



Audit performance alignment analysis of the supreme audit institution of Indonesia (BPK) with the new public management (NPM) concept

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ABSTRACT

This research is aimed at assessing how the Supreme Audit Institution of Indonesia (BPK) places emphasis on the direction of the audit to be carried out. This study uses a descriptive qualitative method by conducting a performance comparison analysis on audit performance conducted by the BPK in 2020-2021. The research data is secondary data in the form of BPK Audit Results Summary (IHPS) data. The results of this study indicate that there is no visible consistency in increasing performance audits from 2020-2021, decreasing in 2020, then increasing in 2021. However, the increase in performance audits that occurred in 2021 shows that when conditions are getting better, BPK is increasingly focused on developing performance audits, which can be interpreted as making more efforts to align the direction of audit performance with the New Public Management (NPM) concept.

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INTRODUCTION

Over the last three decades, criticism of government performance has surfaced around the world from all corners of the political spectrum. Critics have accused the government of being inefficient, ineffective, too big, too expensive, too bureaucratic, burdened by unnecessary rules, unresponsive to public wants and needs, secretive, undemocratic, intrusive on citizens' private rights, self-serving, and fail to provide adequate quantity or quality of service to the tax-paying public (Jones and Thompson, 1999). Fiscal pressures are also plaguing many governments and increasing calls for cheaper government, greater efficiency, and increased responsiveness. Members of the business community, financial institutions, media, management consultants, academics, the general public, and in addition to many international organizations, including the OECD, World Bank, International Monetary Fund (IMF), and others, have put pressure on politicians and public officials to reform. (Jones and Kettler, 2003).

These calls for and demands for change then gave rise to the concept of New Public Management (NPM), which supports the application of market-based logic and private sector management methods to the government. According to the NPM concept, the efficiency and effectiveness of the public sector can be achieved in two ways: first, through market competition, which should encourage the public sector to provide services that are more efficient and at lower costs (Hassan, 2013); second, because of the underlying principle of NPM that the private sector management system is superior to the public sector (Buhr, 2012).

NPM emerged as a public sector reform movement (Jones & Kettl, 2003) and public sector reform in several countries has been motivated by these NPM principles. Jones and Kettl (2003) argue that reforms in western countries (such as New Zealand, Australia, USA, and UK) as well as Asian countries (such as Thailand, Indonesia, Philippines, Korea, Malaysia, Cambodia, Laos, China, Mongolia and Vietnam) are characterized as NPM reforms intended to create efficiency and effectiveness for public sector organizations (Hoque, 2005).

NPM is an international phenomenon whose practices and studies are always monitored. Although these reforms spread quickly, research by past researchers has shown that NPM has resulted in a wide variety of practices. Analysts have found that the new public finance management has not been as uniform, a global movement as the spirit of reforms that have focused on embedding private sector financial practices into public sector decision-making. NPM has emphasized new standards in financial reporting, accrual accounting, debt and surplus management, and capital investment strategies that were previously missing from many government decision-making. These techniques have been widely applied, however, but not much research has examined the results and impacts produced by these NPMs.

In Indonesia, the Government of Indonesia has initiated public sector reform following the Asian currency crisis in 1998. The Indonesian government's public sector reform initiatives in 1999 began with the enactment of Law on Local Government No. 22/1999. Between 1999 and 2004, the government passed five laws, which can be identified as the new legal framework for the public sector management system. The law is intended to reform five financial management systems in Indonesia's public sector: market-oriented; budgeting; work management; accountancy; and audits. These reforms were aimed at developing a legal framework, which prior to the currency crisis was ineffective in regulating the public sector financial administration system in Indonesia.

The implementation of public sector reform in Indonesia has been examined by several previous studies (Harun, 2020) (Prabowo, 2017). Prabowo's research (2017) with a qualitative research approach known as a case study approach, has examined the proposition whether Indonesia's public sector reforms in the last 15 years are consistent with the main ideas of NPM, and analyzed whether the adoption of accrual accounting in Indonesia is part of NPM. Prabowo (2017) stated that although reforms appear to be motivated by the philosophy of the NPM, the regulations detailing and guiding the implementation of reforms are often not in line with the main ideas and goals of the NPM. These contradictions show that there is a gulf between the conceptual framework of Indonesian public sector reforms and the implementation (or practice) of these reforms.

The contradictions referred to as confusion by Prabowo (2017) are in the following areas: First, Public Service Providers, should be given flexibility like that of private sector organizations. This inflexibility subdues the spirit of competition among government agencies in providing the best service to the community, which is a fundamental concept of NPM. Second, Indonesia still uses a line-item and incremental budgeting system, although formally, Law on State Finance No. 17/2003 states that Indonesia should have adopted a performance budgeting system from 2004. However, lower level regulations are inconsistent with this and still maintain the ongoing practice of a "line item" budgeting system and an incremental budgeting system. The third inconsistency relates to financial reporting system reform - the adoption of accrual accounting - which was intended to prevent and eradicate corruption in central and local government. To that end, the

Government of Indonesia establishes regulations for the application of a detailed and rigid accounting system. The system restricts government officials from using their discretion in decision making. Every procedure in the accounting system must comply with government regulations, even the chart of accounts has been decided uniformly by the central government. The Indonesian government stipulates regulations for the application of a detailed and rigid accounting system. The system restricts government officials from using their discretion in decision making. Every procedure in the accounting system must comply with government regulations, even the chart of accounts has been decided uniformly by the central government.

Expanding on research conducted by Prabowo (2017), this research seeks to provide evidence on the impact of public sector reform, especially on the audit system that applies in Indonesia. Existing laws identify three types of audits that can be carried out by the Supreme Audit Institution of Indonesia (BPK), namely: financial audits; performance audits; and auditing for special purposes. As an integral part of the reform of the audit system, the BPK issued two regulations, namely the State Financial Audit Standards (Regulation of the Supreme Audit Institution No. 1/2017) and a code of ethics for government auditors (Regulation of the Supreme Audit Institution No. 4/2018). Under auditing standards, a financial audit is intended to provide reasonable assurance that the financial statements are fairly presented in accordance with GAAP. Furthermore, the regulation also requires audits that are supposed to be designed to detect misdemeanors, fraud, and abuse (SAI, 2007). Because corruption is a type of violation, the audit is intended to detect corrupt and collusive practices in the public sector. For this reason, the audit report contains records indicating corruption by public servants.

In addition to financial statement audits, BPK has adopted value-for-money audits or performance audits, which are defined as economic, efficiency, and effectiveness audits to assess the performance of government agencies (SAI, 2007). There is a section in the audit report that explains the results of the performance audit conducted. However, its emphasis on transparency and accountability as well as corruption is in contrast to the practice of public sector audit reform in many developed countries such as Canada, Australia and New Zealand. Reforms in public sector auditing have typically emphasized monitoring the service delivery function and reviewing the efficiency and effectiveness (value-for-money) of public service organizations (Pallot, 2003).

Based on the background previously described, this study specifically aims to map the extent to which BPK places emphasis on the direction of the audit to be carried out by analyzing the comparison of BPK audit performance with the New Public Management (NPM) concept. This research is important to do to prove how the implementation of NPM is implemented in Indonesia, especially in the audit reform system.

RESEARCH METHOD

This study uses qualitative research methods to map the alignment of the implementation of audit system reform in Indonesia. This research will be conducted by the Supreme Audit Institution of Indonesia (BPK) by assessing the comparison of BPK audit performance with the New Public Management concept. This study uses secondary data, namely data that has been collected by other parties for purposes other than the current research objectives (Sekaran & Bougie, 2016). Some sources of secondary data are for example statistical data, bulletins, government publications, published or unpublished information available from both inside and outside the organization, company websites, and the internet. The data for this study are BPK Audit Results Summary data for 2020-2021 and 2019 as a baseline. The data source is the official website of BPK www.bpk.go.id.

The variable in this study is performance comparison, which is measured by calculating the trend of increasing performance audits compared to audits of financial statements and compliance conducted by BPK from 2020-2021. Data analysis is part of the data testing process after the selection and research data collection stages are carried out. The stage in conducting

research data analysis is to perform a performance comparison of the performance audit conducted by BPK with other audits.

RESULTS AND DISCUSSIONS

This study uses a performance comparison technique. To assess the alignment of the audit reform carried out by the BPK with the New Public Management concept. Performance comparison is used to see trends in changes in the number of performance audit carried out in the 2020-2021 period. This study uses 2 proxies for measuring performance comparison: 1) a comparison of the number of performance audit in the 2020-2021 period against the 2019 baseline, and 2) a comparison of the proportion of performance audit with other type of audit in the 2020-2021 period. The document used to calculate performance comparison is the Summary of Semester Audit Results (IHPS). Based on data availability, the complete IHPS is available from 2020-2021. For 2022, BPK has not yet released Semester 2 IHPS documents.

Table 1. Comparison of BPK Audit Performance (2020 – 2021)

No	Type of Audit	2019	2020	2021	Increase/Decrease Number of Performance Audits		Proportion of Performance Audits		
					2020/2019	2021/2019	2019	2020	2021
1	Central BPK								
	Financial	110	120	134					
	Performance	33	171	285	418,2%	763,64%	13,69%	33,53%	51,26%
	Special Purpose	98	219	137					
2	Representative								
	Financial	542	542	542					
	Performance	238	90	71	(62,2%)	(70,17%)	25,35%	12,35%	9,99%
	Special Purpose	159	97	98					
3	BPK All								
	Total	1.18	1.23	1.267					
	Number of Audits	0	9						
	Total of Performance Audits	271	261	356	(3,69%)	31,37%	22,97%	21,07%	28,10%

The results of the Central BPK's performance comparison calculation using a comparison of the number of performance audits for 2020-2021 against the 2019 baseline, show a significant increase (in 2020 it rose 418.2%, in 2021 it rose 763.64%). Meanwhile, the trend of performance audits at Representative BPK has actually decreased (in 2020 it fell 62.2%, in 2021 it fell 70.17%). However, if the calculation is carried out as a whole (Central and Representative), the trend in the number of performance audits conducted by BPK is inconsistent. In 2020 there was a decrease of 10 performance audits, while in the following year in 2021 it again increased by 85 performance audits with an increase percentage of 31.37%. The same pattern also occurs when measuring performance comparison using the proportion of the number of performance audits compared to other type of audits (financial audits and audits with a specific purpose). Based on IHPS data for 2020 and 2021, the proportion of Central BPK performance audits has increased when compared to the baseline data for 2019, where in 2020 it increased by 33.53% and in 2021 it increased by 51.26%. However, the proportion of performance audits for 2020 at BPK Representatives showed a decrease (2020 was 12.35%, 2021 was 9.99%). There is a trend of increasing the number of central performance audits, but on the other hand there is a trend of decreasing performance audits at BPK representative was expected due to the withdrawal of several performance audit reports to become audits managed by the central BPK.

Furthermore, by using the entire IHPS data (Central and Representative), it can be seen that the total proportion of performance audits conducted by the BPK also shows inconsistent results. When compared to the baseline proportion of performance audits in 2019 of 22.97%, the proportion of performance audits in 2020 decreased to 21.07% and increased again in 2021 to 28.10%. It is expected that the decline in the trend of BPK performance audits as a whole in 2020 is due to the effects of the Covid-19 pandemic, in which all government agencies must refocus their budget, including the budget for carrying out audit activities. In contrast to financial audits, performance audit is a type of audit that is not mandatory, so it is expected that the policy of reducing the audit budget will have more impact on the policy of implementing performance audits, compared to auditing financial statements that are mandatory. However, the increase in performance audits that occurred in 2021 shows that when conditions are improving, BPK is increasingly focused on developing this performance audit. In this study, additional analysis was also carried out by conducting interviews with sources person from the BPK. In general, the sources person stated that the proportion of performance audits carried out by the BPK was indeed not as many as other types of audits, but every year, audits policy makers have tried to consistently increase the number of performance audits. Currently the strategy being developed by the BPK is to design performance audits that really have the greatest impact on improving government performance.

CONCLUSION

The Government of Indonesia has initiated public sector reforms since 1999, starting with the enactment of Law on Local Government No. 22/1999. These reforms were aimed at developing a legal framework, which prior to the currency crisis was ineffective in regulating the public sector financial administration system in Indonesia. Public sector reform is motivated by the concept of New Public Management (NPM) which is applicable in various countries in the world. Although the reforms appear to be motivated by the philosophy of the NPM, the regulations detailing and guiding the implementation of reforms are often inconsistent with the main ideas and goals of the NPM. These contradictions show that there is a gulf between the conceptual framework of Indonesian public sector reforms and the implementation (or practice) of these reforms. based on that, This research is generally aimed at presenting empirical evidence on the impact of public sector reform, especially on the audit system that applies in Indonesia. Based on these general objectives, this research will specifically map out the extent to which the strategic plan of the Supreme Audit Institution of Indonesia (BPK), places emphasis on the direction of the audit to be carried out. The results of the research analysis show that a performance comparison of the number of performance audits for 2020-2001 with the baseline for the number of performance audits for 2019 shows an increase for the central BPK, on the contrary, it shows a decrease for the representative BPK. The same pattern is seen for the comparison of the proportion of performance audits to non-performance audits. In 2020-2021, there was an increase in the proportion of performance audits at the central BPK, conversely there was a decrease in the proportion of performance audits at BPK representative. It is expected that the decline in the trend of BPK performance audits as a whole in 2020 is due to the effects of the Covid-19 pandemic, in which all government agencies must refocus their budget, including the budget for carrying out audit activities. In contrast to financial audits, currently performance audits are a non-mandatory type of audit, so it is expected that the audit budget reduction policy will have more of an impact on the policies for implementing performance audits, compared to audits of financial statements that are mandatory. However, the increase in performance checks that occurred in 2021 shows that when conditions are improving, BPK is increasingly focused on developing this performance audit.

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