entry accounting and suggested that accounting records be verified by auditors in 1500 A.D.⁶

In the current context, there are various forms of auditing, for example, financial audits, compliance audits, and performance audits. All of these forms have different purposes. The objective of financial audits is to assess the accuracy and fair presentation of financial statements. Compliance audits assess whether funds are used appropriately and are in compliance with relevant laws and regulations. In addition, performance audits evaluate cost-effectiveness (economy), operational efficiency, and the general effectiveness of government programs in achieving their objectives.

Performance auditing has become popular in recent decades. Even though it has evolved from 30 - 40 years ago (Chapman, 2007), the development of performance auditing varies from country to country. Prior to the 1960s, few countries practised performance auditing. The forerunners were the United States

⁶ See: <http://www.britannica.com/EBchecked/topic/42575/auditing/255573/Origins-of-the-audit>, accessed: 2 November 2012, 9.35PM; Smieliauskas & Bewley, 2006; Sangster, 2010.

and Sweden (Adams, 1986). Performance auditing as a large-scale, self-consciously distinct practice first emerged during the late 1970s (Pollitt et al., 1999). However, by the late 1990s, performance auditing had been fully established with its own procedures and staff in Australia, Canada, Finland, France, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom (UK) and the United States (US). Thus, performance audits are now central activities of governmental organisations close to the political centre in many democratic welfare states. Performance auditing is therefore likely to play an important role in accountability in democratic governance, at least at the central government level (March & Olsen, 1995). In Australia, for example, the development of performance auditing did not start until the 1976 Royal Commission into Australian Government Administration (Coombs Commission) gave momentum to the Commonwealth Auditor-General's desire to expand audit function to include performance auditing (McCrae & Vada, 1997, p. 204).

The development of modern performance auditing cannot be separated from that of auditing in a developed country such as the United Kingdom. In Britain modern auditing practice expanded during the 80's and 90's. The word *audit* grew in a wide variety of contexts and came to encompass not only the financial audit needed to regulate private companies, but also other audit practices such as value for money audit, management audit, forensic audit, intellectual property audit, medical audit, teaching audit and technology audit. The emerging of auditing acquired a degree of institutional stability and acceptance. This is called the era of the "audit society" (Power, 1997, p. 3).

2.1.1 DEFINITION OF PERFORMANCE AUDITING

Performance auditing does not have its roots in the form of the type of auditing common to the private sector. Its origins lie in the need for independent, wide-ranging analyses of the economy, efficiency, and effectiveness of government programs and agencies which are made on a non-recurring basis (INTOSAI, 2004, p. 12). Essentially, a performance audit deals with the concept of economy, efficiency and effectiveness of administrative operations (Zavelberg, 1990). However, there is less agreement on the use of the term performance audit. Its other names include: operational auditing, program auditing, result auditing, comprehensive auditing, management auditing, value for money auditing (VFM), efficiency auditing and effectiveness auditing (Arens et al., 2007, p. 769; Nicoll, 2005; Parker, 1986; Sawyer, 1990; Sheldon, 1996; Pollitt et al., 1999). Even though there are several terms and definitions, the differences between them are not significant and essentially describe the same thing (Lane, 1983, p. 961; Parker, 1986).

In this research, the use of “performance audit” as a form of audit is preferred given that it has been acknowledged by several international bodies such as INTOSAI⁷ and ASOSAI⁸. Currently the view offered by the INTOSAI document *Implementation Guide for Performance Auditing* is seen as the most authoritative and accurate statement regarding this issue (Funkhouser, 2005, p. 14). In addition, the term has also been adopted by the Indonesian supreme audit institution.

As part of the auditing scheme, the process of performance auditing is relatively different from other schemes such as the financial audit. The process of

⁷ INTOSAI stands for The International Organisation of Supreme Audit Institutions [<http://www.intosai.org>].

⁸ ASOSAI stands for Asian Organization of Supreme Audit Institutions [<http://www.asosai.org>].

performance auditing involves creativity and more of a focus on special programs or projects in an organisation. The focus of performance auditing is scrutinising how resources are spent in an economical, efficient and effective way.

The performance audit is a natural extension of financial auditing in its procedures and purpose. Monaghan mentioned in the opening ceremony of the XII INCOSAI in Sydney, Australia (1986) that:

Performance auditing has to be seen as complementary to financial regularity auditing, and not as a substitute for it. The intention of performance auditing is to create a greater awareness by the legislature and the people of the success or otherwise of public officials in obtaining value for money in public expenditure, in utilisation of resources, and in seeking to ensure that all due government revenue is collected.

Performance auditing is an approach that transcends traditional financial management (Greve & Ejersbo, 2005, p. 104). There is no universally accepted definition of performance auditing amongst audit institutions throughout the world. However, many countries have a legislative mandate for performance auditing which identifies economy, efficiency and effectiveness as key aspects of performance auditing. An example of an operational definition therefore may be stated as follows (Malan, Fountain, Arrowsmith & Lockridge II, 1984):

Performance auditing is systematic process of objectively obtaining and evaluating evidence of the performance of an organization, program, function or activity. Evaluation is made in

terms of its economy and efficiency of operations, effectiveness in achieving desired results and compliance with relevant policies, laws, and regulations, for the purpose of ascertaining the degree of correspondence between performance and established criteria and communicating the results to interested users. The performance audit function provides an independent, third-party review of management's performance and the degree to which the performance of the audited entity meets pre-stated expectations.

In addition, Parker (1986, p.7) has mentioned that: "A performance audit is the independent examination and evaluation of the economy and efficiency of an entity's operation as well as the effectiveness of its program."

Performance auditing can be defined in many ways. Leo Herbert (1979, p. 6) in his book, *Auditing: the performance of management* defines performance auditing as:

(1) Planning for, obtaining and evaluating sufficient relevant, material, and competent evidence, (2) By an independent auditor, (3) On the audit objective of (a) whether an entity's management or employees have or have not accepted and carried out; (b) appropriate accounting, management, or operational principles, policies, or standards; (c) for effectively, efficiently or economically using its resources, (4) from this evidence on the audit objective, the auditor comes to an opinion or conclusion and reports to a third party.

Some other definitions of performance auditing are summarised in the following table.

Table 2.1 *Definitions of Performance Auditing*

Sources	Definition
INTOSAI's Auditing Standards (AS 1.0.38 and 1.0.40)	The full scope of government auditing includes regularity and performance audit, and performance auditing is concerned with the audit of economy, efficiency and effectiveness.
Indonesia's Law (the Act No.15/2004 on the Audit of Management of and responsibility for State Finance)	Performance audit is the audit of the management of state finance, which includes audit of economy, efficiency and effectiveness.
GAO (1994) ⁹	A performance audit is an objective and systematic examination for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.
The Australian Accounting Research Foundation (2002) ¹⁰	Performance auditing means an audit of all or part of an entity's or entities' activities to assess economy and/or efficiency and/or effectiveness. It includes any audit directed to: The adequacy of an internal control structure or specific internal controls, including those intended to safeguard assets and to ensure due regard for economy, efficiency and effectiveness; The extent to which resources have been managed economically and efficiently; and The extent to which activities have been effective.
The American Accounting Association (1993)	The systematic and objective assessment of the performance of an organization, program, function or activity by an independent auditor, who reports findings, conclusion and recommendations to a party or group with legal responsibility to oversee and/or initiate corrective action

Source: summarised by the researcher

Based on the definitions above, it can be inferred that performance auditing in the public sector is an independent and objective assessment of a program,

⁹ GAO stands for Government Accountability Office. It is the United States audit office.

¹⁰ AARF (2002), AUS 806.Performance Auditing.

function, operation or management systems of a governmental entity to assure that the entity's objectives are carried out in an economic, efficient and effective way. It is also used as a corrective program or action. However, the focus of performance auditing on the 3E's aspect needs to be expanded. There is a need to applying some values on performance auditing activities such as involving public dialogue and considering the environmental and well-being aspects to promote better public accountability.

2.1.2 THE CHARACTERISTICS OF PERFORMANCE AUDITING

A performance audit differs from a financial or compliance audit in several ways. A financial audit is a regular, more standardized, often annual, verification of information. It is more usually carried out as an individually tailored project and is less apt for standardization (Pollitt et al., 1999). A performance audit is also distinct from monitoring and ordinary performance measurement, as these latter activities are performed as part of management processes while a performance audit is external and independent of management. Public performance audits are, moreover, distinct from private audits, as operative, management and quality audits, as these are internalized forms of corporate control, whereas performance audits are part of the public sector organisations' external control systems. Performance audits are conducted on behalf, and in the interest of, the public (accountability), and not only on behalf of the owners, company management, or for the government (Johnsen et al., 2001).

In his monograph, *Value for money auditing: conceptual development and operational issues*, Lee Parker (1986, p. 35) explained that a value for money audit

or performance audit is an intersection between the accountancy and management consulting aspects. However there are several differences between the VFM audit and management consulting, as shown below:

Table 2.2 *Differences between VFM Audit and Management Consulting*

VFM Characteristics	Management Consulting Characteristics
Repeated audit cycle	One-off assignment
Broad focus on economy, efficiency and effectiveness	Restricted terms of reference
Independent of entity management	Employed by entity management
Reports on management	Reports to management
Subject to professional audit standards	Not subject to professional audit standards
Related to financial/compliance audit	Not necessarily related to financial/compliance audit

Source: Lee D. Parker (1986, p. 37)

Glynn (1993, p. 114) queried how VFM auditing is different from traditional auditing or management consultancy. A conventional audit of financial statements is designed to provide an independent, objective opinion that financial information prepared by management has been presented fairly. As a part of the process the auditor may include an examination of accounting and information systems, and may make recommendations to management to improve these systems. Generally, audit reports are predictable and brief as the auditor is guided by generally accepted accounting and audit principles and standards.

Management consulting assignments commonly require solutions to perceived problems and experience at implementing solutions. They may frequently involve advice on specialized management decisions or their implementation. The range of situations, solutions and systems is very diverse. There is no predictable form of reporting and there are no generally accepted standards for decision-making or systems to guide the consultant.

VFM auditing is a blend of both conventional auditing and management consulting. It benefits from the independence, objectivity, and reporting skills of auditors, and is complemented by the specialized analytical systems and implementation skills that may be available from management consultants. The report should be attention-directing, rather than providing detailed solutions.

To capture the difference in the essential elements of a financial audit and an operational audit, Lane (1983, p. 962) presents a comparison of these two audits:

Table 2.3 *Comparison between a Financial Audit and an Operational Audit*

Elements	Financial Audit	Operational Audit
Result	Opinion for third parties	Report to management
Basis	Financial Statement	Management representation
Time horizon	Historic	Past, present and future
Criteria	Accounting principles Auditing Standards	Several
Audit Procedure	Analytic Review Internal Control System Financial Data Test of transactions	Analytic review Decision-making system Operational measurement Test of transaction
Requirement	Often statutory	Management choice
Frequency	Periodic/regular	Indefinite

Source: D.C. Lane (1983, p. 962)

From the table above, it is possible to highlight some of the major differences between a financial and an operational audit. These are particularly pronounced in areas such as the results of the audit, the basis of the audit, the audit criteria, and the frequency of the audit.

2.1.3 THE CONCEPT OF ECONOMY, EFFICIENCY AND EFFECTIVENESS (THE THREE ES)

Glynn (1993, p.48) mentioned that the VFM audit can be thought of as consisting of three elements: economy, efficiency and effectiveness. The first two elements are fairly uncontroversial, however the third element, effectiveness, is both hard to define and difficult to measure. Control over the effectiveness of government activities involves the fulfilment of political goals by effective administration. The INTOSAI (2004) states that an audit of the economy is related to the administrative activities in accordance with sound administrative principles and practices and management policies. An audit of the efficiency of utilisation of human, financial and other resources includes the examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies. In addition, an audit of the effectiveness of performance is related to the achievement of the objectives of the audited entity, and an audit of the actual impact of activities compared with the intended impact. Gupta (2005, p.982) mentioned that:

Economy is concerned with minimising the cost of resources acquired or used, having regard to appropriate quality. Efficiency refers to the relationship between the output of goods/services or other results and the resources used to produce them. Thus, the auditor examines how far maximum output is achieved for a given input, or minimum input used for a given output. Effectiveness is the relationship between the intended results and the actual results of projects, programs or other activities. Thus, the auditors

examine how successfully the outputs in the form of goods/services or other result achieve policy objectives, operational goals and other intended effects.

In practice, the boundaries between economy, efficiency and effectiveness are seldom clear-cut. Therefore, in carrying out a performance audit, the auditor examines these different aspects together particularly when considering the closely linked aspects of economy and efficiency. For example, a performance audit of a program for construction of a hospital might cover an examination of any or all of the following aspects (Gupta, 2005, p. 983):

- The tendering, contract and project control procedures to establish how far the hospital and associated facilities have been built to specification, on time, and at the lowest achievable cost or within approved cost limits.
- Utilisation of wards, beds, operating theatres and equipment; medical and administrative staff allocation and distribution; integration of services; maintenance; management and resource allocation system, for example.
- Results achieved, that is, in terms of reduction in patient waiting lists, increase in operations performed, improved diagnostic and treatment services and, ultimately, the improvement in health and quality of life, reduced mortality rates.

2.1.4 THE OBJECTIVES OF PERFORMANCE AUDITING

The International Organisation of Supreme Audit Institutions (INTOSAI) highlights the objectives of performance auditing in the public sector. In its

international conference in 1986, the XII INCOSAI¹¹ in Sydney discussed the objectives of performance auditing, which were:

- To identify ways of improving public sector financial management
- To enhance decision-making in the public sector by providing the relevant bodies with independent and reliable information regarding revenue, expenditure and the management of resources
- To improve the quality of information concerning the results of public sector management that is available to policy makers, legislators and the general community
- To encourage public sector efforts to introduce reporting procedures designed to bring to notice the economy, efficiency and effectiveness with which government departments and agencies meet their responsibilities
- To ensure full accountability

The above statement clarifies that performance auditing is a means for (1) improving management practices in the public sector, and (2) honing the accountability process of public managers.

2.1.5 THE PROFILE OF PERFORMANCE AUDITOR

The practices of Supreme Audit Institutions in enhancing government accountability are conducted through producing audit evidence for decision-makers. This is a means of retaining the audit institution's legitimacy (Majone, 1989; Reichborn-Kjennerud, 2014). The way a Supreme Audit Institution produces audit evidence in regard to performance auditing activities is varied. Politt et al. (1999,

¹¹ INCOSAI stand for International Congress of Supreme Audit Institutions.

2003) proposed four possible roles for a Supreme Audit Institution with respect to its performance audit activities, namely: 1) as a public accountant, producing reports aimed principally at enhancing the accountability and transparency of public bodies; 2) as a management consultant, giving help and advice to public bodies to help them improve themselves; 3) as a scientific research-based organisation, unearthing, creating and disseminating new scientifically-tested knowledge concerning how public programs and projects are working; 4) as a judge or magistrate pronouncing on the legality of the actions of public bodies and giving decisions on how far they conform to formal procedures and requirements.

One of the aims of this study is to explore how the auditors perceived their role in exercising performance auditing activities. Then, Politt's framework dealing with the possible role of performance auditor is examined in order to determine the auditors' perceptions. Therefore, this study contributes to the theory on auditor roles in the Indonesian public sector context.

2.1.6 THE STAGES OF PERFORMANCE AUDITING

The literature suggests that the performance audit craft is relatively different from other types of audit. The stages of performance auditing can be summarised in the following stages (ASOSAI, 2000; INTOSAI, 2004).

2.1.6.1 STRATEGIC PLANNING

The planning stage is conducted in order to define the performance audit topics. Auditors usually gather information related to performance auditing objectives such as information regarding a business entity, current issues which have a wider impact on society, and the monetary issues related to the

performance audit objectives. Auditors also will develop audit criteria from many resources such as governmental policy, generally accepted standards and codes of professional practice issued by a recognised body, performance indicators or measures used by similar entities or other entities engaged in similar activities, academic literature, experts, and the Supreme Audit Institution's experience itself. In addition, the auditors will also develop the audit scope, audit methodologies, the field work program, and audit budget/resources.

2.1.6.2 FIELD WORK

Auditors undertake some preliminary study before conducting audit field work. The preliminary study will suggest whether the performance audit project will continue or not. In the fieldwork, the auditors gather data and information through various audit techniques and methods.

2.1.6.3 PERFORMANCE AUDIT REPORTING

Performance audit reporting consists of the audit findings, criteria, and recommendations. The auditors will deliver the performance auditing report to the auditees, with recommendations. In the Indonesian public sector, the Supreme Audit Institution also delivers the report to the Parliament. The report consists of all audit activities conducted and includes the financial, performance, and special purpose audit. The chairman of the Indonesian Supreme Audit Institution will deliver the audit reports to the Parliament every semester in a formal ceremony.

2.1.6.4 FOLLOW-UP AUDIT PROCESSES

Lonsdale (2007, p. 88) mentioned that the processes for handling audit recommendations also differ. Some systems are more "watertight" than others (for

example, where recommendations are followed up systematically and are not able to be shelved without response). There are also variations in the extent to which there is a public process (public committee hearings and televised sessions for example), the degree of involvement of legislators/politicians (as opposed to paid officials), the formality of rules for replying to reports (timetables for response, expectations of agreement of the text, degree of follow-up), and in terms of who is required to answer to audit findings. In some cases, respondents may be senior officials acting as representatives of organisations (United Kingdom). Elsewhere, individuals are held accountable in their own name with personal liability for the funds entrusted to them (the Comptables in the French system, for example). In keeping with the growing role of the private sector in public service delivery, increasingly, representatives of private institutions undertaking public activities are also appearing in public alongside representatives of the contracting department.

In addition, McCrae and Vada (1997) and Pendlebury and Shriem (1991, 1990) propose that the performance auditor's role includes a follow-up activity as the final stage of the performance audit program. The follow-up activity focuses on the recommendations that the performance auditor suggests in the report regarding the management and the conduct of the respective public sector entity. The purpose of this additional activity according to Pendlebury and Shriem (1991, 1990) is to investigate: 1) whether the recommendations suggested by the performance auditor to improve the management and the performance of the public sector entity have been implemented: and, if in the affirmative, 2) to determine if the recommendations improved the management and performance of

the entity. The follow-up activity carries the performance auditor's role into involving actions above and beyond the formation of an opinion. Therefore, it is distinguished from the role of the external financial auditor. In a public sector context, the performance auditor systematically evaluates the auditee's management and control of public sector resources and the performance of the public sector entity (Parker & Guthrie, 1991).

2.1.7 PERFORMANCE AUDIT AND NEW PUBLIC MANAGEMENT

In the age of New Public Management (NPM), auditing in the public sector also has to consider broader aspects of activity. Internationally, the rise of performance auditing is in line with the NPM concept especially in the 1980's when many countries in both developed and developing nations experienced problems of fiscal stress, inferior performance of the public sector, and lack of accountability (Minogue, 1998; Common, 1998; Athmay, 2008). The label of the NPM exists in many different terms. Some have called for deregulating government, reinventing government, and entrepreneurial government. Some have labelled the NPM as a public sector managerialism. Regardless of the label, these various reforms have all emphasized that improved management produces better results (Behn, 2001, p.24). This kind of managerialism system in which managers were to be held to account for their executive successes and failures is supplanting the traditional Weberian model of public bureaucracy which emphasized compliance with rules (Gregory, 2012).

NPM is built on the assumption that the private sector is better than the public sector in terms of managing performance institution. Therefore, when the

latter is regarded as a hotbed of speculation, it is felt necessary to adopt and apply some of the practices and management techniques of the NPM concept to the public sector. These may include the application of market mechanisms, bidding competition and privatization. In other words, there are efforts to reflect private sector practices in the public sector as it is believed that NPM has an effective role in public sector reform.

The state of the art of NPM states that Government should provide high-quality services that value the citizen. In addition, the autonomy of public managers, particularly from central agency controls, should be increased. Organisations and individuals should be evaluated and rewarded on the basis of how well they meet demanding performance targets. Public sector managers must appreciate the value of competition and maintain an open-minded attitude about which services belong in the private, rather than public sector (Barzelay, 1992; Bardach, 2000).

There is an affinity between performance auditing and the New Public Management. Performance auditing is viewed as a way to strengthen the “bond of accountability” between bureaucratic agents and political principals and to reorient the terms of accountability (Stewart, 1984; Moore, 1995). Performance auditing calls for public organisations to be assessed not only on their capacity to provide accurate financial accounts and to raise and expend money in accordance with laws and regulations, but also to provide evidence for the achievement of some given objectives, with greater stress on efficiency of using public resources – that is, to be accountable for performance or results (Hood, 1995). In addition, Aucoin (1990)

concluded that the goal of public sector reform is to improve efficiency, economy and effectiveness (3E's). This conclusion is related to the objective of performance auditing, which is intended to improve the 3E aspect in organisations or institutions. Guthrie (1989) also highlights the relationship between the international developments in New Public Management and restructuring of the accounting and auditing systems in public administration.

The deployment of NPM is often related to the growth of a particular group of experts, with accountants and state auditors (also known as government auditors) commonly being prominent (Guthrie, Humphrey, Olson & Jones, 2005; Hood, 1998). For example, Power (1999) maintains that NPM has contributed to the spread of state auditing due to its emphasis on the use of auditing as a mechanism for control. State auditing, especially efficiency auditing, has also played a role in legitimizing changes in government controls in accordance with NPM - for example through the promotion of the idea that governments should be more accountable in terms of results [Gendron, Cooper & Townley, 2007]. Therefore, performance auditing which focuses on improving performance accountability is in line with the spirit of New Public Management in improving public sector transformation for greater accountability and transparency.

2.2 THE THEORY OF PUBLIC ACCOUNTABILITY

2.2.1 DEFINITION OF PUBLIC ACCOUNTABILITY

Thomas (cited in Schacter 2005) observed that accountability is at the heart of governance within democratic societies. So, what is public accountability? Dowdle (2006, p. 3) defined it as simply the expression of a belief that persons with

public responsibilities should be answerable to the people for the performance of their duties. Public accountability can also be seen by articulating a symbiotic relationship between judicial review, procedural visibility, and public faith in government. Funnel (2001, p. 19) described that at the heart of public sector accountability is:

[a] responsible person or institution ... on whom is laid a task, function or role to perform, together with the capability to carry it out. There is also conferred some discretion and the liability to account for the performance of the duty, which should induce the person or institution to act with concern for the consequences of the decisions made and, in so deciding, to act in conformity with the wishes and needs of those who conferred the authority and receive the account.

Therefore, being accountable means being obligated to answer for one's actions and decisions which arises when authority to act on behalf of an individual or body (the principal) is transferred to another (the agent) (Funnel & Cooper, 1999). In other words, steering and control are needed in government activities. Control refers to the mechanism and the instrument used by the controlling actor in order to influence their decisions and behaviour with the aim of fulfilling the objectives of that actor (Verhoest, 2005, p. 136).

Referring to Hedger and Blick (2008), the need for public accountability arises due to a variety of pressures, namely: (1) the existence of strong informal practices alongside more formal constitutional mechanisms of accountability; (2)

the differing patterns of competitive multi-party politics; (3) the development of presidential systems of government; and (4) demands from international organisations for new forms of accountability.

2.2.2 THE PURPOSE AND FUNCTION OF PUBLIC ACCOUNTABILITY

The purpose of public accountability is essentially threefold (Aucoin & Heintzman, 2000, p. 244). The first is to control for the abuse and misuse of public authority. The second is to provide assurance in respect to the effective use of public resources and adherence to public service values. The third is to encourage and promote learning in pursuit of continuous improvement in governance and public management. Consequently, performance auditing in the public sector plays a role in all three of these elements.

The function of public accountability is to enhance the integrity of public governance and improve performance (Boven, 2005, p. 192-194). The assumption is that public accountability will deter public managers from secretly misusing their delegated powers and will provide overseers, such as journalists, interest groups, members of parliament, or official controllers, with essential information to trace administrative abuses. Therefore, accountability is not only about control, it is also about prevention.

Accountability is an inherently participatory concept and is distinct from obedience. To give an account is to communicate, not to completely surrender control. Accountability is therefore a discursive condition, which sets up a dialogue between the public and public servants. As members of the public, public accountability is actuated by participating in this dialogue, for example by

independently judging whether the accounts offered by public officials are proper and in the public interest (Dowdle, 2006, p. 12).

To achieve accountability, transparency is needed, and the two go hand in hand. Clarke (2005) mentioned that there are two elements which drive an organisation to promote transparency. The first element relates to financial flow in an organisation. If an organisation cannot manage the flow of money, outcomes, and interests in an appropriate way, then corruption, collusion and bribery are predicted to happen. The second element relates to interest in public governance arrangements. As there is uncertainty in the relationship between diverse social, organisational, and occupational interests and the policy and practices of public bodies, therefore the demand for transparency seems to have increased. Transparency in government activities is essential to enable citizens to control the use of public resources and to ensure that these resources are best utilized to benefit society.

2.2.3 PUBLIC ACCOUNTABILITY AND PERFORMANCE AUDIT

In the public sector, public accountability means that those responsible for a government program or ministry are answerable for its efficient running. Accountability, in turn, presupposes that there is public insight into the activities of that program or ministry. Performance auditing is an important way for taxpayers, financiers, Members of Parliament, ordinary citizens, and the media to obtain insight into the running and outcome of different government activities (SNAO, 1999, p.17).¹² Therefore, performance auditing ensures that the persons and

¹² Swedish National Audit Office, (SNAO).

authorities entrusted with public resources are answerable for the fiscal, managerial, and program responsibilities that are conferred upon them, and report on the management of such resources.

Accountability for the use of public funds is a cornerstone of sound public financial management. Supreme Audit Institutions (SAIs) are the national bodies responsible for scrutinising public expenditure and providing an independent opinion on how the executive has used public resources. The four objectives of public sector auditing, based on the Lima Declaration, are to promote:¹³

- the proper and effective use of public funds
- the development of sound financial management
- the proper execution of administrative activities
- the communication of information to both public authorities and the general public through the publication of objective reports

Gupta (2005) mentioned that the government audit principally aims at ensuring that the government's financial transactions are executed properly under sanctions and authorities, are correctly recorded, and conform to the rules of financial propriety. As such, it is an audit to ensure that public funds are not misused. In addition, the role of government audits is also being extended to examining the efficiency, economy and effectiveness of various projects/programs run by the government. Thus, by providing information as to whether or not the various activities have achieved their objectives, a government audit now also acts as a tool to ensure accountability of the government in regard to the goals set and

¹³ The Lima Declaration of Guidelines on Auditing Precepts issued by the International Organisation of Supreme Audit Institutions in 1977 and reissued in 1998

the resources allocated to achieve them in a defined time frame. To sum up, a government audit encompasses two main elements which are:

- (a) fiscal accountability – audit of expenditure, receipt of other elements of financial statements of the government audit; and
- (b) managerial accountability – audit of efficiency, economy and effectiveness (this is often referred to as a performance audit).

Performance auditing could play a role in controlling public accountability. The underlying principle is that government agencies as well as Public Enterprises are accountable or answerable to Government, the Legislature and hence to the people. The essence of control in performance auditing can also be seen from the perspective of cybernetics. In cybernetics the perspective of a control and accountability system consists of three subsystems: a subsystem of planning and target setting; a subsystem of measurement and monitoring, and a subsystem of evaluation, audit and feedback. Each of these is in some way involved in the process of “accountability”. One actor is accountable to another for achieving objectives, fulfilling tasks, or respecting norms, which are set and/or controlled by the second actor (Dunsire, 1986).

2.2.4 MODELS OF ACCOUNTABILITY

Accountability is a complex concept in the public sector domain. There are several models of accountability suggested by scholars (Stewart, 1984; Carino, 1991; Corbett, 1996; Gray & Manson, 2008).

Stewart (1984) identified two strands or dimensions of the public accountability of officials, based on the need for information. The dimensions are

set out in the form of a ladder of accountability, from accountability by standards to accountability by judgement. He identified five types of public accountability (Figure 2.1). Stewart’s model focused on answering the “accountable for what” question at an organisational level. The model suggested that the higher the ladder of accountability, the more difficult it is to measure the accountability of the organisation or institution.

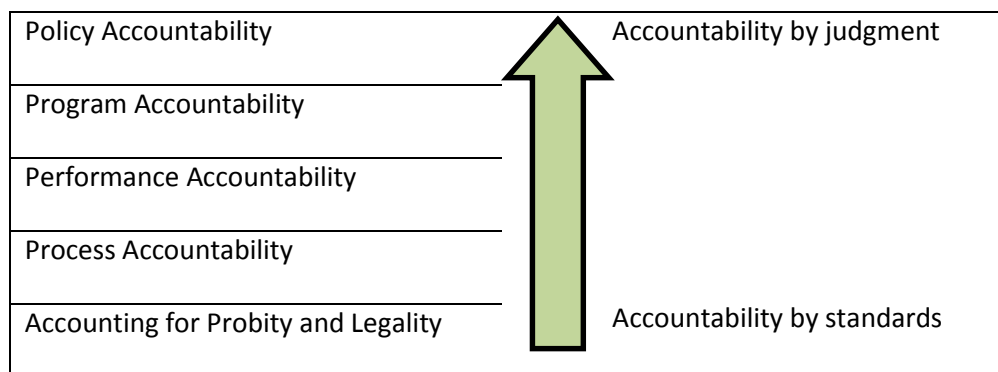


Figure 2.1 *Stewart’s Ladder of Accountability (1984)*

Carino (1991, pp. 46-50) distinguished four kinds of accountability: traditional, managerial, program, and process accountability. Traditional accountability focuses on the regularity of fiscal transactions and the faithful compliance and adherence to legal requirements and administrative policies. Managerial accountability concerns efficiency and economy in the use of public funds, property, manpower and other resources. Program accountability is concerned with the results of government operations. As such, accountability is the property of units as well as of individual bureaucrats whose activities together make for the effectiveness of a program. Social accountability relates to the interest of the citizen and the main inquiry is whether the administrative activities inspire general confidence and secure what are widely regarded as desirable social ends. Process accountability emphasizes procedures and methods of operation and

focuses on the black box inside systems, which transforms inputs (the concern of traditional and managerial accountability) to outputs (the concern of program accountability).

Corbett (1996) developed a model of accountability based on a four part framework comprising (1) upward accountability, in which the obligation on public officials is to report and to take orders from superiors; (2) outward accountability in which the obligation on public officials is to be open to external scrutiny and responsive to the public; (3) downward accountability, in which the obligation on managers is to be accountable to those they manage; and (4) inward accountability, in which the obligation on public officials is to obey their personal conscience and to act in conformity with the community's moral standards.

Gray and Manson (2008) classified accountability into the following typologies:

Political accountability: This type is often used to describe the direct chain of accountability between public servants, elected representatives and the electors. In practice, it may result in a clear division between accountability for policy decisions by elected representatives to electors and accountability for administration by public servants to the elected representatives.

Public accountability: This type is wider than political accountability and is used to describe the accountability of those controlling resources to the public at large. In some cases, accountability to the public is clear, for example, in a company in the financial services industry giving advice to members of the public. In other cases however, such accountability may be not so clear. For instance, to what

extent could the directors of a mineral oil company be held accountable to the public for their pricing policy?

Managerial accountability: This type of accountability occurs as there is a hierarchy in the organisation, for example, where subordinates are held to account by their supervisors.

Professional accountability: This kind of accountability exists in professional groups, where members have a sense a duty to other members of the group or to the profession to which they belong.

Personnel accountability: This type arises where individuals are accountable for maintaining their personal set of values.

2.3 THE INSTITUTIONAL THEORY

Institutional theory is a mode of thinking about organisational structures and the nature of the historically grounded social processes through which these structures develop (Dillard et al., 2004, p. 508). Institutionalisation is the process by which institutions are created (O'Connor, 2011). Meanwhile, Portes (2010) pointed out that:

Institutions are the symbolic blueprint for organizations. They comprise the set of rules, written or informal, governing relationships among role occupants in organizations like the family, the schools; and the other major institutionally structured areas of social life: the polity, the economy, religion, communications and information, and leisure. (p. 55).

As Giddens (1993) has noted, institutions are not social structures, as they have social structure (organisations) as the actual embodiment of the symbolic blueprints guiding relationships among roles (Portes, 2010). Rowan (1982, p. 262) defined institutionalisation as, “the process by which innovations become increasingly organized, systematized, and stabilized” There are three elements or pillars in the institutional process, which consist of: (1) regulative, (2) normative, and (3) culture-cognitive. These pillars, together with associated activities and resources, provide stability and meaning to social life (Scott, 2008a).

Most economic historians are particularly likely to view institutions as resting primarily on the regulatory pillar (Scott, 2008a). North (1990, p. 4), for example, emphasised rule systems and enforcement mechanisms:

[Institutions] are perfectly analogous to the rules of the game in a competitive team sport. That is, they consist of formal written rules as well as typical unwritten codes of conduct that underlie and supplement formal rules....that rules and informal codes are sometimes violated and punishment is enacted. Therefore, an essential part of the functioning of institutions is the costliness of ascertaining violations and the severity of punishment.

Normative systems include both values and norms. Values are conceptions of the preferred or the desirable, together with the construction of standards to which existing structures or behaviours can be compared and assessed. Norms specify how actions should be carried out; they define legitimate means to pursue valued ends. Normative systems define goals or objectives (for example, winning

the game, or making a profit), however, they also designate appropriate ways to pursue them (rules specifying how the game is to be played, conceptions of fair business practices) (Scott, 2008a). March and Olsen (1989, p. 21) embraced a primarily normative conception of institutions:

The proposition that organizations follow rules, that much of the behaviour in an organization is specified by standard operating procedures, is a common one in the bureaucratic and organizational literature...It can be extended to the institutions of politics. Much of the behaviour we observe in political institutions reflects the routine way in which people do what they are supposed to do.

Dirsmith and Carpenter (1992) mentioned that an organisation's or profession's survival requires institutional theory as much to conform to societal norms of acceptable behaviour as to achieve high levels of production efficiency. Meanwhile, Dillard et al. (2004) defined institutional theory as a way of thinking about formal organisation structures and the nature of the historically grounded social processes through which these structures develop. It is primarily concerned with an organisation's interaction with the institutional environment, the effects of social expectations on the organisation, and the incorporation of these expectations as reflected in organisational practices and characteristics (Martinez, as cited in Dillard et al., 2004).

In the relationship between institutional context and audit, Courville (2003, p. 238) noted that:

Audits do not simply exist in time and space on their own; they need to be grounded within a specific regulatory regime and affected for a specific purpose. In order to evaluate the accountability of auditing activities, we must look into the institutional context in which the audit activity is embedded. To whom are social auditors and social certification systems accountable? Are they accountable to the auditee, to the end users of certification or to wider society?

In addition, DiMaggio and Powell (1983) introduced the concept of isomorphism in analysing institutional processes. Isomorphism is defined as a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. There are three forms of isomorphism, namely, coercive, mimetic and normative isomorphism. Coercive isomorphism means that there are pressures on how an organisation should be operated in society. These might be government mandates, financial reporting requirements or requirements that a supplier makes. Mimetic isomorphism describes the degree to which organisations model themselves on each other as there is uncertainty that encourages organisations to imitate others. They might be modelled on organisations they think are more legitimate or even more successful. Lastly, normative isomorphism describes pressures brought about by professions. For example, people hired with similar educational backgrounds will tend to approach problems in similar ways; or inter-firm networks (such as physician groups and hospitals) will import norms that urge organisations to adopt particular processes and routines or forms. The concept of institutional theory relates to

public sector auditing, since this type of auditing is the institutional mechanism which is built into the constitution of every democratic government to bring transparency to its operations.

2.4 THE PRINCIPLE OF AGENCY THEORY

Agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) is directed at a particular type of organising problem, the so-called *agency problem*. It models the relationship between the principal who delegates work to an agent who then performs that work. The comparison between agency theory and institutional theory is described by Eisenhardt (1988) in Table 2.4.

Table 2.4

Comparison of Agency Theory and Institutional Theory

Elements	Agency Theory	Institutional Theory
Key idea	Organisational practices arise from efficient organization of information and risk bearing costs	Organisational practices arise from imitative forces and firm traditions
Basis of organisation	Efficiency	Legitimacy
View of people	Self-interested rationalist	Legitimacy-seeking satisficers
Role of environment	Organisational practice should fit environment	A source of practices to which organisation conforms
Role of technology	Organisational practices should fit technology employed	Technology moderates the impact of institutional factors or can be determined institutionally
Problem domain	Control problems (vertical integration, compensation, regulation)	Organisational practices, in general
Independent variables	Outcome uncertainty, span of control, programmability	Industry traditions, legislation, social and political beliefs, founding conditions that comprise the institutional context
Assumptions	People are self-interested People are rational People are risk-averse	People satisfice People conform to external norms.

Source: K.M. Eisenhardt (1988, p. 481)

Agency theory addresses the situation in which the managers of an organisation are not its owners. Owners (principals) must seek contracts with managers (agents) for their services. The theory holds that there must always be some discrepancy between the interests of the principals and of the agents. There is also disequilibrium in information in which agents are better informed about the amount of resources and efforts required to obtain particular levels of output and outcomes. Principals must monitor agents in order to safeguard their interests. There is a need to design institutions in order to motivate agents to perform in congruence with the goals of the principals (Schwartz, 2010, p. 12). The rights and obligations of agents are set down in a contract of employment which binds the agent to the principal in specified matters. These contracts are meant to motivate agents to work in the interests of their principals by pursuing their own interests. The main problems facing the principal, irrespective of the quality of their contract, are ensuring that the agent will give priority to the principal's welfare and that the agent will make decisions which the principal would have made if they had been given access to the same information available to the agent (Funnel, Cooper & Lee, 2012).

2.5 THE SYSTEMIC APPROACH

Systemic approaches are more than a discipline; they are means of knowing differently within all disciplines (Ison, Bawden, McKenzie, Packham, Sriskandarajah, & Armson, 2008). The development of knowledge in accounting and also auditing is fundamentally influenced by other forms of knowledge development such as science and technology, which emphasise analytical thinking and reductionist

methods (Bayou & Reinstein, 2001). Systems thinking or the systems approach emerged in the twentieth century through a critique of reductionism. Referring to Midgley (2000), reductionism is one aspect of the mechanistic world view that narrows attention to linear, causal relationships between variables. Consequently, there is a failure to view relationships as being perhaps only adequately understood as aspects of the operation of wider systems.

The origin of the systems approaches to management was developed by Boulding (1956) and Von Bertalanffy (1968) when they introduced the phrase of “general system theory” (Buckley, 2009). This approach developed from early work in the biological sciences (Martin & Fellenz, 2010). A systems approach or systems thinking uses an expansionist vision that is opposite to the reductionist view. Expansionist doctrine assumes that everything in the world is part of a larger whole and that the parts of the whole are interrelated (Flood, 2001; Mora et al., 2003). The systems theory has been given considerable prominence in New Public Management to cohere with the various programs of reform. A systems approach to management presumes that organisations are adaptive; they react and change as influences from the system’s environment impinge on their working.

Currently, there are many methods and approaches to systems thinking, for example, the Design Inquiring System, which is a form of critical systems heuristics or critical systems thinking (by Churchman and those who have applied, adapted and extended his work such as Ulrich, Jackson, Romm, Midgley and McIntyre-Mills); the Viable System Model by Stafford Beer; the Soft System Methodology by Checkland; and Critical Systems Heuristics by Ulrich. The premise of the approach is

that systems are linked (Beer, 1974; Churchman, 1979; Banathy, 2001). Churchman (1979, p. 11) stated that: “Systems are made up of sets of components that work together for the overall objective of the whole. The system approach is simply a way of thinking about these total systems and their components.”

Churchman (1979) described systems as open. His approach to addressing areas of concern was to apply a Design of Inquiring Systems, comprising questions to pose when addressing an area of concern. His approach was a process of applied critical heuristics based on “unfolding” the values of the stakeholders and “sweeping-in” as many factors as possible to address areas of concern. It was also a process of observing elements from different viewpoints, a concept which he called a “worldview”. Furthermore, Churchman mentioned that *a systems approach begins when first you see the world through the eyes of another* (McIntyre-Mills, 2006; Reynolds, Holwell & Holwell, 2010). The importance of systemic thinking has been acknowledged by Ackoff (2004, p. 4) who stated that:

In general, those who make public policy and engage in public decision making do not understand that improvement in the performance of parts of a system taken separately may not, and usually does not, improve performance of the system as a whole. In fact, it may make system performance worse or even destroy it.

McIntyre-Mills (2006, p. 350) extends West Churchman’s work on decision making and stresses that a systemic process for design is based on avoiding decisions that “cut off” options by:

- Achieving resonance through “unfolding” values and “sweeping in” the social, cultural, political, economic and environmental aspects.
- Understanding that consideration of relationships to others and the way this affects systemic intervention are required
- Recognising that the entire system people strive to appreciate or understand, will never be known, and thus system models will always be partial and or flawed.

Banathy (2001) described systems methodology as a set of coherent and related methods and tools applicable to (a) the analysis of systems and systems problems, problems concerned with the systemic/relational aspects of complex systems; (b) the design, development, implementation, and evaluation of complex systems; and (c) the management of systems and the management of change in systems. The task of those using systems methodology in a given context is fourfold: (1) to identify, characterise, and classify the nature of the problem situation, that is, (a), (b), or (c) above; (2) to identify and characterise the problem context and content in which the methodology is applied; (3) to identify and characterise the type of system in which the problem situation is embedded; and (4) to select specific strategies, methods, and tools that are appropriate to the nature of the problem situation, to the context/content, and to the type of systems in which the problem situation is located.

Critical systems thinking (CST) is a development of systems thinking that aims to support good practice of all forms of applied systems thinking and professional intervention. In its simplest definition, CST is applied systems thinking

in the service of good practice (Ulrich, 2012). Ulrich (1983) propose the Critical Systems Heuristics (CSH) as the extended concept of West Churchman's 'sweeping in' approach.

In the systems approach, adaptation and learning is an essential part (Flood and Romm, 1996; Churchman, 1979). Performance auditing conducted by the Indonesian Supreme Audit Institution could be seen as a system. Therefore, learning process cannot be separated in order to improve effectiveness of performance auditing process. The Supreme Audit Institution as an organisation also plays an important role in the learning process in order to promote better performance auditing activities. Wenger (2000) pointed out that there are three dimensions on the architecture of learning in organisation, namely (1) engagement, (2) imagination, and (3) alignment. Engagement refers to the process of community building of organisation in order to emerge new knowledge. Imagination is a process to reflect and explore models and representations of pattern in an organisation in order to facilitate for comparison with other practices. Alignment is a process to connect with broader enterprises. Through alignment an organisation can learn to have effects and contribute to tasks that are defined beyond organisation engagement.

The idea in this thesis is to evaluate current systems on performance auditing using the wisdom of Churchman and Critical Systems Heuristics as the analysis tools to make suggestions regarding how performance auditing and accountability could be enhanced in the Indonesian public sector.

2.6 PREVIOUS STUDIES ON PERFORMANCE AUDITING

Previous research on performance auditing has been conducted by scholars such as Parker (1986), who discusses the concept and development of value for money auditing in Australia, and Leeuw (1996) who focuses on the need for performance auditing in the era of New Public Management. Jacobs (1998) has pointed out the value for money audit as a control tool in the New Zealand public sector. Power (1997, 2003), in general, also discussed the growth of performance auditing as a consequence of an audit society. Gendron, Yves, Cooper and Townley (2007) focused on the development of auditing expertise in measuring government performance, while Pollitt (2003) investigated the trends and choices of performance auditing in Western Europe. English (2007) examined the relationship between performance auditing and public private partnerships in Australia. Other scholars emphasised the application of performance auditing at a practical level. Funnell and Wade (2012), for example, focused on the process by which auditees and auditors in the Australian National Audit Office negotiated their relationship, and Morin (2004) concentrated on the perspective of the impact of performance auditing on audited managers in Canada. In the context of Parliament, Sharma (2007) researched the Public Accounts Committee role in the value for money audit in the United Kingdom.

This research attempts to provide new insight into the possibility of expanding the concept of performance auditing in terms of the inclusion of environmental aspects, the perception of fraud, and the profile of the performance auditor. In addition, the research also intends to reframe the current practice of

performance auditing to support the performance accountability of government. The study focuses on the Indonesian public sector especially on the work undertaken by the Indonesian Supreme Audit Institution. There is little research in the area of performance auditing in the Indonesian public sector, thus this study contributes to the development of performance auditing in that country.

2.7 SUMMARY OF THE CHAPTER

This chapter summarised the theoretical aspects of the thesis as the lenses through which to evaluate performance auditing in the Indonesian public sector. The demand from society in regard to better services from government institutions is coupled with the need for accountability and transparency of the institutions. Institutional theory and public accountability are then considered appropriate to explain the current practice of performance auditing, as well as principle agency theory, in order to highlight the relationship between the audit institution and the parliament, especially the Public Accounts Committee. In addition, critical systems thinking is used to improve the current practice of performance auditing by providing a critique on the current mechanism. In the context of performance auditing literature, most research in this field has been done mainly in the context of western countries. Therefore, this current research provides a contribution to the development and literature of performance auditing in the context of the Indonesian public sector.

CHAPTER 3: PUBLIC SECTOR AUDITING IN INDONESIA AND THE SUPREME AUDIT INSTITUTION

This section will discuss contemporary public sector auditing and the Indonesian Supreme Audit Institution particularly after the public sector reform era in Indonesia. In addition, the chapter also provides an overview of the Public Accounts Committee. The role of the Supreme Audit Institution and the Parliament, especially the Public Accounts Committee, is vital in guarding the process of government accountability and ensuring that government commitments have been implemented. The first section describes Indonesian public sector auditing. The next section will explain the status and the role of the Indonesian Supreme Audit Institution, and finally an overview of the Public Accounts Committee will be presented.

3.1 INDONESIAN PUBLIC SECTOR AUDITING

Public accountability is influenced by the current state of public sector reform in Indonesia. The public sector reform agenda was carried out by the Indonesian government after the 1998 financial crisis hit the Asian region. Some of the reform agenda undertaken by the government was in the area of political, governmental and economic systems, including constitutional reform, bureaucratic and public administration reform, and financial reform. In regard to financial reform, efforts have been made by the Indonesian government to restructure in the area of budgeting, auditing and government performance accountability systems.

Public sector auditing and government performance accountability reforms are still in the transformation process. The first wave of transformation in performance measurement in Indonesia started in the era of President Habibie in 1999. This was when the government released the performance accountability report of the state apparatus, known as the LAKIP (*Laporan Akuntabilitas Instansi Pemerintah*), through presidential instruction No.7, year 1999. The second wave of reform was when the government and parliament released the three packages of State Financial Law in year 2003 - 2004 including Law No. 17, year 2003 on State Finance, Law No. 1, year 2004 on State Treasury, and Law No. 15, year 2004 on State Financial Management and Accountability. These Laws replaced most of the Indonesian Treasury Act from the Dutch legacy Laws which are Indische Comptabiliteitswet (ICW Stbl. No. 1925. 448) and Instructie en voor de Algemene Verdere Bepalingen Rekenkamer (IAR Stbl., 1933 No.320). Through these legislations, the government has made reforms in the public sector in order to create a state of financial management in accordance with the demands of the development of democracy, economy, and technology. Public officials are required to manage state finances in a transparent and professional way. The regulations are intended to remedy deficiencies that have occurred in the financial management of the government over the years, namely weaknesses in the areas of planning and budgeting, weaknesses in the areas of treasury, and also those in the field of inspection or audit.

In Indonesia, the state financial audit is conducted by internal agencies and an external agency. The former are agencies which are embedded in government

structure and report to the head of the agency, ministry or the President. In general terms, they are called the government's internal auditors or *Aparat Pengawas Internal Pemerintah* (APIP). The APIP comprises the Financial and Development Supervisory Board which reports to President; the Inspectorate General which reports to the Minister in each ministry; and the regional inspectorate body in every province and district in Indonesia. The external audit agency is the Indonesian Supreme Audit Institution which has an obligation to report its audit work to the Parliament. The audit agencies usually conduct financial audits, compliance audits and performance audits.

The initial introduction of performance auditing in the Indonesian public sector took place in the 1970s and quickly gained popularity among auditors of public sector organisations, although the work was generally considered more complicated and controversial than financial auditing (Irsan, 1994, p. 46). Meanwhile, the development of performance auditing in the Indonesian Supreme Audit Institution (BPK) was introduced in 1976 when there was a joint cooperation between BPK and the United States – Government Accountability Office (GAO) to deliver a management audit course (Rai, 2008). After the course, the BPK started to carry out performance auditing. However, the essence of the audit was still on compliance auditing. In other words, it is compliance auditing under the cloak of performance auditing.

The challenge in the public sector auditing is corruption. Indonesia has a low Corruption Perception Index (CPI) compared with most western countries which

enjoy a high ranking in the CPI. This means that corruption remains a major problem in Indonesia (see Table 3.1).

Table 3.1

Indonesian Corruption Perception Index 2005-2013

Year	CPI	Country rank
2013	3.2	114 out of 177
2012	3.2	118 out of 176
2011	3.0	100 out of 183
2010	2.8	110 out of 178
2009	2.8	111 out of 180
2008	2.6	126 out of 180
2007	2.3	143 out of 180
2006	2.4	130 out of 163
2005	2.2	137 out of 163

Source: Transparency International Website

Corruption practices exist at the levels of central and local government. This condition is reflected in the audit findings of the Supreme Audit Institution. These reports show that most audit findings are related to malfeasance in the use of state funds. For instance, there was a potential loss of state funds of IDR 9.72 trillion (approximately USD 972 million at the exchange rate USD 1 = IDR 10,000) and IDR 13.96 trillion (approximately USD 1.396 million) in years 2012 and 2013 respectively.¹⁴

¹⁴ See <http://bisnis.news.viva.co.id/news/read/401949-bpk-temukan-ribuan-kasus-ketidakpatuhan-merugikan-negara> date: 2 April 2013; <http://bisnis.news.viva.co.id/news/read/505787-bpk-temukan-kasus-berpotensi-merugikan-negara-triliunan-rupiah> date: 20 May 2014.

3.2 THE INDONESIAN SUPREME AUDIT INSTITUTION

The supreme audit institutions are the public institutions which carry out the external audits of the administrative and financial management of a state or an international organisation, independently of the executive branch. According to the International Organisation of Supreme Audit Institutions (INTOSAI), the purpose of an external audit is to ascertain the proper and effective use of public funds, sound management and the administrative propriety and public accountability of authorities through the publication of objective reports (Cogliandro, 2001).

The Supreme Audit Institution of Indonesia (BPK) is responsible for conducting performance audits as public awareness about transparency and accountability has currently increased. The BPK was established to fulfil the terms of article 23E term 1 of the 1945 Indonesian Constitution, which states, "In order to audit State Finance management and accountability, there shall be a free and independent Audit Board." The audit reports of the Audit Board shall be presented to Parliament. Thus, the Constitution of 1945 gives independent status to the BPK as the sole external auditor of the government to assure transparency and accountability of government finance. The third amendments to the 1945 constitution in 2001 also strengthen the position of BPK.

The trigger to strengthen the BPK's capacity in undertaking performance auditing came in 2006 when the Law No. 15 concerning the Audit Board was enacted. This law is important to reaffirm the BPK's position and it stated explicitly the duties and authorities of the BPK regarding performance auditing. Article 2 and

article 6 especially, in section 3 of the Law, clearly stated that:¹⁵ “BPK shall be a state institution that is free and independent in auditing state financial management and accountability.” Article 6 of the Law further provides that (1) BPK shall have the duty to audit the state financial management and accountability performed by the Central Government, Regional Government, other state institutions, Bank Indonesia, state-owned enterprises, public service agencies, regional-owned enterprises, and other institutions or agencies managing state finance; (2) The BPK audit as intended in paragraph (1) shall be implemented based on law concerning state financial management and accountability audit; (3) the BPK audit shall include financial audit, performance audit, and special purpose audit; (4) if the audit is implemented by a public accountant based on the provisions of law, reports on the results of such audits must be submitted to the BPK and shall be subsequently published.

Previously, the position, duties, and authorities of the BPK were regulated under Law No. 5 of 1973. However, the law did not explicitly mention the type of audits that should be conducted. Article 2 of law No. 5/1973 mentioned the duties of BPK in general terms; that the BPK shall be responsible for auditing government related finances including auditing of the execution of government budgeting.¹⁶

Law No. 15 of 2006 on the Audit Board also complements the other packages of government financial law reform in Indonesia whose purpose was to improve public sector reform and accountability after the economic and financial

¹⁵ Law of The Republic of Indonesia No. 15 Year 2006 concerning the Audit Board.

¹⁶ Law of the Republic of Indonesia Number 5 year 1973 concerning the Audit Board.

crisis in 1997-1998. These laws replaced the 1925 old Dutch Laws. The packages of financial law reform consist of:

- (1) Law No. 17, year 2003 concerning State Finance
- (2) Law No. 1, year 2004 concerning State Treasury
- (3) Law No. 15, year 2004 concerning state Financial Management and Accountability

The mandate of the BPK in conducting performance auditing is also clearly stated in Law No. 15, year 2004 concerning State Financial Management and Accountability, in Article 3:

- (1) The audit of state finance management and responsibility conducted by BPK comprises all state financial elements as stipulated in Article 2 of the Law 17 of 2003 on the State Finance
- (2) For audit conducted by a public accountant based on financial audit law, the audit reports are required to be submitted to BPK and published

And in Article 4:

- (1) The audit referred to in article 2 comprises financial, performance, and special purpose audits
- (2) Financial audit is audit on financial statements
- (3) Performance audit is audit on management of state finances, which include audit of economy, efficiency and effectiveness

Based on the explanation above, it can be seen that the current mandate of the BPK in carrying out performance auditing came from Law No. 15 of 2006 on the Audit Board and from Law No. 15 of 2004 on State Financial Management and Accountability. The influence of the Laws on the BPK's position can be drawn as follows:

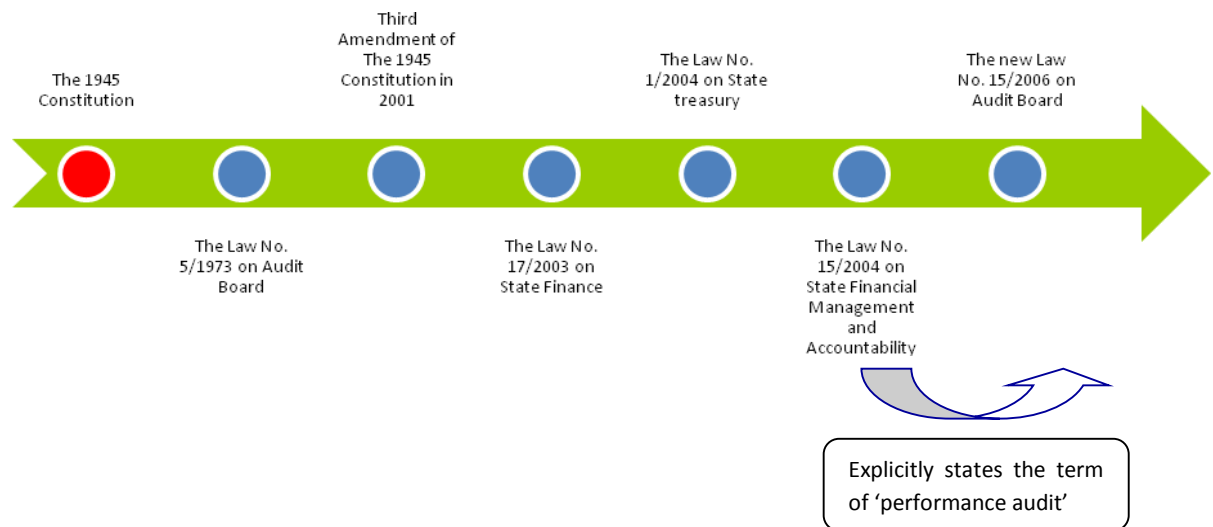


Figure 3.1 Laws and Position of the Indonesian Supreme Audit Institution (Summarised by the researcher)

Besides the three laws on state finances, an effort has been made by the Indonesian government in order to support public sector reform. A number of policies have been introduced to upgrade government accountability so as to ensure the success of the reforms. These policies include (1) reforming the fiscal system and endeavouring to align it with international best practices through enactment of three laws on state finances in 2003-2004. The laws cover state finances, state treasury, and auditing the management and accountability of the state finances; (2) modernizing public sector accounting and auditing standards; (3) restoring the BPK’s autonomy and independence as the sole external auditor of the government; and (4) reforming the civil service system including improving the salaries of civil servants (Nasution, 2009).

3.2.1 ORGANISATION AND RESOURCES

The BPK has nine board members appointed by the House of Representatives or *Dewan Perwakilan Rakyat* (DPR) and established by presidential decree. The members hold office for five years and thereafter may be re-elected for one further term.

The BPK forms its governing board among members and takes decisions jointly (a board or collegiate model). Its Chairman and the Vice Chairman are appointed from and by all board members. According to the act, the BPK is required to audit all entities managing state funds or where the financial interests of the state are involved.

Currently, the number of public entities the BPK has to audit are 1,612, consisting of the central government (84 ministries/agencies), local governments (505 regency/municipality and 34 provinces), state-owned enterprises (146 companies), and local government-owned enterprises (843 companies). The BPK has its headquarters in Jakarta and 33 branch offices in each province across the nation. It currently has more than 6,000 employees, consisting of auditors and supporting staff.

3.2.2 THE ROLE AND FUNCTION OF THE INDONESIAN SUPREME AUDIT INSTITUTION

The BPK has an important role in supporting the implementation of government reform and accountability. Audit and monitoring activities have a strategic position and determine the transparency and accountability in the management of state finances. The Indonesian Supreme Audit Institution has a vital role in carrying out this function. The institution is responsible for examining the

origins and magnitude of state revenues from any source as well as how the money is being used. As an audit institution, the BPK can also assess whether the government operations are efficient or not in their delivery of services to the public. Currently, people demand cheaper, faster and better public services. They want more effective, efficient and clean government. In order to meet these demands, the nation has to change its public management to be more democratic, efficient and more citizen-oriented (Tjiptoherijanto, 2006). In this regard, Power (1999) has stated that:

Auditing institutions have assumed an increasingly important role in the implementation of these changes and 'value for money'(VFM) auditing has become a prominent and constantly evolving instrument of financial control (p. 42).

Thus, value for money auditing or performance auditing can be used by the BPK as a means to improve public sector accountability. This can be done by delivering performance audit reports to the Parliament and Government. The audit reports can assist the government's policy decision-making and improve its performance. Performance auditing is considered to be one of the most effective means for improving performance and governance (Daujotait & Macerinskien, 2008). In addition, Glynn (1993, p. 114) states that performance auditing assists the accountability process by reporting upon management's performance at both central and developed government levels.

The characteristics of performance auditing, which emphasise economic, efficient and effective government operation, are in line with the concept of New

Public Management which strives for a greater quality of service delivery and better implementation of policy instruments and programs (Leeuw, 1996). However, public sector performance auditing in the BPK is still at the development stage. In order to improve capacity-building in performance auditing, the BPK has been collaborating with the Australian National Audit Office (ANAO) since 2006. Steve Chapman (2007), the auditor general of ANAO, discussed this project at the national seminar on public sector auditing in order to celebrate the BPK's 60th anniversary in Jakarta in 2007:

The ANAO is very pleased to have worked with BPK in 2006 in providing assistance in support of several of BPK's priority areas. We look forward to continuing to assist BPK in future years. And, we are honoured to speak today on our perspective on emerging issues and global challenges in public sector audit in the 21st century.

The form of cooperation between the BPK and ANAO includes the exchange of information and knowledge related to performance audits, financial audits, and contract management (Siahaan, 2012). This collaboration could improve the capacity of the BPK in carrying out its audit function.

The BPK is expected to be independent of bureaucratic, executive and political influence in exercising its role and function. Like many other Supreme Audit Institutions, the BPK reports to the Parliament regarding its audit activities as part of its institutional accountability. As a comparison, the form of accountability work in some supreme audit institutions can be seen from Table 3.2 below:

Table 3.2

Supreme Audit Institutions and Their Accountability Roles

Country	To whom does the SAI report?	Who considers the reports
Austria	Annual report to the National Assembly, provincial assemblies and municipalities	<ul style="list-style-type: none"> • Public Accounts Committee • Sub-committees where needed
Belgium	Close links with House of Representatives. Carries out work on behalf of all legislative assemblies.	<ul style="list-style-type: none"> • Standing committees • Finance committees of legislative assemblies have sub-committees to ensure observations are enacted
Denmark	Reports and memoranda submitted to parliament	<ul style="list-style-type: none"> • Public Accounts Committee receives reports and forwards them with comments to Parliament and ministers.
Finland	Reports to parliament, as well as to parliamentary state auditors and ministry of Finance, and relevant ministry for information.	<ul style="list-style-type: none"> • All reports presented to the Finance Committee of Parliament, appropriate parliamentary committee
France	Assist parliament and Government in supervising implementation of state budget and social security law.	<ul style="list-style-type: none"> • Reports considered by Finance Committees of both National Assembly and Senate
Germany	Assist both houses of Parliament and Federal Government	<ul style="list-style-type: none"> • Reports to ministries and parliament on significant cases. Reports principally to Bundestag Appropriations Committee and PAC. On occasion to specific committees.
Greece	Chamber of deputies takes account of Court's work in giving discharge to state budget	<ul style="list-style-type: none"> • Full Chamber
Ireland	Reports to Dail on results of examination of accounts and also produces value for money reports	<ul style="list-style-type: none"> • Public Accounts Committee
Italy	Report directly to Parliament in Annual report and special reports	<ul style="list-style-type: none"> • Chapters of report dealt with separately by relevant parliamentary committees
Luxembourg	Annual general report submitted to the Chamber of Deputies. Also present observations at any time to Chamber	<ul style="list-style-type: none"> • Full Chamber
Netherlands	Reports to State General (Parliament)	<ul style="list-style-type: none"> • Any parliamentary committee can discuss • Usually considered by the State Expenditure Committee • Lower and Upper Houses frequently use reports to question ministers
Portugal	Report on General State Account submitted to parliament, President and Government	<ul style="list-style-type: none"> • Report on the General State Account used by the Parliament to approve accounts

Country	To whom does the SAI report?	Who considers the reports
Spain	Submits Annual Report and Final Declaration of the State General Account to Las Cortes Generales	<ul style="list-style-type: none"> • Consideration delegated to Joint Committee for the relationship with the Tribunal
Sweden	Audit reports for financial audits submitted to Government with exception of agencies under Parliament. Audit report on the state's annual budget submitted to Parliament and Government. Performance audit reports submitted to Government.	<ul style="list-style-type: none"> • Advisory Board of the SAI decides which proposal and statement arising from audit work should be submitted to parliament. Decides what political decisions need to be taken as result of audit findings.
United Kingdom	Reports submitted to Parliament	<ul style="list-style-type: none"> • Committee of Public Accounts

Source: Lonsdale (2007, p. 90)

It can be seen from the table that the reports of supreme audit institutions could be submitted to the Parliament, President, ministry and municipal governments. In many countries, the Parliament and the Public Accounts Committees are the parties who consider the Supreme Audit Institution's reports.

3.2.3 THE SUPREME AUDIT INSTITUTION PRACTICES

In regard to the practices of the Supreme Audit Institution or the Auditor General, there are three types of auditing system in most developing countries (World Bank, 2001; Santiso, 2009):

- 1) Napoleonic Model or Judicial Model. In the Napoleonic/Judicial system the supreme audit institution – also called the *cour des comptes* (court of account) – has both judicial and administrative authority and is independent of the legislative and executive branches. The institution is an integral part of the judiciary, making judgments on government compliance with laws and regulations as well as ensuring that public funds are well spent. The *cour des comptes* audits every government body, including ministries, departments and agencies, commercial and

industrial entities under the purview of ministries and social security bodies. This model is used in the Latin countries of Europe (France, Italy, Spain, Portugal, and others), Turkey and most of Latin America including Brazil and Colombia, and Francophone African countries.

- 2) Westminster Model or Anglo Saxon or Parliamentary Model, used in many Commonwealth countries (Australia, Canada, India, the United Kingdom and many Caribbean, Pacific and Sub-Saharan African countries), a few European countries such as Ireland and Denmark, and Latin American countries such as Peru and Chile. The office of the auditor general is an independent body that reports to parliament. Comprising professional auditors and technical experts, the office submits periodic reports on the financial statements and operations of government entities – although there is less emphasis on legal compliance than in the Napoleonic system. The office serves no judicial function however, when warranted, its findings may be passed to legal authorities for further action.
- 3) Board or Collegiate Model. The Board model, prevalent in Asia, is similar to the Westminster model in that it is independent of the executive and facilitates parliaments to perform oversight function of government activities. Some European countries including Germany and the Netherlands, Argentina and Asian countries including Indonesia, Japan, and the Republic of Korea, for example, have an audit board composed of an audit commission (the decision-making body)

and a general executive bureau (the executive organ). The president of the board is the *de facto* auditor general. The board's primary mandate is to analyse government spending and revenue and report its findings to parliament.

3.2.4 TYPES OF AUDITS IN THE INDONESIAN PUBLIC SECTOR

Type of audits in the public sector can vary in every country. Even though there are similarities regarding the classification of public sector audits, there is no single classification applied. Most scholars divide the audit types in the public sector into three categories, namely the financial audit, the compliance audit and the performance audit (Arens & Loebbecke, 2000; Dunn, 1996; Brown et al., 1982). However, in considering practices in various countries, the classification could be different. Referring to Jones and Pendlebury (2010, p. 131) there are two broad categories of external audits of governments: financial and regularity audits, and performance audits. However, in practice, the selection of audit types is different in each country and relies upon their existing mandate. In Indonesia, the role of the Indonesian Supreme Audit Institution is to conduct three types of audits, which are (1) financial auditing, (2) performance auditing and (3) special purpose auditing. As a comparison, the Australian National Audit Office (ANAO) divides the types of audit into financial and performance audit, based on the Auditor-General's mandate (Nicoll, 2008, p. 26). There are various types of audits conducted by supreme audit institutions depending upon their mandate. As a comparison, see Table 3.3 below.

Table 3.3
A Comparison of Audit Types

Country	Types of Audit
Australia	<ul style="list-style-type: none"> • Financial audit • Performance audit
New Zealand	<ul style="list-style-type: none"> • Financial audit • Performance audit • Audits of Councils' long-term plans
United Kingdom	<ul style="list-style-type: none"> • Financial audits • Value For Money (VFM) audits • Good Governance
USA	<ul style="list-style-type: none"> • Financial audit • Performance audit • Attestation engagement
Indonesia	<ul style="list-style-type: none"> • Financial Audit • Performance Audit • Special Purpose Audit
Malaysia	<ul style="list-style-type: none"> • Financial audit • Performance audit
Singapore	<ul style="list-style-type: none"> • Financial Regularity Audit: Financial Statement Audit, Compliance Audit, Internal Control Audit • A Selective Audit (Performance Audit)
Tanzania	<ul style="list-style-type: none"> • Regularity audit • Performance audit • Forensic audit • Environmental audit

Source: Compiled from each SAI's website (2012)

3.2.5 AUDITING STANDARDS IN THE INDONESIAN PUBLIC SECTOR

Auditing standards are a measure of the quality of the minimum requirements that must be performed by an auditor. Article 5 of Law No. 15 of 2004, states that the country's financial audit standards are prepared by the State Audit Board. Currently, the BPK has established the State Auditing Standards or *Standar Pemeriksaan Keuangan Negara* (SPKN) as a standard for audits on the state finances. The SPKN is a revision of the Government Auditing Standards (SAP) of 1995.

3.3 OVERVIEW OF THE INDONESIAN PUBLIC ACCOUNTS COMMITTEE

In the Indonesian public sector context, the Parliament holds the responsibility to oversee the government activities. These include the use of state funds and the performance of government. The oversight function of the Parliament is important to provide a checks and balances mechanism on government structure. The Parliament has a special Committee to assist members in relation to the review of audit reports submitted by the Indonesian Supreme Audit Institution. The committee is called *Badan Akuntabilitas Keuangan Negara* (BAKN) or the State Finance Accountability Committee. In general terms, it is called the Public Accounts Committee (PAC) as it is usually used in most Westminster countries. The Committee was established in 2009 under paragraph 6 of Indonesian Law No. 27/2009 enacted on the 29 August 2009. The Committee has several responsibilities, including:

- a. undertaking scrutiny of the findings of audit results of the Indonesian Supreme Audit Institution (BPK) which have been transmitted to the Indonesian Peoples Representative Council (DPR);
- b. transmitting the results of its scrutiny under letter to the Parliament Commissions;
- c. following up the results of the Parliament Commission discussions on findings of the audit results of the BPK at the request of the Parliament Commissions;
- d. providing input to the BPK in the matters of the annual audit work plan, audit impediments, as well as the presentation and quality of reports.

The Indonesian Public Accounts Committee is still in the early stages of development compared with that of other developed countries. However, the work of the Committee is crucial in supporting government accountability. The history of the Public Accounts Committee comes from the Westminster tradition. The PACs date back some 150 years to England and are known by various names in different Australian jurisdictions. In the Westminster model, the Public Accounts Committees are the oldest parliamentary committees in Westminster systems that developed in the mid-nineteenth century and have had varied success as accountability mechanisms (Jones & Jacob, 2009). The embryo of the Public Accounts Committee was established in 1857 within the House of Commons in the UK and was called a Select Committee on Public Monies. The committee was chaired by Sir Francis Baring, and its main task was to inquire into the receipt, issue and audit of public monies in the Exchequer, the Pay Office, and the Audit Department (UK Parliament, 2012). Currently the Public Accounts Committee in the UK has become a strong institution in the oversight of public monies.

In other countries, committees like the Public Accounts Committee also have a long standing history. In Australia, the Public Accounts Committee was established in the nineteenth century; in Tasmania in 1862, Victoria in 1895, and New South Wales in 1902. In other states of Australia, the public accounts committee was created in the 1970s and 1980s (Jones & Jacob, 2006, p. 10).

While operational variations also exist between different jurisdictions, each Public Accounts Committee scrutinises the actions of the Executive on behalf of the Parliament. They help ensure appropriate use by the government of public money

and recommend improvements to the efficiency and effectiveness of government activities (O’Dea, 2012, p. 191). The role of the PAC is explicitly summarised by McGee (2002, p. 55):

The PAC helps Parliament hold the government to account for its use of public funds and resources by examining the public accounts. Its terms of reference can be expressed narrowly by concentrating on financial probity and regularity, or its terms of reference can be expressed more widely by being conceived in performance audit terms, with the PAC being charged with examining the effectiveness of programmes in achieving their objectives. The PAC has an independent audit oversight on Parliament’s behalf of the government and the public service.

Meanwhile, according to Pelizzo and Stapenhurst (2006, p. 7), a PAC has the power to investigate and examine all the issues that are referred to it by the Parliament. The PAC can also investigate specific issues such as government accountability to the Parliament with regard to the expenses approved by the government; the effectiveness and efficiency of policies enacted by the government; and the quality of the administration. To do this, the PAC is given additional and more specific powers such as the authority to examine public accounts, the comments on those public accounts, and all the reports drafted by the Auditor General and the National Audit Office. The PAC also has the power to conduct investigations, directly or indirectly, to receive all the documentation that it considers necessary to adequately perform its functions; to invite government members to attend the PAC meetings and to respond to the questions of its

members; to give publicity to their own conclusions; to report to the Parliament and to suggest to government, when this is considered necessary, how to modify its course of action. As a comparison, there are various practices of Public Accounts Committees in several countries, which are presented in the table below:

Table 3.4
Summarised of Public Accounts Committees' Practice in Several Countries

PAC	Practices
New Zealand and State of Victoria in Australia	Responsible for not only ex post oversight of government expenditure and performance, but also for ex ante review of the draft budget estimates and budget policies.
Australia	A parliamentary member of the governing party chairs the PAC and ministers may be called as witnesses. Contrary to the practice in many countries, the PAC Chair is drawn from an opposition party and civil servants are called as witnesses. (i.e. Uganda)
Papua New Guinea	The PAC is comprises both MPs and non-parliamentarians
Solomon Islands	The Auditor General (AG) is secretary and senior adviser to the PAC.
UK	The UK PAC does not have executive access to advice and support from the SAI, but is instead one among several parliamentary committee (although the PAC is the SAI's most important parliamentary interface by some considerable degree).
Canada	The PAC publishes annual Status reports on follow-up of the recommendations made in PAC reports.
PACs in Uganda, UK, Canada, Australia, Solomon Island, NZ and elsewhere	Holds most hearings in public
Others such as India	Hold their sessions in private

Source: Summarised from Hedger and Blick (2008)

In Australia the development of the PAC can be seen in the following table:

Table 3.5
Characteristics of Australian Public Accounts Committees

Jurisdiction	Name	Date of Original Establishment	Current legislative or other basis	Membership
Australia (a)	Joint Committee of Public Accounts and Audit	1913	Public Accounts and Audit Committee Act 1951	Joint committee, ten members from the House of Representatives and six from the Senate
Australian Capital Territory	Standing committee on public accounts	1989	Standing Orders 215 and 217	Three members, unicameral parliament
New South Wales	Public Accounts Committee	1902	Public Finance and Audit Act 1983	Legislative Assembly committee, six members
Northern Territory	Public Accounts Committee	1986	Standing Order 21A	Five members, unicameral parliament
Queensland	Public Accounts Committee	1988	Parliament of Queensland Act 2001	Seven members, unicameral parliament
South Australia	Economic and Finance Committee	1972	Parliament Committees Act 1991	Legislative Assembly standing committee, seven members
Tasmania	Public Accounts Committee	1862	Public Accounts Committee Act 1970	Joint committee, three members from each house
Victoria	Public Accounts and Estimates Committee	1895	Parliamentary Committees Act 2003	Joint committee, five members from the Legislative Assembly and four from the Legislative Council
Western Australia	Public Accounts Committee	1971	Standing Orders 284-286	Legislative Assembly standing committee, five members

Source: Jones and Jacobs (2006).

The evaluation of the effectiveness of a PAC is not merely based on the features of the committee itself but the political, economic, social and cultural contexts in which it operates should be considered as well (Hedger & Blick, 2008).

Despite their significant role as institutions of legislative oversight, there has been little research into PACs (Jones & Jacob, 2009). This thesis also considers the relationship between the Public Accounts Committee and the Indonesian Supreme Audit Institution.

3.4 SUMMARY OF THE CHAPTER

This chapter presents an overview of public sector auditing in Indonesia and the role of the Supreme Audit Institution. The Indonesian Supreme Audit Institution exists as an external auditor of the government. The institution has the responsibility for the scrutiny of public expenditure and the performance of the government. The institution's role has become more significant after the state finance reforms. The main accomplishment is that performance auditing is now explicitly stated in the law related to state financial management and accountability in 2004. Hence, the position of the Indonesian Supreme Audit Institution in exercising performance auditing received strong support from the current law. This could be the major advantage of the institution in promoting better performance accountability of the government. The role of performance auditing is important in enhancing government accountability even though massive corruption is still prevalent in Indonesia, which is reflected in the low score on the corruption perception index.

In exercising its institutional role, a Supreme Audit Institution can be categorized as belonging to a Napoleonic or judicial model, a Westminster model, or a board or collegiate model. The Indonesian Supreme Audit Institution is considered to be one in which the board or collegiate model is in place. The types of

audits conducted by supreme audit institutions are varied depending on their mandates. Literally, the possible role of a performance auditor could be as a public accountant, a management consultant, a scientist or a magistrate.

The work of the Supreme Audit Institution cannot be separated from the Parliament, *vis-à-vis* the Public Accounts Committee. The Public Accounts Committee as a part of the Parliament is another important institution that contributes to the effectiveness of performance audit activities especially in the follow-up audit reports. Nevertheless, the Indonesian Public Accounts Committee is still in the development stage compared with some western countries such as Australia and the United Kingdom which have long-standing histories regarding the existence of the Public Accounts Committee mechanism.

CHAPTER 4: RESEARCH DESIGN AND METHODOLOGY

4.1 INTRODUCTION

This study is considered evaluation research in which performance auditing in the Indonesian public sector is examined and is expanded into: environmental aspects, fraud aspects, and the profile of performance auditors. In addition, the evaluation of the current practice of performance auditing undertaken by the Indonesian Supreme Audit Institution and the relationship between the Supreme Audit Institution and the Parliament are also scrutinised. Therefore, in order to explore and examine the current approach and practice of performance auditing in the Indonesian public sector as an area of concern, this research design and method have been developed. The purpose of this chapter is to describe and justify the methodological lens and methods used to undertake the research underpinning this thesis. Bruce and Yearley (2006) defined methodology as:

The study or knowledge ('-ology') of methods and includes, on the one hand, technical instruction in research methods and, on the other, philosophical reasoning about methods and technical study of the operations and consequences of various methods (p. 196).

The chapter outlines the main dimensions of the research process, that is, the philosophical assumptions of the research and its methodology and areas of concern (Jackson, 2000). The study uses a combination of complementary methods. It combines both quantitative and qualitative methods including questionnaire

surveys, interviews, and focus group discussions. Ethical issues are also considered before the summary.

4.2 EPISTEMOLOGICAL CONSIDERATIONS

Referring to Burrell and Morgan (1979) in their classical book “Sociological paradigm and organizational analysis”, the research philosophy in social science can be divided into two dimensions: the nature of science and the nature of society. The nature of science is a continuum between that which is subjectivist and objectivist. This leads to four assumptions concerning how to conduct social research: namely, ontological nature, epistemological nature, human nature and methodological nature (see Figure 4.1). Ontological nature refers to what the nature of reality is. Epistemological nature refers to how we know that we know.

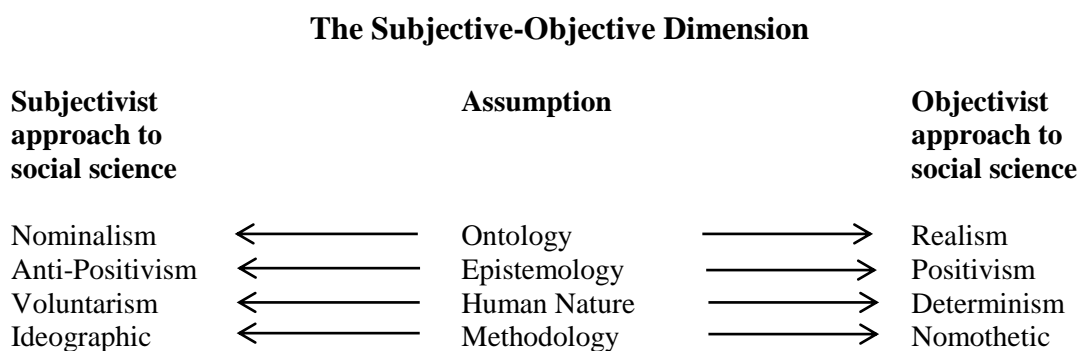


Figure 4.1 Assumptions about the nature of Social Science
Source: Burrell and Morgan (1979, p. 3)

In terms of the nature of society, Burrell and Morgan (1979) rejected the assumption that society consists of ‘conflict’ and ‘order’. Instead, they proposed that society is not in a conflict-order continuum but is in the condition of ‘radical change’ and ‘regulation’. As a consequence of the two dimensions of the research

philosophy above, Burrell and Morgan (1979) then proposed the four paradigms in social science which consist of the functionalist, the radical structuralist paradigm, radical humanist and the interpretive paradigms (see Figure 4.2). The notion of paradigm was popularised by Thomas Kuhn in the 1960's.¹⁷ A paradigm is a cluster of beliefs and dictates which, for scientists in a particular discipline, influence what should be studied, how research should be done, and how results should be interpreted (Bryman & Bell, 2007, p. 25). Therefore, by understanding the paradigm of research, the researcher then knows its standpoint.

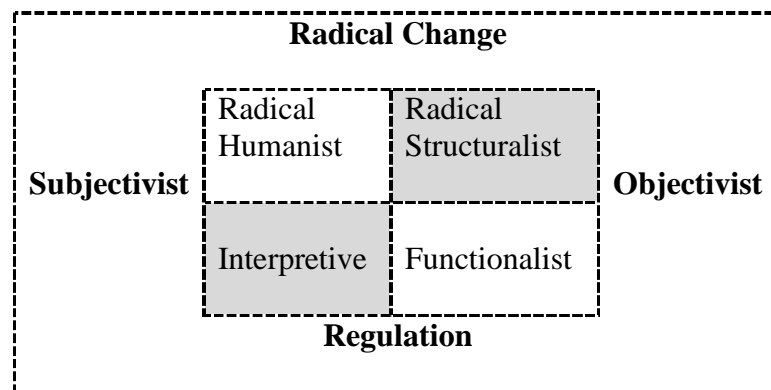


Figure 4.2 Sociological paradigm and organizational analysis, Adapted from: Burrell and Morgan (1979, p. 22)

The paradigm of this study is considered interpretive as the study attempts to explore the perspective of participants in terms of both the current approach and practice of performance auditing, and the relationship between the Indonesian Supreme Audit Institution and the Parliament. Hence, the study cannot avoid the subjective elements of opinion or choice of participants. The study locus is in the

¹⁷ *The Sage dictionary of sociology* (2006, p. 224) describes this term as coming to mean any integrated set of ideas that shapes our scientific work by influencing perceptions, setting research agendas, determining what will count as evidence and setting the basic frame for explanation. A paradigm is more general than a theory but narrower and more focused than a worldview.

government area, thus it is more in the sense of regulation rather than radical change of society.

The epistemology behind this research is pragmatism. Pragmatism refers to the consideration of the consequences of choices. Pragmatism can be divided into narrow and expanded pragmatism. Narrow pragmatism refers to the consequences of choice only for one's self and not for others (that is, focusing on a specific aspect of the current generation). In performance auditing, narrow pragmatism thinking focuses exclusively on the consequences of choice in terms of the economy, efficiency and effectiveness aspect without investigating the ramifications of environmental and sustainability dimensions. Conversely, expanded pragmatism considers the consequences of the current social, economic, and environmental choices of resource management for the current and following generations of life (McIntyre-Mills & De Vries, 2013, p. 466). This study adopts expanded pragmatism in performance auditing as it proposes the inclusion of environmental aspects in the performance auditing objective, not just the aspects of economy, efficiency and effectiveness (the 3E's).

This research addresses an area of concern by describing 'what is the case' and then making suggestions on how performance auditing and accountability could be enhanced (Ulrich, 1983). Therefore it is pluralistic and oriented towards real-world practice (Creswell & Clark, 2011, p. 41). Table 4.1 shows the worldview element based on an assumption of pragmatism.

Table 4.1
Pragmatism Assumption

Worldview element	Pragmatism
Ontology (what is the nature of reality?)	Singular and multiple realities (e.g. researchers provide multiple perspectives)
Epistemology (what is the relationship between the researcher and that being researched?)	Practical (e.g. researchers collect data by “what works” to address research question)
Axiology (what is the role of values?)	Multiple stances (e.g. researchers include both biased and unbiased perspective)
Methodology (what is the process of research?)	Combining (e.g. researchers collect both qualitative and quantitative data and mix them)
Rhetoric (what is the language of research?)	Formal and informal (e.g. researchers may employ both formal and informal styles of writing)

Source: adapted from Creswell and Clark (2011, p. 42)

4.3 EVALUATION RESEARCH

Drawing from Larsen (2005), this thesis uses evaluation through means of responsive and participatory approaches or democratic deliberative evaluation. Democratic deliberative evaluation is a recipe for evaluation, which prescribes a particular set of principles, inclusion, dialogue and deliberation, for the evaluation process. Deliberation helps facilitate a nonviolent approach to social tensions. It facilitates mutual recognition and respect between various stakeholders, and it allows each participant to adjust his or her views as a result of the exchange of viewpoints and arguments. The idea is that if evaluation has a role to play in a democracy, the evaluation process itself must be of a democratic nature (House & Howe, cited in Larsen, 2005, pp. 633-634). To do this, the whole evaluation design should not just reflect what public managers want to know, but rather what participants have to say to describe their perspective on public activities. To

communicate about their world, they must speak in their own words (Larsen, 2005, p. 634).

In this research the participants have been asked about their views and perspectives related to performance auditing conducted by the Indonesian Supreme Audit Institution and regarding the contribution of performance auditing to public accountability in Indonesia. This method is in line with the fourth generation evaluation by Lincoln and Guba (1989) or evaluation by responsive and participatory approaches by Larsen (2005). In this kind of evaluation, all relevant stakeholders have a voice in the exchange of views, issues and concerns about a program. The evaluator's role is to moderate the negotiation between the different constructions held by stakeholders. The approach is called constructivist (Larsen 2005, p. 633).

With this evaluation model, therefore, the researcher asks the participants to express their views about the expanding concept of performance auditing into the environmental and fraud aspects and to give their perceptions on the profiles of performance auditors. The perspective on the current practice of performance auditing and the relationship between the Indonesian Supreme Audit Institution and the Parliament were also explored. Hence, the researcher is sweeping-in and unfolding factors as much as possible. This is in line with the systemic approach (see Churchman, 1979; McIntyre-Mills, 2006). This thesis will attempt to apply a system approach of evaluation and a critical system thinking perspective in the discussion chapter. Borrowing Ulrich's perspective of critical thinking, then, the evaluation discussion not only looks at what is the case but also what ought to be the case

(Ulrich, 1983; McIntyre-Mills, 2004). Therefore, the critical evaluation used in this research is defined as a systematic step in evaluation that not only examines what is the case, but also what ought to be the case, by unfolding factors as much as possible with a balance of interest and perspectives.

The study is considered evaluation research regarding the exploration of performance auditing and its impact on public accountability in Indonesia, especially in the Indonesian Supreme Audit Institution. Its relationship with the Parliament (for example, the Public Accounts Committee) will also be evaluated. Evaluation research appears in many forms, depending on the nature, structure, purpose and design of the research. In this study, the formative evaluation research model is applied. Sarantakos (2005, p. 324) mentioned that formative evaluation aims to identify the strengths and weaknesses of the program in question, always with the intent to make it as workable as possible. The main question in formative evaluation research posed is: “what can be done to make this program work”. The characteristics of formative evaluation research are: (a) it asks: “How can the program be improved?”; (b) it is carried out by participants, managers, and other interested people; (c) it involves both process and outcome evaluation; (d) it offers feedback aimed at improving the program; (e) it uses quantitative and/or qualitative methods (Sarantakos, 2005, p. 324).

4.4 RESEARCH APPROACH

In this research the complementary approach is used as a research strategy.¹⁸ A complementary approach involves the combination of qualitative and quantitative methods. Even though there are debates between qualitative and quantitative paradigms, as the two paradigms under consideration address diverse issues and yield different kinds of knowledge, they ought to be seen as complementing and enriching each other, rather than ruling the other out (Salomon, 1991). It is argued that this method will be sufficient to address the issues of performance auditing and public accountability in Indonesia since performance auditing in the Indonesian public sector is relatively new, compared with financial auditing. The complementary method will provide a comprehensive analysis of the research problems, as Creswell (2009) explains:

those in which the researcher converges or merges qualitative and quantitative data in order to provide a comprehensive analysis of the research problem. In this design, the investigator collects both forms of data at the same time and then integrates the information in the interpretation of the overall results (p. 14).

Given that no single method or research approach was dominant, triangulation will be applied in this research. The triangulation implies that the result of an investigation which employs a process linked with one research strategy is cross-checked against the results of the use of the other research method

¹⁸ Other scholars are using the terminology of “mixed methods” strategy (Creswell, 2009; Punch, 1998); and “multiple methods” (Singleton, Straits & Straits, 1993).

(Bryman & Bell, 2007, p. 646). By way of explanation, it examines the data and information from different angles. Therefore, the advantage of a triangulation approach is that it can produce a complete, holistic and contextual portrait of the object under study (Marschan & Welch, 2004, p. 115).

In this research, the data will be collected based on qualitative and quantitative methods. In terms of the qualitative method approach, the data will be collected through interviews, focus group discussions, and document analysis. In addition, the survey will be applied through quantitative analysis (using descriptive statistical analysis/SPSS). The result of the survey complements the interviews and focus group discussion to gain deeper understanding of the case. Therefore, this study has a mainly interpretive philosophy (qualitative), which also considers the positivist quantitative approach as complementary. Lee (1991) argued that the positivist and interpretive approaches are not opposed and mutually exclusive but compatible and mutually supportive. In his point of view, both methods should be accepted as providing different views of the same phenomenon. In addition, Guba and Lincoln (1994, p. 105) stated that both quantitative and qualitative methods might be used appropriately with any research paradigm.

4.5 RESEARCH DESIGN

In this thesis, an exploratory research and case study approach will be employed. Yin (2013) mentioned that a sound case study include collecting, presenting and analysing data fairly. Hence, the researcher will bring closure to the case study by writing a comprehensive report. The techniques through interviews, focus group discussions, surveys, and document analyses are employed in this

research. In addition to the case study, evaluation research will be conducted. Babbie (2001, p.333) defines evaluation research as a process of determining whether a social intervention has produced the intended result. However, evaluation research appears in many forms, depending on the nature, structure, purpose and design of the research.

In this study, the combination of the qualitative and quantitative methods strategy would be applied particularly using the concurrent mixed methods. Quantitative methods will be used as complementary to the qualitative method strategy. Morse (1991), cited in Creswell (2009, p. 18) mentioned that:

Qualitative research is exploratory and is useful when the researcher does not know the important variables to examine. This type of approach may be needed because the topic is new, the topic has never been addressed with a certain sample or group of people, and existing theories do not apply with the particular sample or group under study.

Qualitative research is multi-method in focus, involving an interpretive, naturalistic approach to its subject matter. Qualitative research involves the studied use and collection of a variety of empirical materials – case studies, personal experiences, introspection, life stories, interviews and observational, historical, interactional and visual texts – that describe routine and problematic moments and meanings in individuals' lives. Accordingly, qualitative researchers deploy a wide range of interconnected methods, always hoping to gain a better fix on the subject matter at hand (Denzin & Lincoln, 1994, p. 2). In terms of the qualitative method

strategy, the data will be collected through interviews, focus group discussions, and archival analysis. In addition, questionnaires or surveys will be applied for a complementary analysis.

4.6 METHODS OF DATA COLLECTION

This study considers several participants and stakeholders that will be involved in the questionnaire/survey and interview process. It is very important to consider the central stakeholders of the Indonesian Supreme Audit Institution as they will interact not only in the process of audit activities but also in the reporting process of audit results and follow-up. Sloan (1996) pointed out that the primary user of a Supreme Audit Institution is often committees of parliament, but the media, academia, professional bodies, and individual users should also be considered as central stakeholders.

The research is based on interviews and focus group discussions with the Board Members of the Indonesian Supreme Audit Institution; some echelons (Echelons 1, 2, 3 and 4) of the Indonesian Supreme Audit Institution; a sample of auditors of the Indonesian Supreme Audit Institution; members of Parliament, especially members of the Public Accounts Committee; relevant government ministries and agencies, such as the Presidential Working Unit for Supervision and Management of Development (UKP4), the State Ministry of National Development Planning, the Ministry of Finance, the Ministry of Administrative Reform and Bureaucratic Reform; Mass media; academia and professional bodies (members of The Indonesian Institute of Accountants). Data were collected using a semi-

structured interview. Pretty, Guijt, Thompson, and Scoones (1995, p. 73) defined the semi-structured interview as:

Guided conversation in which only the topics are predetermined and new questions or insights arise as a result of the discussion and visualised analyses. Semi-structured interview appears informal and conversational. It is a well-defined and systematic activity, with a set of clearly defined goals and guidelines.

In addition, the questionnaires were distributed to auditors of the Indonesian Supreme Audit Institution. The interviews usually lasted between one and a half hours and almost all were recorded. All interviews were semi-structured and in most cases the interviewees were encouraged to give responses to open-ended questions as independently as possible. The field work period was conducted from January 2012 to May 2012 in Indonesia.

4.6.1 PARTICIPANTS IN INTERVIEWS AND FOCUS GROUP DISCUSSIONS

As the research is also exploratory research, interviews are considered appropriate techniques to identify and understand institutional and individual perspectives on issues relevant to the research. In addition, the problems and possible solutions were able to be explored deeply. Interview participants were selected mainly through purposive sampling and several of them were selected based on snowball sampling. The main reason for selecting the interview participants is based on their experience and knowledge of the research problems. The participants can be categorised into the following groups:

- (1) The Parliament, including members of Parliament, the Vice Chairman of the Public Accounts Committee, members of the Public Accounts Committee, the Head of the Secretariat of the Public Accounts Committee, the expert staff of the Public Accounts Committee, and the Director of Legislature of the Parliamentary Secretariat.
- (2) The Supreme Audit Institution, including the Vice Chairman of the Supreme Audit Institution, a board member of the Indonesian Supreme Audit Institution, the Principle Auditor of the Indonesian Supreme Audit Institution, the Head of the Regional Audit Office, the Audit Director, Audit Managers, and Senior Audit team Leaders.
- (3) High ranking officials from central Government Institutions that are related to the public sector reform program in Indonesia, including the Deputy of Monitoring and Oversight of the Presidential Working Unit on Monitoring and Oversight (UKP4), the Inspector General of the Ministry of Finance, the Inspector General of the Ministry of National Development Planning (Bappenas), the Inspector General of the Ministry of Home Affairs, and the Deputy Director of the Ministry of Apparatus and Bureaucratic Reform.
- (4) An academic from Gajah Mada University.
- (5) Representative of a professional body in accounting and auditing in Indonesia; the Executive Director of the Indonesian Institute of Accountants.
- (6) Representative from the mass media; an interview with a senior journalist from *The Jakarta Post* daily.

(7) Representatives from stakeholders who have experienced the performance audit process conducted by the Indonesian Supreme Audit Institution, including the Head of Internal Auditors and Operational Manager at *Bank Tabungan Negara Jakarta*.

The number of interview and focus group discussion participants is presented in Table 4.2. Given that this research used purposive sampling, participants for interviews and focus group discussion were selected based on their knowledge, expertise and relevance to the research and willingness to be interviewed. Purposive sampling is one of the most common sampling strategies in selecting group participants according to pre-selected criteria relevant to particular research questions (that is, interviews with the Vice Chairman of the Indonesian Supreme Audit Institution who has a broad view in terms of the current practice of performance auditing activities). Interviews were conducted in Jakarta and Jogjakarta. The focus group discussions were conducted in Jakarta. The first focus group discussion was carried out with the head of internal auditors and three operational managers at Bank Tabungan Negara in Jakarta. The reasons for directing focus group discussions with them are firstly, that they have experience with performance auditing activities undertaken by the Indonesian Supreme Audit Institution as auditees and secondly, that they were willing to participate in the focus group discussion. The second focus group discussion was with the auditors at the Supreme Audit Institution. The participants in this group discussion came from the senior team leaders who have experience as team leaders on performance

auditing projects. They were invited based on their willingness to participate in a group discussion.

Table 4.2
Summary of the Number of Interview Participants

Interviewees	Number of Persons
Parliament <ul style="list-style-type: none"> - Interview with Member of Parliament, Public Accounts Committee, Director of Legislature, Expert Staff 	8
Supreme Audit Institution <ul style="list-style-type: none"> - Interview with the Vice Chairman, Board Member, Director, Manager Audit, Head of Regional Audit Office, Senior Team Leader 	25
Presidential Working Unit on Monitoring and Oversight (UKP4) <ul style="list-style-type: none"> - Interview with the Deputy of Monitoring and Oversight 	1
Ministry of Finance <ul style="list-style-type: none"> - Interview with the Inspector General of Ministry of Finance 	1
Ministry of National Development Planning (Bappenas) <ul style="list-style-type: none"> - Interview with the Inspector General of Ministry of National Development Planning 	1
Ministry of Home Affairs <ul style="list-style-type: none"> - Interview with the Inspector General of Ministry of Home Affairs 	1
Ministry of Apparatus and Bureaucratic Reform <ul style="list-style-type: none"> - Interview with the Deputy Director 	1
Academician <ul style="list-style-type: none"> - Interview with an academic from Gajah Mada University 	1
The Indonesian Institute of Accountants (IAI) <ul style="list-style-type: none"> - Interview with the Executive Director of IAI 	1
The Jakarta Post Daily <ul style="list-style-type: none"> - Interview with a senior journalist from the Jakarta Post daily 	1
Focus Group Discussion	
Focus Group Discussion 1: <ul style="list-style-type: none"> - Head of internal auditors and operational managers at Bank Tabungan Negara 	4
Focus Group Discussion 2: <ul style="list-style-type: none"> - Senior audit team leaders at Indonesian Supreme Audit Institution 	4
Total Participants (Interview and FGD)	49

Source: primary data

4.6.2 QUESTIONNAIRE SURVEYS

In this research, a survey was used to gather information regarding the auditors' perspectives related to the expanding concept of performance auditing and how it is being practised in the Indonesian Supreme Audit Institution. The survey was not used to test any explicit theory or hypothesis, thus it is considered a descriptive survey (Buckingham & Saunders, 2004, p. 13). Survey research is a method of gathering data from a selected group of people, in their natural environment, for a specific purpose (Graziano & Raulin, 2000, p. 130).

For the survey, the technique of delivering and collecting questionnaires in person was used, which resulted in a high response rate. They were also distributed via post mail and email, which resulted in a low response rate. The participants were from the auditors of the Indonesian Supreme Audit Institution. They were from various levels in the hierarchy, namely, audit supervisors and managers, audit team leaders and team members. In the BPK's headquarters office, the researcher walked door to door to meet every head of department and to ask permission to distribute the questionnaire to their auditor staff members. Through this technique, a high response rate was obtained for the questionnaire.

In addition, the questionnaires were also directly distributed at the Indonesian Supreme Audit Institution's training centre. The advantage of distributing questionnaires in the training centre was to gain diverse respondents from audit office branches all over Indonesia. Currently the Supreme Audit Institution has its headquarters in Jakarta and 33 branch offices in every provincial capital. It is noted that the Indonesian Supreme Audit Institution training centre

provides training for all auditors that come from all every audit office branch. The centre provides on average four to five different audit courses per month for all BPK's auditors. This gives the advantage of involving respondents from the various levels of auditor hierarchies and regions. This is in line with Saunders et al., cited in Gray (2004) who advised that:

When conducting research in an organization, response rates can be dramatically improved by calling all respondents to a meeting in the organization's time, explaining the purpose of the questionnaire, and getting it completed before people leave the meeting (p. 209).

The questionnaire was also distributed to auditors in the other audit office branches in the regions of Sumatera, Jawa, Bali, Kalimantan, Sulawesi and Papua through mail post and email. However, the response rate using mail post and email was relatively low.

The population of auditors in the Indonesian Supreme Audit Institution is about 5,000 spread across the headquarters office and branch offices. Based on Sarantakos' (2005, p. 173) table, if the population (N) = 5,000, then the sample should be (S) = 357. In order to obtain that sample (S = 357), a total of 700 questionnaires were distributed to the Indonesian Supreme Audit Institution's auditors. The returned questionnaires numbered 532 (76%), of which 18 were incomplete; thus, the usable questionnaires numbered 514 (73%). Therefore the number of returned questionnaires (S = 514) is considered more than appropriate

based on Sarantakos' model (2005). The proportion of returned questionnaires from the regions is as follows:

Table 4.3
Proportion of Respondents Based on Region

Respondents from	Frequency	%
Headquarters office	261	50.8%
Branch office – Java and Bali	98	19.1%
Branch office – Sumatera and Kalimantan	108	21.0%
Branch office – Sulawesi, Timor and Papua	47	9.1%
Total	514	100%

Source: primary data

In addition, Table 4.4 shows the demographic respondents of the survey.

In this research, the questionnaire was constructed using closed and open questions. The closed questions used a five-point rating scale format (Likert scale), which is a type of composite measure developed by Rensis Likert in an attempt to improve the levels of measurement in social research. This was intended through the use of standardised response categories in survey questionnaires, to determine the relative intensity of different items (Babbie, 2011 p. 192). According to Nachmias and Nachmias (1996, p. 465), Likert scaling is a method designed to measure people's attitudes. A Likert scale is a type of response alternative in which participants indicate their degree of agreement with a stated attitude or judgment. The Likert-scale response alternatives could be: strongly agree, agree, neutral, disagree, and strongly disagree (Vanderstoep & Johnston, 2008, p. 54).

Table 4.4
Respondents' Demographic Profile

Demographic Profile	Frequency	%
Gender		
Male	300	58.4%
Female	214	41.6%
Age		
Less than 25 years old	12	2.3%
Between 25 and 35 years old	305	59.3%
Between 36 and 45 years old	163	31.7%
More than 45 years old	34	6.6%
Position		
Supervisor	48	9.3%
Team leader	159	30.9%
Team member	307	59.7%
Level of education		
Senior high school	6	1.2%
Diploma degree	25	4.9%
Bachelor degree	323	62.8%
Master degree	160	31.1%
Doctoral degree	0	0
Background of education		
Accounting	360	70.0%
Management	32	6.2%
Economic	18	3.5%
Law	29	5.6%
Engineering	51	9.9%
Others	24	4.7%
Experience in performance auditing		
1 – 5 years	375	73.0%
6 – 10 years	56	10.9%
More than 10 years	83	16.1%
Managerial experience		
None	347	67.5%
1 – 5 years	108	21.0%
More than 5 years	59	11.5%

Source: primary data

4.6.3 REVIEW OF ARCHIVAL DATA

Several documents and records were also reviewed as a source of secondary data to gain background information. The documents such as the audit reports, Parliamentary reports and releases, and mass media (including newspapers, internet and television) interviews were used to triangulate the data. The coverage of mass media data is from the years 2010 to 2014.

4.7 DATA ANALYSIS

Data collected from various methods discussed above were analysed and presented quantitatively and qualitatively. Regarding data collection, the interview data and focus group discussion were recorded and stored using external disks. The researcher developed data analysis during the data collection and continued after the fieldwork activities had been completed. Primary data gathered through interviews and focus group discussions were organized thematically consistent with the research questions. Important quotations from interviews and focus group discussions were translated into English for use during report writing.

For the surveys, the hard-copy questionnaires were collected, stored and used as the input for a quantitative analysis program. The questionnaire was tested with some PhD students (4 students) and a master's student (1 student) at Flinders University for clarity of content before it was submitted to the Ethics Committee. Meanwhile the design matrix of the questionnaire was discussed with supervisors. The data analysis consisted of examining the surveys for correctness and completeness, coding and keying data into a Statistical Package for the Social

Sciences (SPSS), and performing an analysis of descriptive responses according to frequency distributions and descriptive statistics. All incomplete questionnaires were discarded from the analysis.

The results of data analysis were presented in a narrative fashion and in the form of graphs to support critical evaluation of the research. By doing this, the results were expected to be able to provide a comprehensive understanding of the research areas of concern.

4.8 VALIDITY AND RELIABILITY

According to Habermas (1984), there are certain conditions required to make valid research. Habermas pointed out the four conditions needed in the context of the ideal speech situation which are that: (1) no-one capable making a relevant contribution is excluded; (2) participants have equal choice; (3) they are internally free to voice their honest opinion without deception or self-deception; and (4) there are no sources of coercion built into the process and procedures of discourse (SEP, 2007). These conditions support Habermas' pragmatic ideas to strengthen social bonds by promoting an understanding of the needs and values of others. Therefore the research attempts to accommodate those conditions in order to generate the 'what is' and 'what ought to be the case'. By doing this, it assessed all relevant information and arguments as reasonably as possible.

There are several ways to justify the validity and reliability in qualitative research, even though both research concepts come from the positivist epistemology (Winter, 2000; Golafshani, 2003). The validity and reliability of the research could be justified based on a number of criteria, including credibility,

transferability, dependability, and conformability (Lincoln & Guba, 1985; Patton, 2002). The credibility of the research is supported by its participants who are selected from those who have knowledge and experience relevant to the topic of investigation. Transferability refers to the degree to which the results of the study are applicable to other contexts or settings that have similar conditions. In the context of this study, this means whether the perspective of the expanding concept of performance auditing and reframing performance auditing practice could be applied in other Supreme Audit Institutions. To address this criterion, the researcher studied these issues in other Supreme Audit Institutions which were documented and published in research journals, mass media, government reports and others. In addition, this study has been accepted for publication in an international journal (*Systems Research and Behavioural Science*) as a lesson learned for other Supreme Audit Institutions.

Dependability refers to reliable data that lead to valid results in the study. The triangulation process to cross-check the collected data was applied so that the qualitative approach is weighted and substantiated with the quantitative approach where it was deemed possible and appropriate. The researcher always re-checked the data and results of analysis. Conformability refers to the degree to which the results could be confirmed or corroborated by others. The researcher applied several strategies to enhance the conformability of the research including: (1) consultation and discussion with supervisors; (2) presentation of the progress of the research at the 'work in progress' discussion with other colleagues and lecturers at the school during the study. The researcher presented the work in progress of the

research seven times during the study at the school, the dates of presentation are: (i) 8 April 2011 on preliminary research proposal; (ii) 19 August 2011 on ethics proposal; (iii) 3 August 2012 on the fieldwork report; (iv) 17 August 2012 on the first preliminary research findings; (v) 18 January 2013 on the second preliminary research findings; (vi) 26 April 2013 on the research findings; (vii) 31 January 2014 on the research findings. Furthermore, the researcher also presented the research paper at the conference in the International Research Conference in Singapore (25 – 26 September 2014) and in the 2nd Asia-Pacific Social Science Conference in Malaysia (7 – 9 November 2014).

Reliability refers to the extent to which assessments are consistent (Gravetter & Orzano, 2008). Efforts were made to improve the reliability of the research. In regard to the survey, the reliability was measured by Cronbach's Alpha. The alpha coefficient ranges in value from 0 to 1 and may be used to describe the reliability of a survey. If the alpha coefficient is more than 0.7, then the reliability is considered sufficient. If the alpha coefficient is between 0.5 – 0.7, then the reliability is considered moderate. If the alpha coefficient is less than 0.5, reliability is considered low. The reliability test of the survey items showed that the alpha coefficient is 0.84, which means that the reliability is considered sufficient.

4.9 ISSUES OF ETHICS

This research follows the ethics procedure as required by Flinders University. The ethics approval was obtained from the Social and Behavioural Research Ethics Committee at Flinders University. In the fieldwork, the researcher introduced himself as a student from the university and explained the purpose and the benefit

of the study to participants and institutions. In order to collect the data, the researcher asked permission to record all interviewing processes and requested the Indonesian Supreme Audit Institution's permission to collect information within the institution. The researcher also provided the interview and focus group discussion participants with a consent letter, although verbal consent is culturally more common in Indonesia. Participants had the full right to withdraw at any time during the data gathering process. For the questionnaire survey, the completion and returning of questionnaires were interpreted as consent from the participants.

4.10 SUMMARY OF THE CHAPTER

This chapter provides the arguments concerning the methodology of the research. Complementary research is used through the survey, interview and focus group discussion as tools for triangulation. In addition the secondary data, such as the news from mass media and document analysis were also examined to provide more information and validate other information. Pragmatism is an epistemology that was used in this evaluation research. The focus of this study is the evaluation of performance auditing in the Indonesian public sector. Interviews and focus group discussions were used to inquire into the expanding concept of performance auditing, the examination of the current practice of performance auditing, and the relationship between the Supreme Audit Institution and the Parliament. The survey was used specifically for the auditors to collect data regarding the perceptions of the current practice of performance auditing at the Indonesian Supreme Audit Institution.

The following chapters 5, 6 and 7 present the results of the empirical findings. Chapter 5 examines the concept of performance auditing in regard to the expansion of the concept into environmental and fraud aspects. In addition, the profile of performance auditing is discussed in order to provide a clear role of how performance auditors should conduct their work. Chapter 6 discusses the performance auditing problems in the Indonesian Supreme Audit Institution. Chapter 7 is concerned with the need for performance auditing to promote better accountability and also examines the relationship between the Supreme Audit Institution and the Parliament through the Public Accounts Committee.

CHAPTER 5: PERCEPTIONS OF STAKEHOLDERS ON THE APPLICATION OF THE PERFORMANCE AUDITING CONCEPT

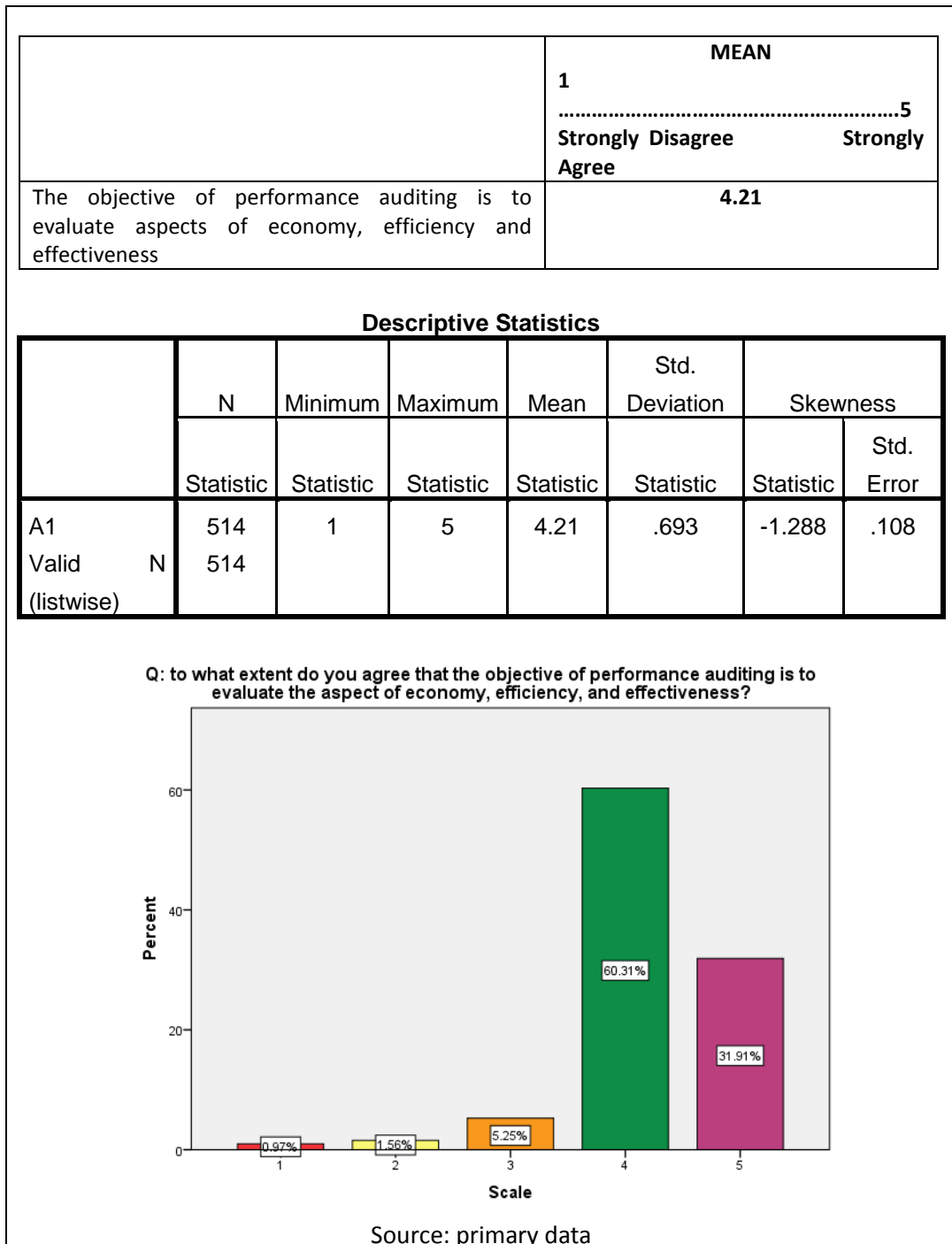
This chapter will examine the concepts in performance auditing related to the understanding of auditors and stakeholders in regard to the conventional objective of the three Es, the examination of the possible extension of this objective into environmental and fraud aspects, and the perceptions of the performance auditor's profile. An examination of the concepts of performance auditing is important as it promotes the work and contribution of performance auditing in the future, especially in the Indonesian Supreme Audit Institution and for others developing Supreme Audit Institutions for further development of performance auditing. The results are based on the questionnaire, interview and focus group discussion from auditors and various stakeholders of the Indonesian Supreme Audit Institution. In analysing the data, the SPSS software program is used to process the questionnaire data (descriptive analysis).

5.1 PERSPECTIVES ON THE CONVENTIONAL OBJECTIVE OF PERFORMANCE AUDITING

As noted in Chapter 2, the purpose of performance auditing is to measure the aspects of economy, efficiency and effectiveness (the 3E's). The participants were asked about their perceptions of the generic concept of measurement in performance auditing. The results from the questionnaire show that 60.31% of respondents agree and 31.91% respondents strongly agree that the objective of performance auditing is to measure aspects of the 3E's. The mean of 4.21 also

confirmed that the understanding of respondents in terms of the conventional objective of performance auditing is above the average.

Table 5.1
Perceptions of the Conventional Objective of Performance Auditing



In interviews, participants were also asked about the concept of the 3E's in performance auditing. The purpose of the question is to examine whether there is an understanding of the generic concept of the 3E's of performance auditing. The respondents expressed their views on the objective of performance auditing as follows:

In my opinion, the purpose of all auditing types is to evaluate accountability. Firstly, it is for assessing management accountability. However, because this is a performance audit and related to performance, therefore, it will be different to a financial audit. So the measurement of accountability should be based on performance indicators. Secondly, auditors should provide a recommendation for management for improvements. Therefore, accountability is the most important thing. The reason is that when stakeholders read a performance audit report, they will think about "what is the audit conclusion?" and "How do auditors evaluate performance? [SAI11, interview]

The questionnaire result and interviews confirmed that in general respondents see the purpose of performance auditing as being to assess the 3E's. This shows that auditors are fully aware of and understand the objective of performance auditing activities. Specifically, there is no disagreement about the objective of performance auditing in examining the 3E's. These findings are in line with what has been reported in Chapter 2 concerning the purpose of performance auditing.

The research also asked participants about the level of difficulty in terms of the examination of the 3E's concept. Based on the questionnaire results, it shows that the perception of respondents in regard to the examination of the efficiency aspect is more difficult than those of effectiveness and economy. This is inferred by the mean scores of 3.43, 3.32 and 3.23 respectively.

Table 5.2
Perceptions of Comparison of the Difficulties Of The 3E's Aspect

	MEAN	
	15	
	Very easy	Very difficult
difficulty level of performance audits related to efficiency objective	3.43	
difficulty level of performance audits related to effectiveness objective	3.32	
difficulty level of performance audits related to economy objective	3.23	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Efficiency	514	1	5	3.43	.804	-.221	.108
Effectiveness	514	1	5	3.32	.847	-.273	.108
Economy	514	1	5	3.23	.814	-.104	.108
Valid N (listwise)	514						

Source: primary data

In some interviews, some auditors commented on the difficulties in assessing the aspect of the 3E's:

So far, we are doing more in terms of the examination of the effectiveness aspect in the performance audit...because if we do the examination aspect on economy and efficiency it is rather

difficult in terms of developing the audit criteria [SAI22, interview].

These findings show that auditors understand the conventional concept of the performance auditing objectives well and that there is a different level of difficulty in terms of examining the notion of the 3E's. In order to gain the maximum result in performance auditing, the institution should consider the level of difficulty in regard to the examination of the 3E's concept.

5.2 PERSPECTIVE ON THE EXTENSION OBJECTIVE OF PERFORMANCE AUDITING INTO THE ENVIRONMENTAL ASPECT

The previous section explores the perspective of the traditional concept on the performance auditing objective, which confirmed that there is a clear understanding of performance auditing objectives among auditors. However, Sharkansky (1991, p. 1) mentioned that the "3E's" of economy, efficiency and effectiveness, which Elmer Staats (the American Comptroller-General) popularised during the 1970s, require updating in view of auditors' current interests. This research supports this argument as auditing is a powerful agent for constructive consequences and social change. Over the past two thousand years, auditing has played an important role in the rise of modern civilizations.

The importance of environmental protection and the sustainable development issue was also recognised by the 20th International Congress of Supreme Audit Institutions (INCOSAI) held in 2010 in Johannesburg, resulting in the Johannesburg Accords which noted that environmental protection and sustainable development constitute one of the most topical issues that face governments in the

new millennium (INCOSAI, 2010). SAIs can make significant contributions towards addressing sustainable development issues which are becoming increasingly regional, and even global, in nature.

Therefore, following Rubenstein (2005), auditing can be a powerful instrument for corporations, not-for-profit organisations and governments committed to managing with due regard to the environment and sustainable development. Related to the environmental context as is depicted in Figure 1.1 (Chapter 1), this research also explores the possibility of the environmental aspect being considered in performance auditing. The inclusion of an environmental aspect in performance auditing is needed as there is a growing concern internationally regarding environmental sustainability. The Millennium Development Goals (MDG) program, the Kyoto Protocol and Paris Declaration also support the need for sustainability. The concept of sustainability was formally defined by the Brundtland Commission, or the World Commission on Environment and Development, in 1987 which defined sustainable development as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (p. 41).

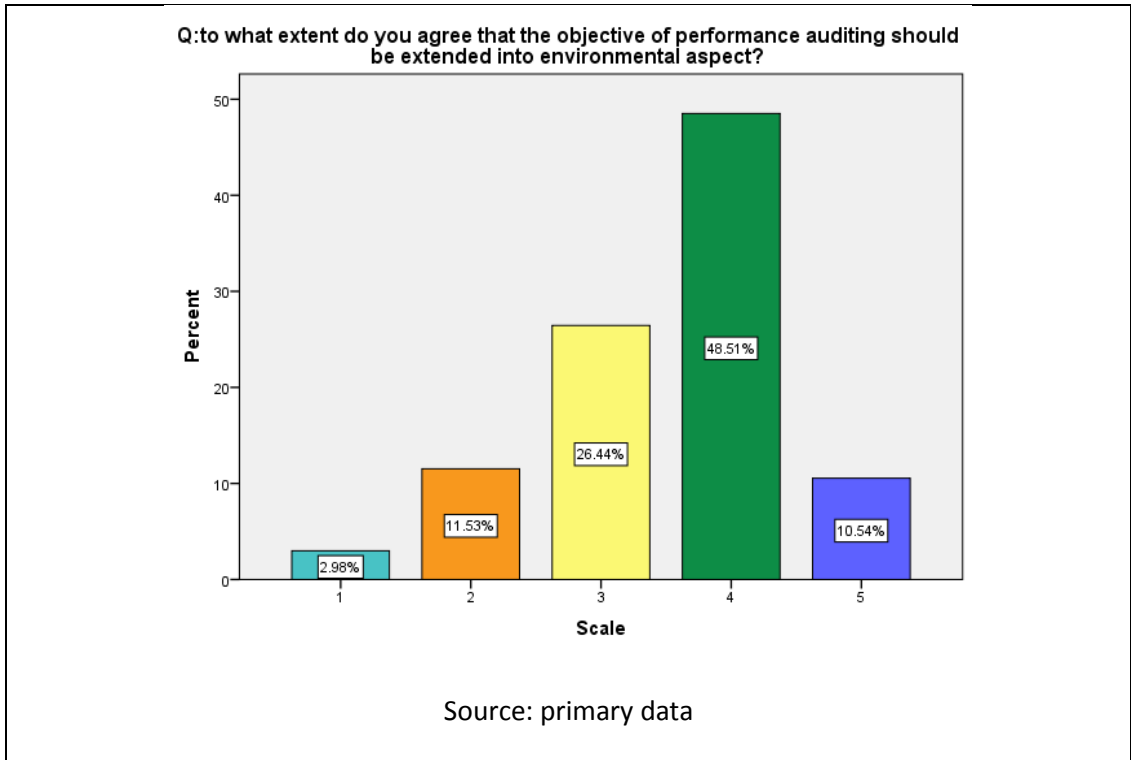
This concept should be integrated into the triple bottom line approach which considers the social, economic and environmental aspects (Elkington, 1997), and also the political and cultural aspects to balance between the needs and priorities of different groups or generations (McIntyre & Vries, 2011). Fairness must be a priority in the use of environmental resources, not only for current generations but also for future ones. Performance auditing which focuses only on the 3E’s

aspect is merely supporting economic and social factors. Therefore, in order to obtain perceptions about environmental inclusion in performance auditing activities, the participants were asked whether the environmental aspect should be included as a performance auditing objective.

The following is a graph based on a survey of auditors who have carried out performance auditing in the Indonesian Supreme Audit Institution. They were asked about the possibility of the extension of the objective of performance auditing into the environmental aspect. Based on the graph, it can be seen that most respondents agreed with the possibility of the extension. From the total of 514 respondents, 48.5% of respondents agreed and 10.5% strongly agreed that the environmental aspect should be included. The average acceptance (mean) is 3.52.

Table 5.3
Perceptions of the Environmental Aspect of Performance Auditing

	MEAN				
	15				
	Strongly Disagree		Strongly Agree		
Objective of performance auditing should be extended into the environmental aspect	3.52				
Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
A4	514	1	5	3.52	.934
Valid N (listwise)	514				



In addition, the questionnaire also asked whether performance auditors should be responsible for assessing the environmental aspect when conducting performance auditing. The result shows that the environmental aspect is highly accepted from the perspective of auditors, with the mean of 3.51. Around 7.8% of respondents strongly agreed and 52.24% of respondents agreed that auditors should also be responsible in terms of the environmental aspect.

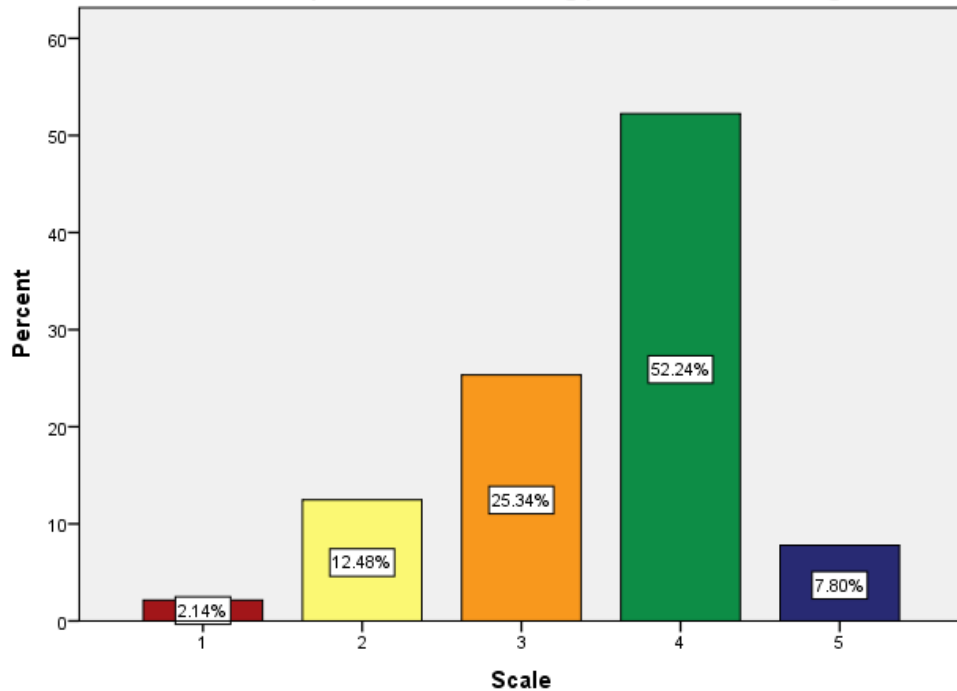
Table 5.4
Perceptions of Auditors' responsibility in Assessing Environmental Aspect

	MEAN	
	1 Strongly Disagree	5 Strongly Agree
Should auditors be responsible for assessing environmental aspects when conducting performance auditing?	3.51	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
A3	514	1	5	3.51	.886
Valid N (listwise)	514				

Q: to what extent do you agree that auditors should responsible to assess environmental aspect when conducting performance auditing?



Source: primary data

This figure indicates that there is a possibility of including the environmental aspect. The results of the interview demonstrate the reason that the environmental aspect should be included or not included in performance auditing. Some respondents support the possibility of its inclusion in performance auditing. This is mentioned by the following respondents:

Auditing also has to be concerned with the environmental aspect because BPK could save not only the financial states but also our environment [#302IRW8].

Performance audit should consider the environmental aspect [#287KTSS20].

However, not all participants agree that the scope of performance auditing should be extended to evaluate the environmental aspect. Participants are aware that the current definition of performance auditing only covers the aspect of economy, efficiency and effectiveness. One respondent mentioned his disagreement regarding this matter:

Yeah, if the future trend development of performance auditing is also looking at this environmental aspect...it's ok...but it is a big job if we also have to examine the environmental aspect when conducting performance auditing...because, for example, we also have to learn about environmental impact assessment...at this stage I think the 3E's (economy, efficiency, effectiveness) is enough for a performance audit...So, if the environmental aspect wants to be included, it's better to conduct another audit... so, just separate them...[MFI1, interview]

However, the reconsideration of the environmental aspect is highlighted by Stiglitz, Sen and Fitoussi (2010) based on their work for the Commission on the Measurement of Economic Performance and Social Progress which mentioned that the idea of well-being including the environmental factor and sustainability should be adopted in Gross Domestic Product (GDP) measurement. This indicates that the public policy decision-maker must consider the environmental aspect. Elkington (1997) also mentions that the enterprises and governments who hold the dominant economic and business power should consider the environmental dimension of

sustainability. He introduced the concept that is called a “triple bottom line approach”, which integrates social, economic and environmental measurements.

Performance auditing as a tool in measuring performance accountability and as part of the system in public sector policy should follow this trend in order to participate in maintaining environmental sustainability. The inclusion of the environmental dimension in the performance auditing objective can be translated into practice when auditors are developing audit criteria through including environmental indicators as part of audit measurement. Reflecting on this, auditors can contribute to ethical thinking and enhance representation and accountability by means of a design inquiry system to explore what is the case and what ought to be the case, which is based on questioning and matching domains of knowledge to areas of concern in performance auditing activities. This approach is called expanded pragmatism in which people should thoroughly think about the consequences of their decisions for themselves, others, and the environment in this generation and the next (McIntyre-Mills & Vries, 2011, p. 68).

To sum up, attention to including the environmental aspect is necessary for conducting performance auditing as there is a need to consider valuing society and the current and future generations. The survey results shows that the majority of respondents agreed to include the environmental dimension in performance auditing and auditors perceived that they should be responsible with regard to the environmental aspect. This indicates that through the auditors’ perspectives there is an awareness that they also value their environment. Indeed, there is still disagreement concerning this matter, as well as benefits and drawbacks. However,

the standpoint in this thesis is that the environmental aspect is needed, based on the concept of expanded pragmatism and it is necessary to value not only the current generation but also the future ones. With the extension of the objective of performance auditing into the environmental aspect, the auditor can contribute to its preservation. Traditionally, performance auditing measures are based on the economy, efficiency and effectiveness indicators. Nevertheless, the auditor could add several indicators of the environmental aspect when conducting performance auditing, especially when developing performance auditing criteria.

5.3 PERSPECTIVES ON FRAUD AND CORRUPTION IN PERFORMANCE AUDITING

This section examines perspectives on fraud and corruption in performance auditing. The idea is that performance auditing could play a role in combating corruption in government institutions. Nowadays corruption and fraud in the public sector is becoming systemic (Johnston, 1998; Tanzi, 2012), and emerge from relations rather than from isolated events or practices. Corrupted relations surface from fragmented systems as they generate recurrent control leaks (Espejo, Bula & Zarama, 2001, p. 144). There is a general lack of agreement on which approaches work and what explains the success and failure of anti-corruption strategies (Siddiquee, 2010, p. 154). Corruption is generally defined as the abuse of public power for personal gain or for the benefit of a group to which one owes allegiance (Dye & Stapenhurst, 1998, p. 2).

In a similar vein, Shah (2006) mentioned that corruption is the exercise of official power against public interest or the abuse of public office for private gain

(p.478). David Nussbaum (2005), Chief Executive of Transparency International, stated that corruption is not a natural disaster: it is the cold, calculated theft of opportunity from the men, women and children around the world who are least able to protect themselves. In addition, Snape (1999) argues that a lack of accountability, transparency, democratic institutions and a free press are important contributing factors to the extent of corruption within a particular society. Meanwhile, fraud is generally described as an action against law. In the public sector, fraud is limited to fraud in the institution or organisation in terms of work relationships. The Association of Certified Fraud Examiners (ACFE) described the three dimensions of occupational fraud which are corruption, asset misappropriation and fraudulent statements (ACFE, 2008). Levine (1981, p. 156) remarked:

Corruption, like the weather, is a matter about which there is a good deal of talk. And like the weather, most people have little faith that anything can be done about it. At first blush, if lack of faith might be corroborated by incessant media reports of transnational, cross-cultural hanky-panky. While recent studies would link corruption to low levels of political consciousness, ambiguous or contradictory norms, conflicting loyalties, or poor administrative techniques, the appearance of corruption in diverse political and legal systems belies any simple functional explanation.

In Indonesia, corruption is becoming more acute, as almost every day the mass media report corruption cases. The level of corruption is high and endemic despite the Indonesian government having released several regulations regarding its efforts to eradicate corruption.¹⁹ Nevertheless a report from Transparency International shows that Indonesia is still in the high risk corruption category. Transparency International ranked Indonesia 118 out of 176 countries in the 2012 Corruption Perception Index, and ranked 114 out of 177 countries in 2013 (Transparency International, 2013). In addition, the recent report by Ernst and Young on the Global Fraud Survey (2013) also shows that in Indonesia, 60% of respondents consider making cash payments to win new business to be acceptable.²⁰ This condition is alarming as the problem of corruption happens not only in the central government but also in local governments. According to the Ministry of Home Affairs, there are at least 160 heads of local government who were suspected, accused and convicted of corruption cases from the year 2004 to 2012 in 495 districts/cities and 33 provinces in Indonesia (Kompas, 2012c). The acute problem of corruption in Indonesia is also highlighted by the Chairman of the Constitutional Court, Mahfud MD, who appears pessimistic about the conditions of the executive, legislative, and judicial branches of government in Indonesia. He

¹⁹ Several laws have been introduced by the Indonesian government to eradicate corruption namely (1) Law No. 28, year 1999 on the clean and corruption, collusion and nepotism governance, (2) Law No. 20, year 2001 as amendment to Law No. 31, year 1999 on eradication of the criminal act of corruption, and (3) Law No. 30, year 2002 on law on the commission to eradicate criminal acts of corruption. Meanwhile, at the national level, the policy regarding corruption has been established in the government's priority plan which called *Rencana Pembangunan Jangka Menengah Nasional/RPJMN* (Medium Plan National Development) 2010 – 2014. In this plan there are two agenda items related to corruption prevention, which are “perbaikan tata kelola pemerintahan” (improvement the governance government) and “penegakan hukum dan pemberantasan korupsi” (law enforcement and anti-corruption).

²⁰ See Ernst and Young (2013). Growing beyond: a place for integrity, 12th Global Fraud Survey.

rates those of the particular government branches as being “sick”. The indications are that there are still many practices of collusion and corruption. Mahfud, cited in Kompas (2012d) stated that there were 267 heads of regional governments involved in criminal cases and a total of 173 of them were involved in corruption cases. He made the following criticism: “Without too much discussion, I see the legislature was dirty, a lot of corruption. Executives also the same...Judiciary is crazier, more broken again. Could buy and sell a case. I say all of them are being ‘sick’”.

In order to learn about the perceptions of the inclusion of fraud aspects in performance auditing, the respondents/auditors were asked about the responsibility of performance auditors in detecting fraud and corruption when they are conducting performance audit activities. The question was “to what extent do you agree that performance auditing auditors should be responsible for detecting fraud?” The result is as follows.

Table 5.5
Perceptions of Auditors’ Responsibility in Assessing Fraud

	MEAN
	15 Strongly Disagree Strongly Agree
Performance auditing auditors should be responsible for detecting fraud	2.80

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
A2	514	1	5	2.80	1.018
Valid N (listwise)	514				

Source: primary data

On average, auditors disagreed with the statement that performance auditors should be responsible for the fraud matter. This is indicated by a mean of

2.80 from the Likert scale of 1 to 5. The dispersion of answers can be seen in Figure 5.1.

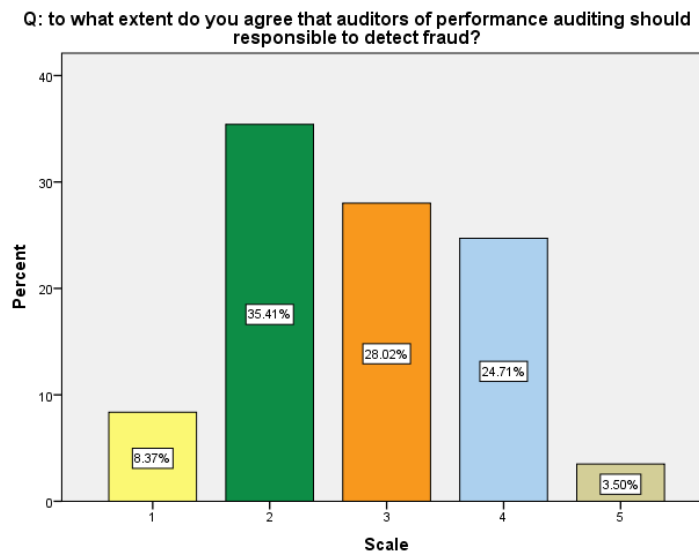


Figure 5.1. Percentage on the auditor's role in detecting fraud
Source: primary data

From Table 5.5, 8.37% of respondents strongly disagree and 35.41% of respondents/auditors disagree that a performance auditing auditor should examine the aspects of fraud and corruption when carrying out a performance audit (average mean 2.80). Only 24.71% of respondents agreed and 3.50% of respondents strongly agreed with the statement. Meanwhile, the other respondents chose a neutral/undecided option (28.02%). From the interviews, focus group discussion and open answers on the questionnaire, several reasons were found for the disagreement of auditors that fraud was the performance auditor's responsibility. Some of the arguments set out by auditors were:

In my opinion if we do a performance audit we are getting away from the examination of fraud. Because in my opinion performance audit is to assess the activities of management and

we do not focus to see fraud when we did a special purpose audit [SAI3, interview].

To find out the fraud is not the main goal of performance audit. The main objective of performance audit is to examine economy, efficiency and effectiveness...if we found the fraud then we can report it in a separate report ...and we not draw audit conclusions based on the fraud findings [#7SMG7, Questionnaire].

The direction of performance audit is not to find the fraud or the state losses but focus on performance improvement of the overall system in organisations [SAI5, interview].

From the perspective of stakeholders, Deputy II of the President's Delivery Unit for Development Monitoring and Oversight disagreed that the fraud aspect should be included in performance auditing:

I do not agree that fraud was something that should be explored when monitoring performance evaluation. It is my opinion. It would be difficult to identify those two things. It is two different things. Let alone fraud; the effectiveness and efficiency also are two different things. So in my opinion it cannot be done simultaneously. If you want to see the performance, look at the performance. If you want to see the fraud, look at the fraud. If you want to combine the fraud and performance evaluation, this is making people not focus on what is being assessed. So better just separate them (PWM1, interview).

Meanwhile the questionnaire showed that performance auditing can prevent fraud and corruption. This means that performance auditing can be used as a tool to reduce fraud indirectly through system improvement. The results of the questionnaire show this.

Table 5.6

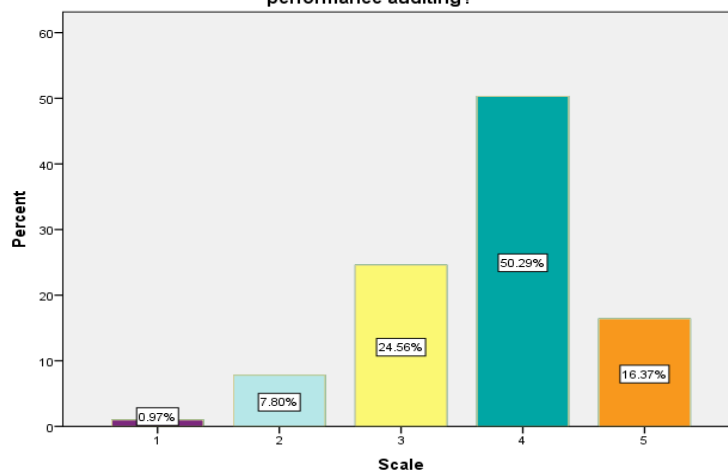
Perceptions of the Fraud and Corruption Aspect of Performance Auditing

	MEAN
	15 Strongly Disagree Strongly Agree
To what extent do you agree that fraud or corruption can be prevented by performance auditing	3.73

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
E8	514	1	5	3.73	.859	-.570	.108
Valid N (listwise)	514						

Q: to what extent do you agree that fraud or corruption can be prevented by performance auditing?



Source: primary data

From Table 5.6 it can be seen that 16.37% of respondents strongly agreed and 50.29% of respondents agreed that performance auditing can prevent fraud

and corruption in entities. The average mean of 3.73 and the skewness factor of -.570 also show a high acceptance in the auditor's perspective in regard to this matter. From interviews, respondents spelled out the arguments as follows:

People can see this matter (corruption) when they read the audit conclusion. Even though performance auditing is not intended to uncover corruption, if auditors found it, they should disclose it. Performance auditing can be used to reduce corruption indirectly; for example, if we evaluate performance in a management business process then we find that the performance result was not that good, thus it can influence management to improve their business process. By improving the business process, it is expected that the likelihood of fraud is low. If the business process of management were accountable, thus the control of it would be much better and the possibility of fraud would also be low [SAI11, interview].

In a similar vein, another respondent – the Inspector General of the Ministry of Finance – mentioned fraud in a performance audit as follows:

In relation to performance auditing...performance auditing cannot find fraudulent directly...but indeed a performance audit can minimize the fraud from the governance perspective because we also look at the governance of management...if we find significant fraud we can do an investigative audit...therefore a performance audit can prevent fraud indirectly [MFI1, interview].

The finding shows that extending the objective of performance auditing to detect fraud or corruption is less accepted by auditors or auditees. Simply put, they do not agree with examining fraud as one of the performance audit objectives. It is not the performance auditor's responsibility to detect fraud when conducting performance auditing activities.

However, the questionnaire and interviews also show that performance auditing can help in detecting fraud and corruption in an organisation indirectly. Doing a performance audit helps management to prevent fraud and corruption. A performance audit can minimize fraud by improving management and governance. As Khan (2006, p. 19) has stated, a properly planned and executed performance audit would highlight areas of diseconomy, inefficiency and failure to achieve results and impact. If a project or program has been planned properly, it should be possible to implement it with due regard for economy and efficiency and it should achieve its result. Similarly, the Inspector General of the Ministry of Home Affairs states that:

The direction of performance auditing is an improvement leading to economy, efficiency and effectiveness. If the system is good then there will be no corruption or fraud. I prefer to talk of how to fix the system first so that there is no fraud [MHA1, interview].

In the context of audits in the public sector, especially in developing countries, it is common for Supreme Audit Institutions to report unauthorised expenditures, waste of public funds, abuse of procedures resulting in losses to the public treasury, and so forth (Dye, 2007). Therefore, as an audit institution the role

of the Indonesian SAI in combating corruption is high. Even though the objective of performance auditing is not to look for fraud and other financial crimes, the objective of performance auditing which leads to system improvement will minimise the likelihood of fraud or other crimes.

Indeed, if the performance audit also searches for fraud and other crimes, then the performance of the audit function will be biased. The auditors' energies will be expended merely to find fraud and other crimes. A search for fraud or other crimes could be attempted by doing another type of audit such as a special purpose audit. However, with many cases of corruption and fraud in Indonesia, it is not possible to hand over the task of fighting corruption only to one type of audit, such as a special purpose audit. Performance auditing should be a part of the efforts to tackle corruption cases indirectly. Therefore, the essence of the performance audit, leading to improvement, may also extend to the prevention of corruption in Indonesia.

In summary, this section shows that the perception of the expansion of examination of fraud in performance auditing is less accepted as a responsibility of auditors. However, as was discovered from interviews and the questionnaire, the acceptance of auditors enquiring into the fraud aspect can be done through indirect means. Thus, performance auditing can be used to detect fraud indirectly, not as the primary tool to detect fraud.

5.4 PERSPECTIVES ON THE PROFILE OF THE AUDITOR'S PERFORMANCE AUDIT

The role of auditor is vital when conducting a performance audit and is quite unique compared to that of a financial auditor. In a financial audit, auditors will apply some unvarying sets of rules or standards (that is, generally accepted accounting principles); however, in a performance audit they will design a unique product rather than a piece of assembly-line verification. They have to define their study objects, establish appropriate criteria, choose suitable tools for investigation and exercise many other skills, including those of diplomacy and teamwork (Pollitt et al., 1999, p. 105).

According to Pollitt et al. (1999) the possible role of the auditor in performance auditing can be divided into several categories, namely: (1) as a judge/magistrate, (2) as a public accountant, (3) as a researcher/scientist, and (4) as a consultant. The role of judge or magistrate means that the prime focus of the auditor is on the compliance of the actions of public bodies with the law. The role of public accountant means that auditors scrutinise the use of public funds and serve the public in terms of transparency in the use of public money by government institutions. The role of researcher means that auditors are portrayed as researchers in performing their functions and duties, which emphasise scientific standards of procedure and method and the generation of new knowledge. Finally, in the role as management consultant, auditors are perceived to help auditees to improve their performance.

This section will examine the possible role of the auditor in performance auditing activities in the Indonesian Supreme Audit Institution. Borrowing from Gunvaldsen and Karlsen (1999), the possible role of evaluator is added to the auditor’s performance audit. Therefore, the survey asked the participants about the possible role of the auditor in a performance audit as a magistrate, as a public accountant, as a researcher, as a consultant and as an evaluator. In the interview process, the participants were also asked about their views and perceptions of the auditor’s role. Based on the survey result in table 5.7, most respondents agreed that the role of auditor in performance auditing was as an evaluator (mean of 3.68) and followed by the role as a researcher (mean of 3.49). However, the role as magistrate is not seen as a role to be performed by an auditor (mean of 2.36). Meanwhile, the percentage of the perception of the auditor’s role in performance auditing can be seen in Figure 5.2.

Table 5.7

Perceptions of the Role of Performance Auditing’s Auditor

Possible Roles	MEAN
	15 Strongly Disagree Strongly Agree
role of ‘evaluator’	3.68
role of ‘researcher’	3.49
role of ‘consultant’	3.20
role of ‘public accountant’	3.17
role of ‘magistrate’	2.36

Source: primary data

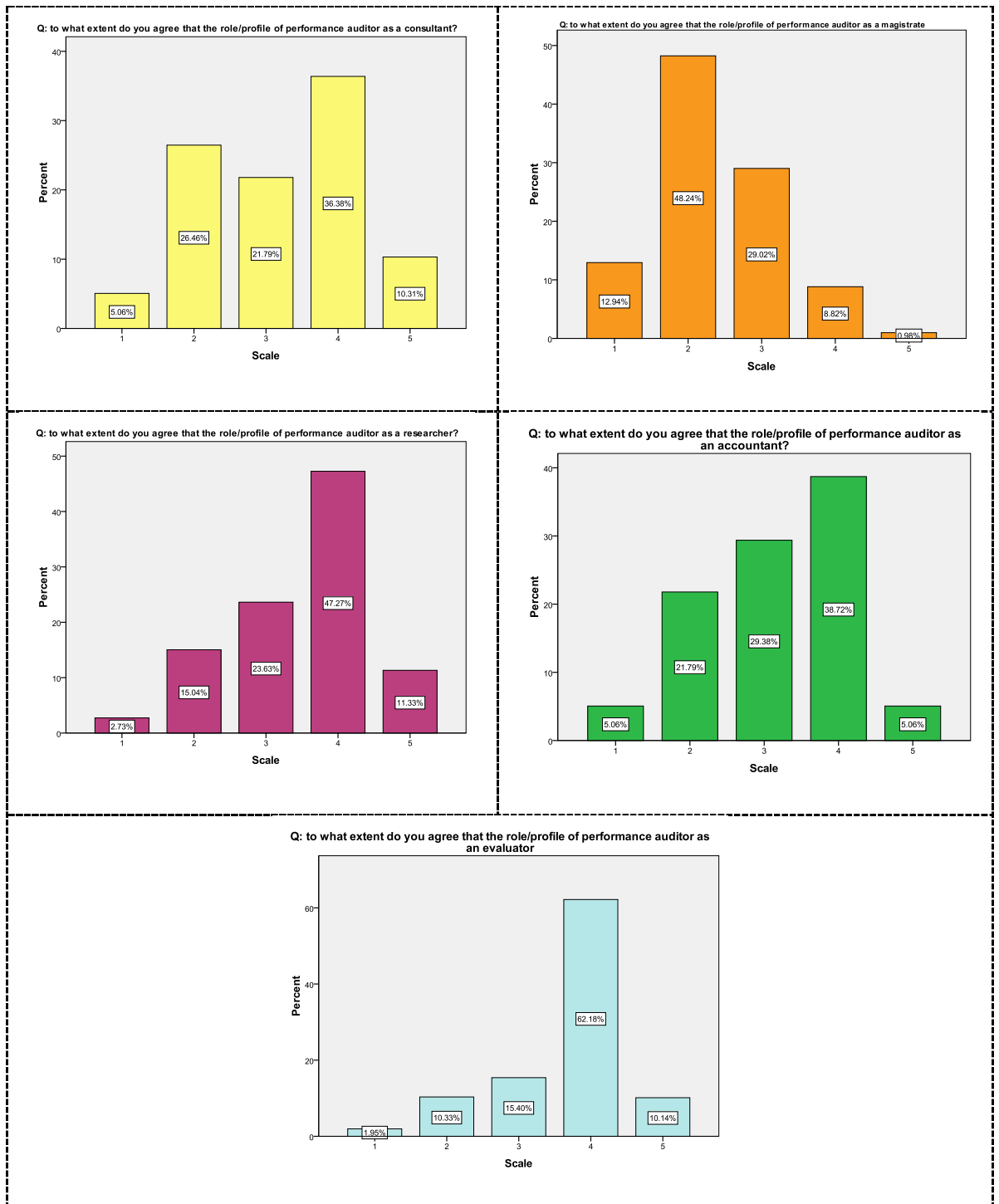


Figure 5.2. Percentage of the Perception of the Auditor's Role in Performance Auditing

Interviews with auditors showed that the perceived roles of auditor in regard to performance audit activities are as evaluators and consultants. Several opinions of this matter are as follows:

It tends to be a consultant because this [performance auditing] is about future improvement for our auditee rather than punishment... this is related to how we as auditors are setting up something in order to improve the performance of an entity that we audit [SAI6, interview].

More to the consultant...that's why in the entry meeting it must be emphasized that our [auditor] goal is to conduct a performance audit In order to improve your (auditee) performance so that we need a discussion for future improvement [SAI23, interview].

I think the role is as an evaluator and consultant...as a consultant, an auditor should have capabilities to provide good recommendations and as an evaluator, an auditor should evaluate the entity's program and activities [SAI11, interview].

From the perspective of the auditee, the Inspector General of the Ministry of Home Affairs stated:

The role of the auditor in performance auditing activities should be as a consultant because auditors provide recommendations towards the improvement of the system. How can we (auditors) make an improvement if we are not close and cannot communicate with the auditee? If we choose the role of magistrate or judge, they (auditee) will feel fear [MHA1, interview].

From the perspective of the auditee, a respondent said that:

I hope that a performance audit auditor can act as a consultant and business partner...because he is not only merely looking for fault finding orientation but also how to give beneficial growth to the shareholders... becoming a business partner he will accompany the auditees to achieve their goals [HIA2, FDG].

They should act as a consultant because they can evaluate and provide a solution to the problem... in my opinion the role of a consultant is the highest level because auditors can see the bad and good side clearly [HIA3, FDG].

The perceived role as a consultant in the auditor's performance audit shows that there is willingness on the part of auditees that auditors could help auditees in achieving their tasks. This means that the profile of the auditor of only looking for fault finding should be reduced. The image of the auditor that only focuses on fault finding is also described by a respondent as follows:

Usually auditors just look at what things are going wrong...they just blame it if something is not in right way [HIA1, FGD].

This kind of condition is not much different to what is called naming and blaming, in which an audit has to determine maladministration and identify who should be held accountable (Aucoin, 1998, p. 22). Learning from the Australian National Audit Office (ANAO), when the audit office pursued its performance audits into evaluation (and into program administration more generally) with a "gotcha"

fault-finding zeal, the impact and value-added of such an approach is highly doubtful, as it strongly discouraged the “victim” departments from ownership of the findings. The resistance of these departments to accept the audit office findings was often evident in their formal, published responses to the audit office reports. A gotcha approach may have satisfied a narrow interpretation of the accountability function of an audit office particularly in its reporting to Parliament, although it undermined the potential value-added contribution that a considered performance audit could provide to a line department’s future management of a program (Mackay, 2002, p. 166).

Conversely, this finding is also interesting to discuss. If performance auditing auditors play a role as consultants, it will be contrary to the essence of auditing itself. Thus, that which Barzelay (1997) argues -that the term of performance auditing is a misnomer- could well be true. He argued that performance audits are not a type of audit, they are an evaluation. This assertion is based on the argument that the real audit is verification and that the performance audit, by contrast, entails making or reviewing instrumental judgments (Barzelay, 1997, p. 241). According to Piocotto, cited in Ling (2007, p. 138), evaluators are more than consultants, as their unique mandate is to assess the merit and worth of public policies and programs on behalf of citizens, consumers, the poor and the voiceless. In addition, Nicoll (2005, pp. 63-65) defined an evaluation as a review that assesses whether an activity has succeeded or failed. Evaluation is a type of review with many similarities to auditing. In Australia, the Joint Committee of Public Accounts and Audit has not publicly commented on whether performance audits have

evaluated government programs and initiatives. In his conclusion, Audit Offices in Australia have been reluctant to evaluate government programs, although performance audits and program evaluations overlap.

The interview also shows that there is a perception from BPK's management that if BPK as an institution plays a role as consultant, it will therefore obscure its own function of examining the use of state funds. The abbreviation of BPK is *Badan Pemeriksa Keuangan* which means that the role of BPK should be that of Pemeriksa or examiner, not of consultant.²¹ Put differently, BPK is acting as an examiner of financial states, not as a consultant on financial states. Therefore the consultant role does not semantically correspond with BPK. As a comparison, in the United States, the Supreme Audit Institution was previously called the *General Accounting Office (GAO)*, yet was later changed to the *Government Accountability Office (GAO)*. This occurred due to the evolution of the expansion and extension of authority and jurisdiction of the GAO. Previously the GAO provided a service of audits and reviews, and was sometimes called the "Congress's watchdog" and its "investigative arm". Now however the office has grown out of its powers over finances and expenditure of the federal government and provides a variety of services to Congress that extend beyond its original functions and duties, including oversight, investigation, review, and evaluation of executive programs, operations, and activities. In addition, the office also has a prominent role in monitoring and reviewing the development and implementation of the Government Performance Result Act (GPRA) (Kaiser, 2008).

²¹ Literally, *Badan* means an institution, *pemeriksa* means an examiner or investigator, *keuangan* means funds. Thus, the word *pemeriksa* has the meaning of examiner or investigator and has no meaning of a consultant.

The dilemma between the role of auditor – which sometimes leads to the perception of investigator, given the focus on scrutinising the use of state funds – and of the consultant will lead to difficulty in balancing the role of a Supreme Audit Institution. Learning from the National Audit Office (NAO) in the UK, there is a challenge in balancing its roles as watchdog and consultant which leads to role conflict (Sharma, 2007, Radcliffe, 1999).

Indeed, from the perspective of auditees, they would be pleased if performance auditors served as consultants. However, it should also be noted that there is a risk in regard to this matter as Gendron et al. (2001, p. 306) argue that, acting as a management consultant, the auditor's primary concern is being on good terms with the audited body instead of being regarded with suspicion and apprehension. This could easily conflict with the maintenance of full and transparent accountability and public sector audits would fail to contribute to the functioning of democracy. In addition, there is another risk which exists and is that of losing independence. This may emerge when the auditor becomes identified with the management of the audited body or in favour of (or opposed to) a particular program or policy (Grasso & Sharkansky, 2001; Normanton, 1966). Another risk, also highlighted by Mayne (2006, p. 28) is that performance auditing cannot become primarily management consulting or it loses its institutional role.

The results from the questionnaire also show that there is agreement in the perception of auditors regarding the risk of losing independence if auditors provide management advisory services to auditees. This is indicated by the mean of 3.16 from the 5-point Likert scale.

Table 5.8

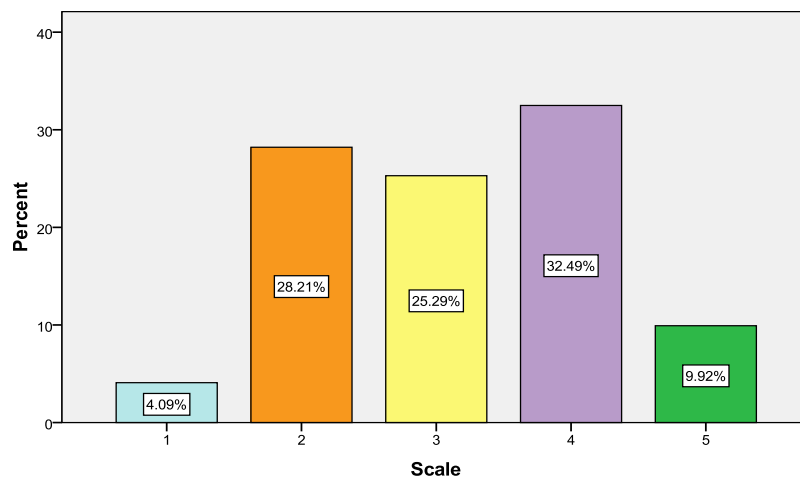
Perceptions of the Performance Auditors' Independence

	MEAN
	15
	Strongly Disagree Strongly Agree
Providing management advisory services to auditees would impair the independence or perceived independence of auditors	3.16

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B2	514	1	5	3.16	1.070
Valid N (listwise)	514				

Q: to what extent do you agree that providing management advisory services to auditee would impair the independence or perceived independence of auditors?



Source: primary data

In summary, the profile of the auditor in the performance audit should be addressed properly by the Indonesian Supreme Audit Institution. A possible solution to overcome this matter is to clearly state the policy that will be taken by the BPK for their auditor's performance audit. The BPK could state this in its strategic planning policy. Therefore, there is a place for acceptance of the role chosen by the BPK for its auditors when they conduct performance audits. There should be a change in audit philosophy in the Indonesian Supreme Audit Institution if

performance auditors are expected to be consultants or advisors. The auditor's role as advisor was noted in Morin's (2003) research which showed that the role of auditor is influenced by their background and experience. Morin divided the auditor's role into that of supervisor and advisor. The role of supervisor has a tendency to lead to an orientation towards accountability and compliance whereas the role of advisor tends to lead to an orientation towards value for money (Morin, 2003; Gronlund, Svardsten & Ohman, 2011, p. 118). Based on experiences from the Australian National Audit Office (ANAO), Mackay (2002, p. 167) stated:

In more recent years, with a new auditor-general and a different audit philosophy in the office, there has been a much stronger emphasis on finding ways to help departments improve their performance (Barret, 1996). A high priority has also been attached to the identification and sharing of good practices and the audit office has been proactive in disseminating these.

The clarity of the auditor's performance audit role is related to the accountability role to be taken by the Indonesian Supreme Audit Institution in discharging its functions. In terms of institutional theory, the Indonesian Supreme Audit Institution should establish a clear role for its auditors when executing performance auditing activities; therefore it will avoid confusion with other types of audits such as financial and special purpose audits.

5.5 SUMMARY OF THE CHAPTER

This chapter examined the objective of performance auditing and the possible extensions of that objective. Based on empirical findings it can be concluded that auditors and auditees agree that the objective of performance auditing is to examine the 3E's concept, which is in line with the literature in the area. Regarding the possible extension into the environmental aspect, auditors perceived that this feature could be included in the examination of performance auditing. Thus, the extension objective of performance auditing can be applied when auditors develop audit criteria by introducing environmental indicators. Even though there were still disagreements about including the environmental aspect into performance auditing during the interviews, the environmental aspect cannot be ignored, as people should value future generations (expanded pragmatism). In regard to the possibility of the objective extension of performance auditing into fraud and corruption aspects, the data show that: (1) auditors were less accepting of the responsibility to uncover fraud and corruption as their main task when conducting performance auditing; and (2) auditors and auditees agreed that performance auditing can be used as a prevention tool to reduce fraud through system improvements or indirect prevention when dealing with problems of fraud and corruption.

The perception of the role of performance auditor in regard to performance auditing activities is that auditors themselves believe that the performance auditor should follow the role of evaluator and researcher. However, from auditees, the role of performance auditor was perceived to be as consultant and evaluator. The

findings support the literature of Pollitt et al. (1999) who mentioned that there is no absolute pure type of role for performance auditors in Supreme Audit Institutions. However, the role of performance auditors will become a dilemma if it is not resolved well. The function of consultant could be in conflict with the essence of the audit itself. There is also a risk associated with the auditor's loss of independence. Balancing the role of performance auditor in the public sector, especially in the Supreme Audit Institution, will be a challenge for the Indonesian Supreme Audit Institution in carrying out its duties. Referring to institutional theory, the ISAI should clearly define the role for its performance auditors in order to ensure that the rules of the game of auditing are in place.

The next chapter will examine the current practice of performance auditing in the Indonesian Supreme Audit Institution and discuss the problems and challenges that exist.

CHAPTER 6: PERFORMANCE AUDITING IN PRACTICE AT THE INDONESIAN SUPREME AUDIT INSTITUTION

This chapter will examine and evaluate the effectiveness of performance auditing conducted by the Indonesian Supreme Audit Institution in terms of mandate, input, process and output. The chapter consists of two sections: the first explains the practice of performance auditing activities while the second outlines the results from the field work in the form of the factors that influence the problems and challenges regarding performance auditing activities.

6.1 PERFORMANCE AUDITING PRACTICE IN THE SUPREME AUDIT INSTITUTION

As explained in Chapter 3, the Indonesian Supreme Audit Institution has a mandate to perform performance auditing; thus, this section will explain briefly how the performance auditing process is run in this institution. The process of performance auditing conducted by the Indonesian Supreme Audit Institution is based on the annual audit plan proposed by the audit units each year. Every audit unit proposes a plan which consists of audit plans for financial audits, performance audits, and special purpose audits at the end of the fiscal year. Indonesia adopts a fiscal year that begins in January and ends in December. In the first semester of the fiscal year, audit units are usually focused more on the implementation of the audit while performance and special purpose audits will usually take place in the second semester. The proposed performance audit plans are usually based on consideration of the aspects of materiality and public issues.

After the proposed audit plan is approved by the Institution, the audit team, which usually consists of team members, leaders and supervisors, then conducts the performance audits in the second semester. In the Indonesian Supreme Audit Institution, there are no separate division units for carrying out the audit work. Auditors in each audit unit carry out all types of audit work including financial, performance, and special purpose audits. The average time to conduct these three audits is almost uniform, between 30 and 60 days. Consequently, auditors are busy with audit schedules as they move from one audit to another. In their field work, auditors meet with auditees to inform them of the audit's objective and to discuss the performance audit criteria. During the field work, auditors communicate with auditees and provide the audit findings. The final performance audit report should be approved by a supervisor and board member before it is submitted to the auditees. Each audit report is compiled by the Institution every semester and is reported to Parliament as a semi-annual audit report or *Ikhtisar Hasil Pemeriksaan Semester* (IHPS). The next section will discuss the problems and challenges that exist in the current practice of performance auditing.

6.2 PROBLEMS IN PERFORMANCE AUDITING PRACTICE

During the field work, many problems are found which cover the performance auditing practices in the Indonesian Supreme Audit Institution. The diagram of problem diagnosis in evaluation of performance auditing practice can be shown in the Figure 6.1.

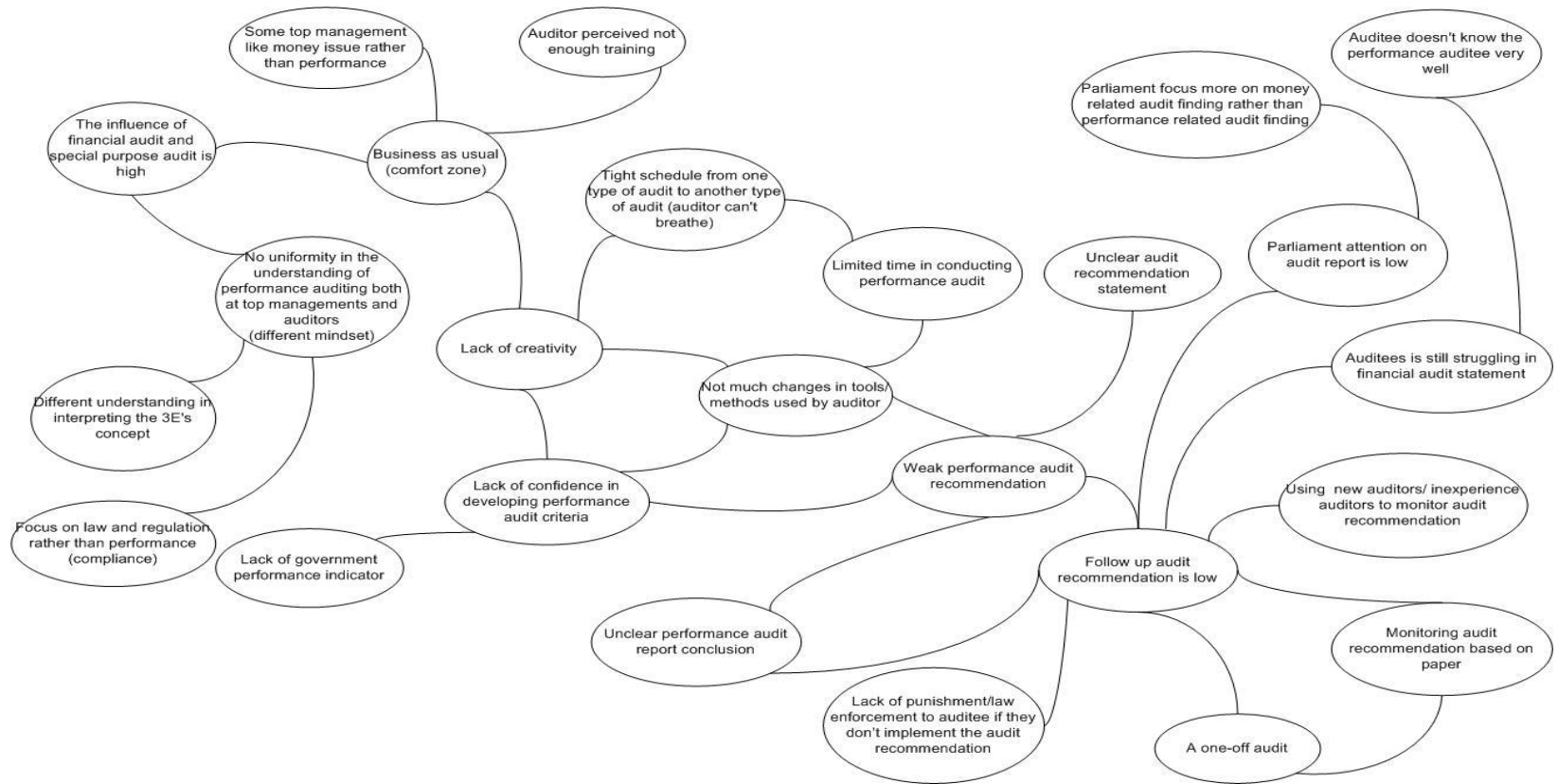


Figure 6.1. Problems diagnosis in performance auditing at the operational level

Based on the figure 6.1, the following sections will explain the issues on the evaluation of performance auditing system in practice.

6.3 MANDATE AND STATUTORY POWER: DERIVATIVE PROBLEMS OF THE PERFORMANCE AUDIT MANDATE

As it described in Chapter 3, the regulations regarding the performance audit are explicitly defined in the Law Number 15 of 2004 on State Financial Management and Accountability. Based on this law, the BPK has a mandate to conduct three types of audit, namely financial, performance, and special purpose audits. However, regarding performance and special purpose audits there are no clear cut operational divisions between them. In the auditor's mindset, there is confusion in terms of performance audits and special purpose audits.

There are some problems regarding the operationalisation of performance audits at the practical level, especially when the BPK's auditors undertake them.

In an interview the BPK's Vice Chairman stated:

The problem is not the Law but the operationalisation is not yet clear ... indeed, the audit grouping into three types of audits is rather confusing; a special purpose audit in our version would be interpreted by other countries also as a performance audit but shallow...if you look at the special purpose audit reports, the auditors also commented about the law and regulation, compliance, and effectiveness in achieving a target...this is a performance, isn't it?...that's why it must be clarified that a special purpose audit is not to report performance or financial

matters but it must be very specific for instance as an investigative audit or to detect fraud or specifically to assess the internal control system...thus a special purpose audit should be very specific (he emphasised this statement) but now it has become somewhat jumbled [SAI1, interview].

An interview with an academic from Gajah Mada University also mentioned the inaccuracies in the operationalisation of performance auditing:

The lack of accuracy presence in the description of the performance auditing in the State Auditing Standard or SPKN (Standar Pemeriksaan Keuangan Negara) [AC1, interview].

Another problem in the operationalisation of the law in conducting performance auditing is that there is a perception among auditors that when they are conducting a performance audit, they have to cover all the audit's objectives which consist of an economy, efficiency and effectiveness examination (3E's). One audit manager mentioned this problem:

Indeed the mandate for conducting performance auditing by the BPK is strong...even too strong in my opinion...the mandate clearly stated the definition of performance auditing which covers the 3E's examination... in other countries the Law doesn't mention the definition of a performance audit, the definition of an audit is discussed in an audit standard, not in the Law...so from this perspective, the BPK's mandate to carry out performance audits is very strong. However, it leads to a perception that anyone

conducting a performance audit has to cover all (italics added) the 3E's examination, which, in my opinion, is not supposed to be like that. One can choose to examine economy or efficiency only or combine economy and effectiveness and so on. But auditors still perceive that the all 3Es' objectives have to be covered in a performance audit because of the Law [SAI10, interview].

One of questionnaire respondents reported the following obstacle:

The problem is when we are determining the objectives of a performance audit, whether we just look at the economy aspect or just efficiency aspect or just effectiveness aspect? Or all of them have to be examined? [#30SMG30, questionnaire]

Indeed, the BPK's Vice Chairman also noted this problem:

There is a tendency that our auditors in the BPK are not confident when they are asked to do a performance audit. This is because they think that a performance audit should cover all aspects of the 3E's (economy, efficiency and effectiveness) which is, in my opinion, even one aspect of the 3E's is enough to conduct a performance audit...we need to equate our perception slowly [SAI1, interview].

Based on the questionnaire, the results show that on average the auditors were perceived to be relatively neutral regarding the operationalisation of the performance auditing mandate, with a mean of 3.12. This can be seen from the Table 6.1.

Table 6.1

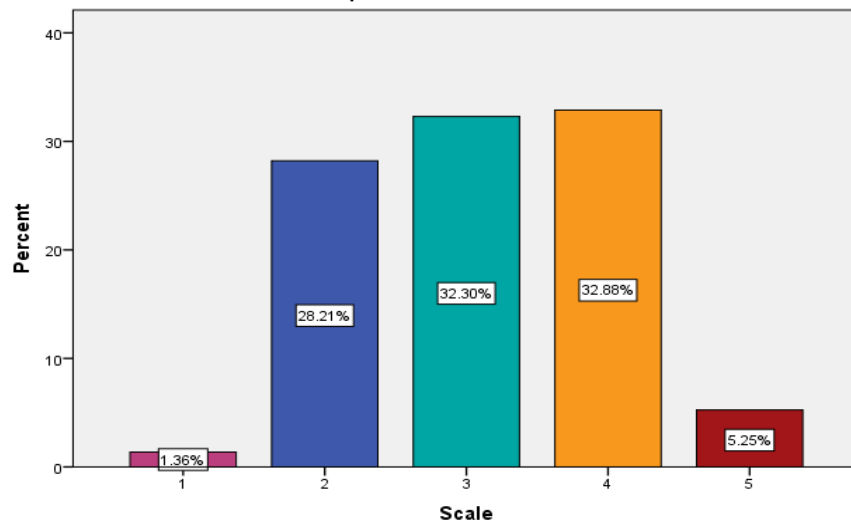
Perceptions of the Performance Audit Mandate

	MEAN
	15
	Strongly Disagree Strongly Agree
The Act for the BPK to carry out performance auditing is clear enough and does not cause obvious misinterpretation at the operational level	3.12

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B1	514	1	5	3.12	.928
Valid N (listwise)	514				

Q; to what extent do you agree that the Act for BPK to carry out performance auditing is clear enough and not cause obvious misinterpretation in the operational level?



Source: primary data

Several possible explanations for this result may be that most auditors are still young and lack adequate experience in conducting performance auditing especially in the position of audit team members. As one of the senior audit managers observed:

Many of our auditors (team members) are still young and not much experienced in performing performance auditing activities [SAI6, interview].

However, when the result is broken down based on auditor position, it is evident that there is a different understanding between supervisors, team leaders and team members regarding this matter. Using the crosstab function on SPSS with the confidence level of 95%, it can be seen that the skewness for the supervisor and audit team leader level tends to the right, which means that there is more agreement that there is a problem in the operationalisation of performance auditing. It also could be understood that this question tends to pertain to the strategic aspect. As well as this, there is more experience in this area at the level of supervisor and team leader. Meanwhile, for the position of audit team member, the skewness tends to the left which means that there is more disagreement. In fact, during the field audit, team members tend to follow the instructions of the audit team leader and working paper, thus, their focus is principally on the technical aspects rather than considering the strategic elements. The graph can be seen in Figure 6.2.

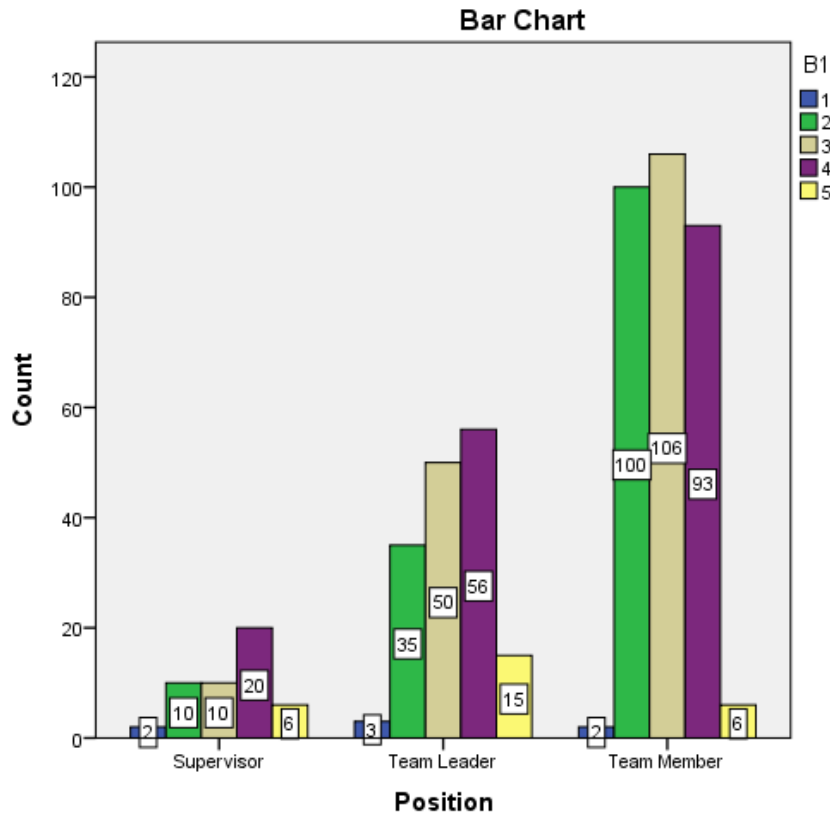


Figure 6.2. Clarity of the operationalisation of the audit mandate based on position (primary data)

The clarity and the operationalisation of the mandate at the practice level are important for the Supreme Audit Institution to carry out its function in terms of performance auditing activities. From the perspective of Agency Theory, there should be a clear relationship between principal and agent. As John Locke (1632-1704) remarked, the relationship between the governed and those who govern is a social contract (Geer, Schiller, Herera & Segal, 2014). Rulers retain the levers of power only as long as they fulfil their part of the agreement by exercising their authority in the interests of the citizens (Funnel, Cooper & Lee, 2012, p. 8). In the public sector context, the relationship can be bound in a contract. A contract can be a regulation, law, performance contract, or other agreement between the giver and the receiver of the mandate. The Indonesian Parliament (*DPR*) as a legislative

institution has authority that can be categorised as a principal that should provide a clear work delegation to the Indonesian Supreme Audit Institution as an agent. Regulations in the Law can be categorised as a contract with the Indonesian Supreme Audit Institution in conducting its work. After the agent receives a contract, there should be an institutionalisation of the mandate in the organisation. In the case of the Indonesian Supreme Audit Institution, even though the mandate to carry out performance auditing is clearly stated in the Law (see Chapter 3) there is unclear operationalisation between performance auditing and special purpose auditing. In addition, the operationalisation of performance auditing at the practice level is also not yet clear among the auditors and managers. This shows that the Indonesian Supreme Audit Institution is facing problems in terms of the rules of the game in performance auditing. Referring to Scott (2008a), in order to make an institution work properly there should be clear rules regarding the institution's activities, to support the pillar of regulation.

In summing up, clarity in defining the performance auditing mandate into the operational level is necessary. This will affect the contribution of the Indonesian Supreme Audit Institution in improving audited bodies, otherwise, the impact of performance auditing in providing improvement for the audited entity will not be achieved.

6.4 DIFFERENT MINDSET: TOO MUCH FOCUS ON COMPLIANCE ASPECT ON PERFORMANCE AUDITING

Based on the interviews, this section shows that there is a problem in the mindset of performance auditing in the Indonesian Supreme Audit Institution. One

of the BPK Board Members and an echelon 1 of the BPK also affirm this notion that different mindsets concerning performance auditing also exist amongst the top management in the BPK. They report that:

Yes, indeed, there is still no uniform mindset regarding performance auditing in BPK [SAI2, Board Member, interview].

The mindset about performance auditing in BPK is not yet the same, this should be fixed [SAI3, Echelon 1, interview].

In my opinion the mindset about performance auditing among echelon 1 is still fragmented [SAI7, Director, interview].

Another respondent claims that:

There is no uniformity in the perception of performance auditing, even among the auditors themselves. There should be a strong direction from top management, such as step-by-step on what to do in the performance auditing and any recommendations that should be given [SAI18, interview].

There is no commonality of thought about performance auditing between staff and their bosses [#384PST70, Auditor, questionnaire].

Therefore, it is clear that there is a different understanding regarding the performance auditing activities in the Indonesian Supreme Audit Institution among the top management and the auditors themselves. The factor that contributes to

the lack of uniform understanding on performance auditing in the Indonesian Supreme Audit Institution is the strong influence of other types of audits such as financial and special purpose audits, which are already well-established in the institution. The financial audit and special purpose audit which emphasise compliance and regulation influence the way performance auditing is conducted in the Indonesian Supreme Audit Institution. One respondent from a focus group discussion mentioned this:

I have experienced this when I was conducting a performance audit in assessing an education program's effectiveness...When I proposed the audit program; my audit manager said "why is it only like this? Why are there no audit steps to find state losses or money losses? Why don't you look at the theft of money?"...In my opinion my boss still focused on money matters even though this is a performance audit [SAI29, FGD].

Another respondent in an interview said that:

A performance audit is still regarded as a special purpose audit. Thus auditors are using compliance as an indicator, not the 3E's indicators (economy, efficiency, and effectiveness). Even in the upper management level still there is an opinion like this. I know this, when we are conducting meetings with top management. So the mindset should be changed because the nature of performance auditing is different from a special purpose audit. In

doing a performance audit, we have to really understand the business process of an entity [SAI23, interview].

There is confusion when implementing performance audits, especially the non-compliance with a regulation. Let's say there is non-compliance with regulation 'A'. Do we also have to look at the efficiency and effectiveness in that non-compliance aspect? In a performance audit related to maintenance, for example, auditors made many audit findings that pointed out the non-compliance aspects rather than the aspects of efficiency and effectiveness. In the case of myself, I would rather make audit findings on compliance aspects [SAI23, interview].

One of the audit managers mentioned that:

The position of performance auditing (in my office) is not clear...auditors are still confused in conducting performance audits...it is not clear whether performance auditing is focused on compliance or not...if it is still focused on compliance, so what's the difference with a special purpose audit?...in my opinion the auditors still do not have a clear understanding about performance auditing [SAI13, interview].

The emphasis of audits on compliance and formal rules was criticised by Behn (2001, p. 217), who stated that auditors focus on “minor errors” and “attack the smallest failure to comply with our formal rules”. They also have an inherent proclivity to focus on finance and fairness and to ignore performance (cited in

Lonsdale, 2007, p. 91). Thus, the essence of performance auditing, which is to examine performance and provide an improvement to entities, will be blurred. The strong emphasis on regulation will also impact on dysfunctional performance, as mentioned by Seddon (cited in Gray & Jenkins, 2007, p. 158) who notes that the focus on targets (especially when achievement is associated with the allocation of rewards and sanctions) may direct management capacity into the narrow worlds of individual targets and away from the integrated treatment of systems of performance. This is a danger of performance auditing that has too much emphasis on compliance with rules and regulations, which can reduce emphasis on the flexibility and innovation needed to improve performance (Curristine, 2005, p. 139). Of course, because of the “malleable masque” of performance auditing, as mentioned by Parker and Guthrie (1999), performance auditing can be seen from various perspectives and techniques. However, in discussing performance auditing, firm operationalisation of performance audit activities is needed, otherwise there will be misunderstandings and low confidence among auditors in conducting their tasks.

To sum up, a discourse on changing mindsets should never be a cliché in the public management sector, especially when there is no sound infrastructure in the process of system changes in the public sector. Audits play a role in the element of accountability, which is to control, to develop assurance, and provide continuous improvement in governance and public management. Therefore the development of performance auditing in the Indonesian Supreme Audit Institution, which puts

attention on the continuous improvement element, should be coupled with a clear mindset within the institution itself.

6.5 EVALUATION ON INPUT OF PERFORMANCE AUDITING ACTIVITIES

6.5.1 SKILLS AND SPECIALISATION OF AUDIT WORK

There is no specialisation amongst auditors in the BPK in terms of the work of auditing. Most of the BPK auditors were formally trained as financial auditors. This leads to some confusion when they are conducting another type of audit such as a performance and special purpose audits. Even though they learned about performance auditing and special purpose auditing in BPK's training centre, it is indeed difficult to change the mindset in a short period of time. As a comparison with other countries, the National Audit Office (NAO) in the United Kingdom, for example, has distinguished their auditors between financial auditors and value for money or performance auditors. In the NAO, the separation of auditors took place in the 1990's in order to encourage greater professionalism in approach. Previously, under the 1983 Act, financial audit and performance audit work continued to be organised within a common division, and most staff were expected to be competent in both (Lonsdale, 2000). The reason for separation of audits as mentioned by Lonsdale (2000, p. 75) was:

This was a recognition that the demands of both elements of the office's work were increasing, and that it was unrealistic to expect staff to be fully conversant with the growing range of financial

audit requirements (the main concern), and the changing nature of Value for Money (VFM) work.

In some countries, such as Canada, Australia, and New Zealand the Audit Office was reorganised and restructured to established special units to undertake public sector performance auditing during the 1970's and 1980's. In Australia, the National Audit Office (ANAO) also separated the auditors into financial auditors and performance auditors in the 1990's. In year 1992-1993, they separated a 'Performance Audit Business Unit' and a 'Financial Audit Business Unit' which mirrored the two core products of the organisation. This showed that performance auditing is of equal importance to financial auditing (Barrett, 2001, p. 15). Meanwhile, the New Zealand Audit office (NZAO) reorganised its structure in 1986 to establish a performance audit unit. The unit was staffed by accountants and non-accountants to undertake performance audit projects in the New Zealand public sector (Nath, Peurseem & Lowe, 2005; Jacob, 1998). Other SAIs such as the Norwegian Supreme Audit Institution established a separate department for performance auditing in 1996 and for this department the SAI recruited new groups of staff with experience of evaluation work in research and administration. The idea behind the establishment of this department was to promote excellence and enhance efficiency in the performance audits carried out by the Auditor General's Office (Gundvaldsen & Karlsen, 1999).

From the questionnaire, most respondents are agreed (mean of 3.37) that performance auditing should be separated from other audit services. 35.99% of

respondents agreed and 14.40% respondents strongly agreed which implies that specialisation regarding performance auditing is needed.

Table 6.2

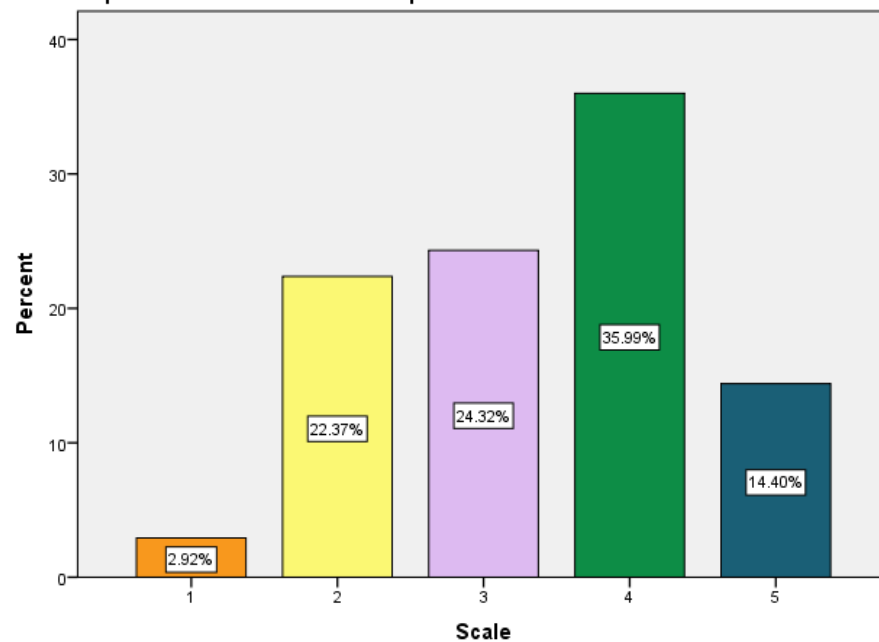
Perceptions of the Structure of Audit Work

Question	MEAN
	15 Strongly Disagree Strongly Agree
For performance auditing, a group of performance auditors separated from other audit services is required	3.37

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B3	514	1	5	3.37	1.070
Valid N (listwise)	514				

Q: to what extent do you agree that performance auditing need a group of performance auditor and separated from other audit services?



Source: primary data

In an interview, one audit manager spells this out:

I myself agree that there should be a separate division of the performance audit because the nature of the performance audit is different from other audits [SAI3, Echelon 1, Interview].

A respondent also mentioned that there is:

A need to set up a special division on performance audit and auditors equipped with sufficient technical expertise to assess the 3E's... [#362PST48, Auditor, questionnaire].

However there could be restrictions if the separation of audit services were to be conducted by the Indonesian Supreme Audit Institution under current conditions. A head of audit manager mentioned the current situation:

The future projection should be on specialization. However the strict separation of auditors on financial audits and performance audits is not permitted under the current conditions because we lack human resources (auditors)...I know when I conducted a study visit in North Carolina – USA ...the audit office made a separation between financial audits and performance audits...the financial audit division consisted of auditors from accounting and finance backgrounds... and the performance audit division consisted of auditors from multidisciplinary academic backgrounds [SAI16, Interview].

The lack of specialisation makes the auditors feel that they do not have enough skills and expertise in doing performance auditing activities. The auditors

perceived that their skills are just average, as represented by the mean of 3.18 on the 5-point Likert scale. Below is the result from the questionnaire.

Table 6.3

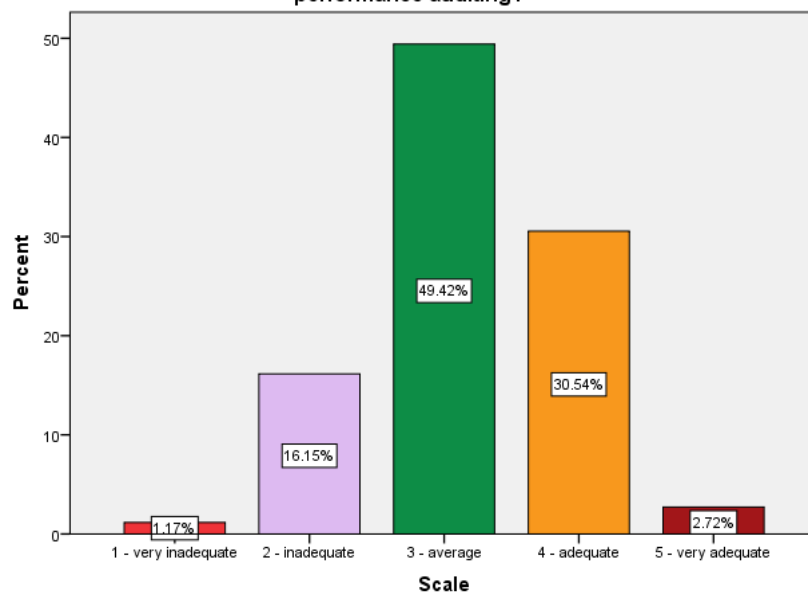
Perceptions of Performance Audit Skills and Expertise

	MEAN
	15 Very inadequate Very adequate
To what extent do you have enough skills and expertise to conduct performance auditing?	3.18

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B12	514	1	5	3.18	.770
Valid N (listwise)	514				

Q: to what extent do you have enough skills and expertise in conducting performance auditing?



Source: primary data

Indeed, the specialisation will increase the possibility of mechanisation, as mentioned by Scott (2008b) as follows:

Increases in knowledge give rise to higher levels of commodification, mechanization, and routinization. Subdivision of

work is associated not only with the development of higher levels of specialization and greater expertise, but also with the possibility of mechanization (p. 230).

However this thesis argues that, in the case of performance auditing, specialisation is needed, since the auditors need a clear understanding about specific auditing approaches and step by step guidance on what to do in performance auditing activities. In addition, the specialisation will improve efficiency and expertise in carrying out performance auditing as Scott (2008b) previously mentioned.

6.5.2 MANAGING RESOURCES OF PERFORMANCE AUDITING ACTIVITIES

In conducting performance auditing, there are specific resources required by auditors to fulfil their job. The following sections examine the management of the resources of performance auditing activities in regard to (1) Infrastructure, (2) Training, (3) Budget, (4) Personnel and (5) Time allocation.

6.5.2.1 Infrastructure

The questionnaire results show that auditors' perceptions of infrastructure related to performance auditing is just average, with a statistical mean of 3.04. There is a lack of adequate infrastructure in regard to performance auditing activities; some comments in the questionnaire mentioned that:

- Books related to performance auditing in the BPK's library are inadequate.
- Lack of supporting audit infrastructure especially in the east Indonesian region (books, library, internet connection).

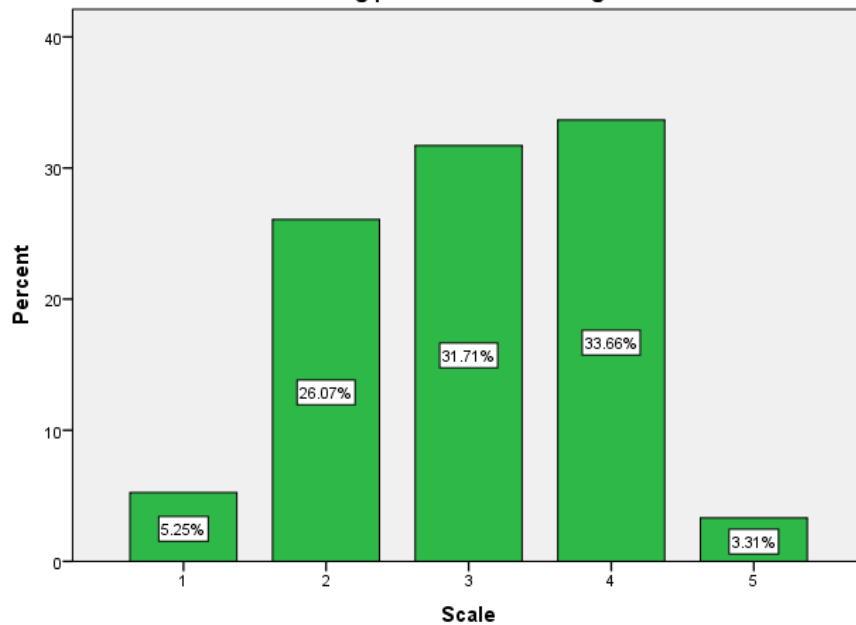
Table 6.4
Perceptions of the Performance Audit Infrastructure

	MEAN 15 Very inadequate Very adequate
To what extent do you rate the equipment/infrastructure (i.e. computer, internet access, working room etc.) available for conducting performance auditing as sufficient?	3.04

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
B15	514	1	5	3.04	.970
Valid N (listwise)	514				

Q: to what extent do you rate the adequacy of the equipment/infrastructure for conducting performance auditing?



Source: primary data

Standard and Auditing Guidelines

Auditors perceived that the current standard and guidelines in performance auditing are inadequate to support the auditing work.

Table 6.5

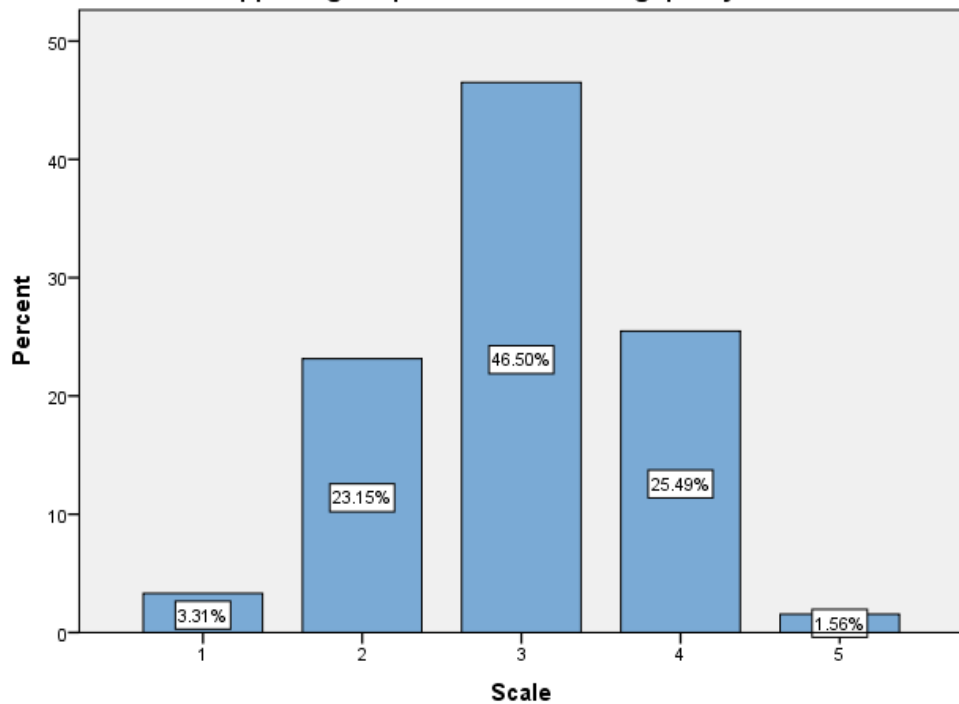
Perceptions of the Performance Audit Standard and Guidelines

	MEAN 15 Very poor Very good
To what extent do the existing audit standards and guidelines support the performance auditing quality?	2.99

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
E10	514	1	5	2.99	.826
Valid N (listwise)	514				

Q: to what extent the existing performance audit standards and guidelines supporting the performance auditing quality?



Source: primary data

6.5.2.2 Training adequacy

Most auditors perceived that the training provided by the BPK's training centre is not adequate with performance auditing requirements. From the

questionnaire, auditors were asked of their perception of the adequacy of training and infrastructure in terms of development of performance auditing. The result is seen in Table 6.6.

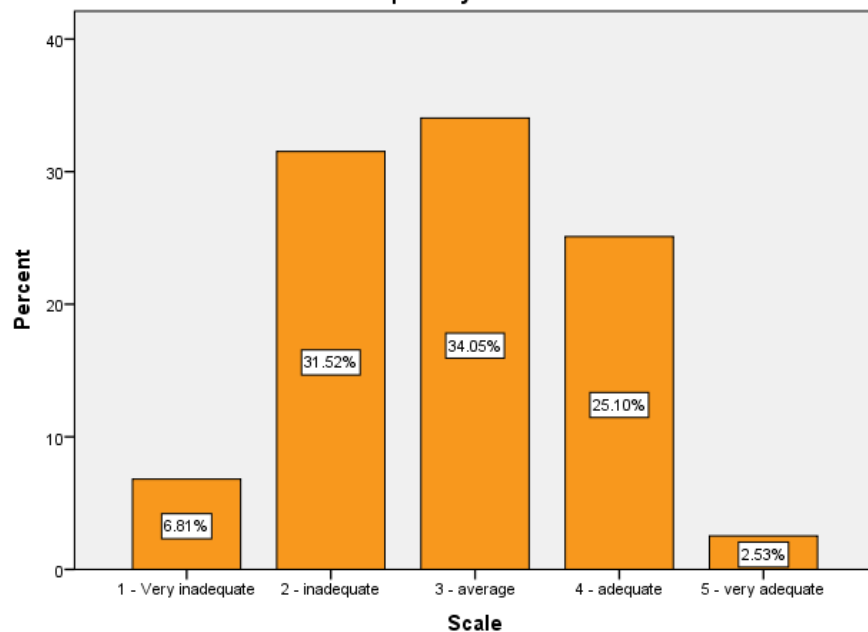
Table 6.6
Perceptions of training adequacy

	MEAN
	15 Very inadequate Very adequate
To what extent has the performance auditing training provided by the training centre improved your skills	2.85

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
						Statistic	Std. Error
B13	514	1	5	2.85	.959	.010	.108
Valid N (listwise)	514						

Q: to what extent the performance auditing trainings provided by the training centre improve your skills?



Source: primary data

Based on the Table 6.6, it can be seen that auditors perceived training in performance auditing provided by the training centre as inadequate to improve the auditors' performance auditing skills. This is shown by the mean of 2.85. This signifies that the effect of performance auditing training is still low related to the improvement of knowledge and skill of auditors.

The auditors also perceived that the training centre should organise more training related to performance auditing topics. The questionnaire results show that the number of performance auditing training sessions provided by the training centre is also not adequate, with a statistical mean of 2.75.

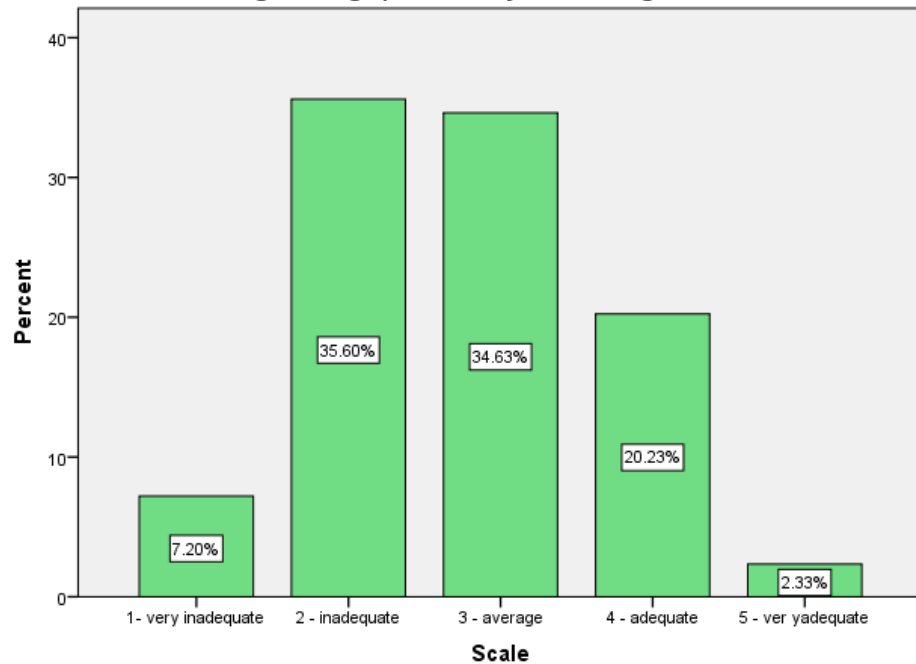
Table 6.7
Perceptions of the Number of Performance Auditing Training Sessions

	MEAN
	15
	Very inadequate Very adequate
To what extent, do you rate the adequacy of the number of performance auditing training sessions provided by the training centre?	2.75

Descriptive Statistics

		N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
		Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
B14		514	1	5	2.75	.937	.163	.108
Valid	N	514						
	(listwise)							

Q: to what extent do you rate the adequacy of the number of performance auditing trainings provided by the training centre?



Source: primary data

Some respondents also provided comments about the insufficient amount of performance auditing training, for example:

[There was] less training on performance auditing [#29SMG29].

Training on performance auditing needs to be improved [#43MNK6].

There should be training in specific objects for performance auditing (note: the performance audit course provided by the training centre is too general and not specific on special audit objects) [#44MNK7].

Quality and quantity (volume, training hours) of performance auditing training should be improved [#29SMG29]

There should on the job training for performance auditing auditors [#19SMG19].

Expanding training primarily related to the tools of performance auditing [#154SRD4].

6.5.2.3 Budget

The Indonesian Supreme Audit Institution enjoyed independence in determining its own budget allocation after the reformation era (1999 onwards). This became an advantage for the BPK in processing its resources. The budget is determined based on the BPK's budget proposal submitted to the Parliament for approval. After it is approved, the budget proposal is delivered to the Government (Ministry of Finance). Previously, before 1999 during the regime of the New Order under President Soeharto, the BPK's budget was only allocated based on the Government's (Ministry of Finance) authority. Thus, the BPK's current system of budgeting is better since it submits the budget proposal to the Parliament and then to the Government. This improves the independence of the BPK's work.

6.5.2.4 Personnel

The Indonesian Supreme Audit Institution has a staff of 6000, of which 5000 are auditors with some background in accounting, management, engineering, information technology, law and social science.

6.5.2.5 Time allocation on performance auditing

In the survey, auditors were asked about the adequacy of time in conducting performance audits. The results show that auditors feel that the time in which to

conduct performance auditing is very limited. The table below shows the perception of auditors regarding the length of time allocated to carry out the performance audits in the Indonesian Supreme Audit Institution.

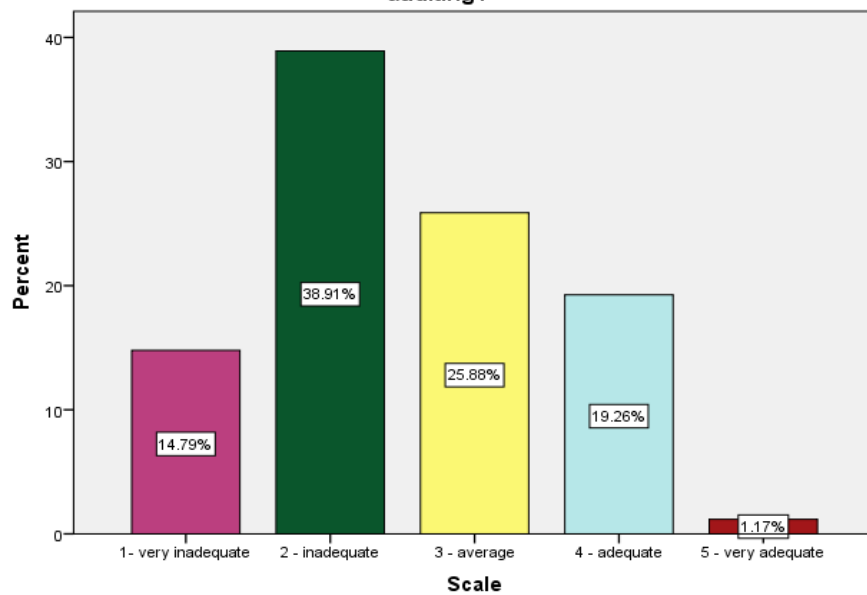
Table 6.8
Perceptions of Time Allocation on Performance Auditing

	MEAN
	15 Very inadequate Very adequate
To what extent do you rate the time allocation for conducting performance auditing as being sufficient?	2.53

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
B16	514	1	5	2.53	1.001	.224	.108
Valid N (listwise)	514						

Q: to what extent do you rate the time allocation for conducting performance auditing?



Source: primary data

The result shows that the time allocation for conducting performance auditing is inadequate, with the mean of 2.53 based on a 5-point Likert scale. The skewness factor of 0.224 this means that the diagram shows a right skewed distribution. Most values are concentrated on the left of the mean which implies inadequate and very inadequate scales. Interviews with auditors confirmed that the time allocation needs to be reconsidered when conducting a performance audit project. From the total of 514 questionnaires, 38.91% of respondents perceived that the time allocation for conducting performance auditing activities is inadequate, while 14.79% of respondents said that the time allowed is very inadequate. Many respondents also commented on the insufficient time allocation on performance auditing, for example:

So far the time setting for performance auditing is not sufficient to analyse the element of 'condition' in the audit findings
[#435aPST122, questionnaire]

Time for conducting performance audit is not sufficient for testing and making audit conclusions [#432PST118, questionnaire]

Time for conducting performance audits should be longer especially when we develop audit criteria [#457PST144, questionnaire]

So far performance auditing is conducted in a short period of time thus the result is not the maximum [#298IRW4, questionnaire]

Inadequate time allocation especially in the planning stage and field work so that the object of audit or key area of audit was not appropriately determined [#50MNK13, questionnaire]

Respondents also mentioned that the setting of the time for performance auditing by management continues to follow other types of auditing such as financial auditing and attempts to make them uniform. In fact, the nature of performance auditing and financial auditing is different, in that performance auditing requires more time than financial auditing. On average, the time consumed to conduct a financial audit is about 30 – 50 days.

Regarding the setting of time on performance audits, the management (audit) is still using the pattern of another type of audit such as financial audit [#433PST119, questionnaire].

It's very difficult for us for to conduct a performance audit in 30 days and we have to think like a manager in those institutions that we have to audit [SAI20, interview].

For performance auditing activities in developed countries, the time consumed is longer than for financial auditing, and requires time setting of around 8 – 10 months. As Summa (1998) pointed out:

A related development is the fact that individual performance audit projects have also become wider in terms of the amount of working time allocated to them. It is not unusual for individual performance audit projects in the category of government-wide

audits to last for more than two years and take more than 500 work-days (p. 71).

The report of the Australian Capital Territory (ACT) Auditor General's Office on Performance Audit Programs 2012-2013 and Potential Audits (2013-14 and beyond) underlined the time allocation for performance audit activities as follows:

Performance audits will be reported on a timely basis, noting that performance auditing is time consuming and each audit is likely to take between four and nine months to complete, depending on the complexity of the audited subject matter (2012, p. 17).²²

Another SAI in Norway states that, on average, a performance audit requires around 1 ½ work years (66 work weeks) and in most cases the total audit period is around 1 ½ - 2 years (Gunvaldsen & Karlsen, 1999, p. 459). The following document analysis on the performance audit reports shows a comparison with other countries such as Australia, the UK, and Norway in terms of the average time in conducting a performance audit.

²² See the Performance Audit Program 2012-2013 and Potential Audits (2013-14 and beyond) report released by the ACT General's Office which can be accessed from: www.audit.act.gov.au. The same conditions also applied to the NSW Auditor General's Office. In the performance audit reports, the NSW Auditor General's Office clearly stated that a performance audit project can take up to nine months to complete, depending on the audit's scope.

Table 6.9
*A Comparison of Time Allocation on Performance Auditing*²³

Country	Average time for conducting a performance audit
Australia	7 – 9 months
United Kingdom	10 – 11 months
Norway	18 – 24 months

Source: Based on the audit reports of the Audit Offices

In conclusion, the matter of time setting in performance auditing is crucial as it affects the quality of the performance audit conducted by auditors. There is a need to reframe the time allocation by the Indonesian Supreme Audit Institution in regard to the performance of audit activities. Not doing so will sacrifice the quality of the audit and ultimately the audit will provide less benefit for the auditee becoming a business as usual process. One respondent in the questionnaire mentioned that:

In determining the entity’s audit object, we don’t pay attention to key areas that really give an impact on client performance improvement due to the limitation of audit time [9SMG9, questionnaire].

²³ The information is based on random sampling of the performance audit reports from the Audit Offices. The reports were obtained from their websites. The annual report 2013-2014 of the ACT Auditor-General’s Report (Report No. 6/2014) mentioned that the average time taken to complete performance audits in 2011-2012 was 9.5 months; in 2012-2013 was 7.5 months; and in 2013-2014 was 8.4 months (ACT, 2014, p. 14). In Norway, average time taken to complete performance audits in 2010 was 3,347 hours; in 2011 was 3,291 hours; and in 2012 was 4,166 hours (SNAO, 2012, p. 21).

6.4 EVALUATION OF PROCESS OF PERFORMANCE AUDITING ACTIVITIES

6.4.1 PERFORMANCE AUDITING PLANNING

Performance auditing planning in the BPK begins in each audit unit in the Indonesian Supreme Audit Institution. The model of performance audit planning in the BPK implements the bottom up and top down strategy. The bottom up strategy starts from the audit unit. Every audit unit is entitled to choose audit topics or objects for performance auditing activities. In some circumstances the BPK also implements a top down strategy. This strategy is conducted based on instructions from audit board members related to a special audit request from the Parliament or a special performance audit topic that has received national attention, for example, the bird flu case and the national education program.

Most of BPK's audit work is concentrated on financial statement audits, which are categorised as post-audit activities. Audits are conducting after activity on the last year's financial statement is finished. Therefore, the audit does not address the preparation of how financial planning is determined. In other words, BPK has very little role in the budgeting process of the government and the legislature. Meanwhile, another supreme audit institution such as the Bundesrechnungshof of Germany has a role in giving consideration to the budget being discussed by the government and legislature. The role of the Bundesrechnungshof on the oversight of budget planning is very important in relation to the audit of budget execution and accountability. This kind of oversight could be conducted through performance auditing activities. One respondent from the Parliament mentioned that the:

BPK should conduct performance audits also in the planning stage, not only after the activities finish (post audit)...because corruption and fraud begin in the planning stage [PAR7, Interview].

Similarly, a board member of BPK mentioned that:

Fraud can occur from the start of the budgeting process, for example, in the case of procurement...there is potential to mark-up costs in the procurement which leads to the potential fraud...as a result, the potential loss of state funds could be happening since it has been set up in the budgeting planning [TV One Talkshow, 2013]

6.4.2 PERFORMANCE AUDITING METHODS

INTOSAI (2004) explains that performance auditing by nature is wide-ranging and open to judgments and interpretations. Furthermore INTOSAI noted that:

It (performance audit) must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing. It is not a checklist-based form of auditing. The special feature of performance auditing is due to the variety and complexity of questions relating to its work. (INTOSAI, 2004, p. 12)

Therefore in conducting performance auditing, auditors should apply a wide range of methods and techniques in order to analysis the auditee's performance

problems. In the Indonesian Supreme Audit Institution, auditors lack rigorous methods and techniques when they are conducting performance auditing. Most auditors apply the same methods of traditional auditing. As mentioned in Section 6.4, the influence of financial auditing is still strong for performance auditing. It also affects how auditors use auditing techniques and methods as they often bring the common methods of financial auditing into performance auditing. However, the nature of performance auditing is different from financial or special purpose auditing. Based on the survey, most auditors in the supreme audit institution use auditing techniques such as interviews (98%), observation activities (95%), document examination (94%), and questionnaires (94%). These kinds of techniques are regarded as common tools for financial auditing, whereas, other techniques that are considered more appropriate such as, benchmarking, modelling, statistical techniques, focus group discussions (FGD) and case examples, are rarely used.

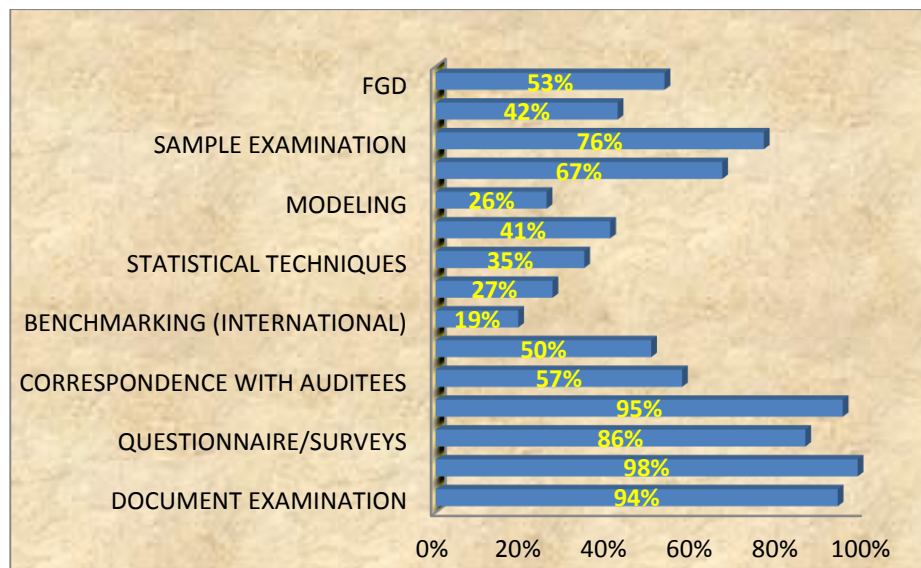


Figure 6.3. Methods and techniques used by performance auditors

Source: primary data – survey (2012)

In addition, auditors seem to feel comfortable with the current use of techniques and methods. Consequently, there is a lack of creativity in using a variety of methods during performance auditing. One senior audit manager observed:

Sometimes auditors are in a comfort zone; they don't want to try another audit approach/technique when doing performance auditing...they just apply the audit techniques that they already know in financial auditing [SAI19, interview].

Lack of understanding and lack of creativity by auditors in implementation of performance audit techniques and methods could result in an unexpected performance audit output. The questionnaire results on the understanding of performance auditing methods and techniques show that auditors' understanding is just average, with the statistical mean of 3.17.

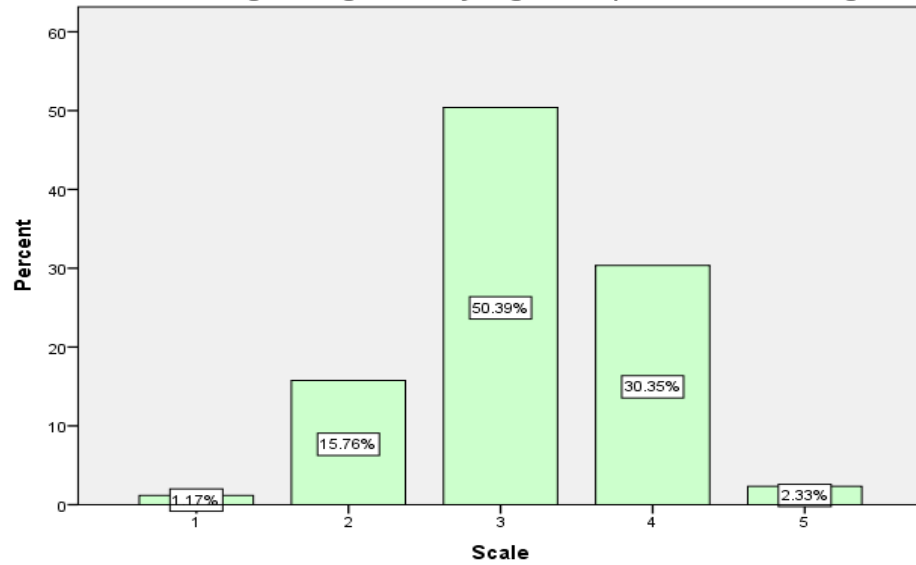
Table 6.10
Perceptions of the Method of Performance Auditing

	MEAN
	15 Very poor Very good
To what extent do you rate your understanding and knowledge in terms of the methods/tools in gathering and analysing data in performance auditing?	3.17

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Understanding of methods/tools	514	1	5	3.17	.757	-.130	.108
Valid N (listwise)	514						

Q: to what extent do you rate your understanding and knowledge in terms of the methods/tools in gathering and analysing data in performance auditing?



Source: primary data

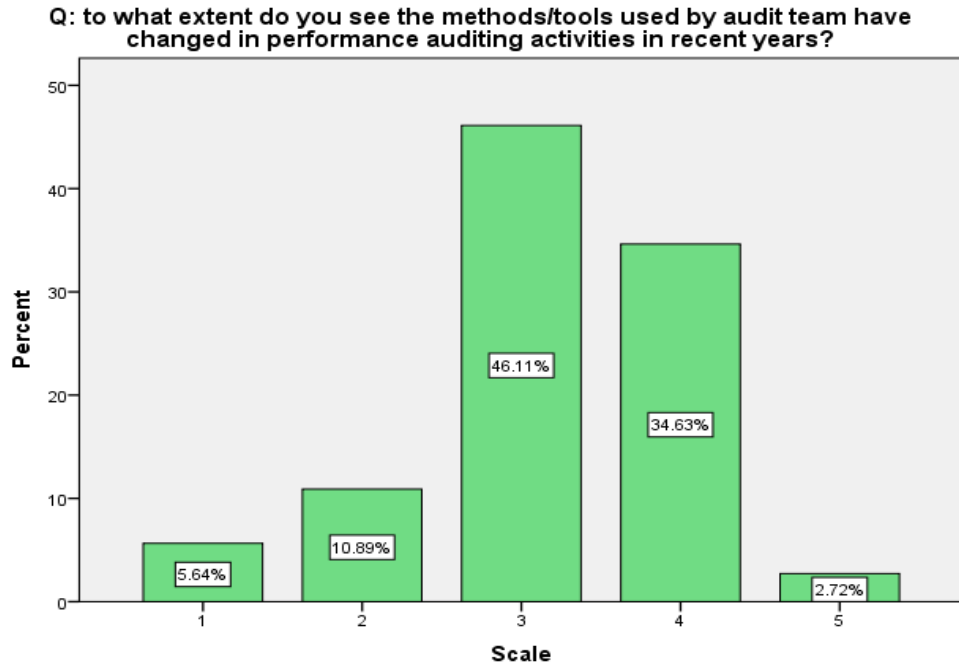
In addition, the auditors also perceived that there are not many changes in using performance auditing methods and techniques in the Indonesian Supreme Audit Institution. The mean of the perception on the changes in the use of performance auditing methods and techniques is only 3.18.

Table 6.11
Perceptions of the Changes of Performance Audit Method

	MEAN	
	15	
	No Changes	Many Changes
To what extent do you see that methods and techniques/tools used by the audit team have changed in performance auditing within the BPK in recent years?	3.18	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Methods/tools changes	514	1	5	3.18	.871	-.621	.108
Valid N (listwise)	514						



Source: primary data

6.4.3 EVALUATION OF PERFORMANCE AUDITING CRITERIA

Criteria are essential and important when conducting an audit, including a performance audit. They are central to the entire process of auditing (Pollit & Mul, 1999), and without criteria it is quite impossible to evaluate a performance. Compared with financial auditing, which is already established, the standard in performance auditing criteria varies and remains a crucial matter, since auditors should have competency in developing criteria from various sources. The performance auditing team must develop appropriate criteria for the assessment of the performance of the audited entity. The auditing team may need to look for suitable criteria in various sources, including documentation concerning the objectives and targets of entities.

Audit criteria are reasonable and attainable standards of performance against which the economy, efficiency or effectiveness of programs, functions and

activities can be assessed. Referring to Keen (1999), little research has yet been undertaken into the questions of how, in practice, auditors identify appropriate criteria and reach their judgements. In this research it is shown that there are several problems in developing criteria in conducting performance auditing. This finding strengthens the literature regarding the difficulties in developing criteria. Some factors that arise in the Indonesian Supreme Audit Institution regarding the criteria in performance auditing are discussed below.

6.4.3.1 Lack of performance indicators (measurement problem)

One issue may be that there is a lack of performance indicators in the entity to be audited. This condition makes it difficult for the auditor to develop audit criteria in such entities. In addition, there are also circumstances where an entity works according to a prevailing custom. An audit manager states that:

As far I know, yes there is a problem in determining indicators in government institutions. For example, when I was conducting a performance audit in the Police Department, they determined the indicators based on general practice. It is not based on what it should be or what can be achieved in normal conditions. For example, an officer in police administration is handling 20 applications per day. Why are they handling 20 applications per day? Because it is a usual practice, not because they calculate the optimal application [SAI19, interview].

The government as an entity and also stakeholders of performance audits conducted by the Indonesian SAI, also lack indicators, as mentioned by the Deputy Director of the Presidential Working Unit on Monitoring and Oversight:

The indicator is not clear...they (government institutions) are still using input indicators not output indicators not even outcome indicators [PWM1, interview].

From the auditor's perspective the problems are:

To find a performance audit object is rather difficult because often there is no system (indicators) in entities that can be audited. But we still have to conduct a performance audit even though it is difficult to get information [#256JT25, questionnaire].

It is very difficult for us to reach an agreement with an auditee in terms of audit criteria if the auditee does not have the Standard Operating Procedure [#87PIM11, questionnaire].

We found difficulties in setting up the right criteria to support the execution of the performance audit [#75DPS25, questionnaire].

Many of the audited entities do not have a standard operating procedure (SOP) in conducting their activities [#42MKN5, questionnaire].

An interview with the Ministry of Administrative Reform and Bureaucratic Reform revealed that the current situation in performance planning and

measurement in Indonesia is still in the transition stage from input-based indicators to output-based indicators. The lack of performance indicators in government institutions is still part of the organisational problems in the Indonesian public sector. In addition, the interview with the Deputy Director of Ministry of Apparatus and Bureaucratic Reform revealed that many government departments and local governments do not have a government accountability performance system.

At the beginning of our evaluation of a government agency accountability system, we just look at whether the agency has developed the accountability system or not... we look at whether the agencies have made a report or not...whether the agencies have some indicators or not...even though the indicators are still output indicators, but that's fine...we do not look at whether the accountability system is credible or good or whether they have good performance indicators...the most important thing is that the system has been established or not, because not all government agencies have indicators...sometimes they don't have strategic planning, let alone performance indicators...in the future we should gradually fix this problem [MAB1, Interview].

Indeed, if the government is still focused on input-based indicators, , it is rather difficult to see the impact of a program. As a result, output-based indicators or even outcome-based indicators are needed to improve Indonesian public sector reform. The clarity on output or outcome indicators will lead to better assessment of the efficiency and effectiveness of the public sector. If not, performance auditing

will have a low impact on the improvement of public sector reform. Waring and Morgan (2007, p. 350) mentioned that:

When performance auditing is first introduced, it is advisable to focus audits on readily measurable indicators, such as the reliability of reported information or the effectiveness of a selected process to achieve specified outputs.

Therefore, in order to contribute to better development of audit criteria, creativity from auditors is needed when developing indicators of performance auditing criteria. The Deputy Director of the Presidential Working Unit on Monitoring and Oversight, emphasised in an interview that auditors should be more creative in terms of developing performance auditing criteria:

The criteria for performance auditing do not dwell on the existing indicators. Do not dwell only on the rules. Go beyond regulations. Performance auditing standard was not as tight as the financial auditing. So please use your creativity so that the performance auditing has more benefit to the auditee. For example if an activity has an indicator of 12 meetings a year, then the auditors should go beyond that, for example, how many agreements can be reached, how many institutions had signed the agreements. That is better, rather than just following the regulation and at the end the result of performance auditing does not provide value to the auditee [PWM1, interview].

6.4.3.2 Lack of confidence in developing performance audit criteria

An auditor’s confidence is very important when developing audit criteria. The audit criteria set by an auditor needs to be negotiated and agreed upon with the auditee. Doing this is useful to create a buy-in by the auditee, when doing the follow-up audit recommendations. However, there are no strict guidelines in performance auditing which leads to low auditor confidence when developing criteria. A senior audit team leader stated that:

Sometimes the audit team is not confident when developing performance audit criteria because, unlike financial auditing which has clear rules and standards, in performance auditing the criterion is not clear [SAI22, Interview].

The result of the questionnaire also confirmed that auditors perceived that their capacity to develop performance audit criteria is average/fair, with the mean of 3.18.

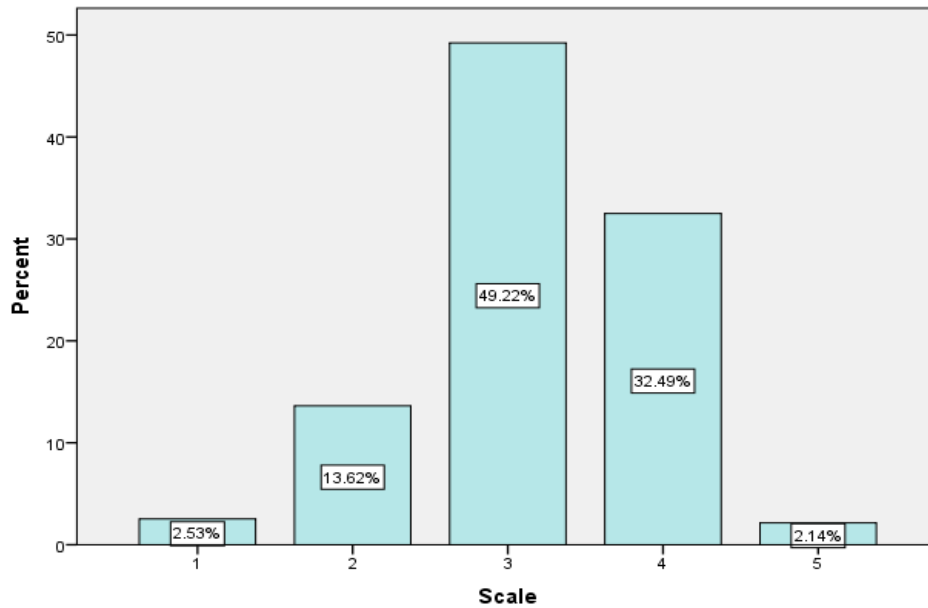
Table 6.12
Perceptions of the Performance Audit Criteria

	MEAN
	15
	Very poor Very good
To what extent do you rate your expertise in developing criteria?	3.18

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Expertise in developing audit criteria	514	1	5	3.18	.785	-.379	.108
Valid N (listwise)	514						

Q: to what extent do you rate your expertise in developing performance audit criteria?



Source: primary data

The Vice Chairman of the BPK mentioned:

Not all government programs have their own performance indicators...even though we are planning to move into performance based budgeting, but not all has been executed...you can see that not all government institutions have performance indicators...let alone performance indicators, they don't even have the minimum service standards...this condition means our auditors are not confident in conducting performance auditing and they feel that they don't have enough capability in developing audit criteria [SAI1, interview].

6.4.3.3 Absence of better practices guides

Another factor that contributes to the difficulties in developing performance audit criteria is the absence of good management practice. The Indonesian Supreme

Audit Institution does not have the guidelines for good management practice as a reference in conducting performance auditing. The Indonesian Supreme Audit Institution lacks a better practice guide which can be adopted by departments, institutions or local governments in order to improve their performance.

In some countries such as Australia, New Zealand and the UK, their SAIs have distributed better practice documents in order to improve performance accountability. An SAI such as the Australian National Audit Office (ANAO) has already established management practice reports with some objectives related to performance auditing, such as good management practice in procurements, fraud control, and such. Another comparison is the Swedish National Audit Office which has also established guidelines of management practice as guidelines for its auditors to conduct performance auditing activities. From interviews with auditors, it became clear that the auditors feel that the absence of good management practice creates difficulties for auditors when executing performance auditing. One audit team leader revealed:

To be honest it is very difficult for us when we talk about developing performance audit criteria...we have to find our own criteria for the audit [SAI20, interview].

The lack of better practice guidelines will undermine the impact of performance auditing in improving public sector administration and accountability as the objective of performance auditing -to assist the people's representative in exercising effective legislative control and oversight- may not be achieved. The

availability of better practice guidelines would improve the rules of the BPK as an audit institution, in regard to performance auditing.

To sum up, there are several factors that affect the difficulties in regard to the development of performance auditing criteria in the Indonesian Supreme Audit Institution. They are: (1) the lack of indicators in public sector entities; (2) the lack of auditor's confidence in developing performance auditing criteria; and (3) the absence of better practices guidelines.

6.5 EVALUATION OF OUTPUT: PERFORMANCE AUDITING REPORT

The head of the section in charge of performance audit reporting in the Indonesian Supreme Audit Institution notes that there is a problem that most performance audit reports in the BPK still focus too much on conclusions that state whether an action is appropriate or not, in accordance with the regulations. For instance, in hospital performance auditing, the report stated only the extent to which hospital conditions do not comply with the hospital standards operating procedures. Another example is that auditors simply state that a hospital operating to standard procedures is not in accordance with the vision and mission of hospital strategic planning. Auditors did not elaborate on further practices that occurred at the hospital and were even less able to explain why these practices happened. The Section Head of Performance Audit Reporting further set out that:

There are many audit reports which have not described the practices and why the auditee activities did not comply with the provisions. Many performance audit reports that I read just sum up the result as "appropriate or not in accordance with the

provisions” or “appropriate or not in accordance with the standard and operating procedure”. They (auditors) do not describe more clearly what kind of practices. I think this is too simple. They (auditors) do not explore further why this happened. So no wonder there is an opinion among auditors that a performance audit is like a special purpose audit with a certain degree of qualitative goals, which, in my opinion, should not be so [SAI17, interview].

A factor that contributed to this problem is that there are no formal guidelines in developing performance auditing conclusions, as respondents mentioned that:

The form of the performance audit is not yet standardized and there is a lack of guidance [#188PTN4, questionnaire].

There has been no guidance on reaching a performance audit conclusion based on the 3Es aspects...in addition there is no standardized methodology in developing a performance audit conclusion [#192LPG2, questionnaire].

The method of reaching a performance audit conclusion is not yet clear [#325PST11, questionnaire].

6.5.1 EVALUATION OF PERFORMANCE AUDITING RECOMMENDATIONS

The objectives of audit recommendations are critical. It is stated by Funnel, Coper and Lee (2012, p. 363) that recommendations in audit reports are to

emphasise contributions to improving public sector management rather than only seeking fault. Thus, it is important to develop good performance auditing recommendations. In the fieldwork, it was found that there were some factors that influence the effectiveness of performance auditing recommendations, as discussed below.

6.5.1.1 Auditor expertise in developing performance auditing recommendations

The questionnaire results show that auditors perceived their expertise related to their capacity to create performance audit recommendations is just average. Most respondents (49.42%) answered that their expertise in developing recommendations is fair, with a mean of 3.17.

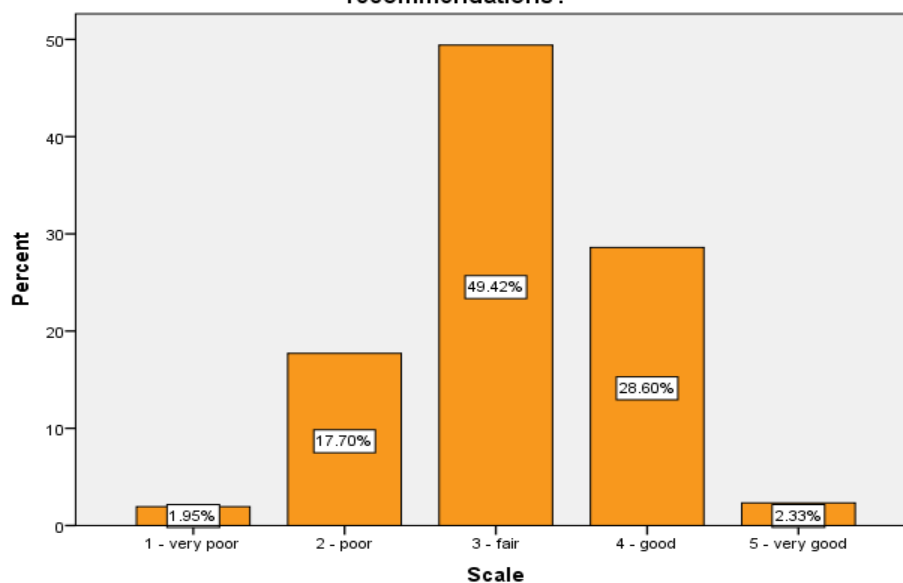
Table 6.13
Perceptions of Expertise in Developing Performance Audit Recommendations

	MEAN
	15 Very poor Very good
To what extent do you rate your expertise in developing performance audit recommendations?	3.17

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Expertise in making audit recommendations	514	1	5	3.17	.757	-.130	.108
Valid N (listwise)	514						

Q: to what extent do you rate your expertise in developing performance audit recommendations?



Source: primary data

6.5.1.2 Lack of understanding of entity's business process

In performance auditing, a thorough understanding of the entity's business process is essential as a performance audit will provide recommendations in whichever audit area is examined. Unlike other audits that provide opinions on financial statements (such as financial auditing), a performance audit does not provide this kind of audit opinion. Audit recommendations thus become the essence of performance auditing. A clear understanding of the entity's business process will improve the quality of the audit recommendations. In fact, the interviews confirmed that there is a lack of understanding of business entities' processes among auditors when they are doing performance auditing activities. Evidence from the interviews shows the current conditions. One senior audit manager of the Indonesian Supreme Audit Institution claims:

In a performance audit, often auditors lack understanding of the entity's business process, so that the recommendations will be of no benefit for the entity. Auditing experience also determines whether auditors can provide good recommendations or not. Also, there is the psychological factor, namely, 'the will'. Sometimes auditors do not want to give recommendations that are too hard, so they give an easy recommendation. The reason is that if they provide a hard recommendation, then the follow-up will be hard and the auditors also will have hassles [SAI23, interview].

A manager from the Ministry of Administrative Reform and Bureaucratic Reform mentioned:

Auditors often do not understand well the business process of the auditee when conducting audits [MAB1, Interview].

A senior team leader of the Indonesian Supreme Audit Institution stressed:

The problem is we (auditors) never define specifically what a good recommendation in performance auditing is. The current guidelines from the Audit Office are still not clear on how to operationalize the mechanism of providing a good recommendation. On the other side, the auditors themselves are more preoccupied with their own world and they do performance audits solely because of the mandate to do performance audits. Therefore the system improvement for the auditees is not so

obvious...it can be seen from the low rate of follow-up of performance audit recommendations [SAI10, Interview].

The lack of understanding of an entity's business process contributes to the weaknesses of performance audit recommendations. Based on the interviews, it can be concluded that some factors influence the lack of understanding of an entity's business process in regard to performance auditing activities in the Indonesian Supreme Audit Institution, namely:

- (1) Auditor experience. The level of experience influences how auditors conduct the examination of the business process of an audited entity.
- (2) Psychological factors; that is, the willingness of auditors to provide good recommendations.

6.5.1.3 'Chase Running'/Marathon style

Another factor that influences the weakness of performance audit recommendations is the marathon style in doing audits at the Indonesian Supreme Audit Institution. The effect of a marathon style in doing performance audits means the auditors are rushing to complete audit reports. This condition results in shallow audit findings and recommendations as auditors only pursue their work in order to finish quickly. Therefore, the essence of these performance audits is to be questioned, as the goal of performance auditing is to make improvements to the auditee's systems. Based on the interviews in the field work, one respondent said that:

The auditors do a marathon style in doing their audit jobs because the schedule from one audit to another audit is tight [SAI15, Interview].

In the Indonesian Supreme Audit Institution, an auditor can have four to five audit assignments per year with different types of audits, such as financial, performance, and special purpose audits. The time frame for completion of these audit assignments is also quite similar, around 40-50 days. Therefore, with these various audit assignments and tight deadlines, auditors will not have sufficient time to undertake their jobs comprehensively and the work of auditing just becomes a ritual of verification. Given that performance auditing work cannot be equated with financial auditing, the uniformity of the audit assignment time will affect the quality of performance audit recommendations.

6.5.1.4 Unclear performance audit recommendations

Auditees also perceived that performance audit recommendations provided by the Indonesian SAI are quite unclear and, as a result, they are confused when they attempt to follow-up the audit recommendations. These recommendations provided by auditors are too general and not specific enough in addressing the problem. An interview with the Inspectorate General of Ministry of Finance reports:

My experience as an auditee shows me that the BPK's audit recommendations are too macro and not specific for us...for example the recommendation only stated that the control is weak...but in what aspect? It's not specific yet... thus it's difficult for us to do an audit follow-up [MFI1, interview].

One senior audit team leader mentioned that:

Sometimes the audit recommendation is not clear...for example we recommend developing good coordination...it is interpreted by the auditee as just sending a letter (to develop good coordination)...so there is an expectation gap (SAI26, FGD).

Based on the interviews it can be concluded that some contributing factors which that mean performance auditing recommendations are not clear are:

- (1) Performance audit recommendations provided by auditors are too general and not specific, thus making auditees confused.
- (2) Conclusions in performance auditing are not quantified, thus it is unclear what the extent of auditees' performance achievement is. It is not enough for auditors to conclude with: less effective, or not effective.

6.5.1.5 Difficulty in determining causes of problems

Manager performance audit reporting of the Indonesian Supreme Audit Institution revealed that one of the reasons for the weaknesses of audit recommendations is due to the fact that auditors are facing difficulties in finding the cause of the problems. One manager who is responsible for the audit reporting in the Indonesian Supreme Audit Supreme Institution observed:

On average the audit recommendations are still general and not specific to solving the problems. Indeed there is an audit

recommendation which is already good but generally audit recommendations are still mediocre. That is because there are difficulties in finding out the cause of the problems. If the auditor can find the cause of the problem, it is easy to give audit recommendations, but the problem is to find the cause of the problem, which is not easy [SAI16, interview].

The auditor's failure in finding the cause of a problem in a performance audit which may result in the auditor suggesting inappropriate recommendations is also recognised by the BPK's vice chairman; in an interview, he states that:

So often we (auditors) fail in offering an appropriate recommendation. As a result of auditors failing to diagnose the cause of the problem and auditors doing analysis without proper communication with the auditee ... the problem of communication between auditor and auditee can be the cause of a lack of audit recommendations [SAI1, interview].

A senior audit team leader also mentioned:

Indeed we didn't do an intense approach with them (auditee) so that they possibly could not understand the direction of the audit recommendations [SAI26, FGD].

6.5.2 EVALUATION OF FOLLOW-UP PERFORMANCE AUDITING RECOMMENDATIONS

The follow-up of performance auditing recommendations is an essential part of performance auditing activities. A sound mechanism in the follow-up of

performance auditing recommendations will improve the benefits of performance auditing, otherwise the essence of performance auditing, leading to improvement in audited entities, will not be achieved. The mechanism of the follow-up on performance auditing recommendations involves several parties in Indonesian public sector auditing, which are (1) the Indonesian Supreme Audit Institution, (2) the Auditee, and (3) the Parliament. The Indonesian Supreme Audit Institution is an actor who conducts the performance auditing. The auditee is the object of performance auditing activities and the Parliament is an actor that oversees the results of auditing reports conducted by the Supreme Audit Institution. Parker (1992, p. 166) mentioned that:

There is precious little evidence collected and analysed concerning the outcomes of performance auditing reports and recommendations.

The level of follow-up audit findings is still low, as mentioned by the Vice Chairman of the Indonesian Supreme Audit Institution in the *SindoWeekly Post*:

The follow-up audit findings have not been encouraging, still below 60%. Sometimes, I am thinking that our audit effort is not in line with state financial accountability. The old audit findings have not been completely followed up, the new findings appear again...such as no deterrent effect (2nd May 2012).

In addition, the BPK chairman mentioned that in the period of 2009 - 2013, the BPK provided 212,750 audit recommendations, yet only 53.77% or 114,397 audit recommendations were followed up by the audited entities up until 2013 (Vivanews, 2014).

From the auditors’ perspective, the implementation of performance audit recommendations is average with a mean of 3.13. The results of the questionnaire are shown as follows.

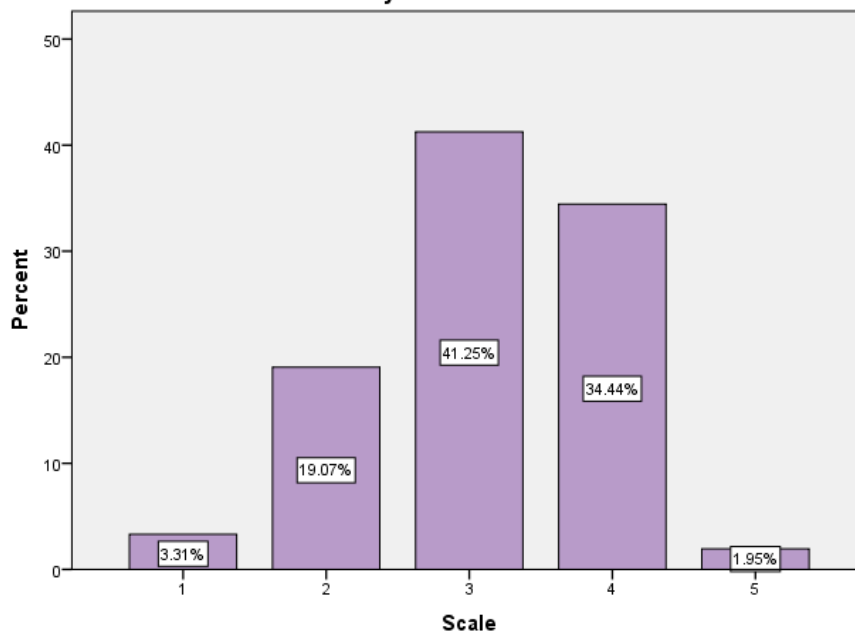
Table 6.14
Perceptions of the Implementation of Performance Audit Recommendations

		MEAN
		15
		Very poor Very good
How do you rate the implementation of performance auditing recommendation by auditee		3.13

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
E11	514	1	5	3.13	.855	-.377	.108
Valid N (listwise)	514						

Q: how do you rate the implementation of performance auditing recommendation by auditee?



Source: primary data

From the interviews and focus group discussion, it can be found that the low rate of follow-up on performance auditing recommendations is caused by several

factors, namely: (1) the comfort zone among public sector officials; (2) the partial mechanism on follow-up for performance audit recommendations; (3) uncontrollable actions by auditees; (4) the one-off audit style; (5) paper-based monitoring; (6) lack of attention from the Parliament; and (7) lack of punishment in regard to performance audit recommendations. These factors are discussed below.

6.5.2.1 Comfort zone among public sector officials

From interviews it can be explained that the low rate of follow-up on performance audit recommendations in the Indonesian public sector is caused by the comfort zone among public sector officials. The managers of public sector entities are comfortable with the existing system. The performance audit recommendations which have the capacity to improve the current system in the audited entities received less attention from public sector managers. The reason is due to the fact that the performance auditing recommendations are not usually punitive to executive officials personally or the entities that are directly examined. Therefore, the executive officials will not lose their current positions. This can be compared with a special purpose audit, in which audit recommendations directly highlight the faults of the managers or executive officials personally, so that they are able to lose their positions. Therefore, the auditee responses on performance auditing recommendations are more relaxed compared with responses to a special purpose audit or even an investigative audit.

Auditees are apprehensive if the audit is investigative as the result of an investigative audit is to explore the occurrence of fraud or manipulation in an entity and may often bring the perpetrators of the fraud to court. Similarly, a special

purpose audit conducted by the Indonesian Supreme Audit Institution is more about testing out the expenditure compliance of local government or ministries/agencies in managing state finances, according to the provisions of the law. If there is a case of disobedience of the state's financial management, the audited entity must refund the money to the State in accordance with the applicable procedures, otherwise the entity would be subject to prosecution consistent with the appropriate law. Because the law atmosphere in an investigative and special purpose audit is more rigid than that in performance auditing, the entity will quickly follow up on the audit recommendations. For example, a treasurer in an entity would quickly respond to the audit findings of a specific purpose audit as he or she may fear that the effect of the legal process could eliminate their position. A senior audit manager in the Indonesian Supreme Audit Institution noted that:

Auditees are slow in following performance auditing recommendations because they feel comfort in the current situation. And a performance auditing recommendation is usually just talking about the improvement of a system, thus there are no direct penalties to the officials. It's quite different with an investigative audit or a special purpose audit that has a strong legal effect on them [SAI9, Interview].

6.5.2.2 Mechanism of follow-up audit recommendation

Internally, the Indonesian Supreme Audit Institution undertakes action in order to follow-up on audit recommendations. However the action is still

considered partial, as there is no synchronisation in the process of gathering the evidence to do this. Every audit unit in the Indonesian Supreme Audit Institution conducts the follow-up audit recommendations internally and related to their audit findings. This action is sometimes conducted by new staff who do not appreciate the substance, which thus leads to a pragmatic situation in which the follow-up audit finding is understood as a letter of confirmation from the auditee, without any rechecking as to whether the recommendations were truly implemented.

6.5.2.3 Uncontrollable actions by auditees

Based on the auditees' perspective, the reason they have difficulties in implementing audit recommendations is that there are uncontrollable factors which are beyond the auditees' capacity. For example, if a program involves other parties or is a joint program between two different institutions, it would be difficult if the Indonesian Supreme Audit Institution only audited one while the other party was not audited. From the auditees' perspective, this is not quite fair and makes it difficult for them to implement performance audit recommendations. In a focus group discussion, this problem was raised:

The audit recommendations should be controllable, the auditor should provide a recommendation that we can control in the implementation, thus we can do follow-up...like in our case, the auditor gave recommendations just for our office even though the program that they audited involves another institution...so that the implementation of the recommendation became less optimal [HIA3, FGD].

The difficulty in implementing audit recommendations is also highlighted by a senior team leader in the Indonesian Supreme Audit Institution, who mentioned that:

There are factors beyond the management that greatly affect the implementation of the recommendation,...for example we have audited the treatment of pollution control in Ciliwung watershed... one of our recommendations cannot be implemented by the auditee...at the time we recommended proposing a rule such as a presidential decree so that every related institution will be involved in managing Ciliwung watershed...however until now that recommendation cannot be implemented because proposing a presidential decree is quite difficult and takes time [SAI26, FGD].

In addition, one of the Principal Auditors from a higher Echelon mentioned the reason that the follow-up of audit recommendations is low:

Why the rate of follow-up of audit recommendations is low can be caused by various factors, for example, firstly, auditors provide wrong audit recommendations, i.e. audit recommendations are too general and secondly, audit recommendations are difficult to implement [SAI3, interview].

6.5.2.4 One-off auditing style

The performance auditing conducted by the Indonesian Supreme Audit Institution is more of a one-off auditing style. This style means that auditors

conduct a performance audit only once and there is no another audit (such as follow-up audit activities), to assess whether the auditee has actually implemented the audit recommendations. Indeed, the SAI is monitoring the implementation of audit recommendations; however, this is conducted on paper only, as described in the next section (Section 6.5.2.5). The time frame for the monitoring assignment is only around five days, which is considered not appropriate. One respondent mentioned that:

The assignment letter for conducting the follow-up monitoring is very short, only 5 days...and that's not enough time to conduct monitoring properly [SAI27, FGD].

The one-off audit style leads to the question of whether an accountability system is really in place. The style is also confused with management consulting characteristics. Based on the literature in Chapter 2 (Section 2.1.2), Parker (1986) argues that there are differences between performance auditing and management consulting characteristics. A one-off audit style is usually conducted by a management consultant. Meanwhile performance auditing is characterised by repeated audit cycles. Thus, this finding shows that the characteristics of performance auditing conducted by the Indonesian Supreme Audit Institution are relatively different from the characteristics of performance auditing as suggested in the literature. In addition, the one-off audit style in performance auditing provides less performance accountability learning for auditees and auditors.

6.5.2.5 Monitoring performance audit recommendations

After the performance auditing activities are conducted, auditees should undertake their follow-up of performance audit recommendations. Additionally, auditors should monitor the progress of the follow-up performance auditing recommendations. The monitoring process on the follow-up of performance audit recommendations is to ensure whether auditees are implementing the audit recommendations or not. However, the process of monitoring is based purely on paper. There is no further audit to determine whether the audit recommendations are fully implemented by auditees, or not (see the previous section). One audit team leader mentioned this:

The monitoring of follow-up audit recommendations is based on paper...auditees will submit the follow-up audit recommendations report to the auditors...the problem is if the monitoring team on the follow-up of performance audit recommendations is different to the previous audit team who conducted the performance auditing...thus there is a possibility that the monitoring team just agree with what is written in the report submitted by the auditee, because the monitoring team did not conduct the performance auditing...so the question is, what is the outcome of follow-up activities if they are only based on paper? [SAI28, FGD]

6.5.2.6 Lack of attention from the parliament regarding audit reports

Another factor that influences the low rate of the implementation of the BPK's audit reports is that the parliament's focus on following up audit reports is also low. An interview with the BPK's vice chairman confirmed this problem:

In general, I feel that the BPK's audit report has not been widely used by the Parliament for its oversight function...at least according to my observation [SAI1, Interview].

Meanwhile one member of the Public Accounts Committee stated in the *SindoWeekly Post* newspaper in regard to this matter:

The BPK's report is like drowning. And I can feel the frustration from my colleagues in BPK. They work very hard but the Parliament does not care about the report [2nd May 2012].

From the principal-agent perspective, it can be seen that the Parliament (DPR) as a principal does not adequately utilise the results of the BPK's audit reports. In fact, as a principal, the DPR gives a mandate to the BPK in order to manage the financial state and performance in Indonesia's government institutions/departments. Thus, the mandate given to the BPK as an agent is not accompanied by high monitoring on the implementation of the mandate by the Parliament. This can cause the audit work performed by the agent to be discarded. Ultimately, the BPK's audit work will be a kind of routine activity that must be performed under an obligation to carry out the audit mandate. In this way, it becomes simply a ritual of performance auditing activities.

The low attention from the Parliament particularly in the performance auditing reports also leads to an inferior service provided to the public by the public institutions. This can be seen from the low level of community satisfaction with the public services provided by government institutions. The survey conducted by the Indonesian Ombudsman in 2013 regarding the public services provided by government ministries shows that many government ministries were not providing decent services to the community. From the total of 18 central government agencies surveyed, five ministries (28%)²⁴ were recorded as having poor public services; nine ministries (50%)²⁵ were categorized as having mediocre public services; and four ministries (22%)²⁶ were categorized as having sound public services.²⁷ Meanwhile, at the local government level, the Ombudsman found that the local governments also delivered poor services to the community. For instance, in Jakarta, 50 per cent of local services agencies or dinas pelayanan daerah were categorized as providing inferior services. Furthermore, in the Bali and Lampung provinces, 80 per cent of local services agencies were also categorised as providing poor services.²⁸

²⁴ The Ministry of Agriculture; The Ministry of Public Works; The Ministry of Social Affairs; The Ministry of Education and Cultural; and The Ministry of Manpower and Transmigration.

²⁵ The Ministry of Religious Affairs; The Ministry of Justice and Human Rights; The Ministry of Forestry; The Ministry of Maritime Affairs and Fisheries; The Ministry of Finance; The Ministry of Communication and Information; the Ministry of Environment; The Ministry of Communications; and The Ministry of Research and Technology

²⁶ The Ministry of Energy and Mineral Resources; The Ministry of Health; The Ministry of Trade; and The Ministry of Industry

²⁷ See the Ombudsman report at <http://www.ombudsman.go.id/index.php/en/publikasi/laporan-penelitian/category/20-tahun-2013.html> , accessed: 1 November 2013.

²⁸ See <http://www.republika.co.id/berita/nasional/daerah/13/12/08/mxh4s0-pelayanan-publik-di-bali-dalam-kondisi-lampu-merah> , accessed: 1 December 2013.

6.5.2.7 Lack of punishment in regard to the implementation of performance audit recommendations

The lack of punishment also contributes to the low implementation of performance auditing recommendations. There is no superior power from the audit institution to urge the auditee to implement performance auditing recommendations. Even though there is a regulation in the Law No. 15, year 2004 concerning State Financial Management and Accountability which states that auditees should respond to audit recommendations within 60 days, in reality it is still difficult to determine whether the recommendation has been appropriately implemented or not. One audit team leader mentioned this situation:

It is very difficult to force the auditee to implement performance audit recommendations because they often ignore the audit recommendations as there is no effect of punishment for them if they don't implement audit recommendations...They just come to us to clarify the audit recommendations only if they have been investigated by the attorney general when they are facing some cases [SAI25, interview].

One questionnaire respondent from Eastern Indonesia also mentioned the challenge of following up performance audit recommendations:

The challenge in West Papua in regard to performance audits is to wake up the local governments that performance auditing is important, so that follow-up of audit recommendations needs to be implemented. If they ignore the audit recommendations, so

what, for the performance audit has been performed? [#39MNK2, questionnaire].

Thus, the lack of punishment contributes to the perception that performance auditing is less important for auditees, as one respondent wrote:

There is a need to develop coordination with auditees because in Papua performance auditing is not considered important for them [#43MNK6, questionnaire].

An interview with a senior journalist of *Jakarta Post Daily* also highlights the lack of enforcement regarding the implementation of performance audit recommendations:

I see that the weak implementation of performance audits is because of the absence of punishment on the audit results or the weakness of law enforcement [JPD1, interview].

Therefore, in order to attract attention from auditees and the public about the importance of performance auditing and to improve the level of awareness in the implementation of performance auditing activities, the audit institutions should select 'sexy' topics for performance auditing. As one of the Principal Auditors (Echelon 1) in the Indonesian Supreme Audit Institution highlighted:

Of course performance auditing is needed but we have to select sexy audit topics...we have to manage and market the audit

results well... because in performance auditing, no one will be arrested [SAI3, interview].

6.6 SUMMARY OF THE CHAPTER

This chapter described the factors that influence the problems and challenges in the process of performance auditing in the Indonesian Supreme Audit Institution. During the current state of performance auditing activities conducted by the Indonesian Supreme Audit Institution, the problems that arise start from the existence of different mindsets about performance auditing activities and the operationalisation of performance auditing at the practical level. Regarding the resources, the Indonesian Supreme Audit Institution is facing a lack of specialisation and skills in terms of performance audit activities. The training adequacy and infrastructure is considered inadequate. In addition, auditors are struggling with very tight time frame allocations in undertaking performance auditing projects.

During the process of performance auditing activities, there are problems in developing performance auditing criteria, such as a lack of indicators in the public entities, the absence of better practice guidelines, and a lack of confidence in developing performance audit criteria among the auditors. Meanwhile the current state of the methods employed in performance auditing is still influenced by financial auditing techniques.

In terms of performance auditing reports, auditors perceived that there is standardisation in terms of the report and reaching performance auditing conclusions. There are several factors which undermine the performance auditing recommendations, namely, a lack of auditor expertise, lack of understanding of

entity business processes, a marathon style in doing auditing at the Indonesian Supreme Audit Institution, unclear performance auditing recommendations, and the difficulty of finding the cause of the problems in performance auditing.

The Indonesian Supreme Audit Institution is facing the problem of a low level of follow-up or implementation of performance auditing recommendations. The factors that affect this situation are the existence of a comfort zone among public sector officials, the fact that the mechanism of the follow-up audit recommendations is still partial, and that there are factors beyond the control of auditees. Auditors are suggesting recommendations beyond the entity's control which cannot be executed by the entity. For example, if auditors suggest an entity should create coordination with other higher level entities, this is not always possible. Other factors such as the one-off audit style performance audit in the Indonesian Supreme Audit Institution, paper-based monitoring, a lack of attention from the Parliament and lack of punishment in terms of the implementation of performance auditing recommendations also contribute to this situation.

The next chapter will examine performance auditing as a tool for public accountability. Various factors that arose from the field work are discussed.

CHAPTER 7: PERFORMANCE AUDITING AS A TOOL OF PUBLIC ACCOUNTABILITY

The previous chapter explored the current practices of performance auditing in the Indonesian Supreme Audit Institution. This chapter explores performance auditing as a tool of public accountability in Indonesia. To promote better public accountability in regard to performance auditing, several issues will be examined. They include: the need for sound foundations in financial auditing before moving to performance auditing; public participation concerns in performance auditing; the need for firm leadership in performance auditing activities; the need to strengthen the work of the Public Accounts Committee, and to reinforce the relationship between Parliament (Public Accounts Committee) and the Indonesian Supreme Audit Institution.

7.1 THE NEED FOR PERFORMANCE AUDITING

The need for performance auditing in order to promote better public services and accountability is required since performance auditing is an important building block with which to improve accountable and responsive governance of public resources (Waring & Morgan, 2007, p. 323). Schick (1998) mentioned that before moving to performance auditing, a supreme audit institution should have good financial auditing, the measurement of which is characterised by results of financial audit opinions such as unqualified financial audit opinions, which means that every single item on the financial statement is presented fairly. This kind of measurement is still focused on the financial or economic aspect and does not

venture into performance management. Thus the attention remains on financial accountability. From the auditee's perspective, it means that in order to have effective performance accountability, there should be effective financial accountability. However, in the context of Indonesia, many local governments and ministries still struggle with financial statement reports, which is problematic. An interview with the inspector general of the Ministry of Home Affairs stated that:

We have not done accountability well. We know that only 7% of local government financial statements received a good opinion from the Indonesian supreme audit institution. This means that of approximately 500 local governments in Indonesia, only 34 local governments received unqualified opinions from the Indonesian supreme audit institution. So how can we talk about performance then? How can we make a good analysis about performance? If they still have problems with the financial statement? But in the current condition, let alone performance accountability, while for financial accountability, it is still hard [MHA1, Interview].

The executive director of the Indonesian Institute of Accountants also mentioned this matter:

The problem is that many local governments are still struggling with the financial statement report opinion... so that a performance audit receives less attention from the local governments [IIA1 Interview].

Therefore, the progress of performance auditing in Indonesia is relatively slow due to less attention from the auditee and the problem with the audit opinion of financial statements. The inspector general of the Ministry of Home Affairs observed:

From my personal experience, performance auditing is still not going well even though I know that the Indonesian supreme audit institution already has the standard [MHA1, interview].

The Head of the Audit Representative Office from Maluku Province also suggested that:

If we look at our region (Maluku province)...the need for performance auditing is not as important as financial auditing...of course we need performance auditing but the situation in local government is facing several problems such as, first, the local government is not prepared with their financial statements. Second, we still need another type of audit such as a special purpose audit because there are many irregularities associated with the use of local budget funds...this has happened due to the weakness in human resources, low commitment from the top management and Standard Operating Procedure related financial matters are not running well [SAI4, interview].

The audit report also indicates this condition. The BPK report indicates a low percentage of local governments that achieved a clean opinion (unqualified

opinion) in terms of financial statement reports. Table 7.1 below shows the percentage of the BPK's opinion on local governments and government institutions.

Table 7.1
Summary of Audit opinion on Local Government Financial Reporting

Laporan Keuangan Pemerintah daerah (LKPD)				(Local Government)					
Year	Unqualified ²⁹	%	Qualified ³⁰	%	Adverse ³¹	%	Disclaimer ³²	%	Total
2011*)	67	16%	316	74%	5	1%	38	9%	426
2010	34	7%	341	66%	26	5%	119	23%	520
2009	15	3%	330	65%	48	10%	111	22%	504
2008	13	3%	323	67%	31	6%	118	24%	485
2007	4	1%	283	60%	59	13%	123	26%	469
2006	3	1%	327	71%	28	6%	105	23%	463

*) for 2011, the data is until semester 1 of 2011

Source: BPK audit report 2006 -2011

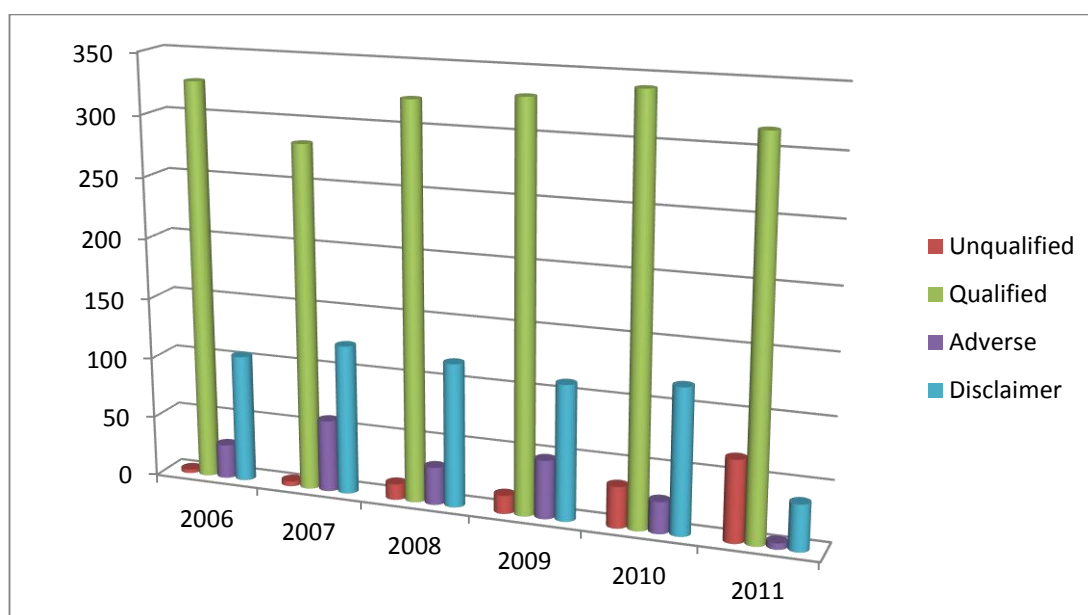


Figure 7.1. Audit opinion of the local governments

²⁹ An **unqualified opinion** means a "clean" audit report, indicating the auditor's opinion that a client's financial statements are fairly presented in accordance with agreed upon criteria of the Generally Accepted Accounting Principles (GAAP). This is the desired opinion of each company or department.

³⁰ A **qualified opinion** report can result from a limitation on the scope of the audit or failure to follow generally accepted accounting principles.

³¹ An **adverse opinion** is used only when the auditor believes that the overall financial statements are so materially mis-stated or misleading that they do not present fairly the financial position or results of operations and cash flows in conformity with GAAP.

³² A **disclaimer opinion** is issued when the auditor has been unable to satisfy him or herself that the overall financial statements are fairly presented.

From Table 7.1, it is patent that most local governments received qualified opinions (approximately 60% - 70%), and disclaimer opinion (~20%) on their financial statement reports. The percentage of disclaimer opinions is relatively high, which means auditors do not believe that the financial statement presentations are reasonable. However, ministries and government agencies received opinions on financial statements that are relatively better than those of local government. Table 7.2 reveals the BPK's opinion on ministries and government agencies.

Table 7.2
Summary of Audit opinion on Ministries and Government Agencies

Laporan Keuangan Kementerian dan Lembaga (LKKL)

(Ministry)

Year	Unqualified	%	Qualified	%	Adverse	%	Disclaimer	%	Total
2011	66	77%	18	21%	0	0%	2	2%	86
2010	52	63%	29	35%	0	0%	2	2%	83
2009	44	56%	26	33%	0	0%	8	10%	78
2008	34	41%	31	37%	0	0%	18	22%	83
2007	15	19%	31	39%	1	1%	33	41%	80
2006	7	9%	36	46%	0	0%	36	46%	79

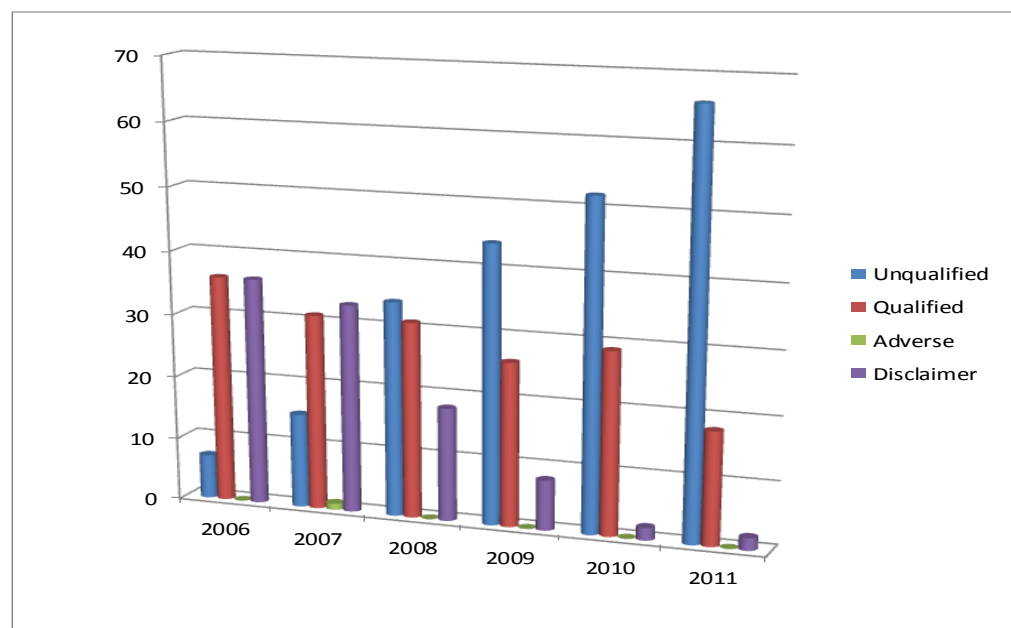


Figure 7.2. Audit opinion of the ministries and government agencies

There is an increasing improvement trend in terms of the opinions on financial reporting of ministries and agencies. The percentage of unqualified opinion audit reporting jumped from 9% in 2006 to 77% in 2011, and the percentage of disclaimer opinions declined from 46% in 2006 to 2% in 2011. This result shows a high achievement in financial accountability among ministries and agencies in Indonesia. In contrast with local governments, the result shows that financial management in local government is still low. Sri Mulyani, former Minister of Finance of Indonesia, mentioned that the reason local governments are facing this problem is due to the lack of their human resources who have accounting or finance qualifications (Kompas, 2008). This kind of problem is alarming considering that the funds managed by the government are public funds. This situation is challenging for local governments to be able to improve the quality of financial statements through refining the transparency and accountability of financial management.

There is another factor that contributes to the struggle of local governments with the financial statement auditing and that is the situation of the capability of government internal auditors or *Aparat Pengawasan Internal Pemerintah* (APIP). The level of capability of the government internal auditors is still low. Every ministry, government institution and local government has their own internal auditor unit called the APIP.³³ The survey conducted by the Institute of Internal Auditors (IIA) in 2010-2011 to assess the capability of government internal auditors (APIP) in Indonesia, shows that nationally 93.96% of APIP are still at level one (initial), a further 5.74% were at level two (infrastructure), and only one APIP was at

³³ Internal auditors are part of the audit division in every ministry/agency and local government.

level three (integrated)³⁴ [Berita Wapres, 2012].³⁵ That is, from levels one to five on the capability scale, more than 90% of government internal auditors are on the scale of one. Level one of this measurement means that the audit work conducted by the internal auditors does not show sustainable, repeatable capabilities and is dependent on individual efforts.

An interview with the inspectorate general of the Ministry of Home Affairs confirmed this situation:

I have to tell you that the capability condition of our APIP is not that good. Most capabilities of the APIP are at the initial level [MHA1, interview].

Regarding this matter, the Vice President of Indonesia also stated in *Berita Wapres* (the Indonesian Vice President News) that there was a need to improve the capability of internal auditors:

From the quality indicators of government internal auditors...it can be seen that there is still much to be done to improve the roles of internal auditors and their capacity and performance. Internal auditors are vital for boosting compliance in establishing the principles of good governance [19 December 2012].

³⁴ The IIA measures the capability of internal auditors by using the Internal Auditor Capability Model (IA-CM) framework. There are five levels of internal auditor capability in this framework: level 1 as 'initial' level, means that there are no sustainable, repeatable capabilities, just dependence on individual efforts; level 2 as 'infrastructure' level means a sustainable and repeatable internal audit process; level 3 as 'integrated' level, means internal audit and professional practice uniformly applied; level 4 as 'managed' level means that internal auditing integrates information from across the organisation to improve governance and risk management; level 5 as 'optimizing' level means that internal auditing learns from inside and outside the organisation for continuous improvement (see E. Macrae, 2010. "A framework for audit evolution", *The Internal Auditor Magazine*, pp. 68-69).

³⁵ See Berita Wapres [the Indonesian Vice President News] (2012). *Tingkatkan Kualitas Auditor Intern Pemerintah*. Retrieved from <http://wapresri.go.id/index/preview/berita/2483>, Date 5 January 2013.

Meanwhile, there is another challenge within the Supreme Audit Institution in terms of the optimisation of performance audit work. The challenge of performance auditing is that there is less than optimal performance auditing conducted by the Supreme Audit Institution. This is due to the many problems in using financial state funds in government institutions especially the lack of effective financial management. This means that the audit resources in the Indonesian Supreme Audit Institution are still preoccupied with financial audit activities which are often accompanied by the presence of corruption in the use of state money. Based on the audit reports released by the Indonesian Supreme Audit Institution or *Ihktisar Hasil Pemeriksaan Semester* (IHPS), the proportion of performance audit work in the Supreme Audit Institution on average is less than 10% of the total audit work each year. The highest percentage is financial auditing, which consists of around 90% of the total audit work.³⁶

Based on the aforementioned explanation, there are some issues which need to be resolved in order to utilise performance auditing as a means of improving performance accountability in the Indonesian public sector. Government institutions should have a sound foundation and satisfactory results in regard to financial auditing. In addition, the need to increase performance auditing activities in the future cannot be avoided as demand for better performance of public services is growing.

³⁶ Based on the audit reports from 2005 – 2011.

7.2 PUBLIC PARTICIPATION IN PUBLIC SECTOR PERFORMANCE AUDITING

Performance auditing is different from financial auditing in that one of the differences is in determining the audit object. In the financial audit it is clear that the audit object is to examine the financial statement reports provided by the auditee. Nevertheless the audit object in a performance audit is not the financial statement report. The audit object can be an organisation, a program, a project or an activity that can lead to improvement (INTOSAI, 2004).

In performance auditing, especially in determining performance audit topics, a supreme audit institution is expected to involve public participation in attracting the kind of audit topics needed by society. This kind of mechanism can improve public accountability since the society as tax payers demand good public services and infrastructure. In other words, consistent with public accountability in a democratic system, people's voices should be listened to. As Funkhouser (2012, p. 223) mentioned, performance auditing can be one of the means that enables public dialogue. When done well, performance auditing can strengthen citizenship and contribute to community dialogue by identifying problems and opportunities and enabling citizens to engage in informed debate and discussion with responsible officials about proposed solutions. The Supreme Audit Institution as a supervisory agency of the use of state funds should play a greater role in scrutinizing not only the financial accountability aspect but also performance accountability. Performance audit objects or topics should consider the direct aspects that are related to public services. Indeed, this is one aspect that differentiates between financial and performance audits. In a financial audit, there is no need for public

participation as a financial audit is more about examining the internal financial accountability of an organisation in terms of budget spending, while a performance audit examines whether such programs or projects can account for performance. In addition, there are different mechanisms for financial and performance audits due to their nature, as mentioned in Chapter 2.

This section examines what the auditors' perceptions are regarding the need for public dialogue in performance auditing. From the questionnaire, it was found that, in general, auditors agreed that a public dialogue is needed when conducting performance auditing, especially when determining audit topics. The questionnaire result shows that 10.89% of respondents strongly agreed, and 47.08% of respondent agreed with the need for public dialogue in determining performance audit topics. With the average mean of 3.56, this shows that SAI needs to develop a public dialogue with some elements of society.

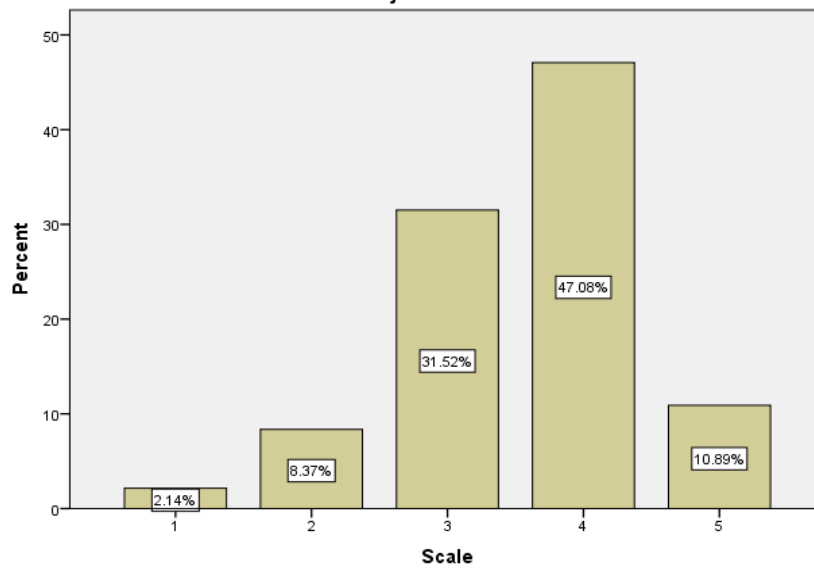
Table 7.3
Perceptions of Public Participation

	MEAN
	15 Strongly Disagree Strongly Agree
To what extent is a public dialogue necessary in determining a performance audit object in BPK	3.56

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
C12	514	1	5	3.56	.872	-.563	.108
Valid N (listwise)	514						

Q: To what extent a public dialogue is necessary in determining a performance audit object in BPK?



Source: primary data

However, there is selectivity in terms of the society's elements that can be referred to as a resource when determining audit topics or objects. Not the entire component of community is considered as a source of public dialogue. Based on Table 7.4, it can be seen that some elements of society such Non-Government Organisations (NGOs), Community Leaders, Mass media and community organisations are not fully considered participants in public dialogue when determining performance audit topics, with average acceptance ranging from 2.68 to 2.93. However, auditors are agreed that other elements, such as experts, the representative government agencies, and parliament need to be involved in determining performance audit objects, with the average acceptance ranging from 3.40 to 3.57.

Table 7.4
Perceptions of the Involvement of the External Parties

	MEAN
	1.....5 Strongly Disagree Strongly Agree
To what extent do external parties need to be involved in determining a performance audit object in BPK:	
• Non-Government Organisation (NGO)	2.68
• Community Leaders	2.88
• Mass media representative (electronic/print)	2.93
• Experts	3.57
• Community organisations	2.75
• Represented Government agency (i.e. National Planning Agency, State Secretariat, UKP4)	3.55
• Parliament	3.40

Source: primary data

This shows that there is a different expectation from auditors in terms of the elements of society who need to be involved in public dialogue with SAI to conduct performance audits. The reason the auditors are fastidious in choosing particular elements of society as participants in the public dialogue is that auditors are concerned that the interests of those elements will be at the forefront and will affect any objective stance in the representation of public needs. A respondent mentioned that:

I don't agree that we have to involve other parties such as NGOs or community organisations because I don't trust their independence and neutrality...they have their own interests for their organisations; therefore I prefer to invite a party who is knowledgeable, such as experts or government representation [SAI19, Interview].

Another respondent said that:

A performance audit is intended to examine public services matters so that it needs to dig up an audit area or topic by means of public dialogue [#447PST134, Questionnaire].

The selectivity concerns of the need for public participation in a performance audit were also expressed by the inspector general of the Ministry of Home Affairs:

Indeed, in theory this is necessary, but we must be clear first about which of the public needs to be involved. Actually we need society but with a note that they also understand auditing. If they don't understand auditing, so what is this for? This means that public participation could be needed in auditing, with a certain condition about whether people understand performance auditing or not [MHA1, interview].

Interestingly, a senior journalist from *Kompas* daily news also disagreed with the involvement of mass media in determining performance audit objects. He suggested allowing the Parliament to choose the audit area if there were a case to investigate:

What do you think about the involvement of the community in determining audit objects? Is that necessary?

I don't agree. Leave it to the parliament. The parliament has the power to ask for the data from the government because they

know more if something goes wrong. The parliament can ask BPK to conduct audits. Involving the community can be pleonastic and waste resources. Instead it can lead to the wrong priority of scale [JPD1, Interview].

The executive director of Community Empowerment Recovery of Indonesia, Titik Hatini (cited in Kristianipost, 2006) mentioned that the low public trust in community and non-government organisations is *due to many NGOs or community organisations having no clear vision and mission and they do not know the issues or the role of the community that can be utilised* (italics added). In a national seminar about the health of Indonesian civil society, Professor Muchtar Masoed from Gajah Mada University claimed that:

The public trust in community organisations or non-government organisations in Indonesia is still low. This perspective could be true due to many NGOs whose roles are not at the grassroots, thus people do not know the exact roles of NGOs. Also, many NGOs are very exclusive [Suara Pembaharuan, 2006 cited in Kristianipost, 2006].

The selectivity of the NGOs' participation is also mentioned by the Vice Chairman of the Indonesian Supreme Audit Institution:

Of course we have to choose (voices from NGOs)...However, NGOs are not sterile of interest...as well as the parliament... [SAI1, Interview].

Therefore there are certain conditions for involving public participation in determining performance audits in Indonesia, in which there should be a pre-condition that a society should first understand performance auditing and the NGO should show competency in gaining the trust of auditors. However, the inclusion of stakeholders' voices is necessary in the era of democracy. Performance audits that are to improve public administration systems thus have to embrace stakeholders' voices in order to have a stronger impact.

Even though there is selectivity in regard to the involvement of the community in determining the objects of performance auditing, the inclusion of public participation to improve accountability cannot be avoided in democratic government. This is because the degree to which civil society is able to articulate demands related to accountability and honest government, to mobilise support, and to communicate its demands to government are likely to have a significant impact on strengthening public accountability (Schacter, 2005). This view is also recognized by the Vice Chairman of the Indonesian Supreme Audit Institution:

I think the input from society is needed...it is important...public participation is essential and we are open to it [SAI1, Interview].

A senior journalist mentioned that:

The BPK's audit reports are usually used as a reference by newspapers or magazines who want to conduct a further investigation on a case as material news [JPD1, Interview].

Therefore the mass media also have a role in the following-up of any audit findings which the Supreme Audit Institution may find.

7.3 LEADERSHIP IN PERFORMANCE AUDITING

Another factor that influences the effectiveness of performance auditing as a tool to improve public accountability is that of leadership. If there is no strong leadership and willingness to improve the performance of entities, the attendant improvements and changes will be slow. A Deputy Director of the Presidential Working Unit on Monitoring and Oversight mentioned that:

Leadership is the most influential factor. The tone at the top is critical because if the high ranking leaders of entities see that a process in an organisation is something that is to be audited and that process needs to be corrected, thus performance auditing will be run...[PWM1, interview].

A member of parliament stated:

I can see that there is no strong leadership [PAR3, Interview].

One senior auditor offered:

There should be a strong direction from top management on what to do in the performance auditing project and any recommendations that will be given [SAI18, interview].

Consequently, in order to reap the benefits of performance auditing, the leadership factor is crucial. It can improve the implementation of the performance audit recommendations.

7.4 THE WORK OF THE PUBLIC ACCOUNTS COMMITTEE (PAC)

This section investigates the nature of the Indonesian Public Accounts Committee and its work relationship with the Supreme Audit Institution. The intention of the Public Accounts Committee in terms of performance audit reports is also explored. The role of the Public Accounts Committee is important in order to strengthen the work of the Supreme Audit Institution and promote public accountability in a democratic system. Hence, the examination of the work of the Public Accounts Committee and their relationship with the Supreme Audit Institution, especially in following up the performance audit reports, is significant. In order to examine the PAC's work, there are several questions that need to be addressed: What is the status of the PAC and what is its set up? How are the chairman and members selected? What are their working practices? How powerful are they? What is the relationship between the PAC and the Indonesian Supreme Audit Institution? Finally, what is the role of the PAC in ensuring the accountability of government?

7.4.1 STATUS OF THE PUBLIC ACCOUNTS COMMITTEE

The committee was established under the Law No. 27, year 2009 on the Composition and Position of the Parliament.³⁷ The tasks of the Committee are: (1)

³⁷ In Indonesia it is called as *Undang-Undang tentang Susunan dan Kedudukan MPR, DPR, DPD and DPRD (MD3)*

to scrutinise the audit reports of the BPK and transmit the results to the Commissions in the Parliament;³⁸ (2) to follow-up the discussion on the findings of the BPK's audit reports at the request of the Commissions; and (3) to give input to the BPK on matters of the annual audit work plan, audit impediments, as well as the presentation and quality of reports.

7.4.2 SETTING UP THE PUBLIC ACCOUNTS COMMITTEE

Under the constitutional system, the Public Accounts Committee is set-up as a complementary body of the Parliament to oversee the accountability of the government in using public funds. Currently, the PAC consists of nine members including a chairman and vice chairman. The Committee is equipped with a secretariat office to support its administrative work and has seven staff. In addition, it also has five experts to assist the office to analyse and review the audit reports from the Supreme Audit Institution. From the interview, it was confirmed that the Committee is lacking in human resources as they have to analyse on average more than 1,600 audit reports per year. The resources do not fit with the responsibility of the Committee, and as a consequence, its effectiveness could be impaired.

³⁸ In the period 2009-2014, the Parliament (DPR) had 11 commissions with the scope as follows: * Commission I, in charge of defence, foreign states, and information. * Commission II, in charge of rules of the state, regional autonomy, the state apparatus, and agrarian programs. * Commission III, in charge of law and the rule of law, human rights, and peace. * Commission IV, in charge of agriculture, horticulture, forestry, marine, fisheries, and food. * Commission V, in charge of communication, telecommunications, Public Works, public housing, rural development and the left. (What does the left mean here?)* Commission VI, in charge of trade, industry, investment, cooperatives, small and medium enterprises, and state owned enterprises. * Commission VII, in charge of energy, mineral resources, research and technology, and the environment. * Commission VIII, in charge of religious affairs, social affairs and empowerment of women. * Commission IX, in charge of population, health, manpower and transmigration. * Commission X, in charge of education, youth, sports, tourism, arts, and culture. * Commission XI, in charge of finance, national development planning, banking and non-bank financial institutions.

7.4.3 THE POWER OF THE PUBLIC ACCOUNTS COMMITTEE

The Indonesian Public Accounts Committee, formed at the beginning of the membership of the House of Representatives, may be assisted by accountants, experts, financial analysts and researchers. Its total composition and membership is of at least seven with a maximum of nine people, at the proposal of the factions at the beginning of the hearings of the House of Representatives. Public accountability bodies also exist in other countries, for instance in the United Kingdom, they are called the Public Accounts Committee; in Australia, the name is the Joint Committee of Public Accounts and Audit; and in India, they are called the Committee on Public Accounts.

In the UK, for instance, the Public Accounts Committee does not oversee the creation and performance of government policy, but only concentrates on the state's financial oversight according to the criteria of value for money (VFM) and the principles of economy, effectiveness and efficiency (Kompas, 2012b). In Australia, it generally tends to avoid the explicit examination of government policy, by convention. However, in New South Wales, the Public Accounts Committee is prohibited under legislation from investigating or reporting on matters of Government policy unless the matter has been expressly referred to it by the Legislative Assembly or by a minister (Jacobs & Moloney, 2007).

In terms of the examination of a policy, in general the Public Accounts Committee does not investigate the formulation of a policy but rather the administrative policies of the government (McGee, 2002; Jacobs & Moloney, 2007). This role also exists in Indonesia where the scope of the PAC's responsibility is

mostly to scrutinise the audit reports from the Auditor General. It does not have authority to examine and make judgments on how policy behind a program is formulated. The Law No.27, year 2009, as an umbrella for the establishment of the Indonesian Public Accounts Committee, does not provide a mandate to the committee to scrutinise the formulation of government policy. The power of the Indonesian Public Accounts Committee is limited to conducting reviews and analysis of the audit reports, since the position of the committee is purely as a Parliamentary support system. Therefore, unless there is a mandate or evolving practice which allows otherwise, the Indonesian Public Accounts Committee would not question the policy underlying government decisions.

7.4.4 SELECTION OF CHAIRMAN AND MEMBERSHIP

The common practice in the Indonesian Parliament in terms of the election of Parliamentary committees is based on a consensus of parties in the Parliamentary factions.³⁹ The party that has the greatest number of seats in will usually be the leader of the Parliament. In the 2009 election, the Democratic Party won the election by having the most seats in Parliament.⁴⁰ Therefore, based on consensus, the Parliamentary Chair belongs to the Democratic Party as the winner of the election. Usually there is a bargaining stage that occurs for the position of Parliamentary leadership between the winning party and the runner-up. This kind of

³⁹ In the Indonesian Parliament there are 11 committees as complementary tools of Parliament (see Article 81, Law No. 27, year 2009 on the Legislative Institution)

⁴⁰ In 2009, there were nine parties that won the national election namely (1) Partai Demokrat (Democrat Party); (2) Partai Golongan Karya (The Functional Group Party); (3) Partai Demokrasi Indonesia Perjuangan (Indonesian Democratic Party of Struggle); (4) Partai Keadilan Sosial (Prosperous Justice Party); (5) Partai Amanat Nasional (The National Mandate Party); (6) Partai Persatuan Pembangunan (the United Development Party); (7) Partai Kebangkitan Bangsa (The National Awakening Party); (8) Partai Gerakan Indonesia Raya (The Great Indonesia Movement Party); (9) Partai Hati Nurani Rakyat (The People's Conscience Party).

consensus is influenced by the Indonesian ideology of *musyawarah mufakat* or consensus agreement, which is stated in Statement 4 of Pancasila.⁴¹ It is also reflected in Law No. 27, year 2009 on Legislative Institutions which states that in the event of consensus agreement on the selection of the Parliament leadership being reached, there should be no direct voting. Therefore, in the Indonesian parliamentary system, deliberation should come first, rather than direct voting. However, this system is not free from critique. It is argued that there is no clear cut rule in terms of the allotment of the parliamentary leadership and committees.

The parliamentary system, based on deliberation, also influences the election of the chairman and vice chairman of the Indonesian Public Accounts Committee. Factions in the parliament propose their member representatives to be the PAC members. However, elected members still serve as members of Parliament for their factions. The chairman and vice chairman of the PAC are elected based on consensus amongst the factions, not based on direct voting amongst the members.

One member described this:

In our system, every committee in the Parliament is divided, based on the consensus from the parties and factions in the Parliament. For example, party A has an allotment as the chairman in a Parliamentary committee while party B has an allotment as the chairman in another committee. Now, the Democratic party has many chairmen in the Parliamentary

⁴¹ Indonesia has national ideology which called Pancasila (panca means five; sila means statement). The statements of Pancasila is as follows: 1) Belief in the one Supreme God; 2) Just and civilized humanity; 3) The unity of Indonesia; 4) Democracy led by the wisdom of deliberations among representatives, and 5) Social justice for the whole of the people of Indonesia.

Committees because it is a big party and won the election. In terms of the Public Accounts Committee, the representative from the Gerakan Indonesia Raya (Gerindra) party was given the allotment as chairman and the representative from the Democratic Party was given the position of vice chairman. This result is based on meetings between factions in Parliament and consensus amongst them [PAR2, Interview].

In addition, the head of the secretariat of the PAC noted:

There are no clear rules about who will be the chairman and vice chairman of the Public Accounts Committee. It is all based on the agreement only between the factions themselves and no voting among members of the Public Accounts Committee to determine who are the chairman and vice-chairman [PAR8, Interview].

This kind of election of the chairman is relatively different from other models on how the chairman of the Public Accounts Committee is elected. Referring to Pellizzo and Stapenhurst (2012), there are two principal models. The first is a British model in which the chair of the Public Accounts Committee is assigned to a member of parliament (MP) from the Opposition, and the second model is an Australian model in which the chair of the Public Accounts Committee is assigned to an MP from the Government. In the UK for example, the Public Accounts Committee members usually consist of 16 persons who are appointed proportionally, based on the number of seats in Parliament. By convention, the Chair of the Public Accounts Committee is always held by members from the

opposition party. This convention is based on the consideration that the function of the PAC is to supervise the use of funds by the state government, which is the election-winning party. In other countries such as Australia, the chair of the Public Accounts Committee is appointed by the members of Parliament of the government.

7.4.5 WORKING PRACTICES

The pattern of working practices in the Indonesian Public Accounts Committee differs from that of other countries. To support its functions, the committee holds meetings twice a week every Tuesday and Thursday. The regular PAC meetings usually discuss the progress reports submitted to the Parliamentary Commissions, the planned visits to regional districts, and other administrative matters. However, the meeting attendance of the members has also become an issue as there is overlapping membership. From the interviews, it was found that the Public Accounts Committee members are also members of the Parliamentary Commissions. This could affect the impartiality of the Committee Members.

Access to the committee's publications and reports is limited. The current committee website does not provide sufficient information regarding the reports produced by the Committee. As a comparison, the UK Public Accounts Committee publishes their reports on the website and posts their inquiry meetings on the Internet (YouTube), so that the public can easily obtain information related to the committee's work.

The committee receives the audit reports of the Indonesian Supreme Audit Institution from the Chairman of the Parliament. In practice, the expert staff analyse

and examine the reports based on various considerations and submit the analysis report to committee members. Then, the report is evaluated by the committee and, if agreed, the analysis of the audit is distributed to the commissions in the Parliament. There are eleven commissions in charge of their respective fields. Indeed, the committee does not report all the audit findings of the Indonesian Supreme Audit Institution as, on average, the Supreme Audit Institution has around 1,600 audit findings in its reports each year, thus, the committee's human resources are limited. The Public Accounts Committee selects the most important audit findings based on several criteria. The criteria applied in selecting the audit findings of the Indonesian Supreme Audit Institution to be followed up by the Committee are that: (1) the audit findings have gained a large amount of public attention; (2) the findings need to be resolved due to the possibility of limited time and budget; (3) the findings are detrimental to the state/region; and (4) the findings tend to occur repeatedly as a result of the lack of attention or responsiveness of the policy/financial manager.

In regard to the reporting and follow-up of the reporting mechanism, there are some problems that need to be resolved. The problems deal with: (1) the limitation of the committee's authority and (2) the low follow-up rate of the Public Accounts Committee reports by the Parliamentary Commissions.

The current mechanism limits the power of the committee. The committee must consult with the Parliamentary Commissions in order to make an inquiry to the auditees. As a comparison, the Public Accounts Committees in the United Kingdom, Australia and New Zealand have independent power in making inquiries

to auditees and related parties. In New Zealand, for instance, the Public Accounts Committee enjoys high power status because of its position. The committee is able to set up its own inquiries (without reference from the House) and the chairman comes from the opposition members. The committee also enjoys the support of staff from the Legislative department as well as the Audit office (McLeay, 2001).

The follow-up by the commissions of the committee reports is low. Sometimes, the Parliamentary Commissions are not responsive to the reviews of Supreme Audit Institution's audit reports submitted by the Public Accounts Committee. The overlapping of the committee membership with that of the Parliamentary Commissions also creates a potential conflict of interest. For instance, based on the Public Accounts Committee report in 2010, the researcher found that only 5 out of 11 commissions did follow-up on the committee reports by making inquiries to the auditees/government institutions. A Public Accounts Committee chairman stated that sometimes the reviews and recommendations from the committee are neglected by their parliamentary colleagues (MetroTV, 20 May 2013). One of the committee members said in the *Jurnal Parlemen* (2013) that:

During this trial period, we have conducted a review on the Indonesian Supreme Audit Institution's Audit reports from semesters 1 and 2 of the year 2012, including the financial audit reports, performance audit reports, special purpose audit reports and Central Government Financial Statement report. Unfortunately, our recommendations have not been acted upon yet, or not acted upon by the Commissions in the Parliament.

In addition, the Public Accounts Committee chairman stated this problem in the *Kompas* newspaper (2012a):

Of course, we expect that the Parliamentary Commissions do the follow-up audit reports thoroughly. Not only writing a letter to the auditees but also doing something real if there is a potential loss to the state and returns it to the state. The problem is that the Parliamentary Commissions often do not take any actions or less action in undertaking the follow-up audit reports. So the results are not clear.

This situation is alarming in regard to the function of the committee. It could be detrimental to the committee's role of overseeing the accountability of the government. The existence of the committee could well be meaningless without the support of the Parliamentary Commissions, since the power lies in the Commissions' hands. However, this has happened due to the power limitation of the Committee, as stated in the Law No. 27, year 2009 on the Composition and Position of the Parliament. The Law stated that, at the request of the Parliament Commissions, the Public Accounts Committee could follow up the results of the Parliament Commissions' discussions on the Supreme Audit Institution's audit reports findings. Thus, the power still lies with the Parliament Commissions and not with the committee. In terms of democratic society, the insensitivity of the Parliament to the reports of the committee will erode the value of public accountability. Therefore, if the Parliament does not function properly, then society will pay the cost.

7.4.6 THE RELATIONSHIP BETWEEN THE PUBLIC ACCOUNTS COMMITTEE AND THE INDONESIAN SUPREME AUDIT INSTITUTION

The relationship between the Public Accounts Committee and the Supreme Audit Institution was formally stated in the Law No.27, year 2009. This law noted that the Public Accounts Committee has the task of undertaking scrutiny of the audit reports of the Supreme Audit Institution and of providing input to the Supreme Audit Institution regarding the annual auditing work plan, auditing impediments, as well as the presentation and quality of reports. The relationship between the committee and the Supreme Audit Institution is important as they have intertwined connections in practice. The performance of the committee cannot be separated from the performance of the Supreme Audit Institution as it relies upon the quality of audit reports submitted by the Supreme Audit Institution. Instead, the Supreme Audit Institution needs the committee to work effectively in order to ensure that the audit findings have been taken seriously by the government.

In the field work, it was found that there were some issues in regard to the relations of the Public Accounts Committee and the Supreme Audit Institution. The issues were related to: (1) The inquiry mechanism of the Public Accounts Committee; (2) Parliament's attention to the Indonesian Supreme Audit Institution's Audit Reports being low; (3) The Parliament focusing on fraud and corruption; (4) Inadequate capacity of the human resources in the Public Accounts Committee; and (5) Imbalance of institutional capacity between the Public Accounts Committee and the Supreme Audit Institution. The following section discusses these matters.

7.4.6.1 The Inquiry mechanism of the Public Accounts Committee

Compared with other Public Accounts Committees in developed countries such as Australia, which has a strong mechanism in terms of inquiries into the results of audit reports, in Indonesia the mechanism is still weak. There is no established formal regular system inquiry to follow up the audit findings report. This has happened due to the power limitations of the Indonesian Public Accounts Committee as a result of the Parliament's Law.

The limitation is that the Public Accounts Committee should consult the Parliament Commissions in order to respond to the audit report of the Supreme Audit Institution, for example, to inquire into an institution or department. The Parliament Law No. 27, year 2009⁴² regarding the role and authority of the Public Accounts Committee mentioned that:

The Public Accounts Committee is in charge of following up the Commissions' discussions in regard to the audit reports at the request of the Commissions [article 113(1c)]

This condition is somewhat different from other Public Accounts Committees in other countries such as Australia, in which they have greater power to make inquiries into the audit reports of the Auditor General independently. In Australia, the Public Accounts Committees have the ability to initiate their own inquiries (Jacob, Jones & Smith, 2010).

⁴² In Indonesia it is called Undang-Undang tentang Susunan dan Kedudukan MPR, DPR, DPD and DPRD (MD3).

7.4.6.2 Attention of the Parliament to the Supreme Audit Institution's Audit Reports

The Indonesian Parliament receives audit reports from the Indonesian Supreme Audit Institution every semester. The report is called *Laporan Hasil Pemeriksaan Semester* (Hapsem) or the semester audit report. Before the establishment of the Public Accounts Committee in Indonesia in the year 2009, the Parliament received the audit reports from the Indonesian Supreme Audit Institution and distributed these to the Commissions in the Parliament to be analysed. There are 11 Commissions in the Indonesian Parliament that have the responsibility to oversee government institutions. After the establishment of the Indonesian Public Accounts Committee, the Parliament delegated authority to examine the audit reports to the Public Accounts Committee. Thereafter, the committee submits their summary on the examination of the audit reports to each commission in the Parliament to be followed up with the Executive. When the commissions do not take any action on the report submitted by the Public Accounts Committee, then the committee can take over to do a follow-up. However, unlike in Australia where the Public Accounts Committee can do follow-up audit reports without permission from the Commissions of the Parliament, in Indonesia, the permission must be gained from the Parliament Commissions before following up the Indonesian Supreme Audit Institution's audit reports. The progress of follow-up audit reporting by the Parliament is slow as the Commissions in the Parliament are rarely interested in the audit reports. One member of the Public Accounts Committee stated in the *Warta BPK* (2011, p. 35):

I feel sorry for BPK because their hard work gets less response from the Parliament (DPR) so that the problem is in the Parliament (DPR).

From the Parliamentary side, the main reason that the impact of the Supreme Audit Institution's work is not maximized is that the Parliament's responses to Supreme Audit Institution's work are also not maximized in following up the audit findings. Only two Commissions out of eleven seriously follow-up the Public Accounts Committee recommendations through the establishment of a Working Group to make inquiries with auditees (BAKN, 2014).⁴³ One member of the Indonesian Public Accounts Committee mentioned in the *Warta BPK* (2011, p. 36) that:

There is an internal problem in the Parliament after the constitutional amendment. After the amendment, Parliament has great authority; however, they have responded to this slowly. The internal reform of Parliament is running slowly; therefore there is a bias in maximizing the great power provided by the Constitution.

7.4.6.3 Parliamentary focus on fraud and corruption

The current focus of the Public Accounts Committee and the Parliament is more on the audit reports that relate to fraud and corruption findings than performance audit findings. This is easy to find in the financial and special purpose audits reports. Corruption is still the public enemy in Indonesia and cases of

⁴³ See BAKN (2012). Peran Komisi DPR Lamban Respon Hasil Telaahan BAKN. Accessed: <http://www.dpr.go.id/id/berita/bakn/2014/mar/05/7731/peran-komisi-dpr-lamban-respon-hasil-telaahan-bakn>, date: 4 March 2014.

corruption are rampant in the mass media from day to day. The current concept of public management is also to look at the value for money aspect, which is represented in performance audits. Therefore, to a large extent the committee and the Parliament are focusing on financial accountability rather than performance accountability. The perception that the Parliament focuses more on the fraud and corruption related audits is expressed by the Principal Auditor of the Indonesian Supreme Audit Institution:

The Parliament does not want this problem (performance audit findings)...this is not a sexy topic for them...they would prefer the audit findings on corruption, fraud and so on [SAI3, interview].

The emphasis on the fraud aspect could disempower the work of performance auditors. As the general objective of performance auditing is to improve the system in the audited organisations, especially to enhance the public services and infrastructure, thus, there is a need to provide more attention to performance audit reports.

To follow up this statement, this research investigated the reports from the Public Accounts Committee regarding the analysis of Supreme Audit Institution audit reports that are submitted to the Commissions in the Parliament. Based on the annual report for 2010 and 2011 released by the Public Accounts Committee, there were some considerations in regard to the selection of the audit findings to be followed up, such as:

- Findings that gain major public attention

- Findings that need to be resolved because of the possibility of limited time and budgets
- Findings that are very detrimental to the state/region
- Findings that tend to occur repeatedly because of the lack of attention or responsiveness of the policy/financial manager.

The results are presented in the Table 7.5.

Table 7.5

Results of the Public Accounts Committee's monitoring over the follow-up of BPK's audit reports on semester 1, 2010 at Commissions of Parliament During the third trial session year 2010-2011

Commissions	Entity's problem follow-up by the Commission	Follow Up	Type of Audit
Commission I	Commission I examined the following problems at the Ministry of Foreign Affairs <ul style="list-style-type: none"> - Non-tax revenue - Assets of Ministry of Foreign Affairs IDR 568bn - No guidance in terms of the determination of exchange rate 	Yes	Special purpose audit
	Ministry of Communication and Information <ul style="list-style-type: none"> - Non-tax revenue IDR 15bn 	Yes	Special purpose audit
	The National Intelligence Agency <ul style="list-style-type: none"> - Removal of Assets IDR 11,9bn 	Yes	Financial audit
Commission II	The National Land Agency <ul style="list-style-type: none"> - Review on the financial statements audit 	Yes	Financial audit
	Ministry of the State Secretariat <ul style="list-style-type: none"> - Procurement of aircraft hangars at Halim Perdana Kusuma airport IDR 2,61bn - Procurement of intensive care unit (ICU) at Gatot Subroto hospital IDR 6,51bn - Asset land IDR 507,35bn 	Yes	Financial audit
	Ministry of Home Affairs <ul style="list-style-type: none"> - Grant IDR 4,1bn - Social assistance funds IDR 1,8bn 	Yes	Financial audit
Commission III	Attorney General <ul style="list-style-type: none"> - Procurement contract IDR 1,3bn - Confiscated goods IDR 10,5bn - Assets at prosecutor's office IDR 3,2bn 	No	Special purpose audit
	The National Narcotics Agency <ul style="list-style-type: none"> - Grant IDR 1,3bn 	No	Financial audit

Commissions	Entity's problem follow-up by the Commission	Follow Up	Type of Audit
	Judicial Commission - Grant IDR 1,7bn	No	Financial audit
Commission IV	Ministry of Forestry - Forest lease permit IDR 2,1bn - Fund management building IDR 151,1bn - Fixed assets (Land) IDR 33,7bn	Yes	Financial audit
	Ministry of Maritime affairs - The fictitious development activities IDR 211 million	Yes	Financial audit
Commission V	Ministry of Transportation - Asset land IDR 41bn	No	Financial audit
	Ministry of Rural Development - Service vehicles IDR1,1bn - Spending expenditure IDR 366bn - Listed items without any physical existence IDR 4bn	No	Financial audit
	Ministry of Public Housing - Fictitious business travel IDR 3,4bn	No	Financial audit
	The Meteorology, Climatology and Geophysics Agency - Fictitious airline ticket IDR 2,7bn	No	Financial audit
Commission VI	Ministry of Home Affairs - Grants fund IDR 27,1bn	No	Financial audit
	Savings and Retirement Insurance Company - Representative expenses IDR 1,9bn	No	Financial audit
	Indofarma Company - Legal aid services IDR 2,6bn	No	Special purpose audit
Commission VII	Ministry of Environment - Review on the financial statements audit	Yes	Financial audit
	The Indonesian Institute of Science (LIPI) - Service vehicles	No	Financial audit
Commission VIII	Ministry of Women's Empowerment - Unclear expenditure expenses IDR 6,02bn	Yes	Financial audit
	Ministry of Religious Affairs - Non-tax revenue IDR11,57bn - Non-tax revenue IDR 4,6bn - Late deposited IDR 1,4bn	Yes	Special purpose audit
Commission IX	Ministry of Health - Grant IDR 514bn - State levies IDR 15,7bn	No	Financial audit
	Ministry of Manpower and Transmigration - Four wheeled service vehicles used by	No	Financial

Commissions	Entity's problem follow-up by the Commission	Follow Up	Type of Audit
	officials and employees who retired, more than one		audit
Commission X	Ministry of National Education - Expenditures expenses IDR 3,9bn	No	Financial audit
Commission XI	Ministry of Finance - Capital expenditure IDR 11,78bn - Actual payment IDR 3,42bn	No	Financial audit

Source: the data is compiled from the PAC reports (year 2010-2011)

From Table 7.5, it can be seen that the focus of the Public Accounts Committee is still on irregularities in financial matters. Thus, there should be more attention by the Public Accounts Committee on the performance audit results to promote performance auditing as a tool for better accountability. The Public Accounts Committee should not merely focus on financial aspects but also on performance aspects.

7.4.6.4 Inadequate capacity of human resources in the Public Accounts Committee

The current condition of human resources in the Public Accounts Committee could be improved as the capacity of human resources is the key to achieving organisational goals. Currently, the committee consists of nine members with seven staff on the secretariat and five expert staff. They are required to work on approximately 1,600 audit reports, thus there is imbalance in capacity between the resources and the responsibility. The responsibility of the committee for handling a large amount of audit reports is considered enormous. Therefore, there should be improvements in the quantity and quality of human resources in the Public Accounts Committee in order to maximize its capacity. For instance, with a view to enhancing the capacity and learning curve of the two institutions, there is a need to create internships or secondment programs for the officers of those institutions.

The staff of the committee could do internships in the Supreme Audit Institution and vice versa.

7.4.6.5 Imbalance in institutional capacity between the Public Accounts Committee and the Supreme Audit Institution

After the financial reforms in Indonesia, the Indonesian Supreme Audit Institution has expanded its institution by establishing a branch in every province of Indonesia. The Supreme Audit Institution has a headquarters in Jakarta and 33 branches in every provincial capital. Every province has its own local parliament. All reports from the branches are submitted to the Local Parliament as well as to the Supreme Audit Institution headquarters to be compiled as semi-annual audit reports. However, the Public Accounts Committee only has a small office in the Parliament with few staff. The interviews confirmed that there is no committee like the Public Accounts Committee at the provincial level. Therefore, the Indonesian Supreme Audit Institution's representative office is related directly to the local Parliament. To some extent, the local Parliament also has little interest in the audit reports submitted by the Indonesian Supreme Audit Institution's representative office. Therefore, it is considered necessary to establish a local Public Accounts Committee representative office in each local Parliament in order to match the capacity of the work of the Supreme Audit Institution.

7.4.7 ROLE OF THE PUBLIC ACCOUNTS COMMITTEE IN ENSURING GOVERNMENT ACCOUNTABILITY

Accountability, value for money and transparency in the use of public funds are essential elements of democratic government. The Supreme Audit Institution

provides a contribution through an independent review, information and performance presented by the Executive. The Supreme Audit Institution exists to ensure freely and independent reporting and that the audit findings and recommendations are given due attention and are acted upon. The process of public accountability cannot be separated from the Parliament (that is, the Public Accounts Committee) which provides another mechanism in the Indonesian public sector. Consequently there should be a balanced system of accountability of government between the Supreme Audit Institution and the Parliament.

In some countries which have already established the work of their Public Accounts Committees such as the UK, Australia and NZ, the PAC is seen as an institution that has high power and authority in terms of monitoring the audit reports of the Supreme Audit Institution. However, since the Indonesian Public Accounts Committee is still in the infancy stage, there is a chance to improve the position of the PAC in the Indonesian accountability system and reinforce the relations between the Parliament (the PAC) and the Supreme Audit Institution.

7.5 SUMMARY OF THE CHAPTER

This chapter has indicated the need for performance auditing as a tool to promote public accountability. However, the importance of performance auditing is still hindered, as it considered less important than financial and special purpose audits. This has happened as the central and local governments are still struggling with their financial statements that are subject to financial auditing. Thus, that which Schick (1998) argues -that before switching to performance auditing there should be a firm financial audit process- could well be true, especially where the

lack of financial accountability is prevalent. In addition, the findings show that the concern of Parliament is still focused on findings related to financial audits and special purpose audits regarding fraud and corruption. This is confirmed from interviews and the concerns of the Public Accounts Committee regarding the Indonesian Supreme Audit Institution's audit reports.

The next chapter will discuss the reframing of the performance auditing concept and practice based on the previous empirical findings in Chapters 5, 6 and 7. To critique the current practice of performance audit, an analytical tool, namely the Critical Systems Heuristics, is applied. Then, a SWOT (Strengths Weaknesses Opportunities Threats) analysis is developed to identify and categorise significant internal factors (strengths and weaknesses) and external factors (opportunities and threats).

CHAPTER 8: DISCUSSION AND ANALYSIS

To improve public accountability and to enable it to consider broader dimensions, performance auditing needs to be reframed in terms of the conceptual aspects, the practice and the relationship between the audit institution and the Parliament. This chapter discusses the results of research based on the empirical chapter, in regard to the evaluation of the performance auditing process conducted by the Indonesian Supreme Audit Institution, and how performance auditing influences the public accountability process in the Indonesian public sector. Based on empirical findings in previous chapters, this chapter discusses: (1) reframing the expanded concept of performance auditing; (2) reframing the current practices of performance auditing conducted by the Indonesian Supreme Audit Institution; and (3) reframing the relationship between the Indonesian Supreme Audit Institution and the Parliament (Public Accounts Committee). The discussion reflects the contribution of the work of performance auditing to public accountability in the Indonesian public sector context. A discussion using the lens of Critical Systems Heuristics (CSH) is presented in this chapter. In addition, a SWOT analysis is also discussed before the summary.

8.1 REFRAMING THE CONCEPT OF PERFORMANCE AUDITING TO ADDRESS ENVIRONMENTAL SUSTAINABILITY, FRAUD AND THE PROFILE OF PERFORMANCE AUDITORS

8.1.1 THE INCLUSION OF ENVIRONMENTAL SUSTAINABILITY

The survey result from the field work shows that there is acceptance from the auditors in regard to the inclusion of an environmental aspect in performance auditing activities. This shows that auditors are aware that there is a need to reflect upon the environmental aspect in performance auditing. Meanwhile, the current state of performance auditing objectives only considers the three E's (economy, efficiency and effectiveness) in the use of public funds. This can be seen from the indicator criteria that are developed by the auditors when carrying out performance auditing activities. In the context of new public management, the strengthening of the 3E's is an ethical behaviour in the implementation of new public management reforms (Maesschalck, 2004). No doubt the auditors are aware that the objective of performance auditing is to examine the 3E's perspective as it shown in the survey results (see Chapter 5). In addition, the performance auditing reports produced by the Indonesian Supreme Audit Institution from 2005 – 2011 show that the auditors were working on audit areas such as examination of local budget expenditures, local budget revenues, hospital and health services, the education system, procurement, transportation, infrastructure related to the tsunami in Aceh, and Indonesian migrant workers. In general, the focus of those performance audits still considers the system mechanism of audited entities in terms of an economy, efficiency and effectiveness evaluation.

Table 8.1

The Objects of Performance Auditing 2005 - 2011

Year	Number of performance audit reports	Total audit reports produced by Indonesian SAI *)	%	Objects of performance auditing	Focus on performance auditing
2005	37	865	4.28%	Local budget expenditure; Local budget revenue; Hospital service; Education; Agriculture.	Economy, Efficiency, Effectiveness
2006	38	1,147	3.31%	Education, Health/hospital service; Local budget expenditure; Tsunami Aceh disaster.	Economy, Efficiency, Effectiveness
2007	22	1,031	2.12%	Indonesian Embassy; Bird flu control; Procurement; Budget allocation on Forestry Ministry, Education; Health/Hospital service; local Budget revenue; Social infrastructure in Aceh.	Economy, Efficiency, Effectiveness
2008	61	1,157	5.27%	Health/hospital service; Bus service; procurement; Hajj service, Indonesian migrant workers; port management; export development agency.	Economy, Efficiency, Effectiveness
2009	83	1,260	6.58%	Health care hospital; waste management; management infrastructure on education; management of water company; disaster management.	Economy, Efficiency, Effectiveness
2010	154	1,262	12.20%	Health service hospitals and health services ; educational performance; local water company;	Economy, Efficiency, Effectiveness
2011	157	1,609	9.76%	Health care hospital; customs management; pilgrim management; education al performance; post office management; local water company; effectiveness of population control; effectiveness of procurement and the formation of civil servants.	Economy, Efficiency, Effectiveness

Source: Summarised from the primary data of BPK's audit reports 2005 - 2011 (*Ikhtisar Hasil Pemeriksaan BPK year 2005 – 2011*). *) The reports include financial audit reports, performance audit reports, and the special purpose audit reports.

The current focus of performance auditing on the 3E's aspect represents the narrow pragmatism of the current performance auditing practice. Narrow pragmatism in performance auditing focuses exclusively on the consequences of choice in terms of the economy, efficiency, and effectiveness without looking at the consequences of environmental and sustainability dimensions. Hence, it should be extended into broader or expanded pragmatism. Expanded pragmatism refers to the notion that consequences for members of society, others, the environment, and the next generation of life should be considered prior to making policy decisions (McIntyre-Mills, 2003).

Moreover, based on the expanded pragmatism concept, performance auditing should be seen as a broad concept in terms of public accountability. It not only addresses the narrow definition of accountability, which means performance reporting, but also service, quality and well-being should be considered. In addition to this broad view of accountability, performance auditing could be extended into the examination of the environmental aspect as a tool to promote environmental sustainability. As such, it extends beyond the traditional economic pattern in auditing. Mirroring the discourse on the Gross Domestic Product (GDP) measurement into the environmental aspect, performance auditing also can play a role in this discourse. Stiglitz et al. (2010) are concerned that current GDP measurement overlooks economic inequality and does not factor in environmental impacts into economic decisions. In addition, Stiglitz et al. (2010, p. 5) mentioned that:

We are also facing a looming environmental crisis, especially associated with global warming. Market prices are distorted by the fact that there is no charge imposed on carbon emissions; and no account is made of the cost of these emissions in standard national income accounts. Clearly, measures of economic performance that reflected these environmental costs might look markedly different from standard measures.

In Australia, Osborn (1997) argued that the environmental factors should be included in the calculation of financial statements, especially in local government. This is quite similar to the triple bottom line concept which highlights that the activities of companies should pursue not only profit, but also people (society) and the planet (environment). By adding environmental indicators when developing audit criteria, auditors can investigate how much paperwork could be eliminated altogether, for instance by redesigning the work flow of communications and using recycled paper. Also, how can systems be simplified? By including these kinds of indicators, auditors are raising awareness of the environmental aspect in the work of performance auditing activities. In addition, institutions can also adopt green housekeeping in managing the use of office resources such as electricity, paper, and water. In this case there is a need to take environmental factors into account in developing performance auditing criteria as sustainability indicators.

In this way, the next generation of performance auditing can be transformed according to principles of ethics, social, and environmental accountability. This is also in line with the local agenda 21 that supports integrated decision-making for

public managers which considers all foreseeable economic, social and environmental considerations. In other words, a shift is needed in the way government makes use of resources, and accountability is necessary to avoid externalizing the risk in single bottom line economics. Performance auditing needs to be extended by means of indicators of the deliberation about ethics and environmental factors. In this case, environmental and social justice should be taken into account in developing performance auditing criteria as sustainability indicators. Indeed, the process requires systemic thinking to identify the barriers to change for sustainability and to link local issues to global ones. However, the adoption of environmental indicators will improve the awareness of audited entities, auditors and the community on sustainability issues. The process can also expand the accountability process, not only the economy aspect, but also the social and environmental aspects. The process can be seen as a learning process for the auditors, auditees and stakeholders. Thus, performance auditors can learn how to make integrated decisions which take all foreseeable economic, social and environmental considerations into account. In other words, people value what they measure in performance auditing activities.

Naturally, there will be challenges in terms of methodology and analysis, however the audit institution could include an environmental aspect. As an institution, the Indonesian Supreme Audit Institution can play an important role in making the auditees and stakeholders aware of the sustainability concept. Hence, a Supreme Audit Institution should integrate its function with other organisations in society through Universalist rules, contracts, and authority.

8.1.2 THE PERSPECTIVE ON THE ISSUE OF FRAUD

The fraud aspect is usually not included in performance auditing, as traditionally its examination is carried out through a special purpose or investigative audit. That being said, the institutions that receive a positive financial audit are not necessarily free from the element of fraud. The interviews confirmed that audit findings with indications of potential corruption still occur repeatedly. This happens as corrupt behaviour is not only related to state and regional fund issues but also occurs in other areas such as licensing services.

According to the field work, the acceptance of the fraud aspect in performance auditing activities is not fully welcomed by auditors (see Chapter 5). However, the interviews suggested that performance auditing can play a role indirectly in terms of fraud-related matters. Therefore, if performance auditing is considered to provide more benefits in terms of improving government systems, the aspect of fraud could be examined in performance auditing activities, and should not be isolated in a special or investigative audit only. Performance auditing can contribute to the prevention of fraud and irregularities by applying indicator criteria to the examination of fraud and irregularities into the economy, efficiency and effectiveness. In the context of Indonesia, it would be necessary to adopt a fraud prevention stage in performance auditing. The Indonesian people have low confidence in Indonesian law enforcement, thus, efforts to reduce the occurrence of fraud should be included and not merely reviewed in another single type of audit. Based on the survey conducted by the research and development unit of *Kompas* daily in 2011, people's trust in law enforcement by the police, prosecutors and

judges was very low. From the sample of 923 respondents, 90.03% respondents did not believe in the law enforcement in Indonesia, while only less than 8.03% of respondents said that they did. For the process of good governance in Indonesia, this result is alarming. In addition, the corruption index in Indonesia is still high (see Chapter 3), thus, the Indonesian Supreme Audit Institution is expected to take more responsibility based on the institutional and legal framework and anti-corruption strategy of the government.

The Indonesian government has introduced an anti-corruption strategy through Presidential Instruction No. 5, year 2004 on the acceleration of the government's commitment to eradicate corruption. This is in the context of applying the principles of good governance and of public service improvements. The President instructed all government officials to improve the quality of public services. This quality improvement is directed through transparency and good service standardisation, including the requirements of targeted completion times, tariff costs to be paid by the public, and removal of illegal levies. However, in daily practice, this regulation is beyond the reality which can be seen from Indonesia's high level of corruption, where the atmosphere of pervasive corruption and maladministration is ubiquitous. The survey results from the Indonesian Ombudsman in year 2013 regarding the quality of public services in Indonesia, is not so encouraging (Tempo, 2013). There are many government agencies that have not adequately provided public services, and have not been transparent in displaying costs, time, and information services. Indeed, fraud is a systemic matter which, to overcome the problem, needs a systemic mindset. One means is by strengthening

the performance auditing process conducted by the Indonesian Supreme Audit Institution. Performance auditing will address issues of performance management and provide recommendations on methods to improve the system.

However the Supreme Audit Institution cannot work alone. There is need for support from another oversight institution. In a democratic country, the Public Accounts Committee is one of the Parliament's tools to conduct an oversight function. The attention of the Public Accounts Committee in terms of performance audit reports produced by the Indonesian Supreme Audit Institution should be improved. The current relationship between the two is that the Public Accounts Committee receives the final audit reports from the Indonesian Supreme Audit Institution to be followed-up every semester. The audit reports are then analysed by the Public Accounts Committee and submitted to the Commissions in Parliament. This kind of process is merely a post-audit activity. Nonetheless, in order to reduce the occurrence of fraud, there should be prevention activities in budget planning activities carried out by government institutions. As a comparison, the Public Accounts Committee in the United Kingdom performs preventive activities in the government's budget planning. In 2012, for example, the UK Public Accounts Committee inquired into the government, in terms of the planning of the Regional Growth Fund program, based on the preliminary audit conducted by the National Audit Office. Therefore, in order to reduce the occurrence of fraud in Indonesia there should be improvements in the power of Public Accounts Committee to oversee not only the post-audit but also conduct pre-auditing in the government budget planning activities.

8.1.3 THE PERFORMANCE AUDITOR'S PROFILE

There is no clear rule governing how performance auditors should work in the Indonesian public sector, especially in audits conducted by the Indonesian Supreme Audit Institution. This section critiques the unclear of the performance auditor's profile in the way they conduct performance audits. As shown in the empirical findings, the auditee respondents expect that an auditor should play the role of an evaluator, while from the auditors' perspective performance auditors should play the role of consultant. This shows that there is a need to reconceptualise the role of performance auditor otherwise performance auditing will not work effectively. In fact, the influence of the other types of audit (financial and special purpose audit) is relatively high; therefore, auditors are mirroring the mechanism of financial and special purpose audits into the work of performance auditing. The impact of financial audit mechanisms from the private sector also influences how financial auditing is conducted in the public sector and, in the case of the Indonesian Supreme Audit Institution, the financial audit mechanism influences the other types of audits, such as performance auditing. In addition, the performance auditing conducted by the Indonesian Supreme Audit Institution is still new and due to the lack of resources and audit technology, uncertainty exists on how to conduct it. Thus, this kind of process can be categorised as mimetic isomorphism in the context of organisation activities.⁴⁴ In other words, performance auditors mimic or replicate the models of financial auditors.

⁴⁴ The term mimetic isomorphism is introduced by DiMaggio and Powell to explain the convergence of processes and structure of organisations through imitation. The logic behind this is the belief that certain institutional processes of structures are beneficial and therefore worthy of imitation.

The dilemma of the performance auditor's profile should be addressed by the Indonesian Supreme Audit Institution in a proper way. The intention to help auditees, on one side, as a means of system improvement, compared with the role of performance auditors as evaluators who study fault-finding mechanisms in the entities, should be reviewed in a balanced perspective. If not done so, performance accountability becomes merely a product of ritualistic auditing without meaning for improvement.

8.2 REFRAMING PERFORMANCE AUDITING PRACTICE IN THE INDONESIAN SUPREME AUDIT INSTITUTION TO IMPROVING PUBLIC ACCOUNTABILITY

Performance auditing is supposed to improve public accountability especially the performance accountability of governments. However, the current state of performance auditing conducted by the Indonesian Supreme Audit Institution is less than effective. Indeed, this affects the level of performance accountability in Indonesia, given that, as the oversight institution, the work of the Indonesian Supreme Audit Institution influences how the government institutions carry out their functions in terms of financial and performance accountability to bring greater public answerability (Keane, 2008).⁴⁵ It should be noted nevertheless that accountability for performance is not compliance accountability; the former concerns what outputs and outcomes government has produced with its input. It deals with whether government has achieved the desired results. Citizens may have clear expectations about what results government ought to produce, some of which

⁴⁵ Keane, J. (2008) *Monitory Democracy*. Paper prepared for the ESRC Seminar series, 'Emergent Publics', The Open University, Milton Keynes, 13th -14th March 2008.

may be able to be specified in very clear performance targets. Then, citizens can determine whether public officials have lived up to these expectations by checking whether they have achieved these targets. To create accountability for performance, expectations must be specified in terms of results, not in terms of rules, regulations, or processes (Behn, 2001, p. 131).

The problems of performance auditing practices in the Indonesian Supreme Audit Institution were discussed in Chapter 6. Performance auditing in the Indonesian public sector can be seen as a complex problem which started from planning, implementation and follow-up of audit activities. These activities may lead to more complex problems if there is no synchronisation between them. In fact, performance auditors are slowly taking on this new responsibility; they often do not know how to conduct performance audits in practice. Among others, those in charge of evaluating their institutions' performance often find it difficult to determine which issues are to be audited, how exactly to undertake performance audits and on the basis of which data. Some factors influence the effectiveness of performance auditing, such as the different mindset on how performance auditing should be conducted among top officials, management and auditors; lack of skills and audit technology in terms of performance auditing activities; lack of performance indicators in government entities; lack of attention from the Parliament, and lack of punishment with regard to performance auditing results. Several problems that arise in the context of performance auditing in the Indonesian Supreme Audit Institution are linked with the existing condition of social, economic and environmental problems in Indonesia. Indeed, this perspective

is purely that of the Indonesian context and therefore cannot be generalised to other countries which have different contexts of social, economic and environmental issues.

8.2.1 PLANNING

Performance auditing can contribute to the improvement of systems in order to strengthen public accountability, from budgeting planning to implementation and monitoring. However, the current work of performance auditing conducted by the Indonesian Supreme Audit Institution is only a post-audit activity, which means that the auditors examine the entities, projects or programs after activities have been carried out by the auditees. There is no involvement at the stage when a program or project is being planned. However, fraudulent behaviour may occur at this stage. For example, public officials may mark up of the cost for an estimated program, or they may (re)make a program which existed previously, without re-evaluating whether it contributed to the public benefit.

8.2.2 METHODS

The progress of performance auditing in the Indonesian Supreme Audit Institution was also relatively slow due to the lack of auditing technology and skills. Performance auditing conducted by the Indonesian Supreme Audit Institution is influenced by the work of financial and special purpose auditing, and so, the techniques and methodology remain the same. There is confusion in applying the appropriate techniques and methods of performance auditing among auditors. As a result, performance audit activities continue to address the same problems as the

special purpose audit, such as, for example, how a project is working, the achievement of targets, and the budget expenditure. The reports contain large amounts of data on non-achievement of objectives or targets, yet auditors do not delve into the underlying causes of the problems. This is due to the limitation of time in conducting performance auditing.

8.2.3 CRITERIA

There is no standardisation on performance auditing, which leads to auditors' confusion in doing performance audits, where the influence of financial auditing is still strong. Performance auditing can lose its identity within this current situation. In general, the conduct of an audit needs to be framed within defined standards and procedures. The lack of standardisation of criteria in performance auditing requires auditors who have high skills, intelligence and creativity in order to develop audit criteria from varying resources.

8.2.4 THE AUDIT REPORT

The audit reports also become less useful documents due to the low audit follow-up by auditees and the weaknesses of the monitoring conducted by the BPK over the follow-up mechanism on the performance audit results. In addition, the audit report submitted by the BPK to the Parliament is comprehensive and may be challenging for some to read. Thus, the audit reports are like yellow pages which are very thick but rarely read, even though they contain important information.

8.2.5 AUDIT RECOMMENDATIONS

The problem with audit recommendations is that a performance audit requires a comprehensive understanding in terms of the current state of an audited entity's business. Auditors should not only focus on the matters that relate to the audited project, but also on other circumstances that might influence these matters, such as social and environmental problems. This can make performance auditing in the public sector more challenging. The empirical findings showed that there may be problems when auditors are incapable of developing good performance audit recommendations. In some instances, the case that is being audited requires interrelation with other parties or institutions, yet auditors just provide the recommendations to the audited entity without giving consideration to the other related parties. This makes it difficult for the audited entity to follow-up performance audit recommendations, and affects the accountability of entities in following them up. The finding is consistent with arguments by Rosen (1998, p. 23) that major problems in the accountability of agencies arise when interagency coordination or cooperation is essential to achieving results. This is particularly so when coming to agreement on a matter requires one or several agencies to alter their behaviour significantly. The problem becomes very serious if an agreement can be achieved only by reducing the autonomy of one the agencies in even one of its many programs. Interagency negotiations designed to establish conditions governing the accountability of one agency to another in a specific program area can be protracted and resulting operations may be ineffective.

8.2.6 FOLLOW-UP AUDIT RECOMMENDATIONS

After performance auditors report the findings and recommendations, the auditees should respond to the audit recommendations. After that, the auditor should request and evaluate relevant information to conclude whether and timely appropriate action has been taken by management. In fact, the follow-up audit recommendations are often conducted by auditors such as new staff members who were not involved in the previous audit process. The auditors receive the actions from auditees on paper only, such as confirmation letters. They do not go through with another follow-up audit. In other words, most performance auditing projects conducted by the Indonesian Supreme Audit Institution are in a one-off performance auditing style. This could hamper the contribution of the performance auditing work as there is no guarantee that any effective action has been taken by auditees.

8.2.7 QUALITY OF AUDITING

In the Indonesian Supreme Audit Institution, most audit managers and staff have little interest in conducting performance auditing, since it requires time and considerable understanding of the audit object and entity. On the other hand, auditors have an obligation to do other audit work such as performing marathon audit tasks from one type of audit to another. They are eager to finish up quickly so that they can do the next audit assignment which is the kind of situation that influences the quality of auditing. The interviews confirmed that the performance audit reports often do not show the cause of the problem and contain errors in numbers/figures and typing.

8.2.8 A MISDIRECTED SYSTEM

Drawing on Ackoff (2004), the current system of performance auditing could be described as misdirected. Based on the discussions above, it can be said that performance auditing conducted by the Indonesian Supreme Audit Institution is merely a formality -to tick the boxes for the routine audit activities- while the impact of performance auditing is less clear-cut. Thus, that which Power (1999) stated in terms of ritual verification of audits regarding financial auditing activities, also happens in performance auditing. The lack of support in terms of follow-up of audit recommendations both from the audited body and Parliament may lead to performance auditing becoming a meaningless activity and being carried out due to the mandate to do so. This situation means that performance auditing may become a business as usual activity without giving added value. It is asserted that performance auditing will be a ritual of verification as is financial auditing. Year by year, auditors check and verify the financial statements of entities and this becomes a routine activity. This problem needs to be overcome; otherwise performance auditing work may become part of a misdirected system. The term, "misdirected system", as introduced by Russel Ackoff (2001) refers to the situation where people tend to do the wrong thing right. In addition, Ackoff (2004, p.2) stated that:

The righter we do the wrong thing, the wronger we become.

When we make a mistake doing the wrong thing and correct it, we become wronger. When we make a mistake doing the right thing and correct it, we become righter. Therefore, it is better to do the right thing wrong than the wrong thing right. This is very

significant because almost every problem confronting our society is a result of the fact that our public policy makers are doing the wrong things and are trying to do them righter.

Therefore, performance auditing as a system needs an overhaul. Otherwise the current practice of performance auditing in the Indonesian Supreme Audit Institution will not provide substantial benefits for the improvement of performance accountability to the public. As an institution, the BPK should determine the acceptance of the concept of performance auditing which is suitable for the current condition of society. It is necessary to harmonise performance auditing activities with the transformation of good governance in the reform of the Indonesian public sector. The concept of inclusion of environmental and fraud aspects in performance auditing, as explained in the previous section, should be considered. Also, the BPK should re-determine the profile of performance auditors to furnish more benefits for auditees and society.

Despite the problem of activities in this field, there is a positive factor in performance auditing, as auditors perceive that the interference and pressure from internal and external parties during the performance audit process is low. This can be an advantage in doing performance auditing, as auditors can focus on conducting their jobs.

According to the Indonesian context of public sector administration, there is a crucial problem concerning the measurement of performance in agencies, departments and local governments. The lack of proper performance indicators is overshadowing the successful achievement of government performance. Proper

performance indicators are essential for government institutions or departments and local governments to support the institutional activities and to increase their accountability. The existence of proper indicators also helps auditors when undertaking performance auditing activities. Aucoin (1998, p. 19) mentions that if performance auditing is to improve public accountability, the audit institution must assess performance in public management against the full range of public values that citizens, and not merely taxpayers, expect to be respected in public management. Rather it is to state that public management, as governance, entails the pursuit of a multiplicity of values which requires, in turn, that the public interest continually established by the balance struck among contending values in the administration of public services. However, in the Indonesian public sector context, performance indicators do not always exist in government institutions or even in local governments.

This situation is quite alarming. The Indonesian government introduced the Presidential Instruction No. 7, year 1999 on Accountability in Government Performance (*Akuntabilitas Kinerja Instansi Pemerintah*) to advance the accountability system in the government departments and institutions. The Instruction was then translated into the decree of the Head of the Public Administration Agency No. 589, year 1999, which was later revised to No. 239, year 2003 on the improvement guidelines on the preparation of performance accountability reporting of government agencies. The instruction demands that all government institutions and local governments should develop an accountability government performance system (*Sistem Akuntabilitas Kinerja Instansi*

Pemerintah/SAKIP) and an accountability government reporting system (*Laporan Akuntabilitas Kinerja Instansi Pemerintah/LAKIP*). These regulations encouraged government agencies to change their accountability paradigm from the orientation of budgets (input) or activity (output) to the orientation of the result or outcome. However, the results are not so encouraging. Many government agencies still claim their success is solely based on the percentage or the amount of the absorbed budget and program activities that have been implemented. For example, they claim that agencies are successful as they can absorb 95% or 100% of their budget or they completed 100% of the infrastructure facilities without referring to the benefits that should be obtained by the public or stakeholders.

To overcome these complex problems for performance auditing, the problems need to be seen from the perspective of a systemic approach. Interconnectedness or a systemic approach in performance auditing is needed as the result of good performance auditing work depends on the collaboration between auditor, auditees, Parliament, and society itself. To reap the benefits of performance auditing, the task should be deemed as not solely assigned to the Supreme Audit Institutions but to all actors concerned. That is to say, this work is not only interrelated and but also interdependent in the sense that the Supreme Audit Institution cannot pursue its performance auditing strategy in the absence of support from auditees, civil society and Parliament. To intervene effectively, it is important to understand the complex interdependences that exist among those elements, given that, as Stein et al. (2005, p. 258) stated, it is difficult to produce institutional change by addressing a sole institution in isolation.

Supreme Audit Institutions exercise an external audit in order to assure public accountability. The function of state auditing is an ancient and respected branch of state administration, an indispensable link in the process of government, with its duties and privileges embedded, in many countries, in the constitutional framework. It is difficult to imagine a well-functioning, satisfactory system of state administration without the type of rigorous public accountability that state auditing ensures (Geist, 1981, p. 3). Thus, performance auditing conducted by the Supreme Audit Institution may contribute to the improvement of public accountability in the Indonesian public sector. Performance auditing examines to what extent an organisation or an audit object is doing well in its performance. It also refers to what, why and how we go about measuring. The terms of reference are defined by stakeholders. So those who are included or excluded are important.

The process of improving public sector accountability in regard to performance auditing is not easy. In principal-agent theory, there is a delegation from principal to agent, as Strom et al. (2000) argued. Thus, principal-agent theory is related to delegation and it is not possible to trust people to whom one delegates. For this reason, delegation needs to be coupled with several mechanisms of accountability.

Santiso (2007) has argued that recognising improvements in public-sector governance and service-delivery performance are a consequence of a proper accountability process. Thus, this section will discuss the extent to which performance auditing conducted by the Indonesian Supreme Audit Institution has an impact on the public accountability process in the public sector. From the field

work it was found that the process of performance auditing in the Indonesian Supreme Audit Institution was not effective. This was indicated by the low rate implementation of performance auditing recommendations by auditees, the one off style of performance auditing activities, the adopted style of financial and compliance auditing in regard to the performance auditing activities, and the low attention from the Parliament to the auditor general's audit reports (see Chapter 6). These problems will all influence the level of public accountability in Indonesia.

One way to improve public accountability is to enforce the use of performance auditing recommendations. This can be done through imposing sanctions on auditees. As Mainwaring (2003, p. 13) has said:

Accountability cannot exist with no sanctioning power; some capacity to redress wrongdoing by referring the case to other venues (especially the justice system) is critical to systems of accountability...Agencies of oversight are expected to refer possible wrongdoings to actors that can impose sanctions; this indirect sanctioning power suffices to characterize a relationship of accountability.

Therefore, accountability seems to involve more than responsibility, in terms of greater consequences for the personnel involved. Accountability implies sanctions whereas a responsibility does not (Owen, 2007). In addition, Bemelmans (2007, p. 24) stated that:

In a formal accountability relation, the ability of (a) forum in whatever form, e.g. parliament, a higher administrative echelon,

an administrative court or even the people holding to account through elections, to sanction is a vital part of that relation.

In the context of the Indonesian Supreme Audit Institution, the power to impose sanctions to auditees has been addressed through the Law No. 15, year 2004 concerning State Financial Management and Accountability. In article 26 of this law, it states that any person who does not fulfil the obligation to follow up on recommendations made in the audit report shall be punished with imprisonment of one year and six months and/or a fine of no more than five hundred million rupiah or fifty thousand dollars (with an approximate exchange rate 1 USD = 10,000 IDR). However, this kind of mechanism still does not work properly. There are no cases, to date, of this kind of sanction on auditees if they are slow to respond to the implementation of performance audit recommendations. The perception in government circles is that an audit, especially an external audit, is regarded as a “burden”, or, at least, still addressed as a necessity to follow the provisions. This kind of behaviour influences the level of accountability of institutions to the public which leads to the low level of good governance. This is caused by factors such as public sector managers not being aware of the importance of good governance and remaining in their own comfort zone. An audit, including a performance audit, is seen only as fault finding. There is no legal certainty on the follow-up audit results and an audit does not add value to the organisation which is audited.⁴⁶ So as to improve public accountability from a principal-agent perspective, it is necessary to

⁴⁶ See discussion in the Chapter 6.

clarify who is accountable to whom and for what, and then the accountable person is supposed to take full responsibility for any failure or wrongdoing (Behn, 2001).

The objective of accountability is not only to identify inefficiency but to establish the causes and to provide recommendations for how this may be reduced. Acceptance and implementation of those recommendations, so that there is progressive and systematic improvement in public-sector performance over time is a critical goal. It does not substitute the emphasis on individual wrong-doing but is complementary (Hedger & Blick, 2008).

From the community side, there is no community involvement from the citizens in Indonesia in terms of monitoring performance audit results. The monitoring of audit results is usually conducted by non-government organisations. From the field work, it was found that there is reluctance from auditors towards involving the NGOs in the process of performance auditing, for instance, in determining performance audit objects as it is considered that NGOs have their own agenda and interests. However, citizens' involvement in monitoring the results of the performance audit process, particularly in relation to the improvement of public facilities, is very important in achieving the essence of performance auditing, that is, performance improvement in the audited objects. Performance accountability in the Indonesian public sector has not been going well. It is characterised by many complaints from the public about the performance of public services, such as complaints about diversion procedures and bribes to secure services first.

The need for participation from the society is considered imperative as the role of civil society organisations in voicing an opinion and expecting more

openness from the government is a major driving force in the call for more transparency and accountability in the public sector. As Gibson, Lacy and Dougherty (2005, p. 9) argued:

Communities and governmental organizations that engage residents and partner with them in all aspects of programming and policy making to define performance standards and measures of success will enhance, in very significant ways, public perception of accountability.

Although civil society organisations in the study countries are generally acknowledged to have the freedom of association, they are seen to have a limited role in civic education or in watching over public sector performance. Some countries involve direct civic engagement in the audit process. This kind of involvement indicates the importance of public participation in enhancing the public accountability process. Compared with the Philippines Audit Office, this Office supports community involvement in monitoring public service projects. The Philippines Supreme Audit Institution (the Commission on Audit of the Philippines) proposed the citizen participatory audit project which started at 2011. By proposing this concept, the Commission on Audit of the Philippines tried to encourage citizen involvement in an audit project. The Commission held information sessions with citizen groups in key cities in the Philippines to elicit feedback and suggestions on the project.

Local Agenda 21 stated that in order to meet the challenges of environment and development, states have decided to establish a new global partnership. This

partnership commits all states to engage in a continuous and constructive dialogue, which is inspired by the need to achieve a more efficient and equitable world economy. This is in keeping with the view that the increasing interdependence of the community of nations and sustainable development should become priority items on the international community agenda. Therefore, public participation cannot be avoided if the Supreme Audit Institution wants to participate in promoting better governance. Public participation is a key element of democratic life in which individuals live naturally free, equal and independent lives (Locke, 1993). The “audit society” term, as introduced by Power (1999), showed that there was an explosion in auditing activities in Britain and, as a result, the society demanded an account be given by the persons responsible for an activity, not only in terms of the money spent, but also in the efficiency with which it was carried out. The right of society, regarding transparency and accountability of the use of public funds, can be traced back to the era of the French Revolution, as it states in the Declaration of the Rights of Man (1789):⁴⁷

All the citizens have a right to decide, either personally or by their representatives, as to the necessity of the public contribution; to grant this freely; to know to what uses it is put; and to fix the proportion, the mode of assessment and of collection and the duration of the taxes...Society has the right to require of every public agent an account of his administration.

⁴⁷ See the Declaration of the Rights of Man (1789), Accessed from: http://avalon.law.yale.edu/18th_century/rightsof.asp, date 10 November 2013.

Therefore, the inclusion of public participation is necessary in the context of the public sector. There is also a need to strengthen active community participation in decision-making processes for sustainability. As revealed by John Keane (2009) in *The life and death of democracy*, there was an evolution that occurred in the history of democracy in the 21st century. This is marked by the strengthening of the new trend known as the era of monitory democracy. This is a democracy era wherein the main actors of civil society are not only the audience but also work as a vital force that controls and monitors the whole locus of existing power and political order. Thus, community participation in monitoring the implementation of the performance audit recommendations is very important so that the performance improvements suggested by the BPK as an audit institution can be perceived by the public as significant. A positive example of the engagement of civil society in auditing is from South Korea. In this country the concept of a “citizens’ audit request system” was introduced in July 2001, which allows civil society organisations and voluntarily organised groups to seek audits of institutions and programs that they regard as important and requiring scrutiny. In this case, the citizens can request an audit if proposed by 300 or more people and, if it meets certain requirements, the Board of Audit and Inspection of Korea (BAI) will conduct the audit and report back the result to the citizens who requested it (Pyun, 2005). By inviting citizens to participate in the proposal of audit objects, it will improve the monitoring system and accountability process for the public. This also shows that audit requests can be made not only from the Parliament but also from the community directly. Media coverage on the results of performance auditing

activities should be broadened, so that the society can read news concerning the performance audit results. Indeed, it should be recognised that without the support of Parliament, the Public Accounts Committee, the media and society, many important audit findings would not receive national attention.

8.3 STRENGTHENING THE RELATIONSHIP BETWEEN THE SUPREME AUDIT INSTITUTION AND THE PUBLIC ACCOUNTS COMMITTEE

To improve public accountability, a strengthening of the power of the Public Accounts Committee and the relationship between the Public Accounts Committee and the Indonesian Supreme Audit Institution is required. The relationship between those institutions is a critical part of public sector accountability (McGee, 2002). The existence of the Public Accounts Committee helps the Parliament to oversee the government budget spending and performance. Therefore, it solves the dilemma over whether state expenditures should be controlled by inexpert parliamentarians or non-parliamentarians. The Public Accounts Committee is the Parliament's instrument for reinforcing the accountability of the executive and bringing financial discipline and probity into the working of the government. The PAC examines the audit reports submitted by the BPK to the Parliament. Therefore, the effectiveness of the audit to a large extent depends on the interest and support it receives from the PAC. In addition, the Supreme Audit Institution is an essential element of parliamentary oversight.

In the Westminster system, the Supreme Audit Institution is a core element of parliamentary oversight. Parliaments typically rely on the Supreme Audit Institutions to audit public accounts. Then a multiparty public accounts committee

usually reviews reports by the office of the auditor general, considers testimony by witnesses from government departments and agencies, and sends its reports to the full parliament for comment and action. There are often recommendations or instructions requiring follow-up action by both the auditor general and government accounting officers. In the board system, the audit board prepares and sends an annual report to the cabinet, which then submits it to parliament.

The current role of the Indonesian Public Accounts Committees is still weak. The Public Accounts Committee does not have enough power to proceed and execute the audit results from the Supreme Audit Institution. This can hamper the process of public accountability in Indonesia. Indeed, the adoption of the Public Accounts Committee in the Indonesian public sector basically mirrors the Westminster-style parliamentary systems. This process is called “mimetic isomorphism” (DiMaggio & Powell, 1983). The weaknesses of the Indonesian Public Accounts Committee can be seen in several areas, such as in the low level of performance auditing reports followed up by the Public Accounts Committee.

The managerial support for the Public Accounts Committee is inadequate and its power remains low, as Parliamentary factions still have greater authority in terms of subpoenaing the institutions related to the audit findings. This condition is relatively different from that of the Public Accounts Committee in a developed country such as in Australia and the United Kingdom. In those countries, the Public Accounts Committee has strong power in the Parliament. Those PACs are given additional and more specific powers, such as the power to examine and to comment on the public accounts and all the reports drafted by the Auditor General

and the National Audit Office. The PACs also have power to directly or indirectly conduct some investigations to receive all documentation considered necessary to adequately perform their function; to invite government members to attend the meetings of the PAC and to respond to members' questions; to give publicity to their own conclusions; to report to the Parliament; and to suggest to government, when necessary, how to modify its course of action (Pelizzo & Stapenhurst, 2006, p. 7).

Indeed, the Parliament can be seen as a principal that gives a mandate to the Supreme Audit Institution for the scrutiny of the performance and the use of public funds. However if the Parliament has low political will to follow up the results of audit reports, the work of the agent could be meaningless, as the effectiveness of a principal-agent relationship demands cooperation between the two parties.

From the field work, it was found that the willingness of Parliament to follow up the audit reports is still low. In terms of performance audit reports, the attention of Parliament is not as high as for the results of special audit reports which contain the state's losses and aspects of fraud. In addition, the transparency of the Public Accounts Committee could be improved by making its work available on the internet. The current Public Accounts Committee website still does not provide much information to the public, such as the process of inquiry or meeting between the Public Accounts Committee and auditees, in regard to the clarification of the audit findings and the publication of its reports.

8.4 DISCUSSION OF THE CRITICAL SYSTEMS HEURISTICS (CSH) TO PERFORMANCE AUDITING PRACTICE

The previous sections explained the research discussion, including reframing the concept and practice of performance auditing activities and the relationship between the Indonesian Supreme Audit Institution and the Parliament. In this section, using Ulrich's Critical Systems Heuristics and Churchman's Wisdom as the analysis tools, the researcher maps the research findings to evaluate the current approach and practice of performance auditing to make suggestions regarding how performance auditing and public accountability could be enhanced. Critical Systems Heuristics is a development of systems thinking that aims to support good practice of all forms of applied systems thinking and professional intervention (Ulrich, 1983, 2012).

Critical Systems Heuristics is grounded in a framework derived from the critical examination of Habermas' work on the ideal speech situation (Jackson, 2003), and the Design of Inquiring Systems approach of Churchman, that considers the consequences of decisions for others including future generations of life. Ulrich's Critical Systems Heuristics was then used as guidance in analysing the "what is the case" and "what ought to be the case" of the empirical findings. Substantially all the results of Ulrich's CSH is based on the results of the unfolding and sweeping-in process on the system. By doing this, the researcher attempts to examine all empirical findings as reasonably as possible. In this research, the system refers to the performance auditing practice, especially that undertaken by the Indonesian Supreme Audit Institution. The system aims to support public accountability in the Indonesian public sector. Hence, the essence of performance auditing activities as a

system can be drawn in terms of Ulrich's CSH or "if-then" logic. Ulrich's CSH mainly addresses the components of motivation, power, knowledge and legitimation in a system. Table 8.2 shows the mapping of the performance auditing practice using the Critical Systems Heuristics.

Table 8.2

Mapping of Performance Auditing Practice using Critical Systems Heuristics

Source of influence	Questions	What is	Key problems	What ought to be
Source of Motivation	<ol style="list-style-type: none"> 1. Who is the client or beneficiary of the system practice to be used? 2. What is the purpose of system practice such that it is serving the interest of client? 3. What are the criteria on which the system practice is being judged? 	<ol style="list-style-type: none"> 1. The clients or beneficiary of the performance auditing are the government institutions as auditees and the Parliament as representation of the people. 2. The purpose of the performance auditing practice is to improve the mechanism or the system of government organisations so that they can do better in managing their functions and enhance the accountability to the public. 3. The performance auditing is considered successful if it provides the improvement on the government institutions based on the aspect of economy, efficiency and effectiveness (the 3E's) and provides the benefit to the society. Thus, the applications of performance audit 	<ul style="list-style-type: none"> • Focusing on compliance rather than performance • Current objective of performance auditing is merely focusing on the aspect of the 3E's • The fraud aspect is less accepted as a performance audit coverage by auditors • The follow-up of performance auditing recommendations by auditees is low. • Central and local government institutions still focus on financial audit matters • Lack of the rewards and sanction mechanism in regard to the implementation of performance auditing result 	<ul style="list-style-type: none"> • The need to change mindset so that performance auditing focuses more on performance than compliance • The need to consider the environmental and well-being aspect in the performance auditing objectives • The need to scale up the Local Agenda 21 and the Sustainable Development Goals to be translated into practice through auditing tools • The need to introduce performance auditing as a means to combat fraud and corruption

Source of influence	Questions	What is	Key problems	What ought to be
		recommendations by entities are important as the parameter of the effectiveness of the system.		<ul style="list-style-type: none"> • There should be a consideration in assessing fraud or irregularities in performance auditing • The improvement of the follow-up of performance auditing recommendations • The need to market performance auditing to central and local governments • Introducing the rewards and sanction mechanism to foster performance accountability
Source of Power	<ol style="list-style-type: none"> 4. Who is the decision maker for the systems practice? 5. What are the component activities within the control of the decision maker for 	<ol style="list-style-type: none"> 4. The decision maker of performance auditing practice in this context is the Indonesian Supreme Audit Institution. 5. The decision maker controls the selection of the objects of a performance auditing project. 	<ul style="list-style-type: none"> • Lack of skills and specialisation in performance auditing activities • Limited time in conducting performance auditing • Lack of leadership support • Lack of government 	<ul style="list-style-type: none"> • The improvement of capacity building of performance auditors • The need to provide adequate time in performance auditing activities

Source of influence	Questions	What is	Key problems	What ought to be
	<p>the systems practice?</p> <p>6. What conditions and resources are part of the systems environment?</p>	<p>6. The mandate and regulation; number of auditors; time in conducting performance auditing activities; knowledge and skills of auditors doing performance auditing activities; the leadership level; the availability of performance indicators in the government institutions.</p>	<p>performance indicators</p> <ul style="list-style-type: none"> • Lack of continuous audit monitoring (a one-off audit style) 	<ul style="list-style-type: none"> • The need for strong direction on performance auditing activities • The availability of performance indicators in all government institutions • Designing continuous performance audit follow-up
Source of Knowledge	<p>7. Who is involved as the designer of the system?</p> <p>8. What kind of expertise is informing the design of the system?</p> <p>9. What are the designer's assumptions underpinning the design?</p>	<p>7. The designer of the system is auditors at the Indonesian Supreme Audit Institution.</p> <p>8. The auditors need technical experience on know-how in performance auditing including understanding of government systems and interdisciplinary skills and knowledge in doing performance auditing.</p> <p>9. The assumption is that performance auditing has a role to oversee the use of state funds and</p>	<ul style="list-style-type: none"> • Incomplete expertise in conducting performance auditing • The absence of better practices guide • The method used in performance auditing is still highly influenced by financial auditing method • The profile of the performance auditor is not well defined 	<ul style="list-style-type: none"> • The improvement of expertise in performance auditing • The development of better practices guides • The need to reframe the method used in performance auditing • The need to defining the profile of performance auditor

Source of influence	Questions	What is	Key problems	What ought to be
		performance of government institutions so that it enhances the accountability of the government.		
Source of Legitimation	<p>10. Who are the relevant stakeholders affected by the systems and what is their role?</p> <p>11. To what extent and how do these stakeholders have control over their own interest in the system?</p> <p>12. Whose worldviews or perspectives are underpinning the design of the system?</p>	<p>10. The relevant stakeholders affected by the system are the Parliament, especially the Public Accounts Committee. The Public Accounts Committee's role is to review, analyse and follow-up based on audit reports submitted by the Indonesian Supreme audit Institution. The other stakeholders that need to be considered are media, professional bodies and key government agencies such as the government evaluation agency. Their role is important to criticise the result of performance auditing work.</p> <p>11. The control of the Public Accounts Committee is to review the audit reports submitted by</p>	<ul style="list-style-type: none"> • Low attention from the Parliament in regard with the audit reports of the Supreme Audit Institution • The power of the Public Accounts Committee is limited • The involvement of society is limited • The impact of performance audits has not been measured • Lack of disclosure of the performance audit costs 	<ul style="list-style-type: none"> • Strengthening the role of the Public Accounts Committee • Enhancing the availability of the work of Parliament to the public in regard to performance auditing • The need for participatory action from the community level. • The Supreme Audit Institution should measure the impact of performance auditing activities • The need to disclose the audit costs to the public

Source of influence	Questions	What is	Key problems	What ought to be
		<p>the Indonesian Supreme Audit Institution to the Parliament. The other stakeholders could control the performance auditing activities by expressing their voice for poor government performance.</p> <p>12. The performance auditing could contribute to enhancing public accountability in the Indonesian public sector by considering the environment sustainability aspect.</p>		

Based on the previous empirical findings, Table 8.2 shows the mapping of performance auditing as a system in the Indonesian public sector as a result of “sweeping-in” the factors that contribute to its process. In the Critical Systems Heuristics, the sources of influence are a boundary of the research. As the Critical Systems Heuristics is a constructivist approach, people may provide a critique on the systems that they evaluate (Ulrich, 1983). The critique on the current performance auditing is presented in the following section.

8.4.1 CRITIQUE ON THE SOURCE OF MOTIVATION

From Table 8.2, it could be seen that there are some problems related to the source of motivation in performance auditing. The different management mindsets of performance auditing could lead to auditor confusion. Performance auditing is still more focused on compliance and regulation aspect than performance. The current objective of performance auditing, which focuses on the aspects of economy, efficiency and effectiveness of the three Es, needs to include a broader set of indicators to enable fostering of “wellbeing stocks” that span social, economic and environmental wellbeing⁴⁸. Narrow pragmatism in performance auditing could be extended as expanded pragmatism that considers the consequences for this generation of life and the next (McIntyre-Mills, 2013). The central and local governments are still focused on financial auditing matters, thus there is a need to market performance auditing to them. The merit of performance auditing is the

⁴⁸ McIntyre-Mills et al. (2014b, p. 8) cites the definition of well-being stocks by Stiglitz et al. (2010) that the definition of well-being is a multidimensional measure that should consider the following aspects: (i) material living standards (income, consumption and wealth); (ii) health; (iii) education; (iv) personal activities including work; (v) political voice and governance; (vi) social connections and relationships; (vii) environment (present and future conditions); and (viii) insecurity of an economy and a physical nature.

effectiveness of the implementation of performance auditing recommendations. If the auditees could implement the audit recommendations, then they can do better in managing their functions and enhancing accountability to the public. However, the effectiveness of performance auditing is low as the implementations of performance auditing recommendations are still inadequate. In addition, there are no rewards or penalties if auditees are successful or not in implementing performance audit recommendations.

8.4.2 CRITIQUE ON THE SOURCE OF POWER

In terms of the source of power, the process of performance auditing has a strong mandate from the Law No. 15, year 2004 concerning State Financial Management and Accountability. Indeed, with regard to the performance auditing activities, the Indonesian Supreme Audit Institution has power to determine the selection of performance auditing projects. However, there are many problems in regard with the source of power especially on the aspect of the conditions and resources required for the performance auditing as a system. The issues are the following: (i) lack of skills and specialization in performance auditing activities; (ii) limited time in conducting performance auditing; (iii) the deficiency of leadership direction; (iv) lack of government performance indicators; and (v) lack of continuous audit monitoring. The process of performance auditing cannot provide any added-value if the resources issue is not resolved.

8.4.3 CRITIQUE ON THE SOURCE OF KNOWLEDGE

The source of expertise in exercising performance auditing is incomplete. The auditors' mindset still mirrors the process of financial auditing as there is no

specialisation in terms of audit work. Lack of a better practices guide will influence the effectiveness of the process of performance auditing. In addition, the profile of performance auditors is not well defined which influences the way performance auditors are conducting their work.

8.4.4 CRITIQUE ON THE SOURCE OF LEGITIMATION

Performance auditing in the public sector needs the involvement of civil society as the embodiment of accountability from below (Keane, 2008). The performance auditing practice cannot work effectively when the Parliament, as the main stakeholder, has little interest in the audit reports. The establishment of the Public Accounts Committee to assist the Parliamentary function of overseeing the government's performance would be less effective if the committee does not have enough power and authority. In addition, the involvement of society is also limited and the impact of performance auditing has not been measured by the Supreme Audit Institution.

Meanwhile, the 'what ought to be' section is considered as a suggestions section on the current practice of the performance auditing system. This will be discussed in the next chapter (Chapter 9) in the form of policy recommendations of the research.

8.5 THE SWOT ANALYSIS OF PERFORMANCE AUDITING IN THE INDONESIAN PUBLIC SECTOR CONTEXT

The following section explains the strength, weaknesses, opportunities and threats (SWOT) of the performance auditing process in the Indonesian public sector conducted by the Indonesian Supreme Audit Institution.

8.5.1 STRENGTHS

The process of performance auditing in the Indonesian public sector is backed up by the powerful mandate of the Indonesian Supreme Audit Institution, as discussed in Chapter 3. The mandate is decreed in the State Law while in other countries the obligation to conduct performance auditing is stated in government regulations, not in the State Law. In terms of the financial support in undertaking performance auditing, the Indonesian Supreme Audit Institution has independence in setting the operating auditing budget. The research also shows that auditors have a sound understanding regarding the performance auditing objectives. The understanding of performance auditing objectives is vital as it directs the performance audit process. The strength of the process of performance auditing in Indonesia is the establishment of the Indonesian Public Accounts Committee in 2009. The committee helps in monitoring the audit reports produced by the Indonesian Supreme Audit Institution.

8.5.2 WEAKNESSES

The process of performance auditing in the Indonesian public sector has several weaknesses. The environmental indicators in developing performance auditing criteria are not considered yet. Most of the performance auditing projects are concerned with the economy, efficiency and effectiveness aspects. From the fieldwork, auditors perceived that there was a limited time in which to conduct performance auditing projects. The time aspect is crucial in a performance audit, as every performance audit is unique and cannot be equated in temporal terms. The time allocation for performance auditing in the Supreme Audit Institution is

relatively limited compared with other developed countries. The internal weakness in the Indonesian Supreme Audit Institution is that there is no uniformity in understanding performance auditing among the official executive levels.

In addition, there is no specialisation in terms of performance auditing work, which leads to a limited capability in conducting it. The one-off performance auditing style conducted by the Indonesian Supreme Audit Institution also influences the weaknesses in achieving performance auditing goals. From the external factors, the weaknesses related to performance auditing activities are that many government organisations still focus on financial rather than performance auditing. In addition, the implementation of performance auditing recommendations by auditees is still low. Not all government institutions or agencies have performance indicators. This condition leads to a difficult situation when auditors are developing performance audit criteria with an auditee. Another weakness is that the Indonesian Public Accounts Committee has little power in ordering follow-up actions to the Indonesian Supreme Audit reports, in part due to the limitation of power stated in the Parliamentary Law.

8.5.3 OPPORTUNITIES

There are several opportunities regarding the development of performance auditing in the Indonesian public sector. There is a shifting paradigm into performance evaluation as a result of public sector reform in Indonesia. Moreover, the discourse of performance-based budgeting in Indonesia also results in the need for performance auditing. The growing concern with the environmental aspect in the international community is an opportunity to include the examination of

environmental aspects in performance auditing. The inclusion of these aspects and extending a curriculum component would increase the awareness among auditors and auditees regarding the importance of this sustainability aspect in performance auditing activities. It is suggested that in the short term a series of workshops be held with senior academics and members of the auditing profession to develop an extended curriculum to build the capacity of auditors.

However, it should be noted that there are challenges in the implementation of an environmental perspective on performance auditing, due to the complex way social, economic and environmental goals are interrelated and the variety of organisations affected. For this reason, it is essential to introduce a component of complex decision-making based on the ability to think in terms of critical heuristics and ideally to develop training in the use of software packages that enable more systemic praxis (McIntyre-Mills & De Vries, 2011, 2013, 2014b).

Another opportunity is to involve public participation in performance auditing projects in terms of proposing the audit objects and monitoring their results. In the democratic era, citizen engagement has become an important factor in capturing the aspirations of the people. A new form of democracy is needed to engage participation from the society in a particular decision. In this case, society engagement is in determining a particular performance auditing object or theme. Therefore, it would be necessary to involve public participation when determining performance auditing objectives or themes. Meanwhile, the level of transparency in performance auditing activities conducted by the Indonesian Supreme Audit Institution can be improved by reporting the cost of the audit and the names of auditors in the audit report produced by the institution. In addition, measuring the

impact of performance auditing, that is, in the Indonesian Supreme Audit Institution's annual report, would be a great opportunity to enhance the achievement of performance auditing for the improvement of public accountability. Another opportunity, in terms of institutional settings, is to set up a local PAC at the regional level to monitor the performance audit reports on local governments.

8.5.4 THREATS

There are threats in the process of performance auditing in the Indonesian public sector. From the fieldwork, it has been found that there is a comfort zone level in the auditees' behaviour. The auditees' responses to performance auditing is slower than those to a special purpose audit, since the performance audit recommendations provided by the Indonesian Supreme Audit Institution focus on system improvement. This is due to the fact that the results are rarely pointed out at the personal or individual level. The low response to performance auditing recommendations will affect the value added to the performance auditing itself. Moreover, the auditees' understanding of performance auditing itself is low. The lack of understanding of it will have an impact on the auditees' concern about the importance of the performance audit conducted by the auditor. This is because auditees are likely to see that all the audits are the same, and are just looking to find fault.

In fact, performance auditing has a distinct characteristic compared with other types of auditing such as financial and special purpose auditing. The main characteristic of performance auditing is that it potentially leads to improvement in the auditees' systems. Another threat is that the influence of financial auditing and

compliance is still strong in the auditors' mindset, thus they will use the same techniques in performance auditing as in financial or compliance auditing. This may result in the achievement of performance auditing objectives which is less than the maximum. Disagreement between auditor and auditee in terms of developing performance auditing criteria can be a threat in the implementation of performance audits and follow-up of performance audit recommendations by auditees.

8.6 SUMMARY OF THE CHAPTER

This chapter summarises the analysis of previous research findings and includes discussion of the performance audit and public accountability as a basis for consideration in mapping performance auditing practice through the Critical Systems Heuristics. A critique on the current system of performance auditing is addressed in order to reframe the approach and practice. In addition, a SWOT analysis was added to enrich the summary of the research. The reframing of performance auditing work is essential to ensure the maximum benefit for the public. To improve public accountability, there is a need to design and construct appropriate systems that allow decisions to promote productivity and transparency. This can be done through the improvement of the performance auditing process and strengthening the institutional system at the Supreme Audit Institution and the Parliament through the Public Accounts Committee.

CHAPTER 9: CONCLUSION AND POLICY RECOMMENDATIONS

9.1 CONCLUSION AND FURTHER RESEARCH

In order to reframe performance auditing in the Indonesian public sector, especially that conducted by the Indonesian Supreme Audit Institution, a new role for the auditors and a fresh approach and strategy are required. If these are not adopted and implemented, the process of performance auditing will continue as a routine activity and will have no impact on the improvement of the complex problems in the Indonesian public sector. Therefore, that which Ackoff (2004) stated regarding the misdirected system in society as a result of policy decision-makers “doing the wrong thing right”, may well transpire in performance auditing. Reframing performance auditing activities is needed to avoid the mind traps during the auditors’ work. This would challenge the taken for granted approach of current performance auditing practice. Drawing on the wisdom of Vickers (1983), an audit could be seen as a piece of art. The process of auditing could lead to judgments through the appreciation of the whole system (Vickers, 1995). Auditors could expand their minds in executing performance auditing to provide better learning outcomes, otherwise, the process of performance auditing will become routine as stated above, and will not succeed in addressing the perfect storm of problems associated with social, economic and environmental deterioration.

The research shows that the understanding of the traditional concept of performance auditing is well accepted by auditors and understood by auditees. The expanding concept of the environmental aspect in performance auditing is mostly

accepted by auditors and they also agree that they should be responsible in assessing environmental aspects when conducting performance auditing. However, there are still counter-arguments as to whether this aspect should be included in performance auditing activities. In order to promote a better performance auditing role for the benefit of society, the Indonesian Supreme Audit Institution should transform the performance auditing policy from the traditional perspective to the wider adoption of public accountability, which expands the objective of performance auditing to not only examine the 3E's aspects, but also the environmental and sustainability perspectives. The need to reconsider the future generation is due to the fact that resources become scarce as organisations expand to a greater extent thus auditors are encourage to broaden their investigations into efficiency in the use of the scarce resources (Dittenhofer, 2002).⁴⁹ This research tries to remind auditors of the awareness of the environmental aspect in performance auditing and helps to reframe the way performance auditing should be undertaken. It does so by working on ways to address the systemic concern associated with business as usual on performance auditing (Irawan & McIntyre-Mills, 2014). As auditors are part of living system, they should aware of this matter. The audit profession should consider implementing a raft of measures to enhance social and environmental wellbeing. Opportunity costs to the environment could be

⁴⁹ In literature related to environmental degradation and the concern over the scarcity of natural resources, some scholars (Saul et al., 2012) cited Hardin's work (1968) on "the tragedy of the commons". However Hardin's work received criticism from Shiva (2002) who argued that it supported business as usual. Shiva stresses that the commons were closed and cites the work of John Locke on defence of property and the enclosure movements of the seventeenth century in Britain. Hardin's core argument is that in the absence of private property there would be lawlessness. Shiva argues that this is incorrect. The greatest misuse of natural resources has been by nations and corporations and not by local communities (water preservation in Bali, Indonesia and in Gujarat, India). She further explained that mistakenly this is now applied to the environmental movement when, in fact, it states the exact opposite of what is intended (see McIntyre-Mills, Binchai & De Vries, 2014b; McIntyre-Mills, 2014c).

addressed by addressing performance auditing to protecting the environment and the social fabric. Opportunity costs mean the cost of not implementing changes. Performance auditing as a means of public sector governance can be used to promote better accountability in a broad way. The performance audit needs to address complex problems and for this to occur, it needs to extend the range of indicators.

The Indonesian public sector could show leadership in demonstrating how to value and measure neglected environmental and social dimensions in the auditing process. The expanding concept of performance auditing into the environmental aspect is becoming a new paradigm in promoting better sustainability for current and future generations. In addition, representation on accountability should be expanded by considering the environmental sustainability of auditing work as a source of motivation. Thus, the objective of performance auditing could be defined as the independent examination of the economy, efficiency and effectiveness of the performance of government operations by considering the environmental and well-being aspects in the assessment of programs.

Meanwhile, with regard to the examination of fraud, this is less accepted by the auditors. The result shows that the perspective of the fraud aspect could be used in an indirect way, by the examination of audited entities to provide recommendations for improvement. By helping the auditees' system improvement, performance auditing has a role to play in deterring and preventing greater fraud and corruption in an institution. In addition, the profile of performance auditors should be carefully addressed by the Indonesian Supreme Audit Institution to add value to the work of performance auditing.

Transformation in the performance auditing process in the Indonesian Supreme Audit Institution is necessary as the current pattern of performance auditing is highly influenced by the work of financial and special auditing, and this may erode the essence of performance auditing itself. For example, the research found that the style of performance auditing conducted by the Indonesian Supreme Audit Institution still follows the financial audit style as a result of the lack of audit technology and skills in performance auditing. The endeavour to drive performance accountability in Indonesia as undertaken by the Supreme Audit Institution is hindered by accountability for compliance, due to the financial audit culture that has been deeply embedded in the minds of auditors. If this situation continues, the benefit of performance auditing will be questionable and might affect the level of performance accountability, since its purpose and output are different from other types of audit. The primary goal of performance auditing is to improve the system at the audited institutions, while the objective of financial auditing is to present an opinion on financial statements. The purpose of a special purpose audit is to find state financial losses or fraud. Indeed, reframing the concept and practice of performance auditing is not easy. There is little improvement in how the performance auditing recommendations work effectively. This is supported by evidence that the same findings recur annually and the failure to respond to audit queries is not considered as constituting serious misconduct. There is no firm action if the auditees are less responsive or, in fact, unresponsive to performance audit recommendations.

The research shows that the current practice of performance auditing is less than effective, as indicated by the many problems surrounding the work of

performance auditing. There is a need to revitalize and overhaul the current performance auditing activities conducted by the Indonesian Supreme Audit Institution, as auditing is a powerful agent for constructive consequence and social change. The improvement of public accountability in the public sector depends on the quality of performance of public organisations. In the case of performance auditing, it could provide more benefits if the rules of the game in terms of the implementation and result of performance auditing are improved. The role of society and mass media also should not be ruled out.

In a democratic parliament where the parliamentarians are representatives of the people, it is crucial to monitor the results of the Supreme Audit Institution as the oversight institution to scrutinise the use of public funds and the performance of government organisations. In fact, the research shows that there is little attention paid by the Parliament regarding the following-up of audit reports. Major efforts are required to support the mechanism for the follow-up of audit reports. Indeed, currently the Parliament has established the Public Accounts Committee as an arms-length committee of the Parliament's oversight body, however the role and authority of the Public Accounts Committee are still limited. It cannot be denied that the effectiveness of audit results to a large extent depends on the interest and support from the Parliament, especially the Public Accounts Committee.

Public sector reform in Indonesia would be of little assistance unless there is strong support from the Parliament to uphold the principle of the financial and performance accountability of the government. The principal-agent relationship needs to be revitalized in terms of the use of performance auditing reports. The current emphasis of the Parliament, which focuses more on the fraud and

irregularities aspect, should be balanced with attention to the performance aspect. The promotion of better public accountability and transparency in regard to the performance auditing activities needs to be a collective task between the Indonesian Supreme Audit Institution, the Public Accounts Committee and stakeholders. While the Indonesian Supreme Audit Institution is in the best position to evaluate how the government institutions can be improved, the Public Accounts Committee can play a role in monitoring performance audit follow-up. In addition, stakeholders, such as society and mass media, can contribute to observing the extent to which the implementation of performance auditing recommendations is carried out as a form of monitory democracy from below (Keane, 2008).

The transparency of the work of performance auditing in the Indonesian Supreme Audit Institution could be enhanced by providing the cost of the audit in the audit reports. Thus, society could see the value for money of performance auditing activities. The cost information also could be presented in the other audit reports, such as financial and special purpose audits. Therefore, as an institution, the Indonesian Supreme Audit Institution should reform itself to promote better transparency and accountability in the use of public money. Accountability should be seen to promote the voice of the people by involving society in regard to the performance auditing activities. In this case, the Supreme Audit Institution, in a way, could enable society to voice their interest in regard to the improvement of public infrastructure, services and well-being.

In addition, in order to improve public accountability in terms of performance auditing in Indonesia, there are some preconditions that need to be developed, namely (i) public media that have knowledge and awareness about the

importance of performance auditing need to disseminate the information to the public, (ii) involving citizens in the performance auditing process by giving constructive force to the auditing process and monitoring the results of performance auditing, and (iii) raising awareness among auditees of the value of performance auditing activities, so they will be responsive in the implementation of performance auditing recommendations. Therefore, the proposition of systemic thinking, namely that A is better off if B is better off, can be borrowed and applied to performance auditing. The impact of performance auditing is better off if the process of institutionalisation of performance auditing is better off. The next challenge of the Indonesian Supreme Audit Institution in terms of performance auditing activities is how to expand the measurement of well-being and sustainability, and not simply the conventional measurement of the economy, efficiency and effectiveness aspects. In addition, the current practice of performance auditing should address not only the performance and program accountability but also should be expanded to policy and social accountability as a form of broad accountability.

Further research

In this study, there were limitations of time and cost; thus, further research could be expanded with the support of more various stakeholders. Future studies could also investigate the research to construct a raft of measurements of environmental and well-being indicators in performance auditing that are suitable for the Indonesian context. Research to evaluate the effectiveness of the Public Accounts Committee could also be explored, using other lenses. The exploration of

performance auditing activities in the private sector could also be an interesting further research project as a comparison with the public sector.

9.2 POLICY RECOMMENDATIONS

Based on the research findings and mapping of the Critical Systems Heuristics (CSH) in Chapter 8, the “what ought to be” of the research could be developed as suggestions for policy recommendations. Hence, in order to promote better performance auditing practice, the research suggests several policy recommendations regarding the process of performance auditing to improve public accountability in the Indonesian public sector, namely:

9.2.1 Changing mindsets in regard to the performance auditing activities

The lack of clear understanding of performance auditing activities among auditors and top management at the Indonesian Supreme Audit Institution, as a result of the influence of financial and compliance auditing, is resulting in performance auditing activities which have a doubtful impact in evaluating the performance of the public sector. Without a mindset change among auditors and official executive levels, the value added to performance auditing in improvement in the performance and the system will not be maximized, as performance auditing will be trapped in compliance and regulations auditing. As performance auditing is different to financial auditing, auditors should have the ability to see the total performance of organisations and not only the detailed financial and compliance process.

9.2.2 *Considering environmental aspects in performance auditing as a means of sustainability*

There is a need to consider the environmental aspect in performance auditing activities conducted by the Indonesian Supreme Audit Institution, as a means of promoting better performance accountability to the public. The inclusion of the environmental aspect can be done by adding some environmental indicators to the performance auditing criteria. This practice can help the awareness of both auditors and auditees in terms of the sustainability aspect of performance auditing. Therefore, performance auditing activities are not only a pragmatic practice that looks at only the economy, efficiency and effectiveness aspects, but also expands into broader pragmatism with the inclusion of the environmental aspect. Raising environmental awareness to auditors and auditees is also means that 'we are not going to be selfish' in regard to the way we protect the natural environment. As a comparison in financial auditing field, Gleeson-White (2014) argues that there is a need to take account of the externalities in a broader assessment of 'capitals' including natural capital.⁵⁰ Her argument is that we should value the environment, for instance, by incorporating the environmental costs into financial statements. However, this is not enough. We should avoid commodifying nature (Monbiot, 2014).⁵¹ The way forward is not only to value the environment but also to engage the people who are affected by policy decisions (McIntyre-Mills, Binchai & De Vries, 2014b) and in this way people could be able to voice their values and shape the

⁵⁰ Jane Gleeson-White (2014) in her books 'Six Capitals: The Revolution Capitalism Has to Have or Can Accountants Save the Planet?' explained the capitals consisting of the financial, manufactured, intellectual, human, social and relationship, and natural capital.

⁵¹ Monbiot (2014) critiques the thesis raised in works such as Jane Gleeson-White (2014) and describes them as commodifying nature (see <http://www.monbiot.com/2014/07/24/the-pricing-of-everything>).

indicators for social, economic and environmental wellbeing that matter to them. This is representation and accountability from below (McIntyre-Mills, Binchai & De Vries, 2014b). This approach will scale up the Local Agenda 21 and the Sustainable Development Goals that can be translated into practice through auditing tools.

9.2.3 Introducing Performance Auditing as a means of combating fraud and corruption

Performance auditing can be used to deter fraud and corruption in government entities as a preventive means. It can be done through improvement in the systems of the entities. Even though the Indonesian Supreme Audit Institution adopted the Board model of the Supreme Audit Institution, in which the power of punishment is less, compared to the SAIs that adopted the Napoleonic model, the Indonesian Supreme Audit can still contribute to anti-corruption efforts in terms of prevention and deterrence of corruption. As the ASOSAI (2003, Section 1.13) stated:

Corruption poses a serious risk to the credibility of its findings in individual audits and its national responsibility and role...SAI should have an adequate level of mandate to deal with cases of fraud and corruption in planning and conducting an audit and that this mandate is usually inherent in the audit mandate.

In this case, the Indonesian Supreme Audit Institution has a powerful mandate to conduct public sector auditing, which is stated in Sections 2 article 4 of Law No. 15, year 2004 concerning State Financial Management and Accountability. Therefore, the contribution of the Indonesian SAI is important in order to promote better governance and accountability.

9.2.4 Redefining the profile of an auditor's performance audit

The role of a performance auditor in the Indonesian Supreme Audit Institution is not well defined. The work of performance auditing is becoming a routine activity for auditors, as they have to execute their audit planning every year. The Indonesian Supreme Audit Institution should develop a clear policy over the role of auditors in carrying out performance audits. A clear adoption of the auditor profile will assist auditors to carry out their functions. The auditor profile must determine the rules that will be executed by auditors when conducting performance audits. Therefore, a policy setting over the auditor's profile should be disclosed in the Indonesian Supreme Audit Institution leadership strategy. A clear auditor profile will drive the obvious output of performance audits. In addition, the auditee will be able to distinguish what is desired by the auditors in regard to a performance audit compared with other types of audits. Scott (1996, p. 216) mentioned that a co-operative approach should be conducted in order to maximize the benefit of performance auditing. This means that public sector performance auditing should not just be fault finding, but also solution finding.

9.2.5 Development of auditor's capacity building in terms of performance auditing

The auditors of the Indonesian Supreme Audit Institution need to enhance their capabilities in terms of performance auditing technology. Development in using methods or techniques of performance auditing is crucial, since most auditors are still influenced by the financial or special purpose audit techniques.

9.2.6 Introducing continuous audit monitoring instead of one-off audits

The current practice in the Indonesian Supreme Audit Institution regarding performance auditing is patterned more on a one-off audit style. This kind of audit style does not guarantee that the performance audit recommendations have been carried out properly and correctly. As the general objective of performance auditing is to improve the system, the one-off audit style provides less benefit for this purpose.

9.2.7 Providing specialisation in terms of audit work

As found in the field work, the auditors in the Indonesian Supreme Audit Institution conduct audits in the absence of any type of job specialisation. They do all audit work, such as financial, performance and special purpose audits. To reap the maximum benefit of performance auditing, it is recommended that auditors in the Indonesian Supreme Audit Institution develop specialisations.

9.2.8 Strong leadership is needed in the implementation of performance audit recommendations

The leadership aspect is crucial to guide how performance auditing should be conducted, not only leadership from the Indonesian Supreme Audit Institution but also from the auditees and Parliament. Leadership from the Supreme Audit Institution will provide auditors with clear directions on how to perform performance auditing activities. From the perspective of the auditees or government, leadership is important as leaders who are sensitive, responsive, and transparent to their subordinates and to the public will generally practise accountability, starting from the lowest level. This kind of conducive environment is very favourable for the implementation of accountability in government agencies.

These leaders can accelerate the responsiveness in the implementation of performance audit recommendations. From the Parliament, there is also a need for strong leadership in monitoring the work of the Supreme Audit Institution on performance auditing projects and inquiring into performance audit findings for the government or auditees.

9.2.9 Government agencies should develop proper performance indicators

The problem of proper performance indicators in the Indonesian government agencies is crucial to solve. In some cases, the institutions or agencies do not even have performance indicators. This situation can be a bottleneck in regard to the spirit of government reformation in Indonesia. In relation to transparency, the institutions should publish their performance targets and information about their performance achievements. This helps the Indonesian Supreme Audit Institution as an external auditor, the Parliament, and the society to observe the work of agencies.

9.2.10 The audit institution should produce better practice guidelines in order to foster implementation of “the rules of the game” in performance auditing activities, based on an institutional theory perspective.

The lack of better practice guidelines related to performance auditing activities in the Indonesian public sector means that auditees have no references to improve their systems. In addition, auditees’ understanding in terms of performance auditing is also limited. Therefore, there is a need to provide auditees with information and guidelines on how to improve performance accountability in their entities. The Indonesian Supreme Audit Institution can take on this role, to

support mutual understanding in promoting better practice on performance improvement.

9.2.11 The Indonesian Supreme Audit Institution should measure the impact of performance auditing and report this impact in its annual report as a form of accountability

The semester and annual reports of the BPK's audit activities that are submitted to the Parliament do not include the measurement of the impact of performance auditing projects. In order to promote better accountability, the measurement of the impact of performance auditing would be necessary. People could then see that indeed a performance auditing project can provide value to society, otherwise they are not informed of the benefits of performance auditing.

9.2.12 As a form of transparency to the taxpayers, the Indonesian Supreme Audit Institution should initiate the disclosure of the performance auditing costs in its performance auditing report.

This disclosure will provide information to society regarding the costs and benefits of performance auditing project. As a comparison, the Australian National Audit Office (ANAO) lists the cost of the audit in its audit reports, including in performance audit reports. The determination of the cost of the performance audit is essential in order to raise auditors' awareness of the value for money of performance audits. The inclusion of these costs will encourage audit institutions to work more economically. Besides, the inclusion of the performance audit will inform the audited entity, the government and legislature in terms of resources used by the audit agency.

9.2.13 Marketing the performance auditing to central government institutions and local governments

The need to introduce and socialise performance auditing to government institutions or departments is unavoidable, especially to the local governments that have little understanding of the performance auditing concept. Local governments currently focus on financial audits. This has happened as the result of a financial audit, an evaluation of financial statements, will affect the preparation of the local budget for the following years. A local government that obtains a positive evaluation of the financial statements would gain benefits, such as the trust and support of the community as well as that of entrepreneurs/investors, receive funding incentives (rewards) from the central government, and also gain the trust of the central government to provide an additional development budget.⁵²

9.2.14 Strengthening the power of the Public Accounts Committee in following up audit reports

The establishment of the Public Accounts Committee in the year 2009 in the Indonesian state structure was indeed a step forward in the supervision of the Supreme Audit Institution's reports by the Parliament. This is encouraging support for governance reform in Indonesia, which has been supporting the establishment of better democracy. However, the improvement of PAC capacity in terms of institutional capacity and the expansion of authority needs to be carried out so that the PAC is not a shadow organisation under the Commission of Parliament. If not, the results of the BPK's audit reports will not provide any value if there is no good

⁵² In Article 34 of Government Regulation No. 8 of 2006 concerning Financial and Performance Reporting of Government Agencies, it is remarked that any delay in submission of financial statements by budget users at central and local levels will be sanctioned in the form of suspension or delay in the implementation of the budget disbursement.

follow-up mechanism. The Public Accounts Committee plays an important role in pressuring the government to make improvements in budget management and performance. Thus, public accountability could be improved, where the relationship between institutions and the tasks they perform is subject to another's oversight, direction or request that they explain or justify their actions.

The need to establish local PAC's in local government is considered necessary as Indonesia has 34 provinces and 505 counties and municipalities as the result of decentralisation and local autonomy. The argument is that the effort to improve financial and performance accountability in the use of state funds must be carried out simultaneously at all levels of government, not only in the central government but also local governments.

9.2.15 Improving trilateral coordination between the Supreme Audit Institution, the Parliament (Public Accounts Committee), and Government

Coordination is becoming an important element to improve the use and the monitoring of performance auditing activities and recommendations. Problems in the public sector are often called "wicked problems" (Rittel & Webber, 1973) thus resolution is needed to unravel this situation. Coordination between the Supreme Audit Institution, the Parliament, and government is vital to maximize the benefit of performance auditing activities.

9.2.16 Involving public participation in determining performance auditing objects/topics

The benefit of performance auditing is important for society. Performance auditing can improve its contribution to public accountability by involving society when determining a performance auditing topic. The inclusion of society is

becoming a significant element in promoting better governance and accountability. A performance auditing outcome can only be effective if the performance audit findings are available to the public and there is public involvement in the monitoring process; therefore, a sound communication and reporting strategy becomes a critical success factor. The contribution of citizens, mass media and civil society to enforce standards of good performance of officials is an important part in promoting vertical accountability (Goetz & Gaventa, 2001).

9.2.17 Introducing the rewards and sanctions mechanism to foster performance accountability

The sanctions mechanism is still considered necessary in order to foster performance accountability in the public sector and to promote probity in the use of public money. The consequences of the results of performance auditing work need to be addressed properly; otherwise, audit reports remain documents lying on the tables of auditees or Parliament. So, it is important to implement a clear sanctions mechanism to make performance auditing more beneficial. Of course, there will be advantages and drawbacks in this situation; however, in the researcher's opinion, the context of accountability cannot be hindered by eliminating the sanctions mechanism. As public officials in government usually enjoy living in a comfort zone, there will be resistance to changes (i.e. see discussion on section 6.5.2.1). In order to develop regularity in government, firm rules are required to appropriately guide people. Similarly with the performance auditing process, if the recommendations are not implemented by auditees, the benefit of the performance audit will be less useful. Therefore, there is a need for firmness and consequences in the implementation of performance auditing. In this case, the

research supports Fukuyama (2004, p. 191), who stated that there is a need for sanctions in the context of principal-agent. A great deal of the work that is now being done on improving governance is the results of efforts to better align agent incentives with those of the principals. The general approach to aligning principal and agent interests is to promote greater transparency in the activities of the agents (an alternative way of describing the monitoring of their behaviour), and then to hold the agents accountable for their actions through a variety of rewards and punishments.

The sanction mechanism is necessary at this stage of development of performance auditing and social maturity of Indonesia. This is due the fact that the ethics of shame in violation of state finances have not appeared in executive behaviour in Indonesia. Indeed, in the future, the punishment mechanism will decrease along with the increasing awareness of the culture of shame when executives have poor accountability in budget management and the performance of their institutions. One of the PAC's members stated as follows in the *Kompas* newspaper (2012a):

We must build a new ethic, shaming and naming...social punishment must be turned on in order to make state officials uncomfortable if they perform inappropriate behaviour and are not accountable. In Indonesia, most people (state officials) are not shy when performing inappropriate behaviour.

As a comparison, in the UK, every public official must prepare themselves as well as possible if the PAC makes an inquiry. There is a kind of moral consequence, if the officials cannot give satisfactory answers to the Public Accounts Committee.

This can be very negative if they cannot account for the managed budgets in front of the PAC. It could be detrimental to their position and future careers, and they could even lose their positions (Kompas, 2012b). In contrast, the rewards mechanism could be an award for those who have implemented the performance audit recommendations successfully, such as awarding an additional budget for activities that could enhance the performance of the auditees.

9.2.18 Improving the transparency of the work of the Public Accounts Committee

The work of the Public Accounts Committee is not yet widely available for public consumption. The Public Accounts Committee could enhance their transparency by publishing their reports on their websites for the public to access. Another way of gaining public attention is by broadcasting the hearings conducted by the Public Accounts Committee when calling up institutions for audit findings' clarification. These hearings should be made available on the Internet. In addition, the engagement with mass media to disseminate the information regarding the substantial work of the Public Accounts Committee could be improved, so that society can read and watch the performance of the Public Accounts Committee. As Clarke (2005) states, since transparency is not the normal condition, it needs to be produced.

9.2.19 Strengthening the institutional capacity of the Indonesian Public Accounts Committee (PAC)

The PAC has an office in the Parliament building located in Jakarta, with nine members, including its chairman and vice chairman. However, the PAC members also serve as members of factions in the Parliament. Therefore, the dual position of

PAC members could affect their individual performance in carrying out their role. There needs to be institutional change in the PAC, in order to improve the organisation and its working procedures, for instance, adding the members of the PAC and staff to the secretariat so as to speed up its operational work. As the geographic area of Indonesia is large and consists of central and local governments in 34 provinces, this task of oversight cannot be handled by the PAC alone in the central Parliament. The establishment of the PAC in local governments needs to be considered which could help local parliament oversee the results of the BPK audit reports.

9.3 THE NEXT STEP IN POLICY RECOMMENDATIONS: WHAT CAN BE DONE?

To implement these recommendations, several actions could be undertaken by the auditing profession in general and the Supreme Audit Institution in particular. Firstly, there should be collaboration with all levels of government. Workshops in collaboration with auditors and policy researchers in the public sector could be held to disseminate the reframing of performance auditing concepts and practices. Secondly, the curriculum on performance auditing needs to be developed. The process of awareness of the environmental aspects as well as reframing the performance audit practices can be created by developing training and curriculum. A new curriculum on performance auditing could elaborate the need for environmental inclusion and the requirement to reframe current performance auditing practices through an action learning program. This would be developed in collaboration with all levels of government, public and private and

volunteer organisations, based on a learning organisation and a learning digital and face to face community (Wenger, 2000; Wenger, White & Smith, 2009). A learning community could be set up to enable curriculum development with organisations such as university, the Indonesian Supreme Audit training centre and professional organisations in accounting and auditing field.

This approach to organisational learning has been advocated by Wenger (2000) who stresses the importance of creating a social learning system as the starting point for the creation of a community of practice within and beyond organisations. Hence, the Supreme Audit Institution could play the role of producing a social learning system through *engagement*, *imagination* and *alignment*. This is in line with the work of Kanter (1989) who argues for pooling, linking and allying strategies. The engagement process allows the performance auditor to assist auditees in improving their performance. The auditors could share ideas of environmental awareness by discussing the development of more environmental indicators with members of the public, private and non-government sectors.⁵³ Engagement is vital for raising public awareness of the need to value the social and environmental dimensions of ones' lives. Engagement with the community could be used to develop the performance auditing process and to test out the indicators, prior to developing a new performance auditing approach that covers important societal issues such as public services and infrastructure to address food, energy and water and their impact on health, transportation and agriculture, for example.

⁵³ The indicators could be based on social, economic and environmental dimensions. A source of inspiration for these training workshops could be the Design of Inquiring Systems approach adapted from Churchman by McIntyre-Mills, De Vries and Binchai (2014b) in "*Transformation from Wall Street to wellbeing*" and by McIntyre-Mills (2014a) in "*Systemic Ethics*".

The process of imagination could stimulate the sociological imagination (Mills, 1959) of the Indonesian auditors to promote better performance accountability in government. During the process of alignment, the Indonesian Supreme Audit Institution could learn to address international concerns expressed in the Sustainable Development Goals, as outlined by the United Nations (2012), and engage in benchmarking with other Supreme Audit Institutions, in order to develop new approaches to improving performance auditing practices.

REFERENCES

- AARF (2002). *AUS 806 Performance Auditing*. Melbourne: Australia Accounting Research Foundation .
- ACFE (2008). *2008 Report to the Nation on Occupational Fraud & Abuse*. Accessed: http://www.acfe.com/uploadedFiles/ACFE_Website/Content/documents/2008-rttn.pdf, date: 12 January 2012.
- Ackoff, R.L. & Pourdehnad, J. (2001). On Misdirected Systems. *Systems Research and Behavioral Science*. Vol 18(3). pp.199-205.
- Ackoff, R. (2010). *Systems Thinking for Curious Managers*. United Kingdom: Triarchy Press.
- Ackoff, R., L. (2004). Transforming the Systems Movement. Accessed from: <http://www.acasa.upenn.edu/RLAConfPaper.pdf>, date: 3rd October 2013.
- Australian Capital Territory (ACT) Audit Office (2014). *ACT Auditor-General's Report: Annual Report 2013-2014, Report No.6/2014*. Canberra: ACT Audit Office.
- Adams, N. (1986). Efficiency auditing in the Australian Audit Office. *Australian Journal of Public Administration*. Vol. XLV (3), pp.189-199.
- Arens, A.A, & Loebbecke, J.K. (2000). *Auditing: An Integrated Approach*. New Jersey: Prentice Hall.
- Arens, A.A, Best, P., Shailer, G., Fiedler, B., Elder, R., & Beasley, M. (2007). *Auditing and Assurance Services in Australia: an Integrated Approach, 7th Ed.* Australia: Pearson Education – Prentice Hall.
- ASOSAI (2003). *ASOSAI Guidelines for Dealing with Fraud and Corruption*. Manila: Asian Organization of Supreme Audit Institutions.
- ASOSAI (2004). Fifth Asosai Research Project Performance Audit Guidelines. http://www.asosai.org/system/upload_file/function/_20091218135207.pdf, date: 8th May 2012.
- Athmay, A.A.R. (2008). Performance auditing and public sector management in Brunei Darussalam. *International Journal of Public Sector Management*, Vol. 21(7), pp.798-811.
- Aucoin, P. (1990). Administrative Reform in Public Management: Paradigms, Principles, Paradoxes and Pendulums. *International Journal of Policy and Administration*, Vol. 3(2), pp.115-135.

- Aucoin, P. (1998). *Auditing for Accountability: the Role of Auditor General*. Canada: The Institute on Governance.
- Aucoin, P., & Heintzman, R. (2000). The Dialectics of Accountability for Performance in Public Management Reform. In B.G. Peter & D.J. Savoie (Eds.), *Governance in the Twenty-First Century: Revitalizing the Public Service*. Canada: McGill-Queen's Press.
- Babbie, E. (2001). *The Practice of Social Research (9th Ed.)*. Belmont: Eve Howard.
- Babbie, E. (2011). *The Basic of Social Research (5th Ed.)*. USA: Wardsworth.
- BAKN (2012). Peran Komisi DPR Lamban Respon Hasil Telaahan BAKN. Accessed: <http://www.dpr.go.id/id/berita/bakn/2014/mar/05/7731/peran-komisi-dpr-lamban-respon-hasil-telaahan-bakn>, Date: 4 March 2014.
- Ball, I. (2011). *Trust and Accountability in Public Financial Management*. CIPFA's 1st International Conference, 17 March 2011, London.
- Banathy, B.H. (2001). *Guided Evolution of Society: A Systems View*. New York: Plenum.
- Bardach, E. (2000). *A practical Guide for Policy Analysis*. New York: Seven Bridges Press.
- Barret, P. (2001). *Evaluation and Performance Auditing: Sharing the Common Ground*. Australian Evaluation Society International Conference, 10 October 2001, Australia.
- Barzelay, M. (1996). VFM Auditing and the New Public Management Changing Roles and Strategies of Central Audit Institutions. In *OECD Performance Audit and the Modernisation of Government (pp.15-56)*. Paris: PUMA-OECD.
- Barzelay, M. (1997). Central Audit Institutions and Performance Auditing: a Comparison Analysis of Organizational Strategies in the OECD. *Governance: An International Journal of Policy and Administration*, Vol. 10(3), pp.235-260.
- Basu, S.K. (2006). *Auditing: Principles and Techniques*. New Delhi: Pearson Education.
- Bayou, M. E., & Reinstein, A. (2001). A Systemic View of Fraud Explaining Its Strategies, Anatomy and Process. *Critical Perspective on Accounting*, Vol. 12(4), pp.383-403.
- Beer, S. (1974). *Designing Freedom*. Toronto: CBC Publications.

- Behn, R.D. (2001). *Rethinking Democratic Accountability*. Washington: Brooking Institution Press.
- Bemelmans-Videc, M-L. (2007). Accountability, a Classic Concept in Modern Contexts: Implications for Evaluation and for Auditing Roles. In Bemelmans-Videc, Lonsdale & Perrin (Ed.) *Making Accountability Work*. New Jersey: Transaction Publishers.
- Berita Wapres (2012). Tingkatkan Kualitas Auditor Intern Pemerintah. Accessed: <http://wapresri.go.id/index/preview/berita/2483>, date 5 January 2013.
- Boven, M. (2005). Public Accountability. In Ferli E., Lynn L.E., & Pollitt C. (Eds.) *The Oxford Handbook of Public Management*. New York: Oxford University Press.
- Brown, R.E., Gallagher, T.P. & Williams, M.C. (1982). *Auditing Performance in Government: Concepts and Cases*. USA: John Wiley & Sons.
- Bruce, S. and Yearley, S. (2006). *The Sage Dictionary of Sociology*. California: Sage Publications.
- Brundtland Commission, (1987). Report of the World Commission on Environment and Development: Our Common Future. Accessed: <http://www.un-documents.net/our-common-future.pdf>, date: 10 June 2011.
- Bryman, A & Bell, E. (2007). *Business Research Methods* (2nd Ed). Oxford: Oxford University Press.
- Buckingham, A., & Saunders, P. (2004). *The Survey Methods Workbook: from Design to Analysis*. Cambridge: Polity Press.
- Buckley, W. (2009). *Systems Research for Behavioral Science: A Sourcebook*. New Jersey: Transaction Publishers.
- Burrell, G. & Morgan, G. (1979). *Sociological Paradigms and Organisational Analysis: Elements of the Sociology of Corporate Life*. UK: Heinemann.
- Caiden, G.E. (1981). New Directions in state audit. In Geist, B. (Eds) *State Audit Development in Public Accountability*, New York: Holmes & Meier Publishers
- Carino, L.V. (1991). Administrative Accountability: a Review of the Evolution, Meaning and Operationalization of a Key Concept in Public Administration. In Friedberg A., Geist B., Mizahri N., & Sharkansky I., (Eds) *State Audit and Accountability a Book of Readings*. Jerusalem: State Comptroller's Office.
- Chapman, S. (2007). *Emerging Issues and Global Challenges in Public Sector Audit in the 21st Century*. Paper presented to National seminar on Public Sector

Audit: Enhancing Transparency and Accountability in the Management of State Finance. 9 January 2007, Jakarta – Indonesia.

Chelimsky, E. (1985). Old Patterns and New Directions in Program Evaluation, in E.Chelimsky (ed.) *Program Evaluation: Pattern and Directions*. Washington: American Society for Public Administration.

Churchman, C.W. (1979). *The System Approach: Revised and Updated*. New York: Dell Publishing

Clarke, J. (2005). Producing Transparency? Evaluation and the Governance of Public services. In G. Drewry, C. Greve & T. Tanquerel (Eds.), *Contracts, Performance Measurement and Accountability in the Public Sector*. Netherland: IOS Press.

Cogliandro, G. (2001). *The role of the Italian Supreme Audit Institution is fighting corruption and mismanagement in performance auditing and in the privatisation process*. Consiglio Nazionale dell'Economia e del Lavoro, Rome, 28-30 November 2001.

Common, R.K. (1998). Convergence and Transfer: a Review of the Globalization of New Public Management. *The International Journal of Public Sector Management*, Vol. 11(6), pp.440-450.

Corbett, D. (1996). *Australian Public Sector Management*, Sydney: Allen and Unwin Publisher.

Corner, D & Drewry, G. (2005). The Implications of Public Service Reform for Accountability and Audit – Recent Developments in the UK. In G. Drewry, C. Greve & T. Tanquerel (Eds.), *Contracts, Performance Measurement and Accountability in the Public Sector*. Netherland: IOS Press.

Courville, S. (2003). Social Accountability Audits: Challenging for Defending Democratic Governance? *Law & Policy Journal*, Vol. 25(3), pp.269-297.

Creswell, J.W. (2009). *Research Design: Qualitative, Quantitative, and Mixed Methods Approach (3rd Ed.)*. Thousand Oaks: Sage.

Creswell, J.W., & Clark V.L.P. (2011). *Designing and Conducting Mixed Methods Research (2nd Ed.)*. Thousand Oaks: Sage.

Curristine, T. (2005). Government Performance: Lessons and Challenges. *OECD Journal on Budgeting*, Vol. 5(1), p.127-151.

- Daujotait, D. & Macerinskien, I. (2008). *Development of Performance Audit in Public Sector*. Paper presented to 5th International Scientific Conference Business and Management 2008, Vilnius – Lithuania.
- Dillard, J.F., Rigsby, J.T. & Goodman, C. (2004). The making and remaking of organization context: Duality and the institutionalization process. *Accounting, Auditing & Accountability Journal*, Vol. 17(4), pp.506-42.
- DiMaggio, P. & Powell, W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, Vol. 48, p.147-160.
- Dirsmith, M and Carpenter, B. (1992). Sampling and the Abstraction of Knowledge in the Auditing Profession an Extended Institutional Theory Perspective. *Journal of Accounting, Organizations and Society*, Vol. 18(1), pp.41 – 63.
- Dittenhofer, M.A. (2002). *Performance Auditing for Government Financial Management*. Florida: International Consortium for Government Financial Management.
- Donabedian, A. (1966). Evaluating the Quality of Medical Care. *The Milbank Memorial Fund Quarterly*, Vol. 44(3), pp.166-203.
- Dowdle, M.E. (2006). *Public Accountability: Designs, Dilemmas and Experiences*. New York: Cambridge University Press.
- Dunn, J. (1996). *Auditing: Theory and Practice*. New Jersey: Prentice Hall.
- Dunsire, A. (1986). A Cybernetic View of Guidance, Control and Evaluation in the Public Sector. In Kaufmann, F.X., Majone, G. & Ostrom, V. (Eds.), *Guidance, Control and Evaluation in the Public Sector*. Berlin: de Gruyter.
- Dye, M.K. & Stapenhurst, R. (1998). *Pillars of Integrity: the Importance of Supreme Audit Institutions in Curbing Corruption*. Washington DC: World Bank.
- Eisenhardt, K.M. (1988). Agency and Institutional Theory Explanations: The Case of retail Sales Compensation. *Academy of Management Journal*, Vol. 31(3), pp.488 – 511.
- Elkington, J. (1997). *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*. Capstone Publishing Limited.
- English, L. (2007). Performance Audit of Australian Public Private Partnerships: Legitimising Government Policies of Providing Independent Oversight? *Financial Accountability and Management*. Vol. 23 (3), pp. 313-336.

- Erns & Young (2013). *Growing Beyond: a Place for Integrity*, 12th Global Fraud Survey.
- Espejo, R., Bula, G., & Zarama, R. (2001). Auditing as the Dissolution of Corruption. *Systemic Practice and Action Research Journal*, Vol. 14(2), p.139-156.
- Fama, E.F., & Jensen, M.C. (1983). Separation of Ownership and Control. *Journal of Law and Economics*, Vol. 26, pp.301–325.
- Flannery, T. (2009). *Now or Never: Why We Need to Act Now to Achieve Sustainable Future*. Toronto: Haper Collins.
- Flannery, T. (2010). *Here on Earth: An Argument for Hope*. Melbourne: Text Publishing.
- Flood, R.L. & Romm, N. (1996). *Diversity Management: Triple Loop Learning*. Chichester: Wiley.
- Flood, R.L. (2001). The Relationship of 'System Thinking' to Action Research. In P. Reason & H. Bradbury (Eds.), *Handbook of Action Research: Participative Inquiry and Practice*. London: SAGE Publications Ltd.
- Florini, A. (2003). *The Coming Democracy*. Washington DC: Island Press.
- Fukuyama, F. (2004). Why There is No Science of Public Administration. *Journal of International Affairs*, Vol. 58(1), pp. 189-201
- Funkhouser, M. (2005). *Accountability, Performance, and Performance Auditing: Reconciling the View of Scholars and Auditors*. Presentation paper at Accountability Governance: An International Research Colloquium. Queen's University, Belfast.
- Funnel, W., & Cooper, K. (1999). *Public Sector Accounting and Accountability in Australia*. Sydney: UNSW Press.
- Funnell, W. (2001). *Government by Fiat: The Retreat from Responsibility*. Sydney: UNSW Press Book.
- Funnel, W., Cooper, K. & Lee, J. (2012). *Public Sector Accounting and Accountability in Australia*. Sydney: UNSW Press.
- Funnell, W., & Wade, M. (2012). Negotiating the Credibility of Performance Auditing. *Critical Perspectives of Accounting*, Vol. 23(6), pp. 434–450.
- Geer, J.G., Schiller, W.J., Herera, R., & Segal, J.A. (2014). *Gateways to Democracy An Introduction to American Government*. Boston: Cengage Learning.

- Geist, B. (1981). *State Audit Development in Public Accountability*. New York: Holmes & Meier Publisher.
- Gendron, Y., Cooper, D.J., & Townley, B. (2001). In the Name of Accountability – State Auditing, Independence and New Public Management. *Accounting, Auditing and Accountability Journal*, Vol. 14(3), pp.278-310.
- Gendron, Y., Cooper D.J., & Townley, B. (2007). The Construction of Auditing Expertise in Measuring Government Performance. *Accounting, Organization and Society*. Vol. 32, p.101-129.
- Gibson, P.D., Lacy, D.P. & Dougherty, M.J. (2005). Improving Performance and Accountability in Local Government with Citizen Participation. *The Innovation Journal: The Public Sector Innovation Journal*. Vol. 10(1), pp.1-12.
- Giddens, A. (1993). *New Rules of Sociological Method: A Positive Critique of Interpretative Sociologies* (2nd Ed). Stanford: Stanford University Press.
- Gleeson-White, J. (2014). *Six Capitals: The Revolution Capitalism has to Have or Can Accountants Save the Planet?* Australia: Allen & Unwin.
- Glynn, J.J. (1993). *Public Sector Financial Control and Accounting* (2ndEd). Oxford: Blackwell Publishers.
- Goetz, A.M., & Gaventa, J. (2001). *Bringing Citizen Voice and Client Focus into Service Delivery*. IDS Working Paper No. 138. Brighton: University of Sussex.
- Golafshani, N. (2003). Understanding Reliability and Validity in Qualitative Research. *The Qualitative Report*. Vol. 8(4), pp.597-607.
- Grasso, P.G. & Sharkansky, I. (2001). The Auditing of Public Policy and the Politics of Auditing: The USA GAO and Israel's State Comptroller. *Governance: An International Journal of Policy and Administration*. Vol. 14(1), pp.1-21.
- Gray, A, & Jenkins, B. (2007). Checking Out? Accountability and Evaluation in the British Regulatory State. In Bemelmans-Videc, Lonsdale & Perrin (Ed.) *Making Accountability Work*. New Jersey: Transaction Publishers.
- Gray, D.E. (2004). *Doing Research in the Real World*. Thousand Oaks: Sage Publications.
- Gray, I., & Manson, S. (2008). *The Audit Process: Principles Practice and Cases* (4thEd.). United Kingdom: Thomson Learning.
- Graziano, A. M., & Raulin, M. L. (2000). *Research Methods: A Process of Inquiry* (4thed.). Boston: Allyn & Bacon.

- Gravetter, F.J. & Forzano, L.B. (2008). *Research Methods for the Behavioral Science*. USA: Wadsworth Cengage Learning.
- Gregory, R. (2012). The Challenging Quest for Governmental Accountability in New Zealand. *Administration*, Vol. 60(2), pp. 109-118.
- Greve, C., & Ejersbo, N. (2005). Auditing Performance-Based Contracting in Danish central Government. In G. Drewry, C. Greve & T. Tanquerel (Eds.), *Contracts, Performance Measurement and Accountability in the Public Sector*. Netherland: IOS Press.
- Gronlund, A., Svardsten, F., & Ohman, P. (2011). Value For Money and the Rule of Law: The (New) Performance Audit in Sweden. *International Journal of Public Sector Management*, Vol 24 (2), pp.107-121.
- Guba, E. G. & Lincoln, Y. S. (1994). Competing Paradigms in Qualitative Research, in Denzin, N. K. & Lincoln, Y. S. (ed.), *Handbook of Qualitative Research*, Thousand Oaks: Sage.
- Gundvaldsen, J.A. & Karlsen, R. (1999). The auditor as an Evaluator: How to Remain an Influential Force in the Political Landscape. *Evaluation Journal*, Vol. 5(94), pp.458-467.
- Gupta, K. (2005). *Contemporary Auditing*. New Delhi: McGraw-Hill Publishing.
- Guthrie, J. (1989). The Contested Nature of Performance Auditing in Australia. *International Journal of Public Sector Management*, Vol. 2(3).
- Guthrie, J., Humphrey, C., Jones, L.R. & Olson, O. (2005). *International Public Financial Management Reform: Progress, Contradictions, and Challenges*. USA: Information Age Publishing Inc.
- Habermas, J. (1984). *The Theory of Communicative Action 1: Reason and the Rationalization of Society*. Cambridge: Polity Press.
- Hansen, H.F. (2005). Choosing Evaluation Models. *Evaluation*, Vol. 11 (4), pp.447-461.
- Hardin, G. 1968. The Tragedy of the Commons. *Science*, Vol. 162 (3859), pp.1243-1248.
- Hedger, E., & Blick, A. (2008). *Enhancing Accountability for the Use of Public Sector Resources: How to Improve the Effectiveness of Public Accounts Committees*. London: Overseas Development Institute.

- Herbert, L. (1979). *Auditing the Performance of Management*. California: Wadsworth, Inc.
- Hood, C. (1995). Contemporary Public Management: a New Global Paradigm? *Public Policy and Administration*, Vol. 10(2), pp. 104-17.
- INCOSAI, (1986). *Twelfth INCOSAI: Report on Proceedings*. Canberra: Australian Government Publishing Service.
- INCOSAI, (2010). *The Johannesburg Accords*. South Africa: Incosai.
- INTOSAI (2004). *Implementation Guidelines for Performance Auditing: Standards and guidelines for performance auditing based on INTOSAI's Auditing Standards and practical experience*. Stockholm: Intosai.
- Irawan, A.B., & McIntyre-Mills, J. (2014). Application of Critical Systems Thinking to Performance Auditing Practice at the Indonesian Supreme Audit Institution: Issues and Challenges. *Systems Research and Behavioral Science*, DOI: 10.1002/sres.2325.
- Irsan, Y. (1994). *Auditor-Auditee Relationship in Indonesia Behavioral Patterns in Public Sector Auditing*. Unpublished Dissertation, Flinders University.
- Ison, R. L., Bawden, R. J., Mackenzie , B., Packham , R. G., Sriskandarajah , N & Armson, R. (2008). From Sustainable to Systemic Development: an Inquiry into Transformations in Discourse and Praxis. In: Sheffield, J.(ed.) *Systemic Development: Local Solutions in a Global Environment*. USA: ISCE Publishing.
- Jackson, M.C. (2000). *System Approaches to Management*. New York: Kluwer Academic Publishers.
- Jackson, M. C. 2003. Deeper Complementarism: a Brief Response to Ulrich. *Journal of the Operational Research Society*, Vol. 54, pp.1225-1226.
- Jacobs, K. & Moloney, T. (2007). *Research on the Public Sector Governance and Accountability Research Centre/KPMG Study of PACs in Australia and New Zealand*. Paper presented to 9th Biennial Conference Australasian Council of Public Accounts Committees, 11 – 14 April 2007, Canberra.
- Jacobs, K. (1998). Value for Money Auditing in New Zealand: Competing for Control in the Public Sector. *British Accounting Review*, Vol. 30(4), pp.343-360.
- Jacobs, K., Jones, K., & Smith, D. (2010). An Analysis of The Sources of Public Accounts Committee Inquires: The Australian Experience. *Australasian Parliamentary Review*, Vol. 25(1), pp.17-31.

- Jensen, M. & Meckling, W. (1976). Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, Vol. 3, pp.305–360.
- Johnsen, A., Meklin P., Oulasvirta, L., & Vakkuri, J. (2001). Performance Auditing in Local Government: An Exploratory Study of Perceived Efficiency of Municipal Value for Money Auditing in Finland and Norway. *The European Accounting Review*, Vol. 10(3), p.583 – 599.
- Johnston, M. (1998). Fighting Systemic Corruption Social Foundations for Institutional Reform. *The European Journal of Development Research*, Vol. 10 (1). pp.85-104.
- Jones, K. & Jacobs, K. (2006). *Public Accounts Committees and the New Public Management*. Paper presented to 20th IPSA World Congress of Political Science, Fukuoka – Japan.
- Jones, K. & Jacobs, K. (2009). Public Accounts Committees, New Public Management, and Institutionalism: a Case Study. *Politics & Policy*, Vol. 37(5), pp.1023-1046.
- Jones, R., & Pendlebury, M. (2010). *Public Sector Accounting*. Great Britain: Pearson Education Limited
- Jurnal Parlemen (2013). *Temuan BAKN Belum Ditindaklanjuti Komisi dan Mitra Kerja*. Accessed: <http://www.jurnalparlemen.com/view/4261/temuan-bakn-belum-ditindaklanjuti-komisi-dan-mitra-kerja-dpr.html>, Date: 20th May 2013.
- Juwana, H. (2005). Reform of economic Laws and Its Effects on the Post-Crisis Indonesian Economy. *The Developing Economies*, Vol. XLIII (1), March, pp.72-90.
- Kambuaya (2012). BPK Audit Kinerja Sektor Perikanan. Accessed: <http://regional.kompas.com/read/2012/09/04/04550394/BPK.Audit.Kinerja.Sektor.Perikanan>, date: 11 September 2012.
- Kaiser, F.M. (2008). *GAO: Government Accountability Office and General Accounting Office*. Washington: CRS Report for Congress.
- Kanter, R.M. (1989). Becoming PALs: Pooling, Allying, and Linking Across Companies. *The Academy of Management Executive*, Vol. 3(3), pp.183-193.
- Kayrak, M. (2008). Evolving Challenges for Supreme Audit Institutions in Struggling with Corruption. *Journal of Financial Crime*, Vol. 15(1), pp.60-70.

- Keane, J. (2008). *Monitory Democracy*. Paper presented to the ESRC Seminar series, 'Emergent Publics', The Open University, Milton Keynes, 13th -14th March 2008.
- Keen, J. (1999). On the Nature of Audit Judgements: the Case of Value for Money Studies. *Public Administration*, Vol. 77(3), pp. 509-525.
- Khan, M.A. (2006). *Role of Audit in Fighting Corruption*. Paper presented to the ad hoc group meeting on 'Ethics, integrity, and accountability in the public sector: rebuilding public trust in government through the implementation of the UN convention against corruption'. St. Petersburg, Russia.
- Kiraka R., Clark C., & Martinis M.D. (2002). Public Sector Auditing, Accountability and Independence: a Study of ASEAN Countries. *Asian Review Accounting Journal*, Vol. 10(2), pp.44-61.
- Kristianipost (2006). *Mendamba LSM yang Ideal*. Accessed: <http://revisi.joglosemar.co/berita/mendamba-lsm-yang-ideal-82746.html>, date: 4 March 2013.
- Kjaer, A.M. (2004). *Governance*. Cambridge, Polity Press, 2004.
- Kluvers, R. (2003). Accountability for Performance in Local Government. *Australian Journal of Public Administration*. Vol 62(1), pp.57-69.
- Kompas (2008). Pimpro Tak Paham Pembukuan. Accessed: <http://nasional.kompas.com/read/2008/07/24/01544378/pimpro.tak.paham.pembukuan> , date: 1 November 2012.
- Kompas (2012a). Mendamba Lembaga Pengawas yang Berwibawa. Accessed: <http://nasional.kompas.com/read/2012/05/22/08590685/Mendamba.Lembaga.Pengawas.yang.Berwibawa> , date: 25th May 2012.
- Kompas (2012b). Tugas Kami Mengawasi Pengeluaran Pemerintah, Accessed: <http://nasional.kompas.com/read/2012/05/22/0849577/Tugas.Kami.Mengawasi.Pengeluaran.Pemerintah> , date: 26th May 2012.
- Kompas (2012c). Sebanyak 280 Kepala dan Wakil Kepala Daerah Bermasalah dengan Hukum, Accessed: <http://nasional.kompas.com/read/2012/11/07/16490321/Sebanyak.280.Kepala.dan.Wakil.Kepala.Daerah.Bermasalah.dengan.Hukum>, date: 1 December 2012.
- Kompas (2012d). Mahfud: Eksekutif, Legislatif, Yudikatif Sakit Semua, Accessed: <http://nasional.kompas.com/read/2012/12/02/17073849/Mahfud.Eksekutif.Legislatif.Yudikatif.Sakit.Semua>, date: 2 December 2012.

- Kumar, R., & Sharma, V. (2005). *Auditing: Principles and Practice*. New Delhi: Prentice-Hall.
- Lane, D.C. (1983). The Operational Audit: A Business Appraisal Approach to Improved Operations and Profitability. *Journal of the Operational Research Society*, Vol. 34(10), pp.961 – 973.
- Larsen, P.D. (2005). Evaluation and Public Management, in Ferlie, E., Lynn, L.E., & Pollitt C., (eds.), *The Oxford Handbook of Public Management*, New York: Oxford University Press.
- Law of the Republic of Indonesia Number 15 Year 2006 concerning Audit Board.
- Law of the Republic of Indonesia Number 5 year 1973 concerning Audit Board.
- Lee, A.S. (1991). Integrating Positivist and Interpretive approaches to organisational research. *Organization Science*, Vol. 2(4), pp.342-365.
- Leeuw, F.L. (1992). Performance Auditing and Policy Evaluation: Discussing Similarities and Dissimilarities. *The Canadian Journal of Program Evaluation*, Vol. 7(1), pp.53-68.
- Leeuw, F.L. (1996). Performance Auditing, New Public Management and Performance Improvement: Questions and Answers. *Accounting, Auditing & Accountability Journal*. Vol. 9(2), pp.92 – 102.
- Levine, H. (1981). Corruption and State Auditing: the Politics of Indignation. In Geist, B., (1981) *State Audit Development in Public Accountability*, New York: Holmes & Meier Publishers.
- Lincoln, Y.S., & Guba, E.G. (1985). *Naturalistic Inquiry*. Thousand Oaks: Sage.
- Lincoln, Y.S., & Guba, E.G. (1989). *Fourth Generation Evaluation*. Thousand Oaks: Sage.
- Ling, T. (2007). New Wine in Old Bottles? In Bemelmans-Videc, Lonsdale & Perrin (Ed.) *Making Accountability Work* (pp. 127-141). New Jersey: Transaction Publishers.
- Locke, J., (1993). *Political Writings of John Locke*. London: Penguin Classis.
- Lonsdale, J. (2000). *Advancing Beyond Regularity: Development in VFM Methods at the National Audit Office 1984-1999*. Unpublished PhD Thesis, Brunel University.
- Lonsdale, J., (2007). Walking a Tightrope? The Changing Role of State Audit in Accountability Regimes in Europe. In Bemelmans-Videc, Lonsdale & Perrin

(Ed.) *Making Accountability Work* (pp. 85-104). New Jersey: Transaction Publishers.

Lonsdale, J., Wilkins, P. & Ling, T. (2011). *Performance Auditing Contributing to Accountability in Democratic Government*. Cheltenham: Edward Elgar.

Mackay, K. (2002). The Australian government: Success with a Central, Directive Approach. In J.-E. Furubo, R. C. Rist & R. Sandahl (eds.), *International Atlas of Evaluation* (pp. 157-189). New Brunswick and London: Transaction Publishers.

Macrae, E. (2010). A framework for Audit Evolution. *The Internal Auditor Magazine*, p.68-69.

Maesschalck, J. (2004). The Impact of New Public Management Reforms on Public Servants' Ethics: Towards a Theory. *Public Administration*, Vol. 82(2), pp. 465-489.

Mainwaring, S. (2003). Introduction: Democratic Accountability in Latin America, in S. Mainwaring and C. Welna (eds.), *Democratic Accountability in Latin America*, New York: Oxford University Press.

Majone, G. (1989). *Evidence, Argument, and Persuasion in the Policy process*. New Haven: Yale University Press.

Malan, R.M., Fountain, J.R., Arrowsmith, D.S. & Lockridge II, R.L. (1984). *Performance Auditing in Local Government*. Chicago: Government Finance Officers Association (GFOA).

March, J.G. & Olsen, J.P. (1989). *Rediscovering Institutions*. New York: The Free Press.

March, J.G. & Olsen, J.P. (1995). *Democratic Governance*. New York: The Free Press.

Marra, M., (2007). How Does Evaluation Foster Accountability for Performance? Tracing accountability lines and evaluation impact within the World Bank and the Italian local health-care providers. In Bemelmans-Videc, Lonsdale & Perrin (Ed.) *Making Accountability Work* (pp. 85-104). New Jersey: Transaction Publishers.

Marschan, R & Welch, C. (2004). *Handbook of Qualitative Research Methods for International Business*. United Kingdom: Edward Elgar Publishing.

Martin, J., & Fellenz, M. (2010). *Organizational Behaviour & Management*, Hampshire: Cengage Learning.

- Mayne, J. (2006). Audit and Evaluation in Public Management: Challenges, Reforms, and Different Roles. *The Canadian Journal of Program Evaluation*, 21(1), 11-45.
- Mautz, R.K. & Sharaf, H.A. (1961). *The Philosophy of Auditing*. Florida: American Accounting Association.
- McCrae, M., & Vada, H. (1997). Performance Audit Scope and the Independence of the Australian Commonwealth Auditor-General. *Financial Accountability & Management*, Vol. 13(3), pp.203-223.
- McGee, D.G. (2002). *The Overseers: Public Accounts Committees and Public Spending*. London: Pluto Press.
- McIntyre-Mills J. (2003). *Critical Systemic Praxis. For Social and Environmental Justice: Participatory Design for a Global Age*. The Contemporary Systems Series. Kluwer: London.
- McIntyre-Mills, J. 2004. Facilitating Critical Systemic Praxis by Means of Experiential Learning Conceptual Tools. *System Research and Behavioral Science*.Vol21, pp. 37-61.
- McIntyre-Mills, J. (2006). Rescuing the Enlightenment From Itself: Implications for Re-working Democracy and International Relations. In J. McIntyre-Mills (Ed.), *Rescuing the Enlightenment From Itself: Critical and Systemic Implications for Democracy (Vol. 1)*. New York: Springer.
- McIntyre-Mills, J. (2007). Ethics, Boundaries and Sustainable Futures. *Systemic Development: Local Solutions in a Global Environment. Proceedings of the 13th ANZSYS Conference - Auckland, New Zealand, 2nd-5th December, 2007*.
- McIntyre-Mills J. & Vries, D. (2011). *Identity, Democracy and Sustainability: Facing Up to Convergent Social, Economic and Environmental Challenges*. USA: Emergent Publications.
- McIntyre-Mills, J. and De Vries, D. (2013). Transformation from Wall Street to Well-being. *System Research and Behavioral Science*. Vol. 30 (4), pp. 444-469.
- McIntyre-Mills, J. (2013). *Systemic Ethics to Support Wellbeing. Encyclopedia of Food and Agricultural Ethics*. DOI 10.1007/978-94-007-6167-4_342-6, Dordrecht: Springer.
- McIntyre-Mills, J. (2014a). *Systemic Ethics and Non-anthropocentric Stewardship: Implications for Trans-disciplinarity and Cosmopolitan Politics*. New York: Springer.

- McIntyre-Mills, J. with Binchai, N and De Vries, D. (2014b). *Transformation From Wall Street to Wellbeing: Joining up the dots through Participatory Democracy and Governance to mitigate the causes and Adapt to the effects of climate change*. New York: Springer.
- McIntyre-Mills, J. (2014c). Reconsidering Boundaries. *Sociopedia.isa*, DOI:10.1177/2056846014102.
- McLeay, E. (2001). 'Parliamentary Committees in New Zealand: A House Continuously Reforming Itself'. *Australasian Parliamentary Review*, Vol.16 (2), pp.121–39.
- MetroTV (2013). Mengukur Mutu BPK. Accessed: <http://video.metrotvnews.com/detail/2013/05/20/17295/mengukur-mutu-bpk>, date: 30 May 2013.
- Midgley, G. (1996). Evaluating Services for People with Disabilities: A Critical Systems Perspective. *Evaluation*, Vol. 2(1), pp.67-84.
- Midgley, G. (2000). *Systemic Intervention: Philosophy, Methodology, and Practice*. New York: Kluwer Academic.
- Miles, M.B. & Huberman, A.M. (1994). *Qualitative Data Analysis: A New Sourcebook of Methods*. California: Sage.
- Mills, C.W. (1959). *The Sociological Imagination*. Oxford: Oxford University Press.
- Minogue, M. (1998). Changing the States: Concepts and Practice in the Reform of the Public Sector, in Minogue, M., Polidano, C. & Hulme, D. (Eds), *Beyond the New Public Management (pp.17-37)*, Cheltenham: Edwards Elgar.
- Monbiot, G. (2014). Put a price on Nature? We Must Stop This Neoliberal Road to Ruin. Accessed from: <http://www.theguardian.com/environment/georgemonbiot/2014/jul/24/price-nature-neoliberal-capital-road-ruin>, date: 24 July 2014.
- Mora, M., Gelman, O., Cervantes, F., Mejia, M., & Weitzenfeld, A. (2003). A Systemic Approach for the Formalization of the Information Systems Concept: Why Information Systems are Systems? In J. J. Cano (Ed.), *Critical Reflections on Information Systems: A Systemic Approach*. Hershey: Idea Group Publishing.
- Morin, D. (2001). Influence of Value for Money Audit on Public Administrations: Looking beyond Appearances. *Financial Accountability & Management*, Vol.17 (2), pp.99-118.

- Morin, D. (2003). Controllers or Catalysts for Change and Improvement: Would the Real Value for Money Auditors Please Stand Up? *Managerial Auditing Journal*, Vol. 18(1), pp.19 – 30.
- Morin, D. (2004). Measuring the Impact of Value-for-Money Audits: a Model for Surveying Audited Managers. *Canadian Public Administration*, Vol.47 (2), pp.141-164.
- Morse, J. M. (1991). Approaches to Qualitative-Quantitative Methodological Triangulation. *Nursing Research*, Vol. 40(2), pp.120-123.
- Moore, M.H. (1995). *Creating Public Value*. Cambridge: Harvard University Press.
- Mulgan, R. (1997). The Processes of Public Accountability. *Australian Journal of Public Administration*, Vol. 56(1), pp.25-36.
- Nachmias, C.F., and Nachmias D., (1996). *Research Methods in the Social Sciences*, London: Arnold Publisher.
- Nasution, A. (2009). *Reform of Public Finance Auditing in Indonesia*. A paper presented to National Audit Academy, Jabatan Audit Negara – Malaysia, 17 June 2009.
- Nath, N, Peurseem K.V & Lowe, A. (2005). *Public Sector Performance Auditing: Emergence, Purpose and Meaning*. Working paper series Number 81, New Zealand: The University of Waikato.
- Nicoll, P. (2005). *Audit in a Democracy: the Australian Model of Public Sector Audit and Its Application to Emerging Markets*. Hampshire: Ashgate Publishing Limited.
- Normanton, E.L. (1966). *The Accountability and Audit of Governments*. Oxford: Manchester University Press.
- North, D. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: The University Press.
- O'Connor, L. (2011). *The Institutionalization of Sustainability: Observations from the Australian Local government Sector*. CSEAR 2011 Australian Conference, University of Tasmania.
- O'Dea, J. (2012). The Role of Public Accounts Committee. *Australasian Parliamentary Review*, Vol. 27(1), p.191-195.
- Okasha, S. (2002). *Philosophy of Science: A Very Short Introduction*. Oxford: Oxford University Press.

- Osborn, D. (1997). *A Rationale and Approach for Applying Environmental Accounting Frameworks in Local Government*. University of Canberra: Working Paper No. 1.
- Owen, J.M. (2007). Making Policy Interventions More Effective: the Case for Accountability up and Accountability down. In Bemelmans-Videc, Lonsdale & Perrin (Ed.) *Making Accountability Work*. New Jersey: Transaction Publishers.
- Palfrey, C., Thomas P., & Phillips C. (2012). *Evaluation for the Real World: the Impact of Evidence in Policy Making*. The United Kingdom: The Policy Press.
- Parker, L.D. & Guthrie, J. (1991). Performance Auditing: the Jurisdiction of the Australian Auditor-General - DeJure or DeFacto? *Financial Accountability and Management*, Vol. 7(2), pp. 107-116.
- Parker, L.D. & Guthrie, J. (1999). A Quarter of a Century of Performance Auditing in the Federal Australian Public Sector: a Malleable Masque. *Abacus*, Vol. 35(3) pp.302-332.
- Parker, L.D. (1986). *Value-For-Money Auditing: Conceptual, Development and Operational Issues*. Victoria: Australian Accounting Research Foundation.
- Parker, L.D. (1992). Towards Effective Performance Auditing, in J.Guthrie (ed.), *The Australian Public Sector: Pathways to Change in the 1990s*, North Sydney: IRR Conferences.
- Patton, M.Q. (2002). *Qualitative Research and Evaluation Methods*, 3rd Edition. Thousand Oaks: Sage.
- Pelizzo, R. & Stapenhurst, F. (2006). *Democracy and Oversight*. Paper presented at the 102nd Annual Meeting of the American political Science Association, Philadelphia, August 31 – September 3.
- Pelizzo, R. & Stapenhurst, F. (2012). *Parliamentary Oversight Tools A Comparative Analysis*. New York: Routledge.
- Pendlebury, M. & Shriem, O. (1990). UK Auditors' attitudes to Effectiveness Auditing. *Financial Accountability & Management*, Vol. 6 (3), pp.177-189.
- Pendlebury, M. & Shriem, O. (1991). Attitudes to Effectiveness Auditing: Some further Evidence. *Financial Accountability & Management*, Vol. 7(1), pp. 35-48.
- Peter, B.G (2007). Performance Based Accountability, in Shah (ed.) *Performance Accountability and Combating Corruption*, Washington: World Bank.

- Pollitt, C., Girre, X., Lonsdale, J., Mul, R., Summa, H. & Waerness, M. (1999). *Performance or Compliance? Performance Audit and Public Management in Five Countries*. Oxford: Oxford University Press.
- Pollitt, C. & Mul, R. (1999). Criteria, In *Performance or Compliance? in Performance Audit and Public Management in Five Countries*. Pollitt, C., Girre, X., Lonsdale, J., Mul, R., Summa, H. & Waerness, M. (Eds.), Oxford: Oxford University Press, pp. 70-104.
- Pollitt, C. (2003). Performance audit in Western Europe: Trends and Choices. *Critical Perspective on Accounting*, Vol.14, 157-170
- Pollitt, C., & Bouckaert, G. (Eds) (2004). *Public Management Reform: A Comparative Analysis*. Oxford: Oxford University Press.
- Portes, A. (2010). *Economic Sociology: A Systematic Inquiry*. New Jersey: Princeton University Press.
- Posner, P. & Park, C-K. (2007). Role of the Legislature in the Budget Process: Recent Trends and Innovations. *OECD Journal on Budgeting*. Vol. 7(3).
- Power, M. (1994) *The Audit Explosion*. London: Demos
- Power, M. (1999). *The Audit Society Rituals of Verification*. New York: Oxford University Press.
- Power, M. (2000). The Audit Society: Second Thoughts. *International Journal of Auditing* Vol. 4 (1). pp.111-119.
- Power, M. (2003). Evaluating the Audit Explosion. *Law & Policy*, Vol. 25(3), pp.115-202.
- Pretty, J.N., Guijt, I., Thompson, J. & Scoones, I. (1995). *Participatory Learning and Action: A Trainer's Guide*. London: International Institute for Environment and Development (IIED).
- Punch, K.F. (1998). *Introduction to Social Research: Quantitative and Qualitative Approaches*. London: Sage.
- Pyun, H.B (2005). *Audit and Civil Society*. Paper presented at The 6th Global Forum on Reinventing Government towards Participatory and Transparent Governance, 24-27 May 2005, Seoul – Republic of Korea.
- Radcliffe, V. (1999). Knowing Efficiency: The Enactment of Efficiency in Efficiency Auditing. *Accounting, Organizations and Society*, Vol. 23(4), p.377-410.

- Rai, A. (2008). *Audit Kinerja Pada Sektor Publik: Konsep, Praktik dan Studi Kasus*. Jakarta: Salemba Empat Publisher.
- Reichborn-Kjennerud, K. (2014). Performance Audit and the Importance of the Public debate. *Evaluation*, Vol.20 (3), pp. 368-385.
- Reynolds, M., Holwell, S., & Holwell, S. (2010). *Systems Approaches to Managing Change: A Practical Guide*. London: Springer.
- Rittel, H.W.J., & Webber, M.M. (1973). Dilemmas in a General theory of Planning. *Policy Sciences*, Vol. 4, pp. 155-169.
- Rosen, B. (1998). *Holding Government Bureaucracies Accountable (3rded.)*. Connecticut: Praeger Publisher.
- Rowan, B. (1982). Organizational structure and the institutional environment: The case of public schools. *Administrative Science Quarterly*, Vol.27(2), pp.259-279.
- Rubenstein, D. B. (2001). Audit as an Agent of Constructive Consequence and Social Change. *Corporate Environmental Strategy*, Vol. 8(3), pp.234-241.
- Sangster, A. (2010). Using Accounting History and Luca Pacioli to Put Relevance Back Into the Teaching of Double Entry. *Accounting Business and Financial History*, vol. 20(1), pp. 23-39.
- Salomon, G (1991). Transcending the Qualitative – Quantitative Debate: The Analytic and Systemic Approaches to Educational Research. *Educational Researcher Journal*, Vol. 20(6), pp. 10-18.
- Santiso, C. (2007). Eyes Wide Shut? The politics of Autonomous Audit Agencies in Emerging Economies. Accessed at: <http://dx.doi.org/10.2139/ssrn.982663> , Date: 8 March 2011.
- Sarantakos, S. (2005). *Social Research (3rd Ed)*. Basingstoke: Palgrave Macmillan.
- Saul, B., S. Sherwood, J. McAdam, T. Stephens, & J. Slezak. (2012). *Climate change and Australia: Warming to the Global Challenge*. Leichhardt: The Federation Press.
- Sawyer, L. B. (1990). *Sawyer's Internal Auditing (3rded)*. Florida: The Institute of Internal Auditors, Inc.
- Schacter, M. (2005). A Framework for Evaluating Institutions of Accountability. In A. Shah (Ed.), *Fiscal Management (pp. 229 - 249)*. Washington, D.C.: The World Bank.

- Schick, A. (1998). *A Contemporary Approach to Public Expenditure Management*. Washington DC: World Bank.
- Schwartz, R. (2010). Public Management Theory, Evaluation, and Evidence-Based Policy. In Vaessen J., & Leeuw F. L. (Eds.) *Mind the Gap: Perspectives on Policy Evaluation and the Social Sciences*. New Brunswick: Transaction Publishers
- Scott, L. (1996). Legislature and Performance Auditing: the Australian Experience. In OECD (eds.) *Performance auditing and the modernisation of government*, Paris: OECD.
- Scott, W.R. (2008a). *Institutions and Organizations: Ideas and Interests*. Thousand Oaks: SAGE publications
- Scott, W.R. (2008b). Lords of the Dance: Professionals as Institutional Agents. *Organization Studies*, Vol. 29(02), pp. 219-238.
- Sen, A. (1999). *Development as Freedom*. New York: Alfred A. Knopf.
- Shah, A. (2006). Corruption and Decentralized Public Governance. In Ahmad, E. and Brosio, G. (Eds.) *Handbook of Fiscal Federalism*. Cheltenham: Edward Elgar.
- Sharkansky, I., (1991). The Development of State Audit, in Friedberg A., Geist B., Mizrahi N., & Sharkansky, I. (Eds), *State Audit and Accountability: a Book of Readings*, State of Israel: State Comptroller's Office.
- Sharma N. (2007). Interactions and Interrogations: Negotiating and Performing Value for Money Reports. *Financial Accountability & Management*, Vol. 23 (3), pp. 289-311.
- Sheldon, D.R. (1996). *Achieving Accountability in Business and Government: Managing for Efficiency, Effectiveness, and Economy*. Connecticut: Quorum Books.
- Shiva, V. (2002). *Water Wars: Privatization, Pollution and Profit*. London: Pluto Press.
- Siahaan, S. (2012). *Menuju BPK Idaman*. Jakarta: Prenada Media Group
- Siddiquee, N.A. (2010). Combating corruption and managing integrity in Malaysia: a critical review of recent strategies and initiatives. *Public Organization Review*, Vol. 10(2), pp.153-171.
- SindoWeekly Post (2012). *Nyanyi Sunyi Sang Pemeriksa*. SindoWeekly Post, 2nd May 2012.

- Singleton, R.A., Straits, B.C., & Straits, M.M. (1993). *Approaches to Social Research* (2nd Ed.). New York: Oxford University Press.
- Skaerbaek, P. & Justesen, L. (2010), Performance Auditing and The Narrating of A New Auditee Identity. *Financial Accountability and Management*. Vol. 26 (3), pp. 325-343.
- Sloan, N. (1996). The Objectives and Performance Measurement of Performance Audit. In OECD (ed.) *Performance Auditing and the Modernisation of Government*. Paris: OECD.
- Smieliauskas, W. & Bewley, K. (2006). *Auditing an international approach, 4th edition*. Canada: McGraw-Hill Ryerson Higher Education.
- Snape, F.R. (1999). Corruption, Collusion and Nepotism in Indonesia. *Third World Quarterly*, Vol. 20(3), pp. 589-602.
- Stanford Encyclopedia of Philosophy (SEP). 2007. *Jurgen Habermas*. Accessed: <http://plato.stanford.edu/entries/habermas/#HabDisThe>, date: 5 October 2014.
- Stein, E., Tommasi, M., Echebarría, K., Lora, E. & Payne, M. (Eds.). (2005). *The Politics of Policies: Economic and Social Progress in Latin America*, Washington, DC: IDB.
- Stern, N. (2007). *The Economic of Climate Change: The Stern Review*. Cambridge: Cambridge University Press.
- Stewart, J.D. (1984). "The role of information in public accountability", in Hopwood, A. & Tomkins, C. (Eds), *Issues in Public Sector Accounting*, Oxford: Philip Allen.
- Stiglitz, J.E., Sen, A., & Fitoussi, J-P. (2010). *Mismeasuring Our Lives: Why GDP Doesn't Add Up*. New York: The New Press.
- Strom, K., Miller, W. & Bergman, T. (2000). *Delegation and Accountability in Parliamentary Democracies*, Oxford: Oxford University Press.
- Swedish National Audit Office/SNAO (1999). *Handbook in Performance Auditing Theory and Practice*. Swedish: Riksrevisionen.
- Swedish National Audit Office/SNAO (2012). *Report by the Swedish National Audit Office on the Swedish National Audit Office Annual Financial Report for 2012*. Swedish: Riksrevisionen

- Tanzi, V. (2012). *Corruption and the Public Administration, Presentation at the World Bank Seminar on Corruption*, June 13, 2012. Accessed from [http://go.worldbank.org/ZLHOYE3TQ0], Date: 13 September 2012.
- Tempo (2013). Ombudsman RI Minta Kementerian Perbaiki Pelayanan. Accessed: <http://www.tempo.co/read/news/2013/07/30/078501078/Ombudsman-RI-Minta-Kementerian-Perbaiki-Pelayanan>, date: 30 July 2013.
- The CAQ (2011). Summary of Workshop on the Evolving Role of the Auditor. Accessed from: <http://www.thecaq.org/reports-and-publications/observations-on-the-evolving-role-of-the-auditor/summary-of-workshop-on-the-evolving-role-of-the-auditor>.
- The UK Parliament (2012). *Holding Government to Account: 150 years of the Committee of Public Accounts*. London: Booklet.
- Tjiptoherijanto, P. (2006). *Civil Service Reform in Indonesia*. Kobe – Japan: Graduate School of International Cooperation Studies.
- Transparency International (2013). Corruption Perception Index 2013. Accessed: <http://www.ti.or.id/index.php/publication/2013/12/03/corruption-perception-index-2013>, date: 5 December 2013.
- Tudor, A.T. (2007). Performance Audit in Public Sector Entities – A New Challenge for Eastern European Countries. *Transylvanian Review of Administrative Sciences*, Vol. 19, pp. 126 – 141.
- TV One (2013). *Talkshow Indonesia Lawyer Club: Ratu jadi Raja – Dinasti Politik Atut*, 16 October 2013.
- United Nations (2012). *Report of the United Nations Conference on Sustainable Development*. Accessed from: <http://www.uncsd2012.org/resources.html>.
- Uhr, J. (1993). Redesigning Accountability: From Muddles to Maps. *The Australian Quarterly*, Vol. 65(2), pp.1–16.
- Uhr, J. (1999). Three Accountability Anxieties: A Conclusion to the Symposium. *Australian Journal of Public Administration*. Vol. 58(1), pp.98-101.
- Ulrich, W. (1983). *Critical Heuristics of Social Planning: A New Approach to Practical Philosophy*. Chichester: John Wiley and Sons.
- Ulrich, W. (2000). Reflective practice in the civil society: the contribution of critically systemic thinking. *Reflective Practice* Vol. 1(2), pp.248-268.
- Ulrich, W. (2012). *CST's Two Ways: A Concise Account of Critical System Thinking*. *Ulrich's Bimonthly* (November-December 2012). Accessed from:

http://wulrich.com/downloads/bimonthly_november2012.pdf, Date: 7 February 2013.

- Vanderstoep S.W., & Johnston D.D., (2008). *Research Methods for Everyday Life: Blending Qualitative and Quantitative*. USA: John Wiley & Sons.
- Verhoest, K. (2005). The Impact of Contractualisation on Control and Accountability in Government-Agency Relations: the Case of Flanders (Belgium). In G. Drewry, C. Greve & T. Tanquerel (Eds.), *Contracts, Performance Measurement and Accountability in the Public Sector*. Netherland: IOS Press.
- Vickers, G. (1970). *Freedom in a Rocking Boat: Changing Values in an Unstable Society*. New York: Basic Books.
- Vickers, G. (1983). *Human Systems Are Different*. London: Harper & Row.
- Vickers, G. (1995). *The Art of Judgment: A Study of Policy Making (Rethinking Public Administration)*. Thousand Oaks: Sage Publication.
- Vivanews (2014). BPK Temukan Kasus berpotensi Merugikan Negara Triliunan Rupiah. Accessed: <http://bisnis.news.viva.co.id/news/read/505787-bpk-temukan-kasus-berpotensi-merugikan-negara-triliunan-rupiah>, date 20th May 2014.
- Wadsworth, Y. (2010). *Building in Research and Evaluation: Human Inquiry for Living Systems*. Sydney: Allen and Unwin.
- Waring, C.G., & Morgan, S.L. (2007). Public Sector Performance Auditing in Developing Countries. In A. Shah (Ed.), *Public Sector Governance and Accountability Series: Performance Accountability and Combating Corruption*. Washington, DC, USA: The International Bank for Reconstruction and Development /The World Bank.
- Warta BPK (2011). Kerja BAKN Tidak efektif. *Warta BPK*, Vol. 1 (1). pp.35-36.
- Watts, R.L., & Zimmerman, J.L., (1983). Agency Problems, Auditing, and the Theory of the Firm: Some Evidence. *Journal of Law and Economics*. Vol. 26(3), pp. 613-633.
- Wenger, E. (2000). Communities of Practice and Social Learning Systems. *Organization*, Vol.7 (2), p.225-246.
- Wenger, E., N. White, & J. Smith. (2009). *Digital Habitats: Stewarding Technology for Communities*. Portland: CP Square.
- Wenger, E. (2000). *Communities of Practice: Learning, Meaning, and Identity*. London: Cambridge University Press.
- Wright, R. (2004). *A Short History of Progress*. New York: Carroll & Graf Publishers.

- Winter, G. (2000). A Comparative Discussion of the Notion of Validity in Qualitative and Quantitative Research. *The Qualitative Report*. Vol. 4 (3). Accessed from: <http://www.nova.edu/ssss/QR/QR4-3/winter.html> , Date: 8 March 2011.
- World Bank (2001). Features and Function of Supreme Audit Institutions, Premnotes 59, October 2001, Accessed: www1.worldbank.org/prem/PREMNotes/premnote59.pdf, Date: 10 march 2011.
- Yin, R.K. (2013). *Case Study Research: Design and Methods*. London: Sage Publications.
- Zavelberg, H. G. (1990). Performance Auditing in the Federal Republic of Germany. *International Journal of Government Auditing*, Vol. 17(4).

APPENDICES

APPENDIX 1. QUESTIONNAIRE

This questionnaire is only for the purposes of study/research and not associated with any assessment in your workplace (independent). All information and identity of the respondents who submitted this questionnaire will be kept confidentially. Other parties are not allowed to know the identity of the respondent when the preparation of study reports.

Respondent

Description	Please tick the appropriate box			
Sex	<input type="checkbox"/> Male	<input type="checkbox"/> Female		
Age	<input type="checkbox"/> Less than 25 years old	<input type="checkbox"/> Between 25 and 35 years old	<input type="checkbox"/> Between 36 and 45 years old	<input type="checkbox"/> More than 45 years old
Position	<input type="checkbox"/> Supervisor	<input type="checkbox"/> Team Leader	<input type="checkbox"/> Team Member	
Level of Education	<input type="checkbox"/> Senior High School	<input type="checkbox"/> Diploma	<input type="checkbox"/> Bachelor	<input type="checkbox"/> Master <input type="checkbox"/> Doctor/PhD
Background of education	<input type="checkbox"/> Accounting	<input type="checkbox"/> Management	<input type="checkbox"/> Economic	<input type="checkbox"/> Law <input type="checkbox"/> Engineering <input type="checkbox"/> Others, Please state:
Experience in Performance Audit	<input type="checkbox"/> 1 – 5 years	<input type="checkbox"/> 6 – 10 years	<input type="checkbox"/> More than 10 years	
Experience in Management	<input type="checkbox"/> None	<input type="checkbox"/> 1 – 5 years	<input type="checkbox"/> More than 5 years	
Current Office	<input type="checkbox"/> Headquarters Office	<input type="checkbox"/> Branch Office Java & Bali Region	<input type="checkbox"/> Branch office Sumatera & Kalimantan Region	<input type="checkbox"/> Branch office Sulawesi, Timor & Papua Region
Email:			

Section A

Statements	Rating Scale				
For the questions below the rating scale is:	1= Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree ; 5 = Strongly Agree				
To what extent do you agree that the objective of performance auditing is to evaluate aspects of economy, efficiency and effectiveness?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
To what extent do you agree that the performance auditing auditors should be responsible to detect fraud?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that auditors should be responsible to assess environmental aspect when conducting performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that that the objective of performance auditing should be extended into environmental aspect?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that equity aspect should be considered when conducting performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that the role/profile of the performance auditor is a consultant?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that the role/profile of the performance auditor is an evaluator?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that the role/profile of the performance auditor is a magistrate?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that the role/profile of the performance auditor is a researcher?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that the role/profile of the performance auditor is an accountant?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For the question below the rating scale is:	1 = never; 2 = occasionally; 3 = fairly many times; 4 = very often; 5 = always				
To what extent do you often find fraud in the performance audit?	1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>
Comments/Suggestions for improvement:					

Section B

Statements	Rating Scale				
For the questions below the rating scale is:	1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree ; 5 = Strongly Agree				
	1	2	3	4	5
To what extent do you agree that the Act to the BPK to carry out performance auditing is clear enough and not cause obvious misinterpretation in the operational level?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that providing management advisory services to auditee would impair the independence or perceived independence of auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that for performance auditing you need a group of performance auditor and separated from other audit services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For the questions below the rating scale is:	1 = never; 2 = occasionally; 3 = fairly many times; 4 = very often; 5 = always				
	1	2	3	4	5
To what extent do you experience any influence from these parties below when conducting performance auditing?					
• Internal management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Politician	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Auditee/client	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Third party (vendor/supplier)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you experience of threat from these parties below when discovering fraud in performance auditing?					
• Internal management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Politician	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Auditee/client	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Third party (vendor/supplier)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For the question below the rating scale is:	1 = Very inadequate; 2 = inadequate; 3 = average; 4 = adequate; 5 = very adequate				
	1	2	3	4	5
To what extent do you have enough skills and expertise in conducting performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent the performance auditing trainings provided by the BPK training centre improved your skills					
To what extent do you rate the adequacy of the	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

number of performance auditing trainings provided by the training centre?					
To what extent do you rate the equipment/infrastructures (i.e computer, internet access, working room etc.) available for conducting performance auditing sufficient?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you rate the time allocation for conducting performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments/Suggestions for improvement:					

Section C

Statements	Rating Scale																				
For the questions below the rating scale is:	1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree ; 5 = Strongly Agree																				
To what extent do you agree that participation engagement from other parties such as NGO, academia, mass media, and community organization is needed when determining the audit object/topic?	<table border="0"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	1	2	3	4	5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>										
1	2	3	4	5																	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
For the question below the rating scale is:	1 = very easy; 2 = easy; 3 = average; 4 = difficult; 5 = very difficult																				
To what extent would you rate the difficulty level of performance audits related to effectiveness objective?	<table border="0"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	1	2	3	4	5	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>										
1	2	3	4	5																	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
To what extent would you rate the difficulty level of performance audits related to economy objective?	<table border="0"> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>															
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
To what extent would you rate the difficulty level of performance audits related to efficiency objective?	<table border="0"> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>															
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
For the questions below the rating scale is:	1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree ; 5 = Strongly Agree																				
To what extent external parties need to be involved in determining a performance audit object in BPK:	<table border="0"> <tr> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> </table>	1	2	3	4	5															
1	2	3	4	5																	
<ul style="list-style-type: none"> • Non-Government Organisation (NGO) • Community Leaders • Mass media representative (electronic/printed) • Experts 	<table border="0"> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> <tr> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> <td><input type="checkbox"/></td> </tr> </table>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>																	

• Community organizations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Represented Government agency (i.e. National Planning Agency, State Secretariat, UKP4)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• The parliament	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent a public dialogue is necessary in determining a performance audit object in BPK	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comments/Suggestions for improvement:					

Section D

Statements	Rating Scale				
For the questions below the rating scale is:	1 = very poor; 2 = poor; 3 = fair; 4 = good; 5 = very good				
	1	2	3	4	5
To what extent do you rate your understanding and knowledge in terms of the methods/tools in gathering and analysing data in performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you rate your expertise in developing audit recommendations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Of the various existing methods below, please give tick mark on the techniques/tools when you or your audit team have ever done when conducting performance audits.

Technique/tools	Please tick which is appropriate
Document examination	<input type="checkbox"/>
Interviews	<input type="checkbox"/>
Questionnaire/surveys	<input type="checkbox"/>
Observation of activities (site visits)	<input type="checkbox"/>
Correspondence with auditees in delivering data i.e. using courier services/post	<input type="checkbox"/>
Benchmarking (domestics)	<input type="checkbox"/>
Benchmarking (International)	<input type="checkbox"/>
Case examples	<input type="checkbox"/>
Statistical techniques	<input type="checkbox"/>
Consultation with experts	<input type="checkbox"/>
Modeling	<input type="checkbox"/>
In-depth interview	<input type="checkbox"/>
Sample examination	<input type="checkbox"/>
Expert interview	<input type="checkbox"/>
Focus group discussion	<input type="checkbox"/>
Another tool/method (please specify):	
For the questions below the rating scale is:	1 = No changes; 2 = less changes; 3 = fairly changes;

	4 = many changes; 5 = always changes				
	1	2	3	4	5
To what extent do you see the methods and techniques/tools used by audit team have changed in performance auditing within BPK in recent years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section E

Statements	Rating Scale				
For the questions below the rating scale is:	1 = Strongly Disagree; 2 = Disagree; 3 = Undecided; 4 = Agree ; 5 = Strongly Agree				
	1	2	3	4	5
To what extent do you agree that criteria should be communicated with auditee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that criteria are needed to be approved together between auditor and auditee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that performance audit report is:					
- Equal/Balanced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Fair	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Neutral	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
- Objective	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that performance auditing is needed in order to improve public accountability?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent do you agree that fraud or corruption can be prevented by performance auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
For the question below the rating scale is:	1 = very poor; 2 = poor; 3 = fair; 4 = good; 5 = very good				
	1	2	3	4	5
To what extent do you rate your expertise in developing criteria?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To what extent the existing audit standards and guidelines supporting the performance auditing quality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
How do you rate the implementation of performance auditing recommendation by auditee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section F

What are the constraints in conducting performance auditing?

What are the challenges in conducting performance auditing?

SUGGESTIONS

What are your suggestions and recommendations to improve audit performance in BPK?

~ Thank you for your participation in this questionnaire ~

APPENDIX 2. SEMI-STRUCTURE INTERVIEW GUIDELINES (THE SUPREME AUDIT INSTITUTION)

- 1) Based on your opinion, what exactly are the purposes of performance auditing?
- 2) Based on your opinion, should the performance auditing auditors be responsible to detect fraud? Should the auditors be required to report on the fraud?
- 3) Do you think that the objective of performance auditing should be extended into environmental aspect and equity aspect? Why?
- 4) What is your opinion about the profile or role of performance auditing auditor? What is your opinion regarding the authority of the auditor's performance auditing?
- 5) Does the mandate given by the Act to the BPK to carry out performance auditing is clear enough and not cause obvious misinterpretation? How does the implementation of the Act in the operational level? Are there any constraints?
- 6) Do you think that it is necessary to specialize between performance auditing auditor and financial auditing auditor? Why?
- 7) Do you think that a reasonable allocation time will improve performance auditing quality? Any constraints?
- 8) How do you conduct performance auditing planning? What are considerations in choosing the audit object/topic in performance auditing?
- 9) Do you think that participation engagement from other parties such as NGO, academia, mass media, and community organization is needed when determining the audit object/topic? Does civil society engagement is needed to improve public accountability?
- 10) What methods do you use often in conducting performance auditing?
- 11) Do you think that these methods are enough to answer the objective of performance auditing? What are the purposes of audit in general?
- 12) How do you see the methods and techniques have changed in performance auditing within BPK in recent years?
- 13) What kind of source of criteria do you use when conducting performance auditing?
- 14) Do you think that the criteria which have been developed are enough to answer the objective of performance auditing? What are the purposes of audit in general?
- 15) What are your considerations when developing criteria for a performance auditing?
- 16) What constraints do you consider there are on auditors in developing criteria for performance auditing?
- 17) How effective audit recommendation? How effective communication between auditor and stakeholders during the process and after audit in order to follow up audit recommendation?
- 18) How to improve formulation of audit recommendations? What are the factors that enhance or undermine performance auditing recommendations?

APPENDIX 3. SEMI-STRUCTURE INTERVIEW GUIDELINES (STAKEHOLDERS)
(i.e. Parliament, Government Agency/Institutions, Academia)

- 1) Based on your opinion, what exactly are the purposes of performance auditing?
- 2) Do you think that performance auditing which is conducted by BPK meet these objectives?
- 3) Based on your opinion, should the performance auditing auditors be responsible to detect fraud? Should the auditors be required to report on the fraud?
- 4) Do you think that the objective of performance auditing should be extended into environmental aspect? Why?
- 5) Do you think that the objective of performance auditing should be extended into equity/justice aspect? Why?
- 6) What is your opinion about the profile or role of performance auditing auditor?
- 7) What is your opinion regarding the authority of the auditor's performance auditing?
- 8) What is the public accountability mechanism in the field of performance audit at national level and local government?
- 9) What is the mechanism between BPK and Parliament vis-à-vis BAKN (Public Account Committee) in terms of audit follow up?
- 10) Does civil society engagement is needed to improve public accountability? How?
- 11) What are the impacts of performance auditing to public accountability after the reform?
- 12) To what extent do you see the performance auditing conducted by BPK enhances transparency?
- 13) Do you think the quality of recommendations provided by BPK improve your organisation performance?
- 14) Do you have any recommendations for improving the performance auditing process in enhancing public accountability?

APPENDIX 4. DEMOGRAPHIC DETAILS OF RESPONDENT

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than 25 years old	12	2.3	2.3	2.3
	Between 25 and 35 years old	305	59.3	59.3	61.7
	Between 36 and 45 years old	163	31.7	31.7	93.4
	More than 45 years old	34	6.6	6.6	100.0
	Total	514	100.0	100.0	

		Position			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Supervisor	48	9.3	9.3	9.3
	Team Leader	159	30.9	30.9	40.3
	Team Member	307	59.7	59.7	100.0
	Total	514	100.0	100.0	

		Level of Education			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Senior High School	6	1.2	1.2	1.2
	Diploma	25	4.9	4.9	6.0
	Bachelor	323	62.8	62.8	68.9
	Master	160	31.1	31.1	100.0
	Total	514	100.0	100.0	

Background of Education

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accounting	360	70.0	70.0	70.0
	Management	32	6.2	6.2	76.3
	Economic	18	3.5	3.5	79.8
	Law	29	5.6	5.6	85.4
	Engineering	51	9.9	9.9	95.3
	Others	24	4.7	4.7	100.0
	Total	514	100.0	100.0	

Experience in Performance Auditing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 - 5 years	375	73.0	73.0	73.0
	6 - 10 years	56	10.9	10.9	83.9
	More than 10 years	83	16.1	16.1	100.0
	Total	514	100.0	100.0	

Experience in Management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	None	347	67.5	67.5	67.5
	1 - 5 years	108	21.0	21.0	88.5
	More than 5 years	59	11.5	11.5	100.0
	Total	514	100.0	100.0	

Current Office

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Headquarters Office	261	50.8	50.8	50.8
	Branch Office Java and Bali Region	98	19.1	19.1	69.8
	Branch Office Sumatra and Kalimantan Region	108	21.0	21.0	90.9
	Branch Office Sulawesi, Timor and Papua Region	47	9.1	9.1	100.0
	Total	514	100.0	100.0	

APPENDIX 5. ETHICS APPROVAL

Flinders University and Southern Adelaide Local Health Network
SOCIAL AND BEHAVIOURAL RESEARCH ETHICS COMMITTEE

Research Services Office, Union Building, Flinders University
GPO Box 2100, ADELAIDE SA 5001
Phone: (08) 8201 3116
Email: human.researchethics@flinders.edu.au

FINAL APPROVAL NOTICE

Principal Researcher:	Mr Agus Bambang Irawan				
Email:	iraw0009@flinders.edu.au				
Address:	22 Shepherds Hill Road, Bedford Park SA 5042				
Project Title:	Performance Auditing and Public Accountability in Indonesia				
Project No.:	5449	Final Approval Date:	8 December 2011	Approval Expiry Date:	28 February 2015

The above proposed project has been **approved** on the basis of the information contained in the application, its attachments and the information subsequently provided with the addition of the following comment.

Please ensure that a copy of a letter granting permission to conduct the research from the relevant institutions to be involved in the research *on receipt* (Conditional approval notice – item 4).

If you have any outstanding permission letters (item D8), that may have been previously requested, please ensure that they are forwarded to the Committee as soon as possible. Additionally, for projects where approval has also been sought from another Human Research Ethics Committee (item G1), please be reminded that a copy of the ethics approval notice will need to be sent to the Committee on receipt.

In accordance with the undertaking you provided in your application for ethics approval for the project, please inform the Social and Behavioural Research Ethics Committee, giving reasons, if the research project is discontinued before the expected date of completion.

You are also required to report anything which might warrant review of ethical approval of the protocol. Such matters include:

- serious or unexpected adverse effects on participants;
- proposed changes in the protocol (modifications);
- any changes to the research team; and
- unforeseen events that might affect continued ethical acceptability of the project.

To modify/amend a previously approved project please either mail or email a completed copy of the Modification Request Form to the Executive Officer, which is available for download from <http://www.flinders.edu.au/research/info-for-researchers/ethics/committees/social-and-behavioural-research-ethics-committee/notification-of-committee-decision.cfm>. Please ensure that any new or amended participant documents are attached to the modification request.

In order to comply with monitoring requirements of the *National Statement on Ethical Conduct in Human Research (March 2007)* an annual progress and/or final report must be submitted. A copy of the pro forma is available from <http://www.flinders.edu.au/research/info-for-researchers/ethics/committees/social-behavioural.cfm>.

Your first report is due on 8 December 2012 or on completion of the project, whichever is the earliest. *Please retain this notice for reference when completing annual progress or final reports.* If an extension of time is required, please email a request for an extension of time, to a date you specify, to human.researchethics@flinders.edu.au before the expiry date.



Andrea Mather
Executive Officer
Social and Behavioural Research Ethics Committee
8 December 2011

c.c A/Prof Janet McIntyre-Mills, janet.mcintyre@flinders.edu.au
Dr Noore Alam Siddiquee, noore.siddiquee@flinders.edu.au

APPENDIX 6. LETTER OF INTRODUCTION



School of Social and Policy Studies

GPO Box 2100
Adelaide SA 5001
Tel: +61 8 8201 2973
Fax: +61 8 8201 3350
E-mail: janet.mcintyre@flinders.edu.au
<http://www.flinders.edu.au/sps/sps.asp>
CHS/SPS/PROVADM/001110

LETTER OF INTRODUCTION (Interview)

Dear Sir/Madam,

This letter is to introduce Agus Bambang Irawan, a PhD student in the School of Social and Policy Studies at The Flinders University of South Australia. He will produce his student card, which carries a photograph, as proof of identity. Your contact detail was obtained from your organisation structure that is available online on the website of your organisation. Agus is conducting research on performance auditing and public accountability in Indonesia. His study will lead to the production of a PhD thesis and/or other academic publications on this topic. His research aims to explore the current practice of performance auditing in Indonesia and its relationship with public accountability.

This research project has been approved by Flinders University's Social and Behavioural Research Ethics Committee and is supervised by Associate Professor Janet McIntyre and Dr. Noore Alam Siddiquee from the School of Social and Policy Studies.

Agus would be most grateful if you would volunteer to spare the time to assist in this research project by agreeing to participate in an interview, which will cover certain aspects of this topic. The interview will be audio recorded and will take approximately an hour. All of the information provided will be treated in the strictest confidence and your identity will be confidential in the resulting thesis, report and other publications. You are, of course, entirely free to discontinue your participation at any time or to decline to answer particular questions.

Since Agus intends to make audio recording of the individual interviews, he will seek your consent, on the attached form, to record the interviews, to use the recordings or a transcription in preparing the thesis, report or other publications, on condition that your name or identity is not revealed, and to make the recordings available to other researchers on the same conditions.

Finally, should you have any enquiries regarding this research project, please feel free to contact me on (+61 8) 8201 2075 or e-mail janet.mcintyre@flinders.edu.au or Dr. Noore Alam Siddiquee on (+61 8) 8201 2302 or e-mail noore.siddiquee@flinders.edu.au. Agus can be contacted locally at this number: +62 xxx xxx or e-mail iraw0009@flinders.edu.au

Thank you for your attention and assistance.

Yours sincerely,

A/Prof Janet McIntyre
School of Social and Policy Studies
Faculty of Social and Behavioural Sciences

This research project has been approved by the Flinders University Social and Behavioural Research Ethics Committee (Project Number: _____). For more information regarding ethical approval of the project the Executive Officer of the Committee can be contacted by telephone on 8201 3118, by fax on 8201 2036 or by email human_researchethics@flinders.edu.au

inspiring
achievement

APPENDIX 7. LETTER TO THE INDONESIAN SUPREME AUDIT INSTITUTION



School of Social and Policy Studies

GPO Box 2100
Adelaide SA 5001
Tel: +61 8 8201 3973
Fax: +61 8 8201 3350
E-mail: janet.mcintyre@flinders.edu.au

<http://www.flinders.edu.au/sabs/saps/>

CRICOS Provider No. 00114A

Adelaide, 7 October 2011

To: The Head of Bureau of Public Relations and International Affairs
Indonesian Supreme Audit Institution (BPK – RI)
in Jakarta

Dear Sir,

This letter is to introduce Agus Bambang Irawan, a PhD student in the School of Social and Policy Studies at The Flinders University of South Australia. Agus is conducting research on performance auditing and public accountability in Indonesia. His study will lead to the production of a PhD thesis and/or other academic publications on this topic. His research aims to explore the current practice of performance auditing in Indonesia and its relationship with public accountability.

This research project has been submitted to the Flinders University's Social and Behavioural Research Ethics Committee and is supervised by Associate Professor Janet McIntyre and Dr. Noore Alam Siddiquee from the School of Social and Policy Studies. The purpose of this letter is to obtain a permit for Agus to conduct research in your office. Agus will conduct an interview, focus group discussion and questionnaire. All of the information provided will be treated in the strictest confidence and the identity will be confidential in the resulting thesis, report and other publications.

Finally, should you have any enquiries regarding this research project, please feel free to contact me on +61 8 8201 2075 or e-mail janet.mcintyre@flinders.edu.au or Dr. Noore Alam Siddiquee on +61 8 8201 2302 or e-mail noore.siddiquee@flinders.edu.au. Agus can be contacted at this number: +61 8 8201 3678 or e-mail iraw0000@flinders.edu.au

Thank you for your attention and assistance.

Yours sincerely,

Associate Professor Janet McIntyre
School of Social and Policy Studies
Flinders University

inspiring
achievement



THE AUDIT BOARD OF THE REPUBLIC OF INDONESIA

Jl. Gatot Subroto No. 31 Phone: +62-21- 2549000 ext 1218 Facsimile: +62-21- 57953198 Jakarta Pusat 10210

No. 266/S/X.2/10/2011

October 10, 2011

Associate Professor Janet McIntyre
School of Social and Policy Studies
Flinders University

Dear Professor McIntyre,

Referring to your letter dated October 7, 2011 regarding obtaining permit for Mr. Agus Bambang Irawan, a PhD student in the School of Social and Policy Studies at The Flinders University of South Australia, to conduct research on performance auditing and public accountability in Indonesia. I am pleased to inform you that The Audit Board of The Republic of Indonesia (BPK RI) acknowledges his request for conducting research at BPK's office.

BPK RI fully supports the research conducted by Mr. Agus Bambang Irawan. I found that his research on exploring the current practice of performance auditing and its relationship with public accountability will contribute to the development of public sector auditing in Indonesia.

Thank you and I look forward to meeting Mr. Agus Bambang Irawan in BPK RI.

Yours Sincerely,

Bahtiar Arif
Head of Bureau
Of Public Relations and International Affairs

Cc:

1. Secretary General, BPK RI;
2. Principle Director for Planning, Evaluation, Development and Training, BPK RI;
3. Head of Human Resources Management, BPK RI;
4. Director of Research and Development, BPK RI;
5. Head of Training Centre, BPK RI.

APPENDIX 8. LETTER TO THE PARLIAMENT



School of Social and Policy Studies

GPO Box 2100
Adelaide SA 5001
Tel: +61 8 8201 3973
Fax: +61 8 8201 3350
E-mail: janet.mcintyre@flinders.edu.au
<http://www.flinders.edu.au/sabs/saps/>
CRICOS Provider No. 00114A

Adelaide, 12 October 2011

To: Dra. Damayanti, MSi
The Head of Centre for Information and Data Processing
under Secretary General of the Indonesian Parliament
in Jakarta

Dear Sir/Madam,

This letter is to introduce Agus Bambang Irawan, a PhD student in the School of Social and Policy Studies at The Flinders University of South Australia. Agus is conducting research on performance auditing and public accountability in Indonesia. His study will lead to the production of a PhD thesis and/or other academic publications on this topic. His research aims to explore the current practice of performance auditing in Indonesia and its relationship with public accountability.

This research project has been submitted to the Flinders University's Social and Behavioural Research Ethics Committee and is supervised by Associate Professor Janet McIntyre and Dr. Noore Alam Siddiquee from the School of Social and Policy Studies. The purpose of this letter is to obtain a permit for Agus to conduct research in your office. Agus will conduct an interview. All of the information provided will be treated in the strictest confidence and the identity will be confidential in the resulting thesis, report and other publications.

Finally, should you have any enquiries regarding this research project, please feel free to contact me on +61 8 8201 2075 or e-mail janet.mcintyre@flinders.edu.au or Dr. Noore Alam Siddiquee on +61 8 8201 2302 or e-mail noore.siddiquee@flinders.edu.au. Agus can be contacted at this number: +61 8 8201 3678 or e-mail iraw0009@flinders.edu.au

Thank you for your attention and assistance.

Yours sincerely,

Associate Professor Janet McIntyre
School of Social and Policy Studies
Flinders University

- Mail
- Calendar
- Contacts
- Deleted Items
- Drafts
- Inbox
- Junk E-mail
- Sent Items
- Supervisors
- Manage Folders...

Reply Reply to All Forward Move Delete Junk Close

RE: Letter of Introduction (Agus Irawan)

Damayanti [damayanti@dpr.go.id]

You replied on 12/10/2011 4:16 PM.

Sent: Wednesday, 12 October 2011 4:09 PM

To: Agus Irawan

dear Mr Agus Irawan,

Thank you for your email about your research program. I would be happy you choose Indonesian Parliament in your research program, so please come to our parliament I will arrange the meeting for you with my colleague Mrs Setyanini who responsible in Public Account Committe.

Thank you,

Yours sincerely,

damayanti

From: Agus Irawan [iraw0009@flinders.edu.au]

Sent: Wednesday, October 12, 2011 6:51 AM

To: Damayanti; damayanti@dpr@yahoo.com

Cc: Janet McIntyre

Subject: Letter of Introduction (Agus Irawan)

To: Dra. Damayanti, Msi
The Head of Centre for Information and Data Processing
under the Secretary General of the Indonesian Parliament

Adelaide, 12 October 2011

Dear Mrs. Damayanti,

Following our phone conversation yesterday (11 Oct 2011), please find attached the letter of introduction from my supervisor about my research plan to conduct some interviews in your organisation (Parliament) especially with Public Account Committee Member (BAKN).

Further arrangements will be made when I arrived in Indonesia and it will be scheduled at the end of the year. I greatly appreciate your kindness and assistance. Thank you.

Yours sincerely,

Agus B. Irawan
PhD Student at Flinders Institute of Public Policy and Management (FIPPM)
Flinders University - South Australia
Phone: +61 8 8201 3678
Mobile: + 61 4 307 307 92
email: iraw0009@flinders.edu.au