



p - ISSN 2460-3937  
e - ISSN 2549-452X

# JURNAL

## TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA

Volume 6, Number 1, Jan - Jun 2020

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money laundering  
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**BADAN PEMERIKSA KEUANGAN**  
**DIREKTORAT PENELITIAN DAN PENGEMBANGAN**



# **JURNAL TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA**

Volume 6, Number 1, Jan - Jun 2020

First Edition: July 2015  
p - ISSN: 2460-3937  
e - ISSN: 2549-452X

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First Edition: July 2015  
p - ISSN: 2460-3937  
e - ISSN: 2549-452X



## **JURNAL TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA**

Volume 6, Number 1, Jan - Jun 2020

Jurnal Tata Kelola dan  
Akuntabilitas Keuangan Negara  
issued as media to encourage  
research in the field of governance  
and state finance accountability.  
BPK publishes this journal  
two numbers in  
one-volume each year.  
This journal accepts scientific papers  
as the results of primary  
and secondary research  
that can contribute  
in governance and state  
finance accountability.

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## Foreword

One of the basic foundations for good governance is the accountability which is the obligation to render an account for a responsibility conferred. BPK as a supreme audit institution has mandate to audit management and accountability of state finances conducted by the government and other institutions or agencies. BPK promotes transparency and accountability of state finance including budget management through its audit. BPK also believes that the effectiveness of audit functions lies in its independence.

This edition contains six articles that shed light on research questions in governance and accountability of state finances. Three of six articles study about the BPK in some aspects: process of constitutional reform, government expenditure audit, and auditor rotation. The other articles examine the implementation of sustainability accounting in non-business organizations, budget ratcheting in governmental budgeting, and political power in the budget process.

In the beginning, this edition starts with the article entitled “Explaining existing performance of Indonesia’s audit board: informal networks, constitutional makers’ decision, and constitutional reform”. This study seeks to explain the process of amendment of BPK article in the constitutional reform as the source of current BPK’s performance, by paying attention to how much the informal networks influence the constitutional maker’s decision and to what extent the social external pressures put an effect on the ideational informal networks on the amendment of BPK article. This article has shown how informality’s outcome is in line with formality’s outcome within ‘ineffective formal institution’ as the amendment happened in Indonesia’s transition era, so it causes improved performance of the Audit Board today.

The second article examines the correlation between government expenditure audit conducted by BPK and local government corruption behavior. The article “Do the government expenditure audits correlate with corruption in the public procurement?” finds that the government expenditure audit carries out in the previous period correlate with changes in local government corruption behavior. This study suggests an increase in audit frequency that expected to decrease the aggregate corruption level in public procurement in local government. Likewise, to respond to changes in corruption behavior due to variations in capital expenditure, BPK needs to add capital expenditure value variables in determining the audit sample.

In responding to the increasing audit frequency, BPK needs to consider the improvement of its auditor formation. Moreover, BPK should enhance auditors’ independence by mandatory rotation. The article “Mandatory auditor rotation: the perceived benefits and drawbacks (A case study in BPK)” intends to empirically test the impact of mandatory rotation towards auditors’ independence in fact and appearance. This study also examines how auditor satisfaction towards the policy differentiates their perceived benefits and drawbacks of the scheme. The findings show that independence in the appearance of auditors will enhance due to the implementation of the mandatory rotation. The rotation policy, nevertheless, could not solely improve the auditors’ independence in fact. Consequently, complementary schemes are required to preserve independence in fact of auditors. The rotation mechanism is necessary to be implemented in BPK.

The fourth article of this journal is entitled “Measuring sustainability performance in university: is it possible to implement sustainability accounting in public sector organization?”. The purpose of this study is to identify the ability of non-business organizations to implement the concept of sustainability accounting and to measure the organization’s sustainability performance. This study finds that public university organizations can apply the concept of sustainability accounting and have a very high capability to implement the concept of sustainability accounting as well as identified the challenges in the implementation process.

A budget is a tool for achieving government objectives. This is why the study of the budget process is always interesting. Article “Budget ratcheting in governmental budgeting: an empirical investigation” scrutinizes such behavior in a governmental budgeting setting by testing ratchet behavior when local government adopts a well-known budget control mechanism, called Analysis on Standardized Expenditure (ASE). The study shows ratcheting behavior occurred in the preparation of local government budgets. The existence of budgeting instruments such as ASE can control the tendency to ratchet behavior.

“The roles of political power in budget process: How to accommodate them? A case study” is the last article and discusses the budget process. The purposes of this study are revealing the effect of political power in the budget process and proposing control of how the budget process can accommodate them in the scope of accountability. The result shows that political power has a positive role as it performs as a channel for connecting society's aspirations. On the other hand, there is also a risk that political power benefits those who have different purposes.

We would like also to take this opportunity to thank the authors for choosing the Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara as a medium to contribute their ideas and thoughts. We always welcome journal readers to participate through articles with a scope related to governance and accountability of state finances.

Furthermore, we would like to thank and extend the gratitude to the editorial team and reviewers. We hope the articles presented in the June 2020 edition can be useful to enhance the knowledge of readers and become a reference for the development of academics and practitioners for policy formulation.

Finally, this edition is dedicated as a tribute for our late reviewer Agus Bambang Irawan, Ph.D. “There is only one valid authority when it comes to expertise and conservation, namely that of the works. Quite simply because in the end, it is the works that are right” (Roger Marijnissen).

Editor in Chief



**Dr. Dwi Setiawan Susanto, S.E., M.Si., Ak., CA., FCMA., CGMA.**



## EXPLAINING EXISTING PERFORMANCE OF INDONESIA'S AUDIT BOARD: INFORMAL NETWORKS, CONSTITUTIONAL MAKERS' DECISION, AND CONSTITUTIONAL REFORM

Adfin Rochmad Baidhowah

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 1-18

This study seeks to explain the process of Audit Board article amendment in the constitutional reform as the source of current BPK's performance, by answering questions: how much do informal networks influence constitutional maker's decision and to what extent do the external pressures influence the informal networks on the amendment of Audit Board article? This study used a quantitative method to develop variables of social networks in examining how much informal networks based on ideational informal networks influence constitutional makers' voting between 1999 and 2001 in six meetings which contained voting out of 39 meetings of the Audit Board article amendment. Illustrating statistically significant results of the influence of ideational informal networks on the constitutional makers' decisions and the influence of high political effect (president's preference) and strong party pressure on the ideational informal networks, this study shows that "the progressive liberal bloc" which can enforce constitutional reform – particularly Audit Board article though not full-scale reform – within the "ineffective formal institution" as it happened in transition era, has shown how informality's outcome is in line with formality's outcome, so it causes improved performance of Audit Board today. Because the statistical evidence talks to broader topics about the people representative bodies and governance, this study suggests paying more attention to the factors of constitutional makers' networks, on and off the meetings of constitutional reform.

### Keywords:

Indonesia; state audit board; constitutional maker's networks; constitutional reform

DOI: 10.28986/jtaken.v6i1.392

## DO THE GOVERNMENT EXPENDITURE AUDITS CORRELATE WITH CORRUPTION IN THE PUBLIC PROCUREMENT?

Deri Yanto, Vid Adrison

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 19-33

Public procurement is the main area of corruption in the government. This study aims to examine the correlation between government expenditure audit held by BPK and local government corruption behavior. This study uses a fixed effect panel regression approach and the dependent variable is the value of irregularities in the public procurement sector in all local governments in Indonesia. This study found that the government expenditure audit carried out in the previous period correlated with changes in local government corruption behavior. Local governments will reduce corruption behavior as an implication of changing views and calculating expected cost corruption based on their experience of being audited. Besides, local governments expect their probabilities to be re-audited. It is evident in the local government which has not been audited for three years that it will try to reduce its corrupt behavior because it is expected that this year will be audited again. This study suggests an increase in audit frequency that is expected to decrease the aggregate corruption level in public procurement in local government.

### Keywords:

Audit; corruption; expenditure; local government

DOI: 10.28986/jtaken.v6i1.378

## MANDATORY AUDITOR ROTATION: THE PERCEIVED BENEFITS AND DRAWBACKS (A CASE STUDY IN BPK)

Putri Anggraini

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Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 35-55

**Keywords:**

Mandatory  
rotation; benefits;  
drawbacks;  
independence;  
BPK

After years of implementation of the policy, there is an inconclusive opinion of whether a mandatory auditor rotation could improve the independence of auditors, including those working within the public sector, such as BPK. This study intends to empirically test the impact of mandatory rotation towards auditors' independence in fact and in appearance. Additionally, the study examines how auditor satisfaction towards the policy affects their perceived benefits and drawbacks of the scheme.

Following a statistical assessment of primary data using the independent-samples t-test, findings show that independence in appearance of auditors would be enhanced as a result of mandatory rotation. The rotation policy, however, could not by itself improve auditors' independence in fact. Consequently, complementary schemes are required to preserve independence in fact of auditors. Further, auditors who have a favorable view of mandatory rotation would assume that the mechanism offers more advantages than disadvantages. On the other hand, unhappy employees would perceive that mandatory rotation brings more adverse effects than positive ones. The vast majority of respondents also believe that the rotation mechanism is necessary to be implemented in BPK. Lastly, a number of valuable respondent inputs aimed to improve the rotation scheme are elaborated in this study.

DOI: 10.28986/jtaken.v6i1.394

## MEASURING SUSTAINABILITY PERFORMANCE IN UNIVERSITY: IS IT POSSIBLE TO IMPLEMENT SUSTAINABILITY ACCOUNTING IN PUBLIC SECTOR ORGANIZATION?

Putu Sukma Kurniawan

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Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 57-72

**Keywords:**

The GASU  
method;  
sustainability  
performance;  
sustainability  
accounting; the  
STARS system

This study aims to identify the ability of non-business organizations to implement the concept of sustainability accounting and to measure the organization's sustainability performance. The object of this study is higher education institutions (public universities). This study used a qualitative paradigm with data collection techniques and using the document analysis method. The data used is the university's sustainability report and relevant documents. The methods used to analyze sustainability performance is the GASU method and the STARS System. The results of this study found that public university organizations can apply the concept of sustainability accounting and have a very high capability to implement the concept of sustainability accounting. This study also identified the challenges in the implementation process of sustainability accounting in public sector organizations, particularly in higher education institutions.

DOI: 10.28986/jtaken.v6i1.376

# BUDGET RATCHETING IN GOVERNMENTAL BUDGETING: AN EMPIRICAL INVESTIGATION

Fauzan Misra

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 73-86

Previous literature has documented various aspects of behavior in the budgeting process. Behavioral problems that are often discussed include budgetary slack and opportunistic behavior that occur due to information asymmetry. However, there is little attention to behavioral problems in previous studies called ratcheting behavior. This study investigates such behavior in a governmental budgeting setting. Besides, this study extends by testing ratchet behavior when local government adopts a well-known budget control mechanism, called analysis on standardized expenditure. To accomplish this purpose, study participants role-played as the budget preparer on a government budgeting task. The experiment used a web-based instrument that involved 51 participants. Results showed that budget preparer engaged in a ratchet behavior when setting their budget. Furthermore, budget ratcheting did not occur when preparer using an analysis of standardized expenditure. However, this situation only remains for one year. In the next year, preparer engaged in a ratchet behavior, at a lower intention. These findings underscore the importance of analysis of standardized expenditure in a government budgeting process environment. As a practical contribution, these findings suggest that using and monitoring for the adoption of analysis on standardized expenditure should be maintained continuously.

## Keywords:

Budgeting;  
budget  
ratcheting;  
control; analysis  
of standardized  
expenditure

DOI: 10.28986/jtaken.v6i1.400

# THE ROLE OF POLITICAL POWER IN THE BUDGETING PROCESS: HOW TO ACCOMMODATE THEM? A CASE STUDY

Eden Zarista, Muhammad Ichsan

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 6(1) 2020: 87-102

This research has two main objectives. The first objective is to identify the role of political power in the budgeting process, while the second is to propose a control mechanism to enable a budgeting process to accommodate political power in terms of accountability. Indonesia's Corruption Eradication Commission reports on the misuse of political power to manipulate budgeting in an organized manner. Execution of the budgeting process that does not follow the prevailing strategic policy constitutes fraud. The functions of budgeting are allocation, distribution, and stabilization. This study analyzes budgeting that intertwines with the wielding of political power. The study employed qualitative research supplemented by a case study to explain why and how such phenomena are occurring. The analysis was conducted using the thematic method by way of open-ended questionnaires to explain the data and information that were accumulated concerning the topic at hand and their relevance. Results show that political power plays both negative and positive roles. The positive aspect of the exercise of political power is that it is used as a public channel between society and the government, while its negative impact is the various risks that it poses, such as political power being used to advance self-interests. Political power does not share the same degree of impartiality as statutory rules. The form of politics can alter a budgeting activity or program. The application of a certain budgeting system is proposed to reduce errors and record activity history. Concerning the evaluation of APBD by the DPRD, APIP must help enforce control by reviewing budget changes against the relevant goals and objectives.

## Keywords:

Political power;  
DPRD; head of  
local government;  
budget;  
accountability

DOI: 10.28986/jtaken.v6i1.412







## **EXPLAINING EXISTING PERFORMANCE OF INDONESIA'S AUDIT BOARD: INFORMAL NETWORKS, CONSTITUTIONAL MAKERS' DECISION, AND CONSTITUTIONAL REFORM**

**Adfin Rochmad Baidhowah**

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### **ABSTRACT**

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This study seeks to explain the process of Audit Board article amendment in the constitutional reform as the source of current BPK's performance, by answering questions: how much do informal networks influence constitutional maker's decision and to what extent do the external pressures influence the informal networks on the amendment of Audit Board article? This study used a quantitative method to develop variables of social networks in examining how much informal networks based on ideational informal networks influence constitutional makers' voting between 1999 and 2001 in six meetings which contained voting out of 39 meetings of the Audit Board article amendment. Illustrating statistically significant results of the influence of ideational informal networks on the constitutional makers' decisions and the influence of high political effect (president's preference) and strong party pressure on the ideational informal networks, this study shows that "the progressive liberal bloc" which can enforce constitutional reform – particularly Audit Board article though not full-scale reform – within the "ineffective formal institution" as it happened in transition era, has shown how informality's outcome is in line with formality's outcome, so it causes improved performance of Audit Board today. Because the statistical evidence talks to broader topics about the people representative bodies and governance, this study suggests paying more attention to the factors of constitutional makers' networks, on and off the meetings of constitutional reform.

### **KEYWORDS:**

Indonesia; state audit board; constitutional maker's networks; constitutional reform

**DOI: 10.28986/jtaken.v6i1.392**

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### **ARTICLE HISTORY:**

**Received at** : 27 November 2019

**Published at** : 28 June 2020

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## INTRODUCTION

Indonesia's Supreme Audit Institution (Badan Pemeriksa Keuangan, BPK) has become a crucial player in the investigation of the Indonesian state budget. All local governments and central government endeavor to obtain BPK's opinion particularly Unqualified Opinion (Wajar Tanpa Pengecualian, WTP) which is the highest opinion, as it shows that the government has been managed accountably. The President of Indonesia in 2019 also gave praise to BPK which was successful to restore Rp4.38 trillion the state's budget and asset (Tempo, 2019). To be sure, these conditions are far better than in the Suharto's era, in which BPK did not function properly (Sesneg, 2009; BPK RI, 2012).

While scholars provide evidence which elucidates the contributor factors of current BPK's performance such as organizational design as a key factor of performance (Pramono, 2016); internal, external, and supporting factors of transformation (Pramono & Hendharto, 2018); and leadership factors on increasing BPK's audit quality (Komalasari, 2016), few have illustrated evidence from a structural explanation of BPK reform trajectory which happened in Indonesia's transition era 1998-1999.

By drawing on historical institutionalism concept (Hall & Taylor, 1996), this study argues that current BPK's performance is a direct result of Indonesia's constitution amendment 1999-2002. The constitution amendment has been a critical juncture to the powerless investigation body in the Suharto era to become a functioning one.

There is no claim in this study, that the constitution amendment of BPK article has recreated a perfect BPK today. Instead, this seeks to explain that the constitution amendment process was not failed to create an im-

proved BPK, irrespectively the evidence from Baidhowah (2019) who shows that BPK's current condition still inherits issues like in the Suharto's era. Political factions in the People's Consultative Assembly (Majelis Permusyawaratan Rakyat, MPR) – the Work Group Party (Golongan Karya, Golkar), the Nation Awakening Party (Partai Kebangkitan Bangsa, PKB), the Unity and Development Party (Partai Persatuan Pembangunan, PPP), the Moon Star Party (Partai Bulan Bintang, PBB), and the Reformasi – which agreed with the Constitution amendment 1945 had succeeded to force them – the Indonesian Democratic and Struggle Party (Partai Demokrasi Indonesia Perjuangan, PDIP) and the Army/Police (TNI/Polisi) – which did not agree to conduct the reform (King, 2004) – including BPK article though not full-scale reform (Sesneg, 2009; Baidhowah, 2019). Reformasi is consists of the National Mandate Party (PAN) and Justice Party (PK).

Previous research from Baidhowah (2019) has studied the existence and dynamics of informal networks of the constitutional markers within the re-establishment of BPK article in the constitutional reform 1999-2002. By drawing on King's (2004) argument, Baidhowah's (2019) research mapped political factions in the MPR based on informal networks. The informal networks are glued together by ideas of 'the progressive liberal bloc' which prefer reform, and "the conservative statism bloc" which does not prefer reform in creating a winning coalition within the amendment. The ideas are completely influenced by the dynamics of decisions in informal relations among the chiefs of political parties – as elites do matter in Indonesia context – which is then translated into their party's members in formal forum, the MPR.

Drawing on this Baidhowah's (2019) evidence, however, how much they are significant and to what extent the social external pressures play, has never statistically been

analyzed. Therefore, based on that general overview, this study aims to provide statistical empirical evidence on the question of, by handling issues of non-spuriousness (other independent variables which can influence the outcome), how much do the informal networks influence the constitutional maker's decision and to what extent do the social external pressures put an effect on the ideational informal networks on the amendment of BPK article?

Answering those questions have theoretical and empirical significance, namely, this study complements the previous study to show statistically how much the influence of informal networks on the constitutional makers' decision and put additional information on the social external pressures on the ideational informal networks of the BPK article. In lights of informality in Indonesia is broadly acknowledged, in which it has been studied in the various realms. For one, in the Indonesian context, informality is well documented: for instance, in the social realm "the invocation of social norms, mediation, and the use of social affiliations" have been seen as critical to the construction of the state-citizenship relationships (Berenschot & van Klinken, 2018). Second, in the religious realm, informal clientelist networks have shaped the way the Indonesian people treat the Ahmadiyah group (i.e. heretical religious group) in discriminatory ways (Soedirgo, 2018). Third, in the economic realm, studies have shown how hybrid model influences Jakarta's land transformation, namely blend of neo-liberalization and informal networks of state actors, the development industry, the conglomerates' stand-alone developers and development arms, elite's role, and international business people (Herlambang, Leitner, Tjung, Sheppard, & Anguelov, 2019). Fourth, in the political context, Aspinall and Berenschot (2019) prove that the current democratic situation Indonesia, particularly in the process of election at local and national le-

vels is highly influenced by informal clientelism networks that they categorize as "freewheeling clientelism".

To illustrate these arguments, this section provides subsections which explain about background of Indonesia's constitutional reform and specifically on BPK re-establishment, then moves to construct literature review on informality, formality, and political behavior, before explains how progressive liberal bloc play roles. Subsequently, the second section develops a research method to answer the questions. Lastly, the third section illustrates the results and discussion.

### **Indonesia's Constitutional Reform 1999-2002 and Re-establishment of BPK**

Constitutional reform, which is "the process of reconstructing the constitution and the laws it governs through public consultation and negotiation" is a way to strengthen governance (Dressel, 2011). There are two parts of constitutional reforms which can determine the quality of good governance, namely the quality of the process (i.e., the more transparent, participatory, and inclusive the process of constitutional document drafting, the more legitimate a political order in exercising good governance); and institutional choices such as degree of decentralization, a form of government, electoral rules, and judicial agencies (Greenberg, Katz, Oliviero, & Wheatley, 1993; Sunstein, 2001).

Indonesian constitutional reform occurred in 1999-2002 when the country faced a political and economic crisis. In terms of quality of process in the Indonesian constitutional reform, it was conducted in manners of gradualist, with minimal consultation, and dominated by members of parliament (Dressel & Bunte, 2014; Horowitz, 2013). Moreover, the reform processes lacked some

key features of the democratic process in making the constitution, such as short-term political interests contaminating the amendment proposals, no clear plan or objective, little public participation, and the MPR failure in its capacity as a constitution maker to win the people's trust (Indrayana, 2005; 2007). Thus, the process of Indonesian constitutional drafting was indeed closed-constitutional drafting.

Based on the principle of total secrecy, the closed-constitutional drafting provides a benefit by improving the discussion among drafters, as it lets them change their thoughts if they are persuaded of the opponent's truth view (Elster, 1993). While open-constitutional drafting, which involves the public, can cause issues of overbidding, grandstanding, and stubbornness (Elster, 1993). However, public participation is essential to ensure a democratic process; and it can ensure people control over the constituent power or as a source of legitimacy (Wheeler, 1961).

The constitution reform of BPK article aims to ensure the quality of state audit institution as an accountability body to ensure the existence of principles of good governance, specifically, accountability, transparency, effectiveness, and the rule of law (Jorgensen & Sorensen, 2012). The idea for BPK reform was strongly influenced by external actors – International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB) – which gave financial assistance after the end of the Authoritarian New Order period in 1998 (Harun, vanPeurse, & Eggleton, 2012). The financial assistance obliged Indonesia to reform its fiscal and banking system (Harun et al., 2012; Barclays Economic Review, 1998), in which it required stronger accountability by reforming the audit board (Nasution, 2008; IMF, 1999).

Theoretically, institutions of accountability consist of (i) internal audit institution, or person or division within an institution conducting audit functions; and (ii) external audit institution, or an organization with audit function separate from the institution audited (Hermanson & Ritterberg, 2003; Skousen Glover, & Prawitt, 2005; Prawitt, Smith, & Wood, 2009). In the public sector, external audit institution is manifested into a state audit institution (SAI). SAI is traditionally understood and believed to inquire about the state's institutions to account their budget (OECD, 2016; INTOSAI, 2019). Independence is a prerequisite to be a successful SAI, in which it should be written in a state's constitution (INTOSAI, 2019; The Lima Declaration of 1997). The SAI's independence consists of independence of its members (officials and staff) and financial management; as well as independence from the legislative, executive, and judicative. Additionally, in the constitution, SAI should have investigation power to access all documents and records about financial management. Also, SAI's significant power should be incorporated with transparency, accountability, and ethics, by making its work publicly available, adopting international standards, managing its organizational budget effectively and efficiently, and ensuring its human resource competency, professional secrecy, objectivity, impartiality, and integrity (INTOSAI, 2019).

In Indonesia, in which the SAI is manifested into BPK, it had a legal framework before 2001, which was reflected in section VIII about finance in article 23 (The Constitution 1945). In other words, the BPK article in the Indonesian constitution before the amendment was part of the finance section. The article said that to audit the financial responsibility of the state budget, the state created an audit board which its regulation was established by law. The audit results were reported to the lower house of representatives.



By contrast, the legal framework for the BPK after 2001 was in the Indonesian constitution, section VIII A about BPK, where it was separated from the section of finance but still related to the finance section (The Constitution 1945 after amendment 1999-2002). Section VIII A consists of three articles and seven paragraphs. Article 1 of such section declares that to audit management and responsibility of state budget, the state creates one free and independent state audit board; the audit results are reported to the upper and lower houses of the representative and local house of the representative; the audit results are followed up by representative institutions and/or relevant agencies based on law. Article 2 of such a section articulates that members of BPK are elected by the lower house of representatives, paying attention to consideration of upper house of representative, and finally the elected BPK members are stipulated by the president; the leader of BPK is elected by the members. Article 3 of such a section declares that BPK is located in the state's capital and has several branches in every province; further provisions about BPK are regulated by law.

### **Formality, Informality, and Political Behavior**

Within the constitutional processes, there are aspects of informality and formality which exist and can influence the constitutional drafters' decision. In organization forms, informality and formality consist of unstructured versus structured, unruly versus rule-based, and unpredictable versus predictable (McFarlane, 2012). Formality is a group of individuals who involve within social practices featured by embodied and explicit – "publicly available, ritually accepted, and professionally written" – regulations and rule; then behavior which follows the regulation and rule is formal behavior (Borocz, 2000). On the contrary, informality often plays crucial roles in influencing a processes'

outcome such as important performance and sometimes in unexpected ways (Helmke & Levitsky, 2004). All forms of social groups and actions which constitute the avoidance of the formality definition above are informal groups and behavior (Borocz, 2000).

Informal institutions which are 'socially shared rules, usually unwritten, are created, communicated, and enforced outside of officially sanctioned channels' (Helmke & Levitsky, 2004), can be identified through three indicators, namely "framework (institutions, organizations, and networks), process (politics, arrangement, and activity), and outcome (rules, norms, and influence)" (Christiansen & Neuhold, 2012). The three indicators of informal institutions relate to Helmke and Levitsky (2004) argument that in researching informal institutions, several crucial things are needed to analyze: what relevant actors' shared expectations, community, and interests involved; why informal institutions exist; and how informal institutions work.

There are four informal institutions according to Helmke and Levitsky (2004), namely "complementary informal institution" which exists when informality's outcome is in line with formality's outcome within "effective formal institution"; and "accommodating informal institution" which exists when informality's outcome is not in line with formality's outcome within "effective formal institution". Then, "substitutive informal institution" which exists when informality's outcome is in line with formality's outcome within "ineffective formal institution"; and "competing informal institution" which exists when informality's outcome is not in line with formality's outcome within "ineffective formal institution".

Politics which is saturated with informal nuances (Borocz, 2000) can exist in the sphere of constitution-making, because constitution

-making actors are politicians. Politicians' social environment which explains their characteristics – if the characteristics of two or more politicians are same – can explain whether or not processes of influence (people choosing their friend's preferences) and leverage (people can finish something because they have connections with other relevant actors) exist (Borgatti, Mehra, Brass, & Labianca, 2009). In the Indonesian constitutional reform context, informality as a framework reasonably exists in networks, namely the informal networks between constitutional drafters in discussing and deciding the BPK article. Similarly, the three indicators of informality as a process exist in the Indonesian constitutional reform. Most constitutional reform drafters are politicians, and the discussion is the politics forum that tries to arrange amendments on the BPK article. Moreover, in terms of informality as an outcome, influence is relevant to the Indonesian constitutional context, namely how informal networks between constitutional drafters constrain and enable the constitutional drafters' behavior.

The most factions in the Indonesian constitutional reform context are political parties, in which they are office-seeker that perform individually to obtain power, income, or prestige which can come by being in an office (Riker, 1962). To achieve the goal, the factions therefore should build coalitions just as big as the factions assure will obtain winning and no bigger. The coalition is minimal-winning which means that the ouster of one faction from that coalition is able to cause loss (Hindmoor & Taylor, 2004).

Within the coalition dynamics, several policy-seeking behaviors exist (Hindmoor & Taylor, 2004). First, center parties are "the median parties" which play a crucial role in the formation of the coalition. Without the median parties, a coalition will not achieve a minimum condition to win voting such as a vot-

ing system of 50 percent plus one or 2/3. Second, extreme parties are parties that are on the far right and the far left, where extreme parties cannot be included in government as the median parties will calculate that coalitions with the extreme parties are possibly unstable then it cannot produce robust policy implementation. Third, minority administrations exist when "parties are policy-seeker" and there is no possibility for winning coalition then all parties prefer the median party to govern alone. Forth, majority administrations exist when the government is built by a bigger number of parties rather than the minimal-winning coalition. So, additional parties that join with the minimal-winning coalition will not cause a difference in policy implementation and "utility of policy-seeking members".

In Indonesia, the constitutional reform context of BPK article, the policy-seeking behaviors which exist are, first, majority administrations as majority parties build a coalition in terms of agreeing on the idea that BPK article will be reformed. Second, center parties where Golkar, PPP, and PKB which are the median parties play important roles in the dynamic process of constructing the BPK article in different MPR meetings. While extreme administrations do not exist TNI/Polisi as the most conservative will not join with Reformasi as the most progressive; and similarly, because all parties always try to make a coalition and do not let Golkar solely determine the final result of BPK article, so minority administrations in this regard do not exist.

How the politicians choose between choices and behave upon political conditions within the winning-coalition theory is based on rational choice theory (Downs, 1957). Rational politicians should behave through assumptions of "discrete purposeful actor, utility, and rationality": they are always able to decide something when are facing several con-

strained alternatives, can rank alternative from the highest desired to the lowest one, and always make same decisions when they face the same alternatives (Lovett, 2006).

However, because the existence of informal institutions in various contexts which can construct stronger political outcomes and behavior; and the informal institutions start from norms of the legislature and executive to patrimonialism, clientelism, and oligarchy (Helmke & Levitsky, 2004), the sense of rational choice does not work anymore, rather the existence of ideational factors will play crucial roles in the political behavior (Ingham, 2012; Campbell, 2004).

Explanations of ideational factors underline the leverage of "nonmaterial, principled ideological commitment" (Ingham, 2012). Several types of ideas can influence as, first, "cognitive paradigms" which exist when "taken-for-granted world views of politicians" can constrain the range of their preferences to consider a decision (Campbell, 2004). Second, "normative ideas" which exist as "taken-for-granted assumptions" in terms of identities, values, attitudes, as well as collective and shared expectation (Katzenstaein, 1996). Third, "programmatic ideas" exist as a guideline on how existing instruments and institutions need to be utilized in particular situations based on "the principles of well-established paradigms" (Hall, 1993).

Therefore, based on this description, winning-coalition under the sense of shared ideas rather than shared rational choice is relevant to analyze informal networks in Indonesian constitutional reform context, as Blair (2004) argues that pragmatic ideas of the constitutional makers' private interest and political interest exist in the constitutional reform process in terms of choosing preferences of state's institutions.

The way in which the political parties move to build winning-coalition depends on their key politicians' decision, in which the existence of the key politicians depends on the degree of distribution of power across political individuals in a community (Winters, 2013). The theory of power resource shows that "we should reverse the behavioral approach and begin the study of power with power resources rather than with exercise of power" (Korpi, 1985). The theory realizes that individuals within a community own several "quantum of power" from lowest to highest, in which the types of the power resources consist of material power which can produce oligarchy, as well as mobilization power, coercive power, official positions, and political rights which can produce elite politics (Winters, 2013). In Indonesia's political context, all types of the power resources exist and have a significant role.

Regarding the Indonesian constitutional reform, mobilization power as elites' capacity to move people in politically formidable strategies (Winters, 2013) is the most relevant power resource which exists. One of the factors which can have this powerful resource is personality (popularity and charisma) connected with his or her people (Poguntke & Webb, 2005).

Indeed, figures in Indonesia transition from the Suharto's authoritarian era to the Reformasi era play significant roles in the MPR's factions, namely General Wiranto in TNI/Polisi, Megawati in PDIP, BJ Habibie and Akbar Tanjung in Golkar, Hamzah Haz in PPP, Abdurahman Wahid and Matori A. Djalil in PKB, Amien Rais in Reformasi, and Yusril Mahenda in PBB (Thompson, 1999). Moreover, every party's rule supports this concept of power resource to exist sustainably, as members of MPR factions which are members of political parties, in which every political party's rule regulates that the party's central power is on its chief in terms of

making a decision, and each member should obey the decision (Statutes and By-laws of Political Parties in Indonesia). Therefore, results of the ideational informal networks among the chiefs of political parties ultimately decide where BPK article amendment will go, as the results are translated into their party's members in the formal forum, the MPR.

### **Achievement of “Progressive Liberal Bloc”: Little Result but Meaningful**

The previous subsections of this study have explained background and literature review, also has underlined the source of ideational informal networks that occur first between the chief of political parties then transmits to their members in MPR. In this subsection, this study provides information on how "progressive liberal bloc" which prefers constitutional reform succeed to create a meaningful change. Source of this section is referring to Baidhowah (2019) work who explains how the dynamics of the "progressive liberal and conservative statism bloc" goes, but in this regard, this subsection much underlines how the "progressive liberal bloc" has made a positive difference in pressures of big power of "conservative statism bloc".

Concerning the emergence of reforming the Constitution 1945 as one of the reformation demands, it has caused cleavage within political factions in MPR because of different ideas in seeing that matter. The progressive liberal idea rose on some political factions – Golkar, PKB, PPP, PBB, and the Reformasi – which supported the idea to reform the Constitution 1945. These political factions then formed a winning coalition based on the ideational informal networks of the progressive liberal idea. Meanwhile, conservative statism idea rose on other political factions – PDIP and TNI/Polisi – which preferred to keep the Constitution 1945. These political factions then formed a winning coalition

based on the ideational informal networks of the conservative statism idea.

Before coming to the meeting in the first amendment 1999, there was a big movement of PDIP and TNI/Polisi which changed their idea about the constitutional reform by moving to the "progressive liberal bloc". This was influenced by the movement of their chief of a political party who supported President Habibie, in which he declared as the reformist president and amendment of the Constitution 1945 was one of his programs. To be sure, this occurrence benefited "progressive liberal bloc" which enabled MPR to conduct amendment of the Constitution 1945.

In the meetings of MPR to reform the Constitution 1945, all factions tried to use consensus rather than voting, but in the absence of voting, the preference of each faction still could be understood during the discussion session (Horowitz, 2013). Officially MPR factions showed their detailed and reliable indications of which faction supported what in every moment. Moreover, King (2004) argued that the Indonesian constitutional reform processes had been the robust preference on consensual approval for amendment over voting; it was to force the “conservative statism bloc”, namely when they did not agree with the “progressive liberal bloc”, then the voting strategy would be used. By using this strategy, "progressive liberal bloc" was able to force the amendment - including BPK article. The old BPK article which regulated that to audit the financial responsibility of state budget, the state created an audit board which its regulation was established by law; and audit results were reported to the lower house of representative, was reformed with a new section, namely VIII A which consisted of three articles and seven paragraphs.

The section stipulated BPK as one free and independent body, for sure it becomes a so-



lution to the issues in the Suharto era. Though it also showed the failure of "progressive liberal bloc", in which the bloc also wanted to erase the supervisory agency of finance and development (Badan Pengawas Keuangan dan Pembangunan, BPKP) and the lower house of representative was not the only body which chooses BPK's members (Sesneg, 2009; BPK RI, 2012; Baidhowah, 2019). Even so, 'progressive liberal bloc' actually has been successful to encourage re-establishment of a new BPK which is far better than in the Suharto and today BPK has shown its better performance on securing state budget.

## RESEARCH METHOD

This study uses archival data from Sesneg (2009) and BPK RI (2012) to analyze the influence of informal networks on the constitutional maker's decision and the extent of the external pressures influence the informal networks to illustrate six meetings which show the existence (the dependent variable) of voting out of 39 meetings in the amendment of BPK article between 1999 and 2001 (see Table 1). The results of the voting show that in the six meetings, there is 25 (59.5%) vote for agreeing, 3 (7.2%) abstained, and 14 (33.3%), in which Golkar as the most interesting faction because never vote for disagreeing.

**Table 1.** Faction's votes, 1999-2001

	Vote for agree	Abstained	Vote for disagree	Total
PDIP	3	-	3	6
TNI/Polri	3	-	3	6
Golkar	6	-	-	6
PKB	3	1	2	6
PPP	3	1	2	6
PBB	4	-	2	6
Reformasi	3	1	2	6
Total	25 (59.5%)	3 (7.2%)	14 (33.3%)	42

Source: developed by author based on Sesneg (2009) and BPK (2012)

This study then collects the philosophical viewpoint on the constitutional amendment of the seven political factions in those cases by using social network analysis to capture the ideational informal networks (see Appendix 1). The philosophical viewpoint of those political factions in the amendment of BPK article is really different from the political philosophy in that time, in which PDIP which often confronted with TNI/Polisi in terms of political practice, became a solid coalition in the amendment of BPK article. Moreover, in terms of how the philosophical viewpoint comes up and why the political factions create a winning coalition in MPR meetings of amendment of BPK article, this study refers to the previous work of Baidhowah (2019) who has already analyzed them.

The ideational informal networks as the independent variable are drawn into the adjacency matrix, in which the connectivity of the matrix about the informal networks is  $R^{(idea)}$ . Matrix of the informal networks is:

$$(p, q) \text{ the element of matrix } R^{(idea)} = \begin{cases} 1 & \text{If constitutional makers } p \text{ and } q \text{ are in the same network} \\ 0 & \text{other wise} \end{cases}$$

To examine how much the ideational informal networks can influence the constitutional maker's decisions, this study creates two controlling variables to avoid non-spuriousness issues – when the influence for the outcome is not only from the independent variable of interest but from the other variables. The controlling variables are factors of gender and professionalism, in which professionalism can produce independent choice for the constitutional makers. The professionalism consists of, at best, two indicators, namely whether or not the constitutional makers in the political factions are educated and experienced, as Cowton (2009) argues that skill and knowledge based on

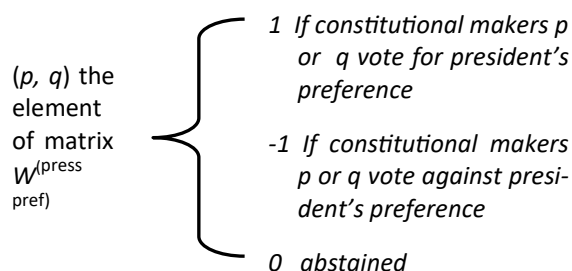
education and experience are the factors of professionalism.

Next, this study creates two additional independent variables to examine to what extent the external pressures influence the ideational informal networks. To capture the pressure, the independent variables are the multiplication between the adjacency matrix  $R^{(idea)}$  and the vector  $W$ . Therefore, the proxy of the new social network in this regard is  $RW$ .

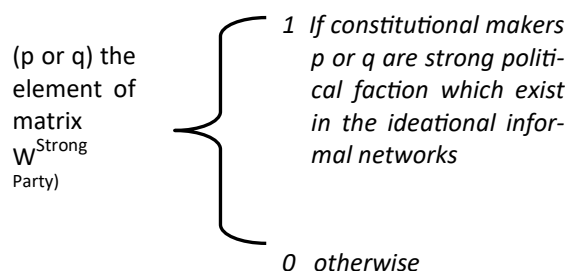
The external pressure from the president's preference was created, as between 1999 and 2001 was the transition era from Suharto's administration, in which in this era, the president had the biggest power to control all sectors. In other words, in that transition era, the big power of the president position still existed. Besides, the presidents between 1999 and 2001 were the key persons of the political party, namely Habibie as the president in 1999 was the key person of the Golkar along with Akbar Tanjung, then Abdurrahman Wahid as the president in 1999-2000 was the key person of PKB along with Matori Abdul Jalil, and finally, Megawati as the president in 2000-2004 was the key person of PDIP (Thompson, 1999). The other key persons were Hamzah Haz in PPP, Amien Rais in Reformasi, Yusril Mahendra in PBB, and General Wiranto in TNI/Polisi (Thompson, 1999). Moreover, in this regard, the other external pressure from the strong party was created as old political parties which had existed since the Suharto era and even in the election 1999 they were in the top three political parties with the biggest number of seats in the MPR (see Appendix 2).

This study, therefore, operationalizes two hypotheses in terms of the external pressures and provides two additional variables. The first hypothesis argues that the president's preference puts pressures on the ideational informal networks, namely a political fac-

tion's vote that understand the vote of the president's political faction through ideational informal networks is more likely to follow the president's preference. The second hypothesizes that strong political factions that have a big number of seats on MPR give pressures on the ideational informal networks, namely a political faction's vote that understand the vote of a strong political faction ideational informal network is more likely to follow the strong political faction. For the first hypothesis, the vector  $W$  is:



For the second hypothesis, the  $W$  is:



By giving the external pressure of the president's preference on the regression of the ideational informal networks, this study is assessing the political faction's loyalty to the president which is deployed by the president's political faction. Moreover, by giving the external pressure of the strong party on the regression of the ideational informal networks, this study is examining whether the philosophical viewpoint of the constitutional amendment can be disturbed by the rational choice, as shown by Hindmoor and Taylor (2004).

## RESULT AND DISCUSSION

The dependent variable in this study uses score one to agree, minus one for disagree,

and zero for abstained. Besides, the controlling variables are binary, in which female takes value one and male takes value zero; educated constitutional makers take value 1 and uneducated constitutional makers take value zero, and experienced constitutional makers take value 1 and unexperienced constitutional makers take value zero. Based on the six meetings of constitutional makers' voting between 1999-2001, type of the voting was bloc-voting based on political faction, not individual voting based on individual members of MPR.

Table 2 illustrates the results of how significant the ideational informal networks among the constitutional makers in terms of influencing their decision. In the first model, the coefficient of ideational informal networks shows the positive sign and is significant statistically – significant statistically, if the value of sig. in the table is less than 0.05 – with adjusted variable 0.842. The second model which includes the controlling variables shows that coefficient of ideational informal networks is positive and statistically significant ( $0.000 < 0.05$ ), while the coefficient of gender as the first controlling variable show positive but not statistically significant ( $0.627 > 0.05$ ), and both education and experienced show negative coefficient and not statistically significant ( $0.745 > 0.05$ ;  $0.745 > 0.05$  respectively). The adjusted R

square of the second model is 0.838, which means that these variables in this model explain 83.8 percent of variations. This study then examines the influence of external pressure on the informal social networks by using the additional variables of social networks, namely  $R^{(idea)} W^{(press\ pref)}$  and  $R^{(idea)} W^{(strong\ party)}$ .

Regression results of the social external pressures and ideational informal networks on the constitutional maker's decisions are illustrated in Table 3. Model 1 illustrates the results of the president's preference and model 2 illustrates the results of the strong party effect. The coefficient of  $R^{(idea)} W^{(press\ pref)}$  shows positive sign and statistically significant ( $0.038 < 0.05$ ) with adjusted R square 0.056, which means that these variables in this model explain 56 percent of variations. Meanwhile, the coefficient of  $R^{(idea)} W^{(strong\ party)}$  shows positive sign but not statistically significant ( $0.215 > 0.05$ ) with adjusted R square 0.010, which means that these variables in this model explain 10 percent of variations. Those statistical results explain that both models of ideational informal networks with president's preference as the external social pressure and ideational informal networks with strong party effect as the external social pressure increase the possibility of the political factions' voting based on their networks, however the only social networks va-

**Table 2.** Regression results of the influence of ideational informal networks on the constitutional maker's decisions

Model	Unstandardized Coefficients		Sig.	Adjusted R Square
	B	Std. Error		
1. (Constant)	1.467	.029	.000	.842
Ideational Informal Networks	.516	.029	.000	
2. (Constant)	1.548	.142	.000	.838
Ideational Informal Networks	.516	.029	.000	
Gender	.031	.063	.627	
Education	-.022	.069	.745	
Experienced	-.022	.069	.745	

**Table 3.** Regression results of the social external pressures and ideational informal networks on the constitutional maker's decisions

Coefficients		Model			
		1		2	
		Constant	Ideational Informal Networks President's preference	Constant	Ideational Informal Networks Strong Party
Unstandardized Coefficients	B	1.275	.270	-.068	.318
	Std. Error	.217	.128	.454	.254
Sig.		.000	.038	.881	.215
Adjusted R Square			.056		.010

riable which has an influence is the president's preference as the social external pressure in this regard.

These statistical results have illustrated statistically the influence of ideational informal networks on voting behavior by controlling several variables and provided additional information in terms of external pressure on the ideational informal networks. In other words, this study has supported the previous research of Baidhowah (2019) and has provided additional evidence on the social external pressure on social networks.

The examination of the social external pressure also have provided evidence that the conceptual and theoretical framework of rational choice within politics of Hindmoor and Taylor (2004) – political party with a low number of seats in the lower house of representative will move to the high number of seats to build winning-coalition as the seats show the power of a party – really does not exist in Indonesia, especially on the constitutional reform of the BPK article, as evidence of this study shows that the strong party effect is not statistically significant. The examination also brings evidence of the existence of how informality's outcome (ideational informal networks of "progressive liberal bloc") which is in line with formality's outcome (constitutional

reform's goal) within 'ineffective formal institution' as the amendment happened in Indonesia's transition era, so it causes improved performance of the Audit Board today.

Finally, these findings recommend that politically informal pressures from the president's preference are crucial elements in deciding where the constitutional maker's decision will go. Moreover, these findings also bring a question up in terms of, to what extent the constitution-makers are independent.

## CONCLUSION

This study tries to explain the process of amendment of BPK article in the constitutional reform as the source of current BPK's performance, by paying attention to how much the informal networks influence the constitutional maker's decision and to what extent the social external pressures put an effect on the ideational informal networks on the amendment of BPK article.

Through the first examination of the independent variable of ideational informal networks, the dependent variable of constitutional maker's voting, and the controlling variables of gender, education, and experi-

ence on the six meetings which contain voting out of 39 meetings between 1999 and 2001, this analysis illustrates statistical evidence, in which ideational informal networks do shape the patterns of the constitutional maker's voting. Furthermore, based on the second examination of the additional independent variables of social networks, namely social external pressure – president's preference and strong party effect – on the ideational informal networks on the six meetings which contain voting out of 39 meetings between 1999 and 2001, this analysis shows statistical evidence that president's preference and strong party effect through social networks do give an influence on the patterns of the constitutional maker's voting.

These statistical findings provide significant consequences on the theoretical contexts. This study has shown how informality's outcome is in line with formality's outcome within "ineffective formal institution" as the amendment happened in Indonesia's transition era, so it causes improved performance of the Audit Board today. These statistical findings have complemented the previous studies which have mapped the ideational informal networks from "the progressive liberal bloc and the conservative statism bloc" to create a winning coalition within the amendment of BPK article, namely by providing the statistical evidence on the how much the informal networks influence the constitutional maker's decision and put additional information on the extent the social external pressures put an effect on the ideational informal networks. Besides, by providing not statistically significant on the strong party effect and ideational informal networks, this study has proved that rational choice of politics does not work in this regard.

Moreover, this study suggests the next research agenda on informality and constitutional politics. For the first, further research

agenda should seek to find an insight from a comparative case study between Indonesia (1999-2002), Thailand (1996-1997), and South Africa (1994-1997) in regards to accountability, where it is crucial for the future of democracy. The further research agenda should analyze doing informal networks work in the constitutional reform in Thailand (1996-1997) and South Africa (1994-1997)? If so, how their patterns play, and whether it also generates weak provisions.

The reasons for case selections of these comparative studies are that the three countries in those times have faced a transition from authoritarian era to the democratic era and in South Africa, its parliament leads the constitutional reform as a constituent assembly which is similar to MPR in Indonesia (Indrayana, 2005). Thailand and Indonesian constitutional reforms also were caused by economic and political crises. The three countries are developing countries and the three countries which are from Asia and Africa, where that time, the sixth and seventh constitution-making waves happened in both regions (Elster, 1993).

For the second, further research agenda on that comparative studies should engage to the broader networks on and off the meeting of constitution-making such as professional or recruitment, friendship orientation, political orientation, sociocultural orientation, and patronage also clientelism (Dressel, 2019). Finally, based on this study analysis, these findings are hoped will give useful insights to understand political behavior in constitution-making.

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## APPENDICES

### Appendix 1. Vote and Existence of Informal Networks

#### First amendment—Meeting 1 (6 October 1999)

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	1	1	1	1	1	0
Golkar	1	-	1	1	1	1	0
PKB	1	1	-	1	1	1	0
PBB	1	1	1	-	1	1	0
PPP	1	1	1	1	-	1	0
TNI/Polisi	1	1	1	1	1	-	0
Reformasi (PAN&PK)	0	0	0	0	0	0	-

Source: developed by author based on Sesneg (2009) and BPK (2012)

**First amendment—Meeting 2 (16 October 1999)**

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	0	0	0	0	1	0
Golkar	0	-	0	1	0	0	1
PKB	0	0	-	0	1	0	0
PBB	0	1	0	-	0	0	1
PPP	0	0	1	0	-	0	0
TNI/Polisi	1	0	0	0	0	-	0
Reformasi (PAN&PK)	0	1	0	1	0	0	-

*Source: developed by author based on Sesneg (2009) and BPK (2012)*

**Second amendment—Meeting 1 (16 February 2000)**

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	0	0	0	0	1	0
Golkar	0	-	1	1	1	0	1
PKB	0	1	-	1	1	0	1
PBB	0	1	1	-	1	0	1
PPP	0	1	1	1	-	0	1
TNI/Polisi	1	0	0	0	0	-	0
Reformasi (PAN&PK)	0	1	1	1	1	0	-

*Source: developed by author based on Sesneg (2009) and BPK (2012)*

**Second amendment—Meeting 2 (19 June 2000)**

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	1	0	0	0	1	0
Golkar	1	-	0	0	0	0	0
PKB	0	0	-	1	1	0	1
PBB	0	0	1	-	1	0	1
PPP	0	0	1	1	-	0	1
TNI/Polisi	1	0	0	0	0	-	0
Reformasi (PAN&PK)	0	0	1	1	1	0	-

*Source: developed by author based on Sesneg (2009) and BPK (2012)*

**Third amendment—Meeting 1 (19 September 2001)**

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	0	0	0	0	1	0
Golkar	0	-	1	1	1	0	1
PKB	0	1	-	1	1	0	1
PBB	0	1	1	-	1	0	1
PPP	0	1	1	1	-	0	1
TNI/Polisi	1	0	0	0	0	-	0
Reformasi (PAN&PK)	0	1	1	1	1	0	-

*Source: developed by author based on Sesneg (2009) and BPK (2012)*

**Third amendment—Meeting 2 (6 November 2001)**

	PDIP	Golkar	PKB	PBB	PPP	TNI/Polisi	Reformasi (PAN&PK)
PDIP	-	1	0	0	0	1	0
Golkar	1	-	0	0	0	1	0
PKB	0	0	-	1	1	0	1
PBB	0	0	1	-	1	0	1
PPP	0	0	1	1	-	0	1
TNI/Polisi	1	1	0	0	0	-	0
Reformasi (PAN&PK)	0	0	1	1	1	0	-

*Source: developed by author based on Sesneg (2009) and BPK (2012)*

**Appendix 2. Indonesia's Election 1999**

(in millions)

Political Party	Popular Vote	Seats in Lower House of Representative	Seats in MPR
PDIP	35.7	153	185
Golkar	23.7	120	181
PKB	11.3	58	70
Reformasi (PAN, PK)	13.3	51	57
PBB	7.5 and 1.4	34 and 7	48
TNI/Polisi	N/A	38	38

*Source: The Jakarta Post (1999)*

**NOTES:**

1 : same vote and there is an informal network;  
 0 : different vote and there is no informal network;  
 - : not applicable

PDIP : Indonesian Democratic and Struggle Party

Golkar: Work Group Party

PKB : Nation Awakening Party

PPP : Unity and Development Party

PBB : Star-Moon Party

Reformasi: consists of National Mandate Party (PAN) and Justice Party (PK)

TNI/Polisi : Army/Police



**JURNAL**  
**TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA**

Volume 6, Number 1, Jan-Jun 2020, 19-33

e-ISSN 2549-452X

p-ISSN 2460-3937



## **DO THE GOVERNMENT EXPENDITURE AUDITS CORRELATE WITH CORRUPTION IN THE PUBLIC PROCUREMENT?**

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### **ABSTRACT**

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Public procurement is the main area of corruption in the government. This study aims to examine the correlation between government expenditure audit conducted by BPK and local government corruption behavior. This study uses a fixed effect panel regression approach and the dependent variable is the value of irregularities in the public procurement sector in all local governments in Indonesia. This study found that the government expenditure audit carried out in the previous period correlated with changes in local government corruption behavior. Local governments will reduce corruption behavior as an implication of changing views and calculating expected cost corruption based on their experience of being audited. Besides, local governments expect their probabilities to be re-audited. It is evident in the local government which has not been audited for three years that it will try to reduce its corrupt behavior because it is expected that this year will be audited again. This study suggests an increase in audit frequency that is expected to decrease the aggregate corruption level in public procurement in local government.

### **KEYWORDS:**

Audit; corruption; expenditure; local government

DOI: 10.28986/jtaken.v6i1.378

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### **ARTICLE HISTORY:**

**Received at** : 21 October 2019

**Published at** : 28 June 2020

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## INTRODUCTION

Corruption is one of the main problems in developing countries. Corruption causes additional costs that must be incurred by the government in providing public services. Corruption results in inefficiencies in government spending. It even results in the low economic growth of a country (Olken, 2007). Public procurement is the main area of corruption in the government. The large portion of the value of public procurement to the government budget is directly proportional to the potential for corruption in this sector. The potential vulnerability to corruption in public procurement, in addition to the tremendous value of financial transactions involved, is also due to the high complexity of the public procurement and the intense interaction between government and business circles (OECD, 2013).

Corruption in the government is defined as the activity of public officials in taking personal advantage of transactions involving the government and third parties illegally in the form of financial or indirect benefits (Rose-Ackerman, 1975; Shleifer & Vishny, 1993). Based on the theory of the economics of crime developed by Becker (1968), this study views corruption as a form of violation committed by individuals/groups for their interests. Corruption actions are carried out because the expected benefits received are greater than the costs and income obtained legally.

In public procurement corruption, perpetrators expect great benefits. Public procurement is an area that involves large financial value. The process of procuring service goods is also very complex and involves many parties (Ferwerda, Deleanu, & Unger, 2016; KPK, 2015; OECD, 2013). Therefore, if the local government has a large budget for public procurement, the greater the benefits expected to be received from corruption.

Within the theoretical framework, the government expenditure audit is one of the costs that corruption actors consider. The individual audit experience provides a new perspective for the perpetrators in their corruption activities. It drives them to reduce corruption activities because audits can reveal illegal activities. Otherwise, they seek other ways so that illegal activities cannot be detected by audits (Kleven, Knudsen, Kreiner, Pedersen, & Saez, 2011). Conversely, the level of capital expenditure represents the level of expected benefits that can be obtained by perpetrators of corruption in a local government. The higher the value of capital expenditure, the higher the opportunity to commit corruption, so that the benefits that can be obtained are even more significant.

Data from The Audit Board of The Republic of Indonesia (BPK) in 2014-2017 also showed that corruption in public procurement was very dominant. During this time, irregularities were uncovered in all local governments in Indonesia, with a value of 6,947 billion rupiah in state losses. Four thousand one hundred forty-one (4,141) billion, or 60% is a deviation that occurs in the service procurement sector (BPK RI, 2018). Nevertheless, such corruption is difficult to detect and measure, so there is no general agreement on the best alternative in efforts to eradicate corruption. One of the efforts to eradicate corruption is to determine the right combination of enforcement efforts and punishment levels (Becker & Stigler, 1974). One of the law enforcement efforts is an audit of state financial management (Avis, Ferraz, & Finan, 2018).

BPK is an institution that has the authority to conduct audits of the management of state finances carried out by the government, both the central and local governments. The type of audit that is routinely carried out in addition to financial statements audit is a special-

purpose audit on government expenditure (called government expenditure audit). Government expenditure audits focus on efforts to detect deviations by the government in carrying out expenditures under state/local government budget (Anggaran Pendapatan dan Belanja Negara, APBN/Anggaran Pendapatan dan Belanja Daerah, APBD) for the benefit of the people.

In a series of monitoring of state financial accountability, BPK has the authority to audit the management and accountability of state finances. All central, local, government-owned, or private agencies, if they manage the state finances, are the object of the audit. Given BPK's high authority in conducting audits, it can play a role in efforts to eradicate corruption through efforts to detect and investigate irregularities (BPK RI, 2015c). In the financial statement audit, it does not merely an audit of assertions in the financial statements. The audit also determines the existence of irregularities in the management of state finances. Thus, the results of the financial statement audit are not only opinions but reports of non-compliance with laws and regulations, including irregularities that are detrimental to state finances.

BPK plays a broader role in efforts to detect irregularities in local government spending through government expenditure audits and investigative audits. A series of government expenditure audits were conducted to test the validity and compliance of the implementation of local government spending. The report on the government expenditure audit cannot indeed be directly used as a basis for fraud convictions. It provides initial information on the disclosure of fraud acts of corruption, especially in public procurement. The information available in the government expenditure audit report includes the value of the financial loss of the state and the responsible party. To be used in legal prosecution, the government expenditure audit re-

port is submitted to law enforcement officials and/or followed up with an investigation and calculation of state losses audits also carried out by BPK.

The investigative audit aims to provide legal construction of the disclosures revealed and facilitates law enforcement in the prosecution process. In 2016, BPK formed an echelon 1 working unit that has unit-specific tasked conducting investigative audits and calculating state losses. The establishment of the working unit aims to further enhance the role of the institution in eradicating corruption. In 2017, this unit has conducted only 4 investigative audits and 22 state loss calculations for local governments with a total corruption value of 449.2 billion rupiah (BPK RI, 2018). Compared to government expenditure audit and government financial audit, the number of the investigative audits were only a few (4 audits compared to 98 and 542 audits in 2017).

Research on the relationship of the audit with the level of corruption itself has not produced an understanding of consensus. Avis et al. (2018) and Olken (2007) concluded that audits affected future local government corruption decisions. Bobonis, Fuertes, and Schwabe (2016), in their research, found that the audit impact on the level of corruption only occurred in the short term. Khan (2006b) and Porter (1993) do not see the effect of audits on the level of corruption. Liu and Lin (2012) also Rosyadi and Budding (2017) even found the opposite; auditing increased detected corruption. Indeed, both studies have different emphases.

Rosyadi and Budding (2017) focus on the effectiveness of performance of the Indonesian Finance and Development Supervisory Agency, known as Badan Pengawasan Keuangan dan Pembangunan (BPKP) as the internal auditor while Liu and Lin (2012) examine the interactions among audit detec-

tion, audit rectification and bureaucratic corruption at the local level in China.

Olken (2007) researched the impact of audits on the level of corruption in infrastructure projects in villages in Indonesia. In his research, it was concluded that the audit was negatively correlated to the value of corruption. However, this research has not been able to conclude the correlation of audits by the government with the level of corruption in public procurement. It is because the audit is not conducted by an external auditor, but by an internal auditor, and it will affect the post-audit process if irregularities are found. Besides, the context of the government expenditures is not through the public procurement mechanism, but it is carried out in a self-managed mechanism (*swakelola*), this results in different corrupt behaviors. The level of observation carried out by Olken is the village/urban village (*kelurahan*), which receives grant funds through the Kecamatan Development Project (KDP) program from the World Bank. This level observation is difficult to generalize the level of local government because there are differences in the complexity of the bureaucracy.

Based on previous literature and research that has been conducted mainly in Indonesia, there is a research gap to be further investigated especially the correlation of government audits with the level of corruption in public procurement. This study aims to identify the correlation between government expenditure audits conducted by the BPK against the level of corruption in public procurement for all local governments in Indonesia. This study analyzes the irregularities in the public procurement valued at 4,141 billion rupiah disclosed by the BPK during the 2014-2017 period.

## RESEARCH METHOD

This study analyzes panel data sourced from the Summary of Semester Audit Result (*Ikhtisar Hasil Pemeriksaan Semester, IHPS*) issued by the BPK in 2014 until 2017. The dependent variable in this study is the value of irregularities in public procurement of all local governments in Indonesia for the period 2014 to 2017. In the IHPS, all irregularities revealed have been classified according to its impact, whether it is detrimental to the government's finances or not. Irregularities in public procurement used as a proxy for corruption in public procurement, especially irregularities in public procurement, causing state finances losses.

The weakness of the classification of irregularities in the IHPS is that there is no information about the perpetrators of irregularities. So it cannot be identified whether government officials, partners, or both committed it. However, because partners work with appointed and on behalf of local governments, irregularities occur in the name of local governments (both as local government officials and local government partners or both). In several previous studies, corruption was not separated from officials or partners (Avis et al., 2018; Ferraz & Finan, 2011; Olken, 2007).

The use of irregularities data from audit results as a proxy for corruption had been used in several previous studies. Avis et al. (2018); Bobonis et al. (2016); Brollo, Nannicini, Perotti, and Tabellini (2013); also Ferraz and Finan (2011) used the audit results of the central government as a proxy for corruption in all local governments in Brazil. Olken (2007) uses the results of physical audit work as a proxy for corruption in infrastructure improvement programs in villages in Indonesia. Previous studies used the Corruption Perception Index as a proxy for corruption in local governments in Indonesia



(Masyitoh, Wardhani, & Setyaningrum, 2015). However, the use of the Corruption Perception Index has a weakness. Corruption Perception Index is not available in all local governments. Also, the Corruption Perception Index survey is not carried out every year, so it is difficult to use the data on a panel basis between local governments.

Some researchers used the Corruption Eradication Commission's (Komisi Pemberantasan Korupsi, KPK) data as a proxy for corruption in local governments in Indonesia (Citra, 2018). The authors did not use the KPK data due to no access to and completeness of the data. Because corruption in the public procurement's data is not normally distributed, authors transformed it into logs. However, corruption in the public procurement's data also contains several zero values, so before the value of corruption is transformed into logs, the data were individually added. The authors used this strategy to ensure that data after transformation did not contain the missing value (cannot be processed).

The first independent variable is a government expenditure audit. This variable is made in the form of a variable dummy. If the BPK had audited a local government in the previous period, it is 1. Otherwise, it is zero. Because the purpose of the study is to find out future corruption behavior after an audit, the variable government expenditure audit must have happened (lag time), or government expenditure has been audited in the previous year. This variable is used to capture audit correlations with future local government corruption decisions. The experience by the audited local government will provide a different view of the audit results. For example, how can audits detect irregularities and their impact on losses that must be borne and the reputation that will be disrupted (Avis et al., 2018). On this matter, the local government will update the expected

cost of corruption based on audited experience (Avis et al., 2018; Kleven et al., 2011). This variable also becomes the primary variable following the theoretical framework that has been described previously.

The time-lag of government expenditure audit variables are made until lag time 3 provides a more comprehensive picture of audit correlations with the value of corruption. The audit report is submitted in the middle of the following year. At that time, the procurement process for the following year had reached the stage of determining the winner/starting the work. Also, the budget planning process for two years from the current year has begun, so that a minimum of 2 years lag time is required. While the 3-year lag time is used to capture whether audit correlations with irregularities occur consistently or only correlate in the short term.

Furthermore, the government expenditure audit variable above interacted with the value of corruption in the public procurement that was disclosed in the government expenditure audit. Interaction with the value of corruption that was revealed aims to determine the correlation of the magnitude of the value of corruption that succeeded in the previous period's audit of total corruption in the current year. Do the local governments that have committed corruption to have different corruption behavior in the future compared to clean local governments? Based on the value of corruption revealed, it does not make any difference to the local government corruption behavior.

In addition to the main explanatory variables above, this study also includes control variables to capture the effect of variables other than the main explanatory variables. The first control variable is capital expenditure, both in nominal terms as a dummy ratio of capital expenditure to total expenditure. These two variables are to capture the ex-

pected benefits from the local government. The higher the value of local government capital expenditure, the higher the expected benefit of corruption. The capital expenditure variable is transformed into logs to ensure that data is normally distributed and easy to interpret.

The next control variable is the Gross Regional Domestic Product (GRDP) per capita. This variable is used as a proxy for corruptor's legal income. Legal income, per the theoretical framework, is the opportunity cost when perpetrators decide to commit acts of corruption. The higher the legal income of the perpetrators, the lower perpetrators will commit corruption. Perpetrators will look for areas of corruption that provide benefits that are far higher than the legal income that has been obtained so far. In this study, the salaries of civil servants are not used as legal revenue proxies because corruption perpetrators of procurement of goods can be bureaucracy or private parties or both. The value of GRDP per capita is transformed into logs to make sure data is normally distributed and easy to interpret.

This study uses a regression quantitative analysis method to answer the research question that the audit has a correlation with the level of corruption in public procurement. The basic equation model,  $\text{Corruption} = f(\text{Audit}, X)$ , describes the value of corruption in the public procurement of the local government of  $i$  region in the fiscal year. While  $t$  is a function of the government expenditure audit (Audit)  $i$  in the fiscal year  $t$  and control variables ( $X$ ). Based on the basic model, a regression model is prepared as follows:

$$C = \beta_0 + \beta_1 \text{audit}_{it-1} + \beta_2 \text{audit}_{it-2} + \beta_3 \text{audit}_{it-3} + \beta_4 \text{audit} \times \text{corruptionrevealed}_{it-1} + \beta_5 \text{audit} \times \text{corruptionrevealed}_{it-2} + \beta_6 \text{audit} \times \text{corruptionrevealed}_{it-3} + X_{it} + \delta_t + u_{it}$$

Where  $C$  is the value of corruption in the

public procurement in local government  $i$  in period  $t$  (in log-based).  $(\beta_1 \text{audit}_{it-1} + \beta_2 \text{audit}_{it-2} + \beta_3 \text{audit}_{it-3})$  is the dummy BPK conducting an audit of expenditure in local government  $i$  in period  $t$  with value 1 done audited and value 0 are not audited. The interaction variable  $\text{audit}_{it}$  with the value of corruption ( $\text{audit} \times \text{corruptionrevealed}_{it}$ ) is knowing the correlation of the value of corruption revealed from the audit of the total value of corruption. The variable  $X_{it}$  is a vector of control variables represented by a capital expenditure log, dummy high capital expenditure ratio, and GRDP per capita area  $i$  period  $t$ . Do not forget to include the year effect  $\delta_t$  to issue the effect of trends due to changes in the year in each region.

Several tests were carried out to find out the validity of the data and the selection of the best models. The authors used OLS regression in this model because dependent variable data is normally distributed. To find out which model is most suitable, whether the fixed effect or random-effect model, the authors used the Hausman test. Whereas for data validity, authors used a multicollinearity test. The robust standard error is used to minimize the problem of heteroscedasticity. The authors also performed robustness checks via stepwise regression and normalized dependent variable value (corruption in the public procurement) by dividing capital expenditure value.

## RESULT AND DISCUSSION

The data used came from 439 local governments in Indonesia during the 2014-2017 period with a total of 2.156 observations that were made except data from three local governments (Muna, Central Buton, and South Buton) which were incomplete from 2014. The descriptive statistic of the data presented in Table 1. The average total corruption in the public procurement in each local go-

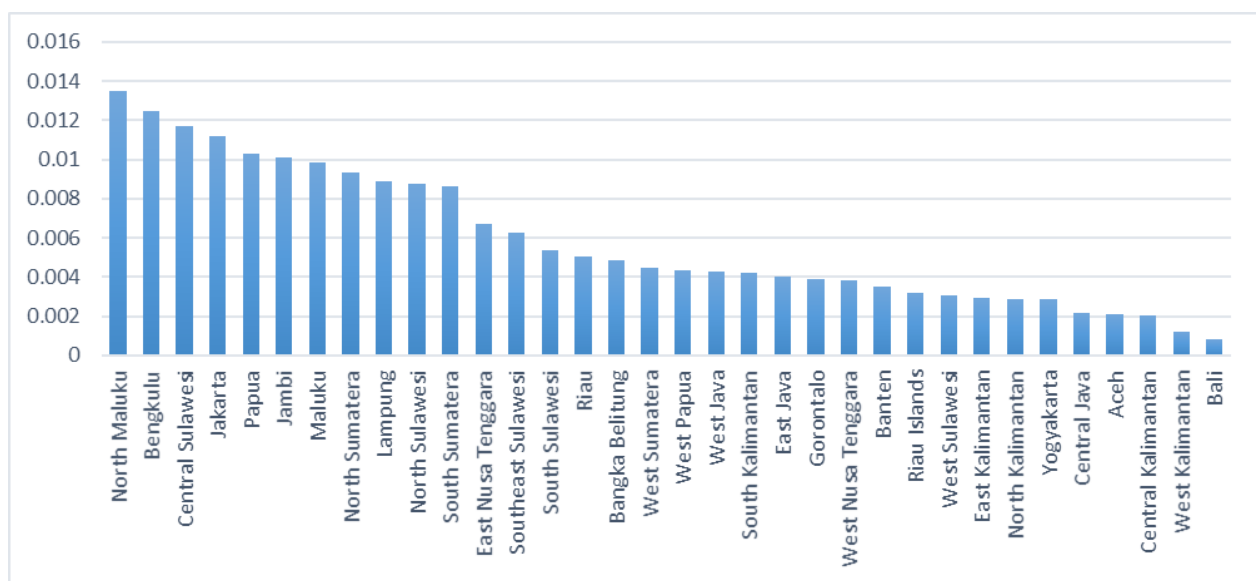
**Table 1.** Descriptive Statistics

Variable	Unit	Mean	Std.Dev	Min	Max
Corruption in the Public Procurement	Bil. Rupiah	2,16	7,04	0	261,00
Audit (lag time 1 year)	Dummy	0,26	0,44	0	1
Audit (lag time 2 year)	Dummy	0,28	0,45	0	1
Audit (lag time 3 year)	Dummy	0,27	0,45	0	1
Audit x corruption revealed (lag time 1 year)	Bil. Rupiah	0,36	1,51	0	43,82
Audit x corruption revealed (lag time 2 year)	Bil. Rupiah	0,49	2,34	0	81,39
Audit x corruption revealed (lag time 3 year)	Bil. Rupiah	0,48	2,42	0	81,38
Capital expenditure	Bil. Rupiah	384,00	5,46	26,80	11.000
High ratio capital expenditure	Dummy	0,41	0,49	0	1
GRDP per capita	Mil. Rupiah	3,46	3,51	0,86	37,10

vernment is 2.16 billion rupiah. Then, the average value of capital expenditure for each local government is 384 billion rupiah per budget year. So that it can be calculated that the share of corruption value revealed to the value of capital expenditure is 0.7 percent. The average value of irregularities from government expenditure audit reports per local government is smaller than that of financial statements. It is because the expenditure audit is not carried out every year as well as financial report audits. Further information,

the average local government income per capita is 3,46 million rupiah per month, the lowest is 860 thousand rupiah, and the highest is 37,1 million rupiah.

Furthermore, upon observation of corruption value distribution per capital expenditure aggregate on each province, as listed in Figure 1. Corruption value is relatively high in the provinces in Central Sumatra and eastern Indonesia. While Java and Kaliman-

**Figure 1.** Province's Aggregate Corruption Value per Capital Expenditure in 2014-2017

**Source:** BPK RI (2018), processed

tan provinces are the regions with low corruption value per capital expenditure.

In the 2014-2017 period, BPK conducted 528 government expenditure audits. In that period, the trend of government expenditure audits tended to decline. In 2014 there were 134 audits, 2015 increased to 160 audits, and in 2016 and 2017, they continued to decline, 137 times and 98 times, respectively. The government expenditure audit in 2017 was less than in previous years because, in that year, BPK conducted two thematic audits. The two thematic audits were conducted by BPK Representative Office in all provinces. BPK usually conducted one thematic audit each year. Whereas in 2015, government expenditure audits were more frequently because, in that year, there was a thematic audit of infrastructure capital expenditure, so that the audit portion of expenditure increased.

Based on the two-way scatterplot analysis, as presented in Appendix 1, it can be seen that the relationship between the values of corruption in public procurement with government expenditure audit lag one year is positive. Likewise, the relationship between the values of corruption in public procurement with the government expenditure audit conducted two years earlier is also positive. Whereas, if the audit is conducted three years earlier, there is a negative relationship with the value of corruption. To obtain a more comprehensive conclusion to answer the research questions, an empirical test was carried out in the next discussion.

The empirical test begins by estimating several model specifications, as listed in Table 1. Model 1 is the basic model, which only includes dummy audit variables. Model 2 adds interaction audit variables with the value of corruption revealed. Whereas models 3 and 4 are models that have been added with control variables and year effects. It is used to

test the consistency of the results of interest variables. All of the models use fixed effects and are consistent with the results of the Hausman test which concluded that the fixed effect model is the best in this study (Appendix 2).

Based on the estimation results in columns 1 to 4 of table 1, it can be seen that the government expenditure audit carried out in the previous year negatively correlated with the value of corruption in the public procurement of the local governments. These results are consistent with the initial conjecture and the results of several previous studies (Avis et al., 2018; Bobonis et al., 2016; Di Tella & Schargrodsky, 2003; Olken, 2007). It proves that the audit provides a newer view of the expected cost of the local government for corruption.

Government expenditure audits in local governments will result in broader coverage of audited government expenditures compared to local governments that are not audited. It has the potential to increase the value of corruption that can be detected. In line with the research conducted by Kleven et al. (2011), audits conducted in the previous period correlated with changes in the views of individuals/groups in the decision to act illegally. An audit provides a deterrent effect on individuals. The deterrent effect is derived from financial losses that must be incurred, penalties, even for heads of local government, potentially affecting electability for the next period of elections (Avis et al., 2018; Ferraz & Finan, 2011). Understandably, if the expenditure was audited in the previous period, the local government would reduce corruption in the next period.

However, in the following period, it turned out that the corruption behavior of the local government had returned to normal. So local governments, that have been audited two years before, and have not been audited, are

not different in their behaviors. The interesting is the result of the next variable, namely the audit lag variable 3. It turned out that the local governments that were audited three years earlier tended to be less corrupt than those who were not audited. This condition shows that there is an attempt by the local government to guess their probability of audit. When the local government has not been audited for two years, they will return to their previous behavior. However, when they have not been audited for three years, the local government will aware and try to reduce corruption. It is because they expect that this year they will be audited as three years before.

Furthermore, the previous audit interaction variable with the value of corruption revealed did not correlate with the value of public procurement corruption in the current year. It shows that the variation in the value of corruption revealed to the government expenditure audit in the previous period does not correlate with the value of corruption in public procurement. It indicates that despite the relatively small value that can be detected in the government expenditure audit, it has correlated similarly with the local government with more significant corruption. So, the established correlation is not solely because of the detectable value of corruption. But the audit process itself provides a negative correlation to the future corruption behavior of the local government.

The capital expenditure variable results show a positive and significant correlation. This result shows that the increase in capital expenditure has resulted in an expected benefit change that can correlate with changes in the corruption behavior of local governments. Increased capital expenditures in nominal, will increase the expected benefits of local governments to commit capital expenditure corruption. These incentives come from the increasing value of the budget which increases the value and amount of procurement of goods

and services. When capital expenditure increases by 1 percent in nominal terms, it will increase the value of corruption in the procurement of goods by 1.15 percent at a significance of 99 percent. It is consistent with several previous studies which concluded that the level of capital expenditure positively correlated with the level of corruption (Goel & Nelson, 1998; Hopkin & Pose, 2007; Khan, 2006a).

While the GRDP per capita variable does not significantly correlate with the value of corruption, it shows that the benefit from the corruption of public procurement remains higher than income per capita. So for any changes in income per capita during the 2014-2017 period did not correlate with corruption in the public procurement in local governments.

To get a consistent estimation in describing conditions, authors carry out robustness checks. Authors were providing an alternative measurement of the value of corruption. In the primary model, the value of corruption is the value of detected corruption. As an alternative measurement, authors normalized this value by the capital expenditure realization value. These alternative measurements follow the measurements made by Ferraz and Finan in 2011 also Zamboni and Litschig in 2018. The results of the robustness check are presented in Appendix 4.

The estimation results for the robustness check show that estimates are consistent with the primary model in Appendix 3. Despite public procurement corruption value has been normalized with the value of capital expenditure, the estimation results still show that the government expenditure audit variable of the previous period and the previous three years correlated with the value of corruption in public procurement while the interaction of audit variables with the revealed

value of corruption does not correlate with the value of corruption.

## CONCLUSION

This study shows that the government expenditure audit carried out in the previous period correlated with changes in local government corruption behavior. The local government will try to reduce its corrupt behavior as an implication of changing views/calculating the expected cost of future corruption actions. Besides, local governments expect their probabilities to be audited again. It is evident in local governments that have not been audited for three years will try to reduce their corruption actions because they expect to be audited this year. Although government expenditure audits provide a negative correlation to future corruption behavior. The addition of capital expenditure correlates with the increase in the value of corruption. It can be understood because the expected benefit from additional capital expenditure will also increase.

Based on this, the BPK needs to consider the increasing number of audits in detecting irregularities. We hope more government expenditure audits conducted by BPK can increase the expected cost of corruption for potential corruption perpetrators. So, it will decrease the aggregate corruption level in public procurement in local government. Also, to respond to changes in corruption behavior due to variations in capital expenditure, BPK needs to add capital expenditure value variables in determining the audit sample.

The limitation of this study is the use of data from cases of irregularities in the public procurement presented in IHPS published by BPK. The data has not fully captured the condition of the actual value of public procurement corruption throughout Indonesia. For

this reason, further research is needed by using data compilation of public procurement corruption from BPK, KPK, and other law enforcement agencies to obtain a more comprehensive picture. Besides, other factors need to be correlated with corruption, both the characteristics of local government and the factors in the audit institution itself, for example, the characteristics of auditors who conduct audits.

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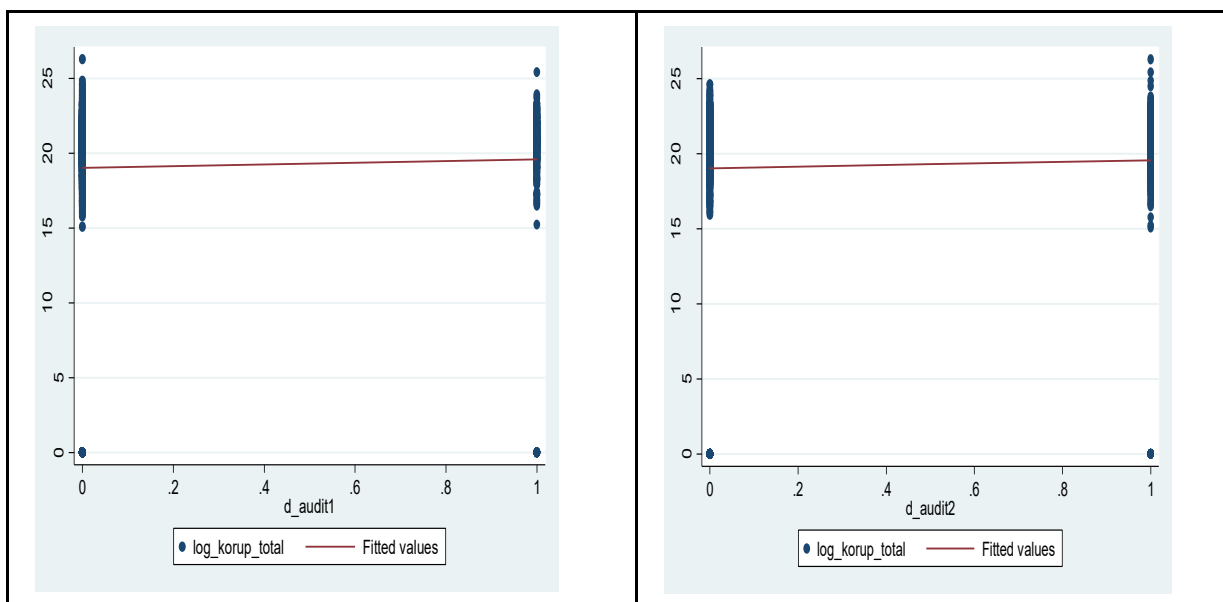
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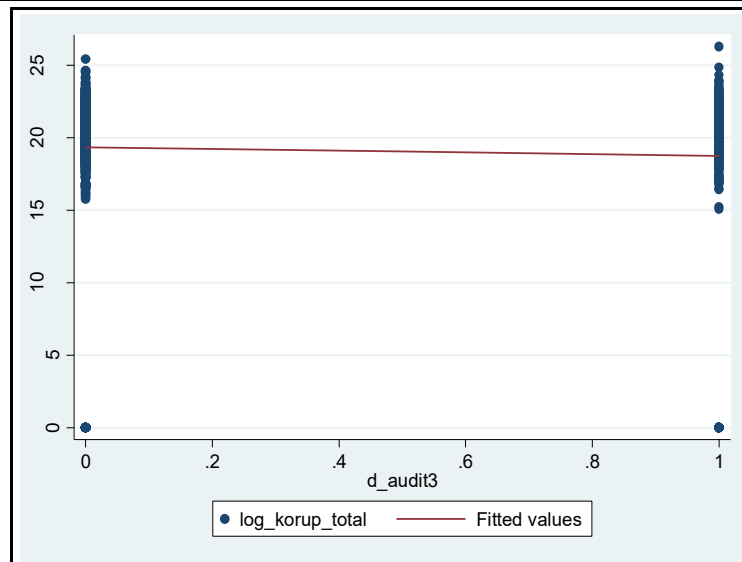


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## APPENDICES

**Appendix 1.** Scatter Plot Value Of Corruption In The Public Procurement And Government Audit





## Appendix 2. Hausmann and Correlation Test

Hausman fixed random

	---- Coefficients ----			
	(b) fixed	(B) random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
d_audit1	-.6839687	-.0516018	-.6323669	.1484629
d_audit2	-.3627557	.1984196	-.5611753	.1669826
d_audit3	-1.041012	-.7570981	-.2839136	.1343845
in_audit_k~1	.0120719	.0805483	-.0684764	.0287576
in_audit_k~2	-.0755539	-.0283652	-.0471887	.0278645
in_audit_k~3	-.0491367	.006393	-.0555296	.0273221
log_belanj~1	1.630188	1.118114	.5120736	.2939652
d_rasiobm	-.5760212	-.5539019	-.0221193	.2110957
log_pend_p~a	.8748294	-.1042888	.9791182	.4538254

b = consistent under Ho and Ha; obtained from xtreg  
B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

chi2(9) = (b-B)'[(V\_b-V\_B)^(-1)](b-B)  
= 230.83  
Prob>chi2 = 0.0000

corr log\_corruptall d\_audit d\_audit1 d\_audit2 d\_audit3 log\_capex capex\_r2  
log\_inpcap  
(obs=1,999)

	log_co~1	d_audit	d_audit1	d_audit2	d_audit3	log_ca~x	capex_r2	log_in~p
log_corrup~1	1.0000							
d_audit	0.2196	1.0000						
d_audit1	0.0375	0.0475	1.0000					
d_audit2	0.0000	0.0827	0.0139	1.0000				
d_audit3	-0.0014	0.0329	0.0019	0.0163	1.0000			
log_capex	0.2796	0.0938	0.0761	0.0227	0.0280	1.0000		
capex_r2	0.0544	-0.0131	0.0278	-0.0007	-0.0124	-0.0178	1.0000	
log_inpcer~p	0.0283	0.0252	0.0188	0.0065	0.0100	0.1613	-0.0407	1.0000

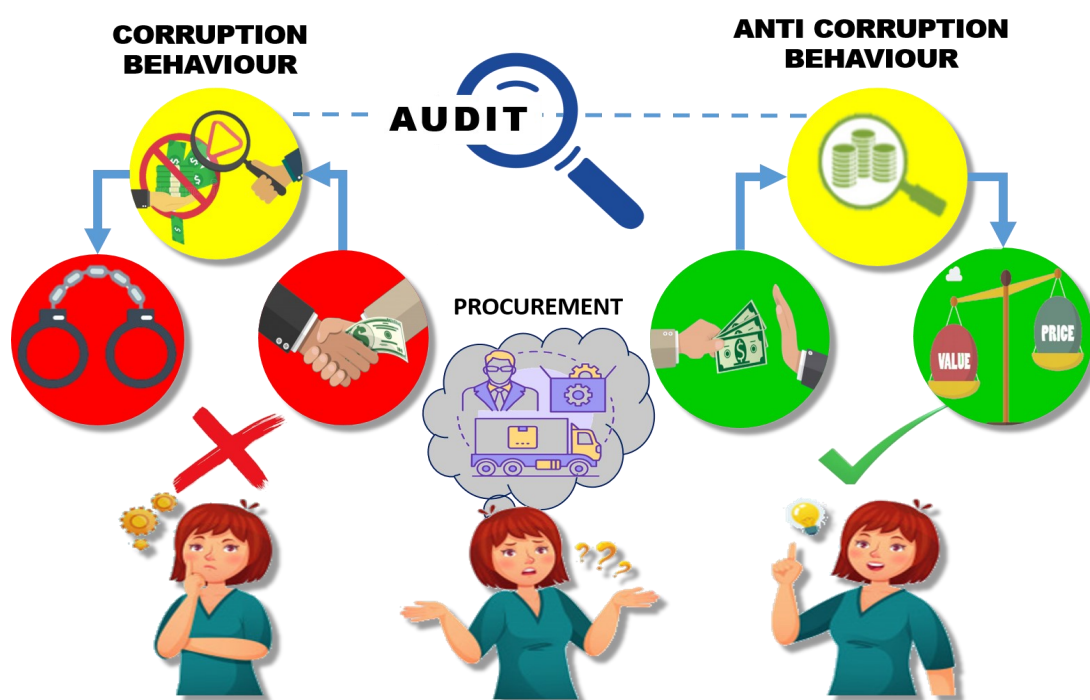
**Appendix 3.** Correlation government expenditure audit and public procurement corruption

Dependent variable: public procurement corruption	1 FE	2 FE	3 FE	4 FE
Audit (lag time 1 year)	-0.676** (0.274)	-0.690** (0.299)	-0.684** (0.295)	-0.701** (0.296)
Audit (lag time 3 year)	-0.514* (0.275)	-0.372 (0.299)	-0.363 (0.297)	-0.360 (0.294)
Audit (lag time 3 year)	-1.150*** (0.296)	-1.078*** (0.313)	-1.041*** (0.311)	-1.014*** (0.306)
Audit x corruption revealed (lag time 1 year)		0.0172 (0.0385)	0.0121 (0.0388)	0.0298 (0.0411)
Audit x corruption revealed (lag time 2 year)		-0.0784 (0.0765)	-0.0756 (0.0752)	-0.0617 (0.0732)
Audit x corruption revealed (lag time 3 year)		-0.0467 (0.0594)	-0.0491 (0.0576)	-0.0470 (0.0584)
Capital Expenditure			1.630*** (0.454)	1.157** (0.473)
Capital Expenditure High Ratio			-0.576* (0.306)	-0.341 (0.306)
GRDP per Capita			0.875 (0.722)	0.644 (0.757)
Year=2015				0.540 (0.341)
Year=2016				0.607* (0.321)
Year=2017				1.149*** (0.314)
Constant	19.83*** (0.167)	19.82*** (0.167)	-38.13** (15.98)	-22.34 (17.51)
N	2156	2156	2156	2156
r2	0.0113	0.0125	0.0274	0.0356
ar2				
r2_o	0.00000494	0.0000352	0.00783	0.0112

## Appendix 4. Robustness Check

Dependent variable: Corruption in the public procurement	1 FE	2 FE	3 FE	4 FE
Audit (lag time 1 year)	-0.683** (0.273)	-0.690** (0.298)	-0.701** (0.297)	-0.712** (0.297)
Audit (lag time 2 year)	-0.507* (0.273)	-0.369 (0.298)	-0.371 (0.298)	-0.364 (0.294)
Audit (lag time 3 year)	-1.130*** (0.295)	-1.055*** (0.311)	-1.042*** (0.312)	-1.007*** (0.306)
Audit x corruption revealed (lag time 1 year)		0.0121 (0.0383)	0.0127 (0.0382)	0.0303 (0.0404)
Audit x corruption revealed (lag time 2 year)		-0.0769 (0.0757)	-0.0767 (0.0759)	-0.0611 (0.0730)
Audit x corruption revealed (lag time 3 year)		-0.0487 (0.0581)	-0.0477 (0.0579)	-0.0464 (0.0582)
GRDP per capita			0.967 (0.716)	0.656 (0.756)
Year 2015				0.564* (0.342)
Year 2016				0.643** (0.308)
Year 2017				1.224*** (0.299)
Constanta	-6.585*** (0.166)	-6.586*** (0.166)	-23.32* (12.41)	-18.56 (13.05)
N	2156	2156	2156	2156
r2	0.0111	0.0123	0.0145	0.0252
ar2				
r2_o	0.0000616	0.0000240	0.000134	0.00128

*Selected and Revised Papers from The International Conference of State Finance and Accountability (InCSFA 2019) (Badan Pemeriksa Keuangan Republik Indonesia, by 10<sup>th</sup> October 2019) after peer-reviewed by Organizing Committee of InCSFA and Peer-reviewers of Jurnal Tata Kelola and Akuntabilitas Keuangan Negara*





**JURNAL**  
**TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA**

Volume 6, Number 1, Jan-Jun 2020, 35-55

e-ISSN 2549-452X

p-ISSN 2460-3937



**MANDATORY AUDITOR ROTATION:  
THE PERCEIVED BENEFITS AND DRAWBACKS  
(A CASE STUDY IN BPK)**

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**ABSTRACT**

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After years of implementation of the policy, there is an inconclusive opinion of whether a mandatory auditor rotation could improve the independence of auditors, including those working within the public sector, such as BPK. This study intends to empirically test the impact of mandatory rotation towards auditors' independence in fact and in appearance. Additionally, the study examines how auditor satisfaction towards the policy affects their perceived benefits and drawbacks of the scheme. Following a statistical assessment of primary data using the independent-samples t-test, findings show that independence in appearance of auditors would be enhanced as a result of mandatory rotation. The rotation policy, however, could not by itself improve auditors' independence in fact. Consequently, complementary schemes are required to preserve independence in fact of auditors. Further, auditors who have a favorable view of mandatory rotation would assume that the mechanism offers more advantages than disadvantages. On the other hand, unhappy employees would perceive that mandatory rotation brings more adverse effects than positive ones. The vast majority of respondents also believe that the rotation mechanism is necessary to be implemented in BPK. Lastly, a number of valuable respondent inputs aimed to improve the rotation scheme are elaborated in this study.

**KEYWORDS:**

Mandatory rotation; benefits; drawbacks; independence; BPK

DOI: 10.28986/jtaken.v6i1.394

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**ARTICLE HISTORY:**

**Received at** : 19 December 2019

**Published at** : 28 June 2020

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## INTRODUCTION

Since independence is the cornerstone of the auditing profession, it prompts auditors to act with integrity and objectivity in conducting an audit (Chiang, 2016). Dattin (2017) states that various means can be utilized to preserve and enhance auditor independence. One such means is the mandatory auditor rotation.

Previous studies have identified several reasons why mandatory auditor rotation is necessary to maintain auditor independence. Firstly, excessive audit fees can undermine auditor independence (Anis, 2014; Chiang, 2016; Ottaway, 2014; Roy, 2015). Chu and Hsu (2018) also Roy (2015) assert that the higher a commission represent the total income received by the audit firm, the more reliant they become to the client. This situation may lead auditors to submit to the client's demands (Al-Khoury, Ali, Al-Sharif, Hanania, Al-Malki, & Jallad, 2015; Anis, 2014; Chiang, 2016; Chu & Hsu, 2018). With the intention of retaining such clients, auditors would provide an unqualified opinion despite the substandard quality of the company's financial statements. Consequently, the audit quality would be compromised as the auditor would not be able to maintain their professionalism and objectivity during the audit.

Secondly, the provision of non-audit services would negatively influence auditors' decisions and independence (Chu & Hsu, 2018; Ottaway, 2014; Roy, 2015). Chu and Hsu (2018) also find that auditors may need to maintain their reputation once they deliver non-audit services to their clients. Nagy (2008) and Roy (2015) claim that sometimes auditors are required to provide services which are not related to audit procedures such as designing clients' internal control system. Subsequently, when auditors from the same audit firm are required to audit the

service output of their colleagues, they could compromise their independence since they have an interest in preserving the prestige of their firm by stating that the operating system is well designed. Consequently, this situation may harm the quality of audit reports. Thirdly, an unlimited duration of a relationship between an auditor and his client could potentially endanger auditor independence (Al-Khoury et al., 2015). Scholars believe that the longer excessive "coziness" between auditor-client transpires, the higher the possibility the auditors would become overly loyal to the client and disregard their professional skepticism in conducting an audit.

Moreover, the mechanism to appoint auditors can be a threat to the independence of auditors (Ottaway, 2014). Roy (2015) suggests that if management is allowed to be involved in the appointment process of auditors, they would be able to intimidate the auditors into providing an audit opinion on its behalf. Once the management could influence auditor independence, the audit procedures would be meaningless and the audit result would be untrustworthy. Roy (2015) also questions the effectiveness of the audit committee's role in the auditors' appointment procedure. The audit scandal in India involving Satyam Computer Services Ltd, occurred due to the fact that some members of the audit committee received gifts and incentives from the management. To return the favor, the audit committee recommended an audit firm favored by the management.

Given these situations, auditors need to maintain their independence by implementing mandatory auditor rotation (Dattin, 2017). Particularly in the public sector, auditors should uphold accountability and transparency by reporting their use of state's financial resources to stakeholders or the public (Loke, Ismail, & Fatima, 2016). Scholars also argue that it is crucial for the public or taxpayers to understand that the government



is under the obligation to use government financial appropriately towards enhancing the welfare of the people.

Nevertheless, in conducting an audit, public sector auditors may exercise professional judgments in making certain decisions (Sinason, 2000). Consequently, auditors should have an independent mindset and avoid any bias to be able to make decent decisions and report the audit results professionally to the public. Mandatory auditor rotation, therefore, may be necessary to be implemented for auditors who work in the public sector.

In Indonesia, public sector auditors are divided into two categories internal auditors known as Government Internal Supervisory Apparatus (Aparat Pengawasan Internal Pemerintah, APIP), and external auditors of the government. The role of external auditor is undertaken by The Audit Board of The Republic of Indonesia (Badan Pemeriksa Keuangan Republik Indonesia, BPK). As rotation and authority among the two categories of auditors are significantly distinct from one another, in this study the author will mainly focus on BPK.

Results of previous studies show that implementation of mandatory auditor rotation may be more suited to private sector auditors better than their public counterparts, especially in the BPK. The first argument for such an assertion is that BPK auditors do not receive remuneration or collect fees from the clients; consequently, they would not rely financially on the auditees. Furthermore, BPK auditors are prohibited from providing non-audit services to clients (BPK RI, 2018). As such, state auditors would not find themselves auditing their own work for the clients. Lastly, as mandated in the 1945 Constitution, the BPK has the right and obligation to audit the use of public funds in Indonesia. Therefore, the BPK audits the financial state-

ments of all governmental institutions in Indonesia without having to rely on any appointment process of the clients.

These considerations in turn raise a question of whether a mandatory auditor rotation for public sector auditors merely serves as a complementary and non-compulsory tool to improve auditor independence. This study aims to answer this issue from the perspective of BPK auditors. Additionally, after years of implementation, it may be necessary to revisit the rotation mechanism in BPK to comprehend any contention that the auditors may have as the subject of the policy. Therefore, the first research question in this study is: *has mandatory auditor rotation improved the independence of BPK auditors?*

Following years of implementation of the mandatory rotation, there are still conflicting opinions as to whether mandatory auditor rotation has brought more beneficial impacts on auditors than adverse ones (Dattin, 2017). Controversial outcomes from mandatory auditor rotation have likely arisen from difficulty in finding direct evidence by which to measure the impacts of such policy (Dattin, 2017). Dattin also believes that no fixed standard could be used worldwide in measuring the effect of the system. Therefore, the results of mandatory auditor rotation depend on where the rotation is analyzed and what attributes are utilized. Thus, it is essential to enrich existing literature on how crucial it is to implement mandatory auditor rotation since evidence to corroborate the assertion needs to be collected from diverse environments.

Previous research, then, use distinct attributes in assessing the impacts of the implementation of mandatory auditor rotation. Some studies apply financial proxies, namely: discretionary accruals (Al-Thuneibat, Issa, & Baker, 2011; Nicolaescu, 2014); earnings quality (Chu & Hsu, 2018); the cost of equity

capital (Fernando, Abdel-Meguid, & Elder, 2010) or earning response coefficient (Nicolaescu, 2014). Other research use qualitative measures, such as the number of audit findings (Komalasari, 2016); auditor size (Fernando et al., 2010); auditor expertise and experience (Al-Khoury et al., 2015; Boon, McKinnon, & Ross, 2008; Fernando et al., 2010) as well as the perceived relationship between auditor and client (Al-Khoury et al., 2015).

To the author's best knowledge, no prior study has evaluated auditor satisfaction as an element in assessing the benefits and drawbacks of the obligatory auditor rotation. On the other hand, auditors' notion, regarding the rotation scheme, should be taken into account since they are in the position to determine whether mandatory rotation mechanism is beneficial for the stakeholders.

Also, Herzberg's two-factor theory explains that employees' satisfaction would affect their motivation and performance (Alfayad & Arif, 2017). One of the main factors influencing employee satisfaction is the company's policy and administration (Herzberg, 1959 as cited in Smerek & Peterson, 2007), including the rule of mandatory auditor rotation. The author, therefore, will gauge auditor satisfaction of compulsory rotation policy in order to assess their perception of the advantages and disadvantages of the system. Furthermore it is likely that studies about compulsory auditor rotation in the private sector outnumber research in the public or governmental sector. With this in mind, this study intends to supplement existing literature on the impact of obligatory rotation on public sector auditors, especially at BPK. It is hoped that policymakers take into consideration the result of this study as input in the redesign of the scheme of auditor rotation, which would increase auditor independence as well as enhance their satisfaction, leading

to better performance. These facts generate the second and third research questions of this study: *how does auditor satisfaction help identify perceived benefits and drawbacks of mandatory auditor rotation from the perspective of auditors at BPK; and would the benefits of compulsory auditor rotation outweigh its disadvantages in BPK, or whether the opposite is true, based on the view of BPK auditors?*

This study is expected to contribute to the literature on how mandatory auditor rotation could affect auditor independence in fact and independence in appearance by providing empirical evidence on the impact of obligatory rotation scheme in a public sector institution, BPK. Moreover, the study explains how auditor satisfaction determines the perceived benefits and drawbacks of the rotation scheme in the public sector.

In this regard, this study will be structured as follows; first, it will begin with some relevant research on mandatory auditor rotation while highlighting some of the benefits and drawbacks of the system. Secondly, it will provide an overview of the mandatory auditor rotation scheme at BPK. The author will then elaborate on how auditor satisfaction can affect their perception of the impact of the rotation scheme. Fourthly, the author will examine data gained from the respondents using statistical analysis as well as discuss the results.

## LITERATURE REVIEW

### The Impact of Mandatory Auditor Rotation

The public consider auditors as 'guardians of trust', as they have the capability of producing reliable audit reports to feed into the decision making process (Ottaway, 2014; Roy, 2015). Independence is one of the vital foun-

dations for auditors to aid a fair financial statement (BPK RI, 2018; Roy, 2015). Ottaway (2014) states that there are two forms of auditor independence, namely: independence in fact and independence in appearance. The former permits auditors to act in an independent state of mind, allowing individuals to audit with integrity, objectivity and professional skepticism. The latter means auditors ought to avoid any circumstances where third parties could interfere with their honesty and objectivity in conducting audits. Therefore, auditors should not only ensure the reliability of audit reports by personally holding ethical values but also take into account the public trust that they are independent.

However, an unlimited auditor tenure could impair auditor independence since objectivity and skepticism of auditors would decline over time (Al-Khoury et al., 2015; Mautz & Hussein, as cited in Dattin, 2017). Al-Khoury et al. (2015) and Ottaway (2014), additionally, state that the “over-cozy” relationship between auditor and client is likely affecting the lack of inquiry and innovation in undertaking the audit. Moreover, the quality of the audit report could be decreased since the long tenure creates an “over-familiarity” for auditors (Al-Khoury et al., 2015; Dattin, 2017; Ottaway, 2014). This is when auditors could not objectively and creatively perform audit procedures and collect audit evidence. They would merely conduct the audit based on their previous experience and make unjustified assumptions instead of objectively evaluating the evidence. The tedious audit process would not be effective in detecting misstatement in financial reports.

Additionally, the infamous audit failures occurring in early 2000, such as the Enron-Andersen scandal, were a wake-up alarm within the accounting community. The financial catastrophe has reopened concerns over the importance of auditor rotation in

maintaining independence and improving audit quality (Anis, 2014). Since then, some authorities around the world have started to set up regulations aiming to force firms to rotate their auditors after a certain engagement period. Some of these regulatory instruments are the Sarbanes-Oxley Act (SOX) of 2002 in the US, the EC agreement 2014 in Europe, and the Corporation Act 2001 in Australia (Ottaway, 2014). The SOX of 2002 defines obligatory auditor rotation as a mechanism to restrict the period of tenure between auditors and clients (Harris & Whisenant, 2012). Thus, an auditee’s financial statement must be audited by different auditors after a certain period of audit tenure.

After its implementation over these years, however, mandatory auditor rotation remains a debatable topic among scholars and professionals. Some benefits and drawbacks of compulsory auditor rotation have been identified. Some of the perceived advantages of mandatory auditor rotation are improved auditor independence and bring fresh eyes.

As highlighted above, a long-standing relationship between auditors and clients could impair auditors’ independence in appearance. In this regard, Anis (2014) and Ottaway (2014) argue that forced rotation of auditors would increase public perception of auditor independence since public faith in the reliability of financial reports depends on their impression that the external auditors are free from personal bias and third party's influence. Moreover, the compulsory rotation of auditors would strengthen their “independence in fact”. The limited tenure of auditors would reduce pressure on them to be loyal to the auditees or lessen their dependency on incentives from clients to maintain the audit engagement. Thus, the auditors would be more willing to challenge management’s accounting policy as well as investigate other financial issues. Ottaway (2014)

also asserts that the interests of clients and auditors would no longer be aligned because of forced rotation policy. Consequently, the eagerness of auditors to acquiesce to and satisfy their clients would be lower (Dattin, 2017).

Mandatory auditor rotation would allow “fresh eyes” to audit a client’s financial statement after a certain period of audit engagement (Al-Khoury et al., 2015; Dattin, 2017; Ottaway, 2014). Scholars contend that the new points of view brought by auditors in an audit are necessary as they would be more creative in setting up an audit program. The newly involved auditors may be able to detect and report misstatements, which could not be found by the original auditors (Lennox, 2014). The system, consequently, would be a safeguard against the “familiarity threat” caused by the extended period of an auditor-client relationship.

The mandatory auditor rotation is also a watchdog mechanism. The mechanism of changing auditors after a certain period of audit engagement would promote diligence and conscientious decision-making by auditors because they would become aware that their current job would be judged by the “fresh-eyes” when their tenure is over (Ottaway, 2014). Accordingly, Al-Khoury et al. (2015) suggested that the current auditors needed to maintain their prestige and reputation toward clients and the public; thus, they would conduct the audit carefully by complying with the auditing rules and standards. A study also found that auditors were likely to report more material misstatements if the rotation scheme was obligatory than when the auditor-client relationship was not constrained by the mandatory rotation system (Ottaway, 2014).

The mandatory rotation could be an incentive for auditors, as Al-Khoury et al. (2015) argued that this would allow auditors to ex-

perience new challenges and gain new knowledge when they audited other clients. Instead of auditing the same clients over a course of years, auditors would have opportunities to meet new clients from distinct industries after an audit engagement ended. Moreover, mandatory auditor rotation could not only strengthen their independence but also their skepticism in conducting an audit (Chiang, 2016). The scholar contends that independence is a fundamental antecedent to professional skepticism; an attitude that would lead auditors to improve audit quality. The rotation scheme may also help auditors avoid boredom at work as well as create a comfortable and conducive working environment (BPK RI, 2010).

Nevertheless, the opponents of mandatory auditor rotation argue that the scheme would cause adverse effects, such as a limited impact on independence in fact. Ottaway (2014) argues that despite mandatory auditor rotation being implemented, clients still pay auditors’ fees. The company can also replace the auditors even though their audit tenure has not concluded. Accordingly, mandatory rotation of auditors would not fundamentally change the issue of auditor-client relationship. Internal pressure is likely to continue as the auditors still need to “please” their clients, despite the enforcement of obligatory mandatory rotation of auditors.

Boon et al. (2008) state that auditors who maintain high ethical standards are likely able to produce high-quality audit reports since they are able to uphold their integrity. Besides, to ensure that the independence of auditors is not compromised, they should be made aware of ethical value and virtue of ethics whenever they make any decisions related to audit (Chiang, 2016). Thus, it is insufficient to ensure auditor independence by only implementing mandatory rotation.

Some say that mandatory rotation may in-

crease the risk of audit failure, that mandatory rotation is a double-edged sword with regard to auditors' knowledge. Auditors are likely to have a higher understanding of their auditees due to their long tenure and experience in undertaking the audits and the expertise they accumulate over the years would allow them to criticize and question the management in preparing the financial statements (Ottaway, 2014). Moreover, upon undertaking their new tasks following a rotation, incoming auditors would have to experience a sharp learning curve related to the client's business. Consequently, many scholars believe that the significant disadvantage of mandatory auditor rotation is it would heighten the risk of audit failure and reduce audit quality, especially in the initial years of audit engagement (Al-Khoury et al., 2015; Dattin, 2017; Ottaway, 2014). The risk is likely due to the newly assigned auditors having a lack of knowledge and familiarity with the client's operational system.

Ottaway (2014) argues that mandatory auditor rotation would increase audit fees as a result of the incurred steep 'learning curve' as discussed above. Incoming auditors need to acquire the necessary knowledge of the new client; thus, they would be required to undertake orientation sessions to fill these gaps. Ottaway also explains that most audit firms would either pass the cost to the clients in the form of increased audit fees; or compensate by compromising their audit quality. Moreover, in the private sector, mandatory auditor rotation would also become a burden for the management and require more time and money to be expended by the audit committee as they have to take into account a strict selection process to appoint new auditors.

Another ground for criticism of mandatory rotation is that a limited duration of an auditor's tenure would discourage his/her investment in specialization and loss of

knowledge/familiarity with specific clients within that particular industry (Ottaway, 2014). Auditors would tend to become generalists than specialists since they would be easily rotated to other clients, which would require different sets of expertise to undertake the audit. On the other hand, having a specific set of specialized knowledge would benefit the auditors as they would possess added-value and personal branding compared to their colleagues. Additionally, such specialization would increase auditors' performance in producing high-quality audit reports.

### **Mandatory Auditor Rotation at BPK**

According to Article 2 of Law Number 15 of 2006, BPK is the sole supreme audit institution with the mandate to audit the use of the state's financial resources in Indonesia. BPK, therefore, has the right and obligation to deliver an audit opinion on financial statements prepared by government institutions and agencies. The best audit opinion that can be given by BPK on a financial statement produced is an unqualified opinion. Such an opinion entails that the report is reasonably and appropriately presented, free from material misstatement, as well as in compliance with accounting standards (Tuovila, 2019).

Since an unqualified opinion is perceived as an accomplishment among government institutions in Indonesia, many of them strive to achieve the clean auditor's report (Anggraini & Putra, 2018). It is critical, therefore, for the auditors to maintain their independence, integrity, and professionalism in conducting the audit (BPK RI, 2018), in order to render an objective audit opinion on a client's financial statement.

BPK is aware that the auditors are invaluable assets who enable the institution to perform its constitutional mandate. In addition

to skills and expertise, independence is also a cornerstone of audits conducted by BPK auditors. The institution, consequently, has undertaken various measures to increase the independence of auditors, such as implementing a mandatory rotation. Accordingly, auditors at all levels, comprising of team member (Pemeriksa Pertama), team leader (Pemeriksa Muda), controller (Pemeriksa Madya) and audit partner (Pemeriksa Utama), should abide by the mandatory rotation requirement.

The clients of BPK are central and local government, state-owned and regional enterprises, the Central Bank, public service agencies, as well as other institutions that make use of the state's financial resources in Indonesia (Article 6 of Law Number 15 of 2006). The auditees' offices are located in all provinces in Indonesia. Therefore, aside from its head office in Jakarta, BPK has representative offices in each province to ensure that it can perform its mandate effectively.

Auditors at the head office are assigned to one of 8 (eight) departments, namely Directorate General of Audit (Auditorat Utama Keuangan Negara, AKN) I to VII and Directorate General of Investigative Audit (Auditorat Utama Investigasi, AUI) (BPK RI, 2017; Komalasari, 2016). In addition, there are 34 representative offices operated by BPK throughout the country (BPK RI, 2017). This allows auditors to be rotated: (1) between BPK representative offices in the different provinces in Indonesia; (2) between the head office in Jakarta and any of the representative offices outside Jakarta; or (3) certain units or AKNs within the head office. Arrangements described in (1) and (2) are the types of rotation that enable auditors to be transferred from one province to another. In this study, the author will focus on these types of rotation.

The mandatory auditor rotation in BPK is

conducted pursuant to Decree of the BPK Secretariat General Number 366/K/X-XIII.2/9/2010 about concerning Rotation of BPK Employees (Keputusan Sekretaris Jenderal Nomor 366/K/X-XIII.2/9/2010). Further, based upon Article 2 of Decree Number 366/K/X-XIII.2/9/2010, mandatory auditor rotation is intentionally implemented to manage the auditors' career development, maintain auditors' independence in conducting audits, combat boredom at work and create a comfortable and conducive work environment, meet the organization's needs as well as the employees' interest, and build expertise and performance of the auditors at BPK.

To achieve these goals, BPK has issued Decree Number 662/K/X-XIII.2/11/2013 concerning Rotation Arrangement at BPK (Keputusan Sekretaris Jenderal Nomor 662/K/X-XIII.2/11/2013). The policy is intended to guarantee equity and transparency of the obligatory rotation scheme at BPK. Moreover, the regulatory instrument has been adopted to serve as a guideline for BPK's policymakers who are involved in the management of auditor rotation, helping them to share common views and perspectives in making decisions relating to the rotation of auditors.

### **Auditor Satisfaction with the Rotation Scheme**

Employee satisfaction is the level of happiness and emotional response from workers to a type of existing situation in the office (Tso, Liu, & Li, 2015). They also assert that satisfaction depends on personal evaluation and fulfillment of individual needs by the organization. Furthermore, Alfayad and Arif (2017) claim that job satisfaction is a form of how much workers like or dislike the job, including many factors around it. The author believes that it is a key element of appreciation that leads to a feeling of fulfillment.

Alfayad and Arif (2017) argue that job satisfaction is one of the crucial elements to increase the employee's motivation in conducting their tasks. Arguably, when workers view their job with a favorable feeling, they will escalate their performance and are likely to work at the highest limit of their abilities.

In 1959 Herzberg established a dual-factor theory of motivators and hygiene factors that influence worker satisfaction (Smerek & Peterson, 2007). Herzberg (1959), as cited in Alfayad and Arif (2017), explains that, firstly, the motivators are elements that directly related to doing a task such as achievement, recognition, promotion, nature of work, responsibility, and growth. The motivators will lead to job satisfaction; nevertheless, they do not increase the level of dissatisfaction. On the other hand, the hygiene factors are items associated with conditions surrounding the job, for instance, compensation, benefit, co-workers relationship, job security, as well as the company's policy and administration, including the mandatory auditor rotation system. The absence of hygiene factors would upsurge employees' dissatisfaction.

Therefore, it is crucial to take into account the satisfaction of auditors towards the implementation of rotation policy since a lack thereof would increase the level of their dissatisfaction with their job. Moreover, a satisfied employee would not jeopardize the principal values of an institution he works for (Tso et al., 2015). At BPK, the core values to be adopted by auditors are independence, integrity, and professionalism (BPK RI, 2018). If auditors are satisfied with the implementation of mandatory rotation, they will conduct audits independently and professionally, resulting in a reliable audit report. On the other hand, if auditors do not feel happy with the current working environment, they will resort to adverse behavior to assert their feelings, such as lowered output quality, distorted self-

awareness, or even decision to quit the job (Tso et al., 2015).

Undeniably, many believe that auditors' satisfaction toward the rotation scheme would also affect their perception of the benefits and drawbacks of the system. It is likely that if an auditor is satisfied with the implementation of mandatory rotation, he will consider the benefits of the system outweighs the drawbacks. Some elements may affect auditor satisfaction toward the rotation policy. These include transparency, justice, and fairness of the scheme to all auditors at different levels. Tan and Lau (2012) emphasize that employees' perception of procedural fairness leads to better job satisfaction, which eventually influences the workers' performance in the long term.

Secondly, the location where auditors are transferred to under the rotation scheme may influence their opinion of the system as well. The preferred province of assignment may be different between auditors, as it involves personal choice or necessity. However, in most cases, the desired duty location or area for auditors is their region of domicile. Lastly, appropriate compensation given to the auditors upon being transferred to another province could increase their satisfaction level concerning the policy. The rewards could take several forms, such as financial incentives, a new conducive working environment, or opportunities for career advancement.

## RESEARCH METHOD

The author will utilize purposive sampling in determining the targeted respondents for this study. The respondents, then, will be categorized into two groups. The first group will consist of auditors who have not been rotated during their working period in BPK or never experienced mandatory auditor rotation (MAR). These auditors are usually

new employees who joined BPK in the early years of their career.

The second group, subsequently, will be a number of auditors who have been rotated (at least once) during their tenure. Furthermore, the rotation should take place in different provinces throughout Indonesia. An auditor who gets transferred from Jakarta Representative Office to South Sumatra Representative Office is an example of someone who meets the requirements to be a respondent for the study. Additionally, the author will not differentiate the career level of the auditors given that all of the auditors should adhere to the mandatory auditor rotation policy (BPK RI, 2010; BPK RI, 2013).

The author will then divide respondents of Group 2 into two categories. The first category consists of auditors dissatisfied with the implementation of the mandatory auditor rotation in the organization. The second category comprises of auditors who are pleased with the policy. Concisely, the respondents will be selectively grouped as presented in Table 1.

The author utilizes independent-samples t-test with the level of significance of 5 percent to respond to the research questions 1 to 3. The independent sample t-test compares the means of two independent groups to determine whether there is statistical evidence that the associated population means are significantly different (Siregar, 2013). The independent-samples t-test is appropriate for this study as the writer intends to compare the primary data gained from two independent

groups. In other words, the respondents in Group 1 will not be included in Group 2 and vice versa.

Responses given by the two groups of respondents (Group 1 and Group 2) relating to auditor independence will be compared to answer the first research question. Moreover, a statistical analysis will be conducted to determine whether auditor independence is different between the two groups of respondents using an independent-samples t-test. Subsequently, it will determine: (1) will the auditor's independence increase after they are being rotated or vice versa, and (2) which auditor's independence (independence in fact or independence in appearance will be more affected by the mandatory rotation system.

Only responses given by Group 2 will be used in answering research questions 2 and 3. Since respondents in Group 2 are auditors who have experienced the rotation scheme first-hand thus, they may have received some benefits and may have encountered some challenges due to the scheme. Meanwhile, auditors in Group 1 are individuals who have not yet experienced mandatory rotation therefore they may comprehend the system based on general knowledge and information. In that regard, the author believes that the responses provided by Group 2 would reflect actual and noticeable facts concerning the positive and negative impacts of the mandatory rotation mechanism. The independent-samples t-test will also be used in answering the research questions 2 and 3.

**Table 1.** The Group of Respondents

Respondents	Criteria	Research Question
Group 1	<b>never experienced</b> MAR	Research Question 1
Group 2	<b>have experience with</b> MAR	Research Question 1
Category 1	<b>dissatisfied</b> with the implementation of MAR	Research Question 2
Category 2	<b>satisfied</b> with the implementation of MAR	Research Question 3



After statistically testing data obtained from Group 2, this study will also assess auditors who are satisfied and dissatisfied with the implementation of mandatory rotations on whether they have different perceptions regarding the benefits and weaknesses set by the policy. In addition, it will be identified whether the benefits of the rotation scheme outweigh the disadvantages. Finally, some input for improvement given by respondents will be discussed in this study.

Consistent with Herzberg's duality theory of motivators and hygiene factors, it is expected that satisfied auditors will perceive mandatory auditor rotation as an exercise that is fairly and appropriately applied in the organization. Given that situation, these auditors consider that the benefits of the mandatory rotation scheme will outweigh the drawbacks and vice versa.

Primary data in this study is obtained by using two distinct questionnaires for respondents in Group 1 and Group 2. The questionnaires consist of both close-ended and open-ended questions have delivered from March to November 2019. A Likert scale is used to measure the respondents' answers related to the close-ended questions, by categories Strongly Disagree, Disagree, Neutral, Agree, and Strongly Agree. Consequently, both groups will address the same problems related to auditor independence. However, only Group 2 will be given questions related

to auditor satisfaction toward the mandatory rotation policy as well as the benefits and drawbacks of the systems. The variables or issues presented to the respondents in the questionnaire for each group are elaborated in Appendix 1.

## RESULT AND DISCUSSION

The total returned and valid questionnaires were 49 questionnaires for Group 1 and 53 questionnaires for Group 2. The respondents are auditors with varied experiences, roles, and responsibilities. They also come from different educational backgrounds, gender, and age. The information of the respondents in Group 1 and 2 is elaborated in Appendix 2. The independent-samples t-test with the level of significance at 5 percent is applied to answer research questions 1 to 3.

### Could a mandatory auditor rotation improve the independence of BPK's auditors?

Table 2 presents the output of the Independent-samples t-test to assess the improvement of auditor independence after they have been rotated to different BPK's regional offices. The result of Levene's for equality variances, which tests the homogeneity of variance assumption, shows that the p-values for independence in fact and independence in appearance are each 0.081 and 0.758. As both

**Table 2.** The Output of Independent-Samples t-test

Variable	Auditor	Levene's test for Equality Variances (Sig.)	Sig. (2-tailed)	Mean
Independence in Fact	Group 1 (no experience of MAR*)	0.081	0.073	11.88
	Group 2 (experienced the MAR)			11.06
Independence in Appearance	Group 1 (no experience of MAR*)	0.758	0.001**	13.53
	Group 2 (experienced the MAR)			15.53

p-values are more than 0.05, it can be assumed that the variances are equal, and the standard deviations are the same. Also, the author can further interpret the t-value and the significance level associated with the t-value.

The p-value of "independence in fact" is 0.073, which is higher than the level of significance of 0.05 ( $0.073 > 0.05$ ); thus, there is no difference between the mean among the auditors who have no experience in the rotation mechanism (Group 1) and those who have been rotated (Group 2). As a result, the author does not further compare the mean between both groups since statistically there is no different mean between them. In other words, auditors' independence in fact would be the same despite having implemented the obligatory rotation.

On the other hand, the p-value of "independence in appearance" is  $0.001 < 0.05$ ; therefore, statistically and significantly there is a different mean between both categories regarding their level of "independence in appearance". Related to auditors' independence in appearance, the Table 2 suggests that auditors who have been rotated (Group 2) have a slightly higher mean (15.53) compared to the respondents in Group 1 who have not yet been transferred to other BPK's representative offices (13.53). The outcomes show that there is an increase in auditors' independence in appearance after the mandatory rotation is implemented.

In conclusion, auditors perceived an increase in "independence in appearance" after they were transferred to different BPK's representative offices. Ottaway (2014), accordingly, argued that the mandatory rotation would raise public perception of auditor independence. The stakeholders of BPK would also assume that by conducting the mandatory rotation, auditors would be free from personal bias and adverse influence from the

third parties. The increase of independence in appearance, additionally, would be necessary for BPK since the public would trust the credibility of the institution and rely on audit reports produced by the organization.

Auditors, nevertheless, assume that their "independence in fact" would not be different, although they have been rotated to various representative offices. The results also support the previous study from Ottaway (2014), who contended that mandatory rotation would neither improve auditors' independence in fact nor change the issue of auditor-client relationship. It is because auditors also should hold high ethical standards whenever and wherever they conduct audits (Boon et al., 2008). Consequently, the obligatory rotation solely would not be enough to ensure that auditors are ethically professional, which allows them to act in an independent state of mind with integrity and objectivity (Ottaway, 2014). The rotation policy should be complemented by other schemes to gain more independence in fact for auditors, such as optimizing code of ethics by conducting regular ethical training, strengthening internal control, and promoting a whistleblowing system.

### **How does auditor satisfaction distinguish the perceived benefits and drawbacks of the mandatory auditor rotation from the perspective of the auditors in BPK?**

The statistical result from independent-samples t-test in assessing research question 2 is presented in Table 3. The results of the Levene's tests for both categories are each 0.552 and 0.762. The p-values are more than the level of significance of 5 percent; thus, the author can assume that the variances in both samples are equal. The author, subsequently, could interpret the t-value and the significance level associated with the t-value. Furthermore, sig. (2-tailed) of the perceived

**Table 3.** The Output of Independent-Samples t-test

Variable	Auditor	Levene's test for Equality of Variances (Sig.)	Sig. (2-tailed)	Mean
Benefits of MAR*	Category 1 (Dissatisfied)	0.552	0.031**	39.74
	Category 2 (Satisfied)			42.86
Drawbacks of MAR	Category 1 (Dissatisfied)	0.762	0.032**	13.10
	Category 2 (Satisfied)			11.59

Notes: \*MAR: Mandatory Auditor Rotation \*\*level of significance at 5% (two-tailed).

benefits of mandatory auditor rotation is 0.031, which is lower than 0.05 ( $0.031 < 0.05$ ). It can be assumed that there is a statistically different mean between the auditors who are satisfied with the obligatory rotation policy and the ones who are not confident with the system related to their perceived benefits of the rotation scheme.

Related to the perceived benefits of the system, the mean of Category 1 or auditors who are dissatisfied with the policy implementation is 39.74. Category 2 (auditors who are confident with the rotation system) has a mean of 42.86, which is higher than the mean of Category 1 ( $42.86 > 39.74$ ). In other words, auditors who are confident with the rotation scheme would perceive that the benefits of the rotation policy outweigh the drawbacks.

The p-value of the perceived drawbacks of mandatory rotation is 0.032, which is lower than the level of significance ( $0.032 < 0.05$ ). This suggests that there is a statistically different mean between the two categories of auditors related to their perception of the drawbacks affected by the obligatory rotation. Given that the mean of Category 1 (13.10) is moderately higher than the mean of Category 2 (11.59) therefore, auditors, who are unhappy with the policy, consider that the rotation mechanism brings more adverse effects than the positive ones.

To sum up, auditors who are satisfied with the implementation of mandatory rotation policy in BPK would consider that the

scheme brings more benefits than drawbacks. Contrarily, respondents who are uncomfortable with the system believe that the policy will negatively affect them and the institution rather than bringing advantages.

The finding is arguably a novel finding related to the perceived impacts of mandatory auditor rotation schemes for auditor satisfaction upon the policy. The outcome also statistically proves the presumption that the satisfaction of auditors towards the mandatory rotation policy would affect their notion and perception of its benefits and drawbacks. Therefore, a robust improvement related to the mechanism of auditor rotation, which heavily relies on their comfort, is noteworthy.

### **Would the benefits of mandatory auditor rotation outweigh drawbacks in BPK or vice versa based on the notion of BPK's auditors?**

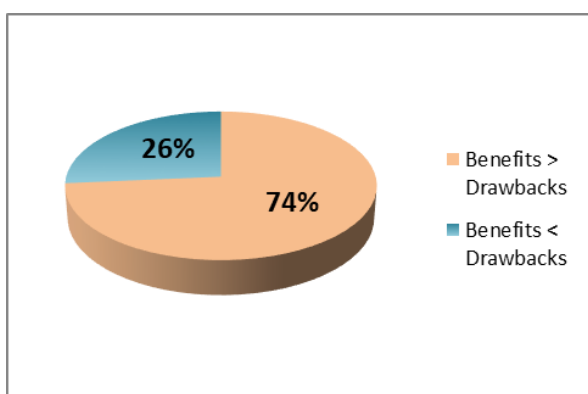
There are 22 respondents (42%) who are satisfied with the implementation of BPK's mandatory rotation. Nevertheless, there are 31 respondents or 58 percent who are unhappy since they are moved to other offices. It shows that more auditors are dissatisfied with the policy compared to those who are comfortable with the rotation scheme. The data is shown in Table 4.

Although the vast majority of respondents (58%) are dissatisfied with the implementation of mandatory rotation, 74 percent of them assert that the implementation of mandatory rotation in BPK is necessary consider-

**Table 4.** Categories of Respondents in Group 2

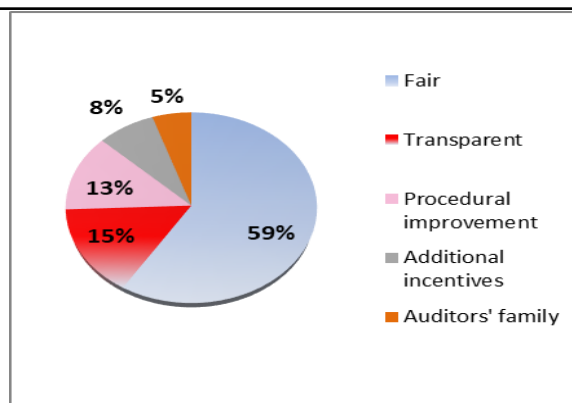
Category	Number of Respondent	Percentage
Category 1 (Dissatisfied)	31	58%
Category 2 (Satisfied)	22	42%
Total Respondents	53	

ing that the benefits are outweighing the drawbacks. However, only 26 percent of the respondents have contradicting opinion. A small proportion of auditor perceives that the disadvantages of the rotation policy overshadow the advantages, as shown in Figure 1.

**Figure 1.** The Perceived Benefits and Drawbacks of Mandatory Auditor Rotation

Additionally, the respondents delivered some invaluable feedback to improve BPK's implementation of mandatory auditor rotation. The inputs, arguably, could not only enhance auditor independence in fact and appearance but also raise their satisfaction upon the policy, as shown in Figure 2.

The vast majority (59%) of the respondents emphasize that the crucial factor in implementing mandatory auditor rotation is fairness. In other words, they urged that mandatory rotation should be equally undertaken by all auditors at every level or position in the organization. The respondents also reiterated that lack of fairness in a policy implementation would trigger jealousy among auditors and as a result, could adversely affect their performances. A fair rotation pattern, hence, should be robustly implemented. There should be no auditors who continu-

**Figure 2.** Respondents' Inputs to Improve the Implementation of Mandatory Rotation in BPK

ously be switched among different AKN (civil servants) in the head office in Jakarta or, contrarily, no auditors that could be transferred to provinces that are too far from their domiciles. These findings support the previous research conducted by Tan and Lau (2012). They claim that if employees see that all procedures and rules are fairly applied in a company, the job satisfaction level will be higher. As a result, it would lead to happy employees who could perform better in achieving the organization's objectives.

Similarly, 15 percent of the respondents argue that every process in determining an auditor's rotation scheme should be conducted transparently. They urge that BPK should have a grand design about the road map of the auditor rotation. The rotation design, furthermore, could benefit auditors and the institution because, firstly, it could be a tool to enhance the sense of fairness related to the rotation policy. Besides, it could be used as a media for auditors to analyze the rotation pattern and give feedback to the policymakers. Lastly, the auditors have more time to prepare their necessities if they have to be transferred to the next destination in the predetermined time.

Thirteen percent of the respondents, moreover, insist that the mandatory rotation scheme urgently needs a procedural improvement to lessen the possible drawbacks that may occur. Firstly, the respondents ar-

gue that BPK should set a clear maximum and minimum working tenure before an auditor is transferred to another province in Indonesia. The management also needs to consider if the auditor's expertise and educational background would fit the necessities in the new office as one of the rotation requirements apart from the length of auditor tenure. Most importantly, there should be a handover of audit working paper and knowledge transfer processes, not only among the managerial level employees but also from the previous to the subsequent auditors. It could reasonably decrease the steep knowledge gap between the former and new auditors following the rotation.

Furthermore, 8 percent of the respondents point out that the rotation should be followed by additional incentives rewarded to them. The fringe benefit is intended to cover the additional cost that they have to bear because of the rotation policy. The price, moreover, could be intangible and tangible costs. The intangible loss usually comes when auditors must live far away from their families. The condition could lead to homesickness that may adversely affect the quality of auditors' work. The intangible cost, consequently, may increase the tangible expenses such as transportation costs or rental fees. Besides, auditors, who bring their family to the destination of rotation, have to pay additional costs, such as school enrollment fees for their children, rental expenses and freight charges.

The last 5 percent of the respondents, finally, suggest that the institution should take into account their family data as they are transferred to other BPK's offices. For instance, the management may consider adjusting the rotation period with the new academic term for students. Thus, it would be more convenient for parents to find new schools for the children in the new area. Although these factors are extrinsic to work, these elements are

essential and could motivate employees in the working space. These also known as hygiene factors, which are physiological needs that individuals desired to be fulfilled (Herzberg, 1959 as cited in Smerek & Peterson, 2007). If the hygiene factors are met in the workplace, it will lead to higher satisfaction and an increase in employees' performance; hence, influence the auditors' perception that the benefits of mandatory rotation exceed its drawbacks.

## CONCLUSION

Mandatory auditor rotation alone may not be sufficient to enhance their independence, especially in the public sector area. The fact that a mandatory rotation scheme is a prominent debatable topic among professionals and academics reflects an inconclusive opinion on whether the policy could bring more independence to the auditors. Besides, it is notable for taking into account 'auditor satisfaction' in assessing the impact of the implementation of obligatory rotation. As the subject of the policy, auditors are the ones who could determine whether the rotation system could be fruitful for stakeholders or vice versa.

After statistically testing the primary data using the independent-samples t-test, the outcomes show that, firstly, auditors' independence in appearance will increase after the implementation of the mandatory rotation. It means that the limited tenure caused by the rotation policy would raise a public perception that auditors would independently conduct their jobs without committing any "over-cozy" relationship with their clients. Moreover, the increase of independence in appearance would be necessary for BPK as the public would trust the credibility of the institution and rely on the audit reports produced by the organization.

On the contrary, auditors perceive that their independence in fact will not be different even though they are rotated to different representative offices. In other words, mandatory rotation alone could not be enough to improve auditors' independence in fact. Because independence in fact is a person's state of mind, which allows him to act with integrity, objectivity, and honesty; thus, the ethical standards should be upheld whenever an auditor conducts his tasks. As a result, the rotation policy should be complemented by other schemes to gain more independence in fact for auditors, such as optimizing code of ethics by conducting regular ethical training, strengthening internal control systems, and promoting a whistleblowing mechanism.

The second finding of the study shows that different levels of auditor satisfaction upon the rotation policy will differentiate their perceptions related to the benefits and drawbacks of the scheme. Auditors who are satisfied with the implementation of mandatory rotation policy in BPK will consider that the plan brings more benefits than drawbacks, and vice versa. The outcome is arguably a novel finding related to the perceived impacts of mandatory auditor rotation schemes from the viewpoint of auditor satisfaction. Since the comfort of auditors can affect their performance, it is crucial to consider improving their satisfaction level toward the implementation of the rotation mechanism. Furthermore, although some auditors are not comfortable in obeying the mandatory rotation policy, the vast majority of them strongly believe that BPK needs to implement the rotation scheme since they contend that the benefits brought by the rotation system outweigh its drawbacks.

Some valuable inputs, therefore, are given by the respondents to improve the mandatory rotation. The feedbacks are, firstly, all auditors should be treated fairly and equally under the rotation policy. Arguably, if the em-

ployees consider that all procedures and rules are fairly applied in a company, the job satisfaction level will be higher. It would lead to happy employees who could perform better in achieving the organization's objectives. Moreover, BPK should develop a grand design on the road map of auditor rotation; thus, the rotation pattern is transparently communicated to all auditors. In addition to increasing the sense of fairness, the rotation road map could also be utilized as a control mechanism among auditors and policy makers in BPK.

Thirdly, some respondents suggest a robust procedural improvement in implementing the rotation. For example, setting a clear maximum and minimum working tenure before the rotations of the auditors; taking into account auditors' expertise and interest; organizing the process of knowledge transfer and handover current working papers among the predecessor and successor.

Fringe benefits also become an element to support auditor satisfaction when they have to move to other provinces in Indonesia. The additional incentives are intended to cover the extra costs incurred because of the rotation policy, such as the school enrollment fee for children, rental expenses, and freight charges. Finally, the decision-maker in BPK should take into account the data of auditors' family as a consideration before transferring them to a new destination. For example, auditors would be more comfortable moving to another province with their family, if they were provided the time of the transfer approximately coincided with the beginning of the new academic year for students.

The above factors are extrinsic to work; nevertheless, they are physiological needs that individuals desire to be fulfilled. The elements are essential and can motivate employees in the working space. On the other hand, if such factors do not exist in the



workplace, it will lead to dissatisfaction and poor employees' performance.

The results could contribute to renew the implementation of mandatory rotation policy in BPK. The inputs from the respondents are required to redesign the rotation scheme, which will increase auditor independence and accentuates their satisfaction, which leads to higher performance. Besides, this study is expected to support the literature on how mandatory auditor rotation could affect auditor independence in fact and independence in appearance by providing empirical evidence in a public sector institution. Accordingly, Dattin (2017) argues that it is essential to enrich existing literature on how crucial it is to implement mandatory auditor rotation since evidence to corroborate the assertion needs to be collected from diverse environments. The study could also contribute by providing evidence on how auditor satisfaction affects their perceived benefits and drawbacks of the rotation scheme in the public sector area.

The limitation of this study is the limited data that is used and examined. Future research that utilizes more data from auditors with various job positions would be necessary and the feedback given from the respondents can be more rigorous. Moreover, the study is conducted in BPK; the author does not make sure if the result can be appropriately applied in other governmental audit institutions since the distinct characteristic of rotation and authority they may have.

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## APPENDICES

### Appendix 1. Research Variables in the Questioners

Variables	Question Type	Number of Questions	Respondents
<b>Auditor Satisfaction</b>			
Preferable destination	close-ended question	1	Group 2
Fairness and justice	close-ended question	1	Group 2
Proper incentives	close-ended question	1	Group 2
<b>Benefits of MAR*</b>			
Improve auditor independence			
Independence in fact	close-ended question	3	Group 1
			Group 2
Independence in appearance	close-ended question	4	Group 1
			Group 2
Bring fresh eyes	close-ended question	1	Group 2
Watchdog mechanism	close-ended question	1	Group 2
Incentives for auditors	close-ended question	2	Group 2
<b>Drawbacks of MAR*</b>			
Limited impact on 'independence in fact'	close-ended question	1	Group 2
Increase the risk audit failure	close-ended question	1	Group 2
Increase cost	close-ended question	1	Group 2
	open-ended question	1	Group 2
Reduce specialisation and familiarity	open-ended question	1	Group 2
<b>Benefits vs Drawbacks of MAR*</b>	open-ended question	4	Group 2
<b>Total Questions</b>		23	

**Appendix 2.** General Information of the Respondents

Variables	Criteria	Group 1		Group 2	
		Total	%	Total	%
Gender	Male	21	43%	34	64%
	Female	28	57%	19	36%
Age	20-30 years	45	92%	3	6%
	31-40 years	4	8%	35	66%
	41-50 years	0	0%	14	26%
	> 51 years	0	0%	1	2%
Job position	Team member ( <i>Pemeriksa pertama</i> )	47	96%	13	25%
	Team leader ( <i>Pemeriksa muda</i> )	2	4%	31	58%
	Controller ( <i>Pemeriksa madya</i> )	0	0%	9	17%
Working tenure at BPK	0-5 years	47	96%	3	6%
	6-10 years	2	4%	15	28%
	11-15 years	0	0%	26	49%
	16-20 years	0	0%	3	6%
	>20 years	0	0%	6	11%
Educational level	DI/DIII	0	s	1	2%
	S1/D4	45	92%	28	53%
	S2	4	8%	24	45%
Number of rotation Experienced	Once	-	-	18	34%
	Twice	-	-	15	28%
	3 times	-	-	15	28%
	4 times	-	-	2	4%
	>4 times	-	-	3	6%

**Appendix 3.** The output of independent-samples t-test to answer the Research Question 1

Independence	Auditor	N	Mean	Std. Deviation	Std. Error Mean
Independence in Fact	Group 1 (no experience of MAR*)	49	11.88	1.986	.284
	Group 2 (experienced the MAR)	53	11.06	2.538	.349
Independence in Appearance	Group 1 (no experience of MAR*)	49	13.53	2.959	.423
	Group 2 (experienced the MAR)	53	15.53	2.873	.395

**Appendix 4. Independent-Samples test**

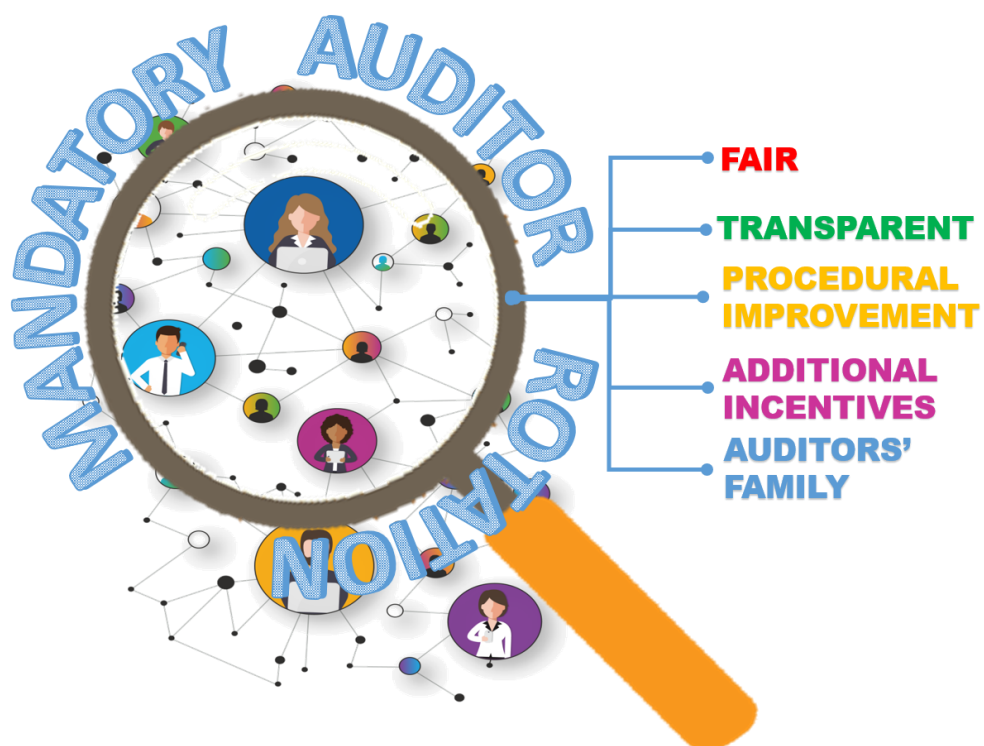
		Levene's Test for equality		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2- tailed)	Mean Differ- ence	Std Error Differ- ence	95% Confidence Interval of the Difference	
									Lower	Upper
Independence in Fact	Equal variances assumed	3.112	.081	1.809	100	.073	.821	.454	-.079	1.721
	Equal variances not assumed			.1.827	97.404	.071	.821	.449	-.71	1.713
Independence in Appearance	Equal variances assumed	.095	.758	-3.459	100	.001	-1.998	.578	-3.144	-.852
	Equal variances not assumed			-3.455	98.834	.001	-1.998	.578	-3.145	-.850

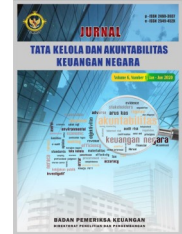
**Appendix 5. The output of independent-samples t-test to answer the Research Question 2**

	Auditor Satisfaction	N	Mean	Std. Deviation	Std. Error Mean
Benefit	Not satisfied	31	39.74	5.215	.937
	Satisfied	22	42.86	4.794	1.022
Drawbacks	Not satisfied	31	13.10	2.211	.397
	Satisfied	22	11.59	2.754	.587

**Appendix 6. Independent-Samples test**

		Levene's Test for equality of variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2- tailed)	Mean Differ- ence	Std Error Differ- ence	95% Confidence Interval of the Difference	
									Lower	Upper
Benefit	Equal variances assumed	.359	.552	-2.219	51	.031	-3.122	1.407	-5.946	-.298
	Equal variances not assumed			-2.252	47.590	.029	-3.122	1.386	-5.910	-.334
Drawbacks	Equal variances assumed	.093	.762	2.205	51	.032	1.506	.683	.135	2.877
	Equal variances not assumed			2.124	38.908	.040	1.506	.709	.072	2.940





## **MEASURING SUSTAINABILITY PERFORMANCE IN UNIVERSITY: IS IT POSSIBLE TO IMPLEMENT SUSTAINABILITY ACCOUNTING IN PUBLIC SECTOR ORGANIZATION?**

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### **ABSTRACT**

This study aims to identify the ability of non-business organizations to implement the concept of sustainability accounting and to measure the organization's sustainability performance. The object of this study is higher education institutions (public universities). This study used a qualitative paradigm with data collection techniques and using the document analysis method. The data used is the university's sustainability report and relevant documents. The methods used to analyze sustainability performance is the GASU method and the STARS System. The results of this study found that public university organizations can apply the concept of sustainability accounting and have a very high capability to implement the concept of sustainability accounting. This study also identified the challenges in the implementation process of sustainability accounting in public sector organizations, particularly in higher education institutions.

### **KEYWORDS:**

The GASU method; sustainability performance; sustainability accounting; the STARS system

**DOI: 10.28986/jtaken.v6i1.376**

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### **ARTICLE HISTORY:**

**Received at** : 15 October 2019

**Published at** : 28 June 2020

## INTRODUCTION

Sustainability accounting has created a new paradigm in the development of accounting systems in the business organization. The sustainability accounting concept has changed the perspective of our business ecosystem and the entire accounting system. A report from Lamberton (2005) stated that the concept of sustainability accounting emerged in the early 1990s and the development of this concept increased continuously until the advent of Sustainability Reporting Guidelines in 2002. Conceptually, the concept of sustainability accounting can be interpreted as a tool or technique that can be used by the company's management to help the companies become more sustainable. The word "sustainable" here means that the transformation in the company's accounting system in which the companies move from "traditional accounting" into an accounting system that focuses on economic information, social information, and environmental information. This transformation process will impact the company's business activities, for example, the management's decisions will not only focus on the financial impact but also the business impact for the social community and the environmental concern. Through this concept, the private companies will release their financial information and non-financial information through the company's sustainability report.

Brown, DeJong, and Levy (2009) stated that to build a responsible business institution, the company's management should disclose their comprehensive information (financial information and non-financial information) to their stakeholders. Caldwell (1998) said that the sustainability concept should be human ethics and this concept is important to protect the earth from the massive exploitation. Based on Caldwell's (1998) perspective, the sustainability concept should be the ethics in the business system and the companies

have a big responsibility in the context of sustainability.

The concept of sustainability accounting has developed as an interesting issue that has been discussed by professional accountants. The problem with conventional accounting is the conventional accounting does not have enough capability to measure the company's activities that are not quantitative, although these activities can add value to the company. Examples of these activities are the impact of business activities on social communities and the environment, the company's relationships with customers, a strong commitment of employees, and a high motivation by the company's management. This information is important for the company's stakeholders. The concept of sustainability accounting will disclose this type of information properly to the company's stakeholders. The role of the organization's stakeholders will determine the quality of the implementation of the sustainability accounting concept in an organization. Research from Kaur and Lodhia (2018) showed that the company's stakeholders had an important role in the implementation of the sustainability reporting process, releasing the social and environmental information, the development of strategic plans and sustainability indicators, the process of sustainability performance assessment, and preparation for its sustainability report. Dragomir (2011) created the initial framework for accounting for the sustainability concepts and this research was important to support sustainability accounting.

Farneti and Guthrie (2009) explained that research about social and environmental accounting, also the sustainability concepts in the accounting system mostly focused on private companies or organizations rather than public sector organizations. The concept of sustainability accounting is now widely applied, especially in business organizations

with a strong commitment to implement the concept of sustainability. This is an opportunity for accounting research to examine the implementation of sustainability concepts in public sector organizations. Ball (2005) examined the environmental accounting practices in UK local government and the connection with sustainable development. Adams, Muir, and Hoque (2014) have created the measurement of sustainability performance in the public sector and suggested to examine the sustainability practice in the public sector. Kaur and Lodhia (2016) examined the factors that influence the stakeholder's engagement in sustainability accounting and sustainability reporting in the public sector and suggested to create further research in this context.

The public university is an example of an organization that can apply a sustainability accounting system. The process of sustainability performance assessment is the first process to determine the ability of an organization to implement the concept of sustainability accounting. Adams et al. (2014) stated that all organizations could implement the concept of sustainability accounting in business activity. Research from Alshuwaikhat, Adenle, and Saghir (2016) examined the development of sustainability reporting in public universities in Saudi Arabia. The result found that the public university needs more support to release its sustainability reporting and the university's management had a high commitment to release its comprehensive information. Lange and Kerr (2013) stated that several accounting processes in higher education environments created obstacles to the application of the concept of sustainability at the university.

SASB (Sustainability Accounting Standards Board) has released its standards or guidelines on the implementation of the concept of sustainability accounting for business organizations and non-business organizations.

The standards or guidelines show that more and more organizations committed to implementing the concept of sustainability accounting for their activities. These policies are not only prepared for the business organization but this policy also for non-business organizations. The perfect way to support the implementation process of the sustainability accounting concept is by establishing the appropriate guidelines for the organizations. The process of implementing the sustainability accounting concept does not mean replacing the accounting system that has been applied by the organization. The implementation process of sustainability accounting in an organization must consider the accounting system currently applied in the organization and the characteristics of the organization (Adams et al, 2014).

Adams (2013) provided a perspective on sustainability reporting and performance management in public universities. Based on the research, the process of sustainability reporting and performance management in public university can improve the information accountability from the university's management to their stakeholders. It also increases management performance. The sustainability concept can be integrated with the internal activities of the university so that it can promote the implementation of the sustainability concepts in the institution. Research from Farneti and Guthrie (2009) tried to explain the development of sustainability reporting and the reason why the public sector organizations should report their non-financial information. Through the semi-structured interviews, the research found that sustainability reporting in Australian public sector organizations was prepared using the latest Global Reporting Initiative (GRI) guidelines and the internal stakeholders were the groups that used the sustainability report mostly. The information on the sustainability report can be used by external stakeholders. The biggest challenge in the

implementation of the sustainability concept in public sector organizations is how to improve the support from the external stakeholders.

Too and Bajracharya (2015) examined the crucial factors to engage the university community in the sustainability concept. That research created the initial frameworks to help the university's management support their communities in sustainability. Research from Too and Bajracharya (2015) showed that organizational culture was the main factor to support the implementation of the sustainability concepts in public universities. To support the sustainability concept in public universities, it is important to integrate the university's curriculum with the sustainability concept. Research from Dmochowski, Garofalo, Fisher, Greene, and Gambogi (2016) said that nowadays the public university and the educational organization had a big mandate and motivation to integrate their curriculum with the sustainability concept. Integrating the university's curriculum with the sustainability concept is the perfect way to promote the sustainability concept to the students. In this way, the next generation will understand the sustainability concept and its purposes. Perspective from Adams, Martin, and Boom (2018) said that the university culture had a high correlation with the implementation of the sustainability concept. This research has created an important framework to support the university's sustainability culture. Based on the research result, the university's management should realize that the university's culture is an important factor to support the sustainability culture in the internal university. This is evidence that the organizational culture (the university culture) has a high connection with the implementation of the sustainability concept in the internal university.

Research from Dyball, Wang, and Wright (2015) using the staff in the business faculty

in Australia showed that staff engagement was an important factor to support the implementation of the sustainability concept in public universities. The result provides empirical insights into the reason why the staff does not support the sustainability concept in their university. The internal engagement (staff engagement) is an important factor to support the process of implementing the sustainability concept.

Based on the previous literature, this study aims to examine the possibility of implementing sustainability accounting in public sector organizations. This study is going to give the result from sustainability performance assessment in public sector organizations particularly in public universities in Indonesia and the opportunity to implement sustainability accounting. Research in sustainability accounting in public universities is still limited in Indonesia. This study is expected to contribute to the implementation of policies related to sustainability accounting in public sector organizations.

## RESEARCH METHOD

The study was based on the viewpoint of a qualitative paradigm. The qualitative perspective was used to receive a comprehensive understanding of the research object and research purposes. This study design refers to the design of the research conducted by Kaur and Lodhia (2018) which used the case study research design. The process of assessing sustainability performance is using the Graphical Assessment of Sustainability in Universities (GASU) method, developed by Lozano (2006). This study also using the Sustainability Tracking, Assessment, and Rating System (STARS) system developed by The Association for the Advancement of Sustainability in Higher Education (AASHE). The research framework in this study is formed through the understanding that the



concept of sustainability accounting can be applied to all organizations, both business organizations, and non-business organizations.

Data used in this study are the university's annual reports, guidelines, and regulations related to financial management, and guidelines and the rules relating to the university's policy on social and environmental fields. This study used two universities, namely Universitas Indonesia and Universitas Pendidikan Ganesha. This study used the Universitas Indonesia as the object because the Universitas Indonesia was the first public university in Indonesia that disclosed its sustainability report. Universitas Indonesia has published a sustainability report in 2018. The Universitas Pendidikan Ganesha has not published a sustainability report yet, but already has some documents and reports that show the university's concern for the application of the concept of sustainability. From the initial interview with the university's management, this university has a high effort to implement the sustainability concept and the university has a research program that focuses on the sustainability context.

This study used the GASU guideline because the method had become the main guideline that could be used to assess the sustainability performance of a university. The GASU method was a pioneer as a tool to measure the sustainability performance of the university. The results of measurements using the GASU model will be compared with the measurement results using the STARS system. The STARS system is also used in this study because (1) STARS system provides a clear framework for understanding sustainability performance, especially in the higher education organization, (2) performance measurement results can be compared with some of the sustainability performance of another educational organization, and (3) this model provides input and suggestions

for the development of its sustainability performance in the future.

## RESULT AND DISCUSSION

### **Identification the Sustainability Performance Using the GASU Method and STARS System**

The first step is to assess whether the sustainability performance of Universitas Indonesia and Universitas Pendidikan Ganesha is at a good level or not. The results of this step are important as a basis in the context of the disclosure of financial information and non-financial information in a university's sustainability report. If the organizations have a high sustainability performance, then the organization will motivate to further expand the disclosure of their financial information and non-financial information on its sustainability report and this process is important for the decision-making process by the university's stakeholders.

This study used the secondary data from the university's official website and the related reports or documents that had been published by the university (particularly the university's sustainability report) to perform the analysis using the GASU model. Lozano (2006) stated that the GASU indicators that had been developed would provide a systematic assessment process and the results could be used as a basis for the preparation of the university's sustainability report. In general, the GASU model has five indicators to measure sustainability performance, namely profile indicator, economic indicator, environmental indicator, social indicator, and educational indicator. Based on the GASU guideline, the performance indicators values are 43 for the profile indicators, 9 for the economics indicator, 30 for the environmental field, 40 for the social sector, 29 for education indicator, and 23 for the field of

interlinked issues and dimensions (Lozano, 2006).

Each of the indicators on the GASU guideline is analyzed using the following guidelines:

1. A value of 0 is given if the relevant information does not exist or no indicator found in the university's sustainability report or the relevant documents;
2. A value of 1 is given if the information reflects poor performance. The information is general and not detailed;
3. A value of 2 is given if the information stated regular/fair performance. The information is general perspective and still discussing half of the topic, and not detailed;
4. A value of 3 is given if the information stated good performance. The information already is detailed and includes the issues in the context of related indicators;
5. A value of 4 is given if the information stated excellent performance. The information presented is complete and detailed to one indicator.

The STARS system also used to analyze the university's sustainability report. Generally, there are five categories of performance measurement of sustainability based on the STARS system model, namely (1) academics (AC), (2) engagement (EN), (3) operations (OP), (4) planning and administration (PA), and (5) innovation and leadership (IN). The academics category is describing the indicators of sustainability in the context of the process of education and teaching at the university. The engagement category explains sustainability indicators in the context of a university with the university students and the relationship with the social community. Operations category is describing indicators of sustainability in the context of university operations and category planning and administration describes the indicators in the context of the planning and administration of the university. The innovation and leader-

ship category describe the sustainability indicators in the context of innovation and public leadership conducted by the university. Some of these categories will be divided into several subcategories which will demonstrate the university's sustainability performance indicators.

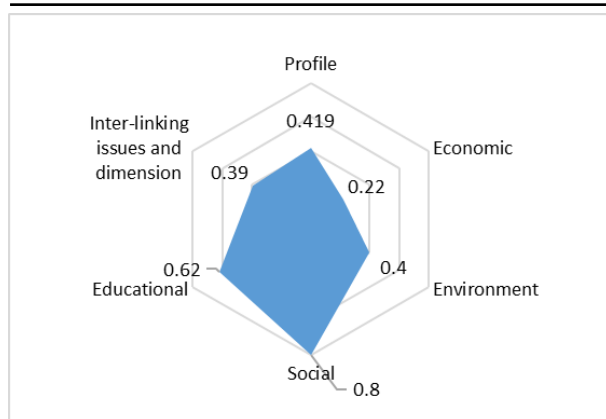
### **The Result of the Sustainability Performance of Universitas Pendidikan Ganesha**

The results of the sustainability performance from Universitas Pendidikan Ganesha based on the GASU guideline and assessment guidelines are presented in Table 1 and Figure 1.

**Table 1.** Sustainability Performance Analysis of Universitas Pendidikan Ganesha based on GASU Method

Sustainability Performance	Information Percentage	Information Ratio
Profile	41.9%	0.419
Economic	22.0%	0.220
Environmental	40.0%	0.400
Social	80.0%	0.800
Educational	62.0%	0.620
Inter-linking and dimensions	39.0%	0.390

Based on the general chart produced from the analysis, it can be concluded that the Universitas Pendidikan Ganesha already has a good sustainability performance. A good university sustainability performance is shown in the social field and the field of education, in particular, the creation of a healthy work environment practice, the recognition of human rights, curriculum development, and research related to the topic of sustainability. This is in line with the characteristics of the university's business which has more performance in the social field. Universities must focus on improving performance in the environmental field to improve the performance of sustainability in the future.



**Figure 1.** General Chart of The Sustainability Performance Analysis of Universitas Pendidikan Ganesha Using GASU Method

The next sustainability performance measurement used is the STARS system. The STARS system performance measurement focuses on measuring the performance of sustainability in higher education institutions. The performance measurement indicators at the STARS system are intended to assess the sustainability performance of organizations in the education sector. The content analysis method is used in this stage to examine the report and the university's document and analyze that information is contained in the checklist of sustainability performance indicators. The content analysis method is used by looking at a checklist of indicators and seeking the information on the reports and the university's documents. If the information contained in the report or the university's documents, it will be given a value following the STARS system guideline.

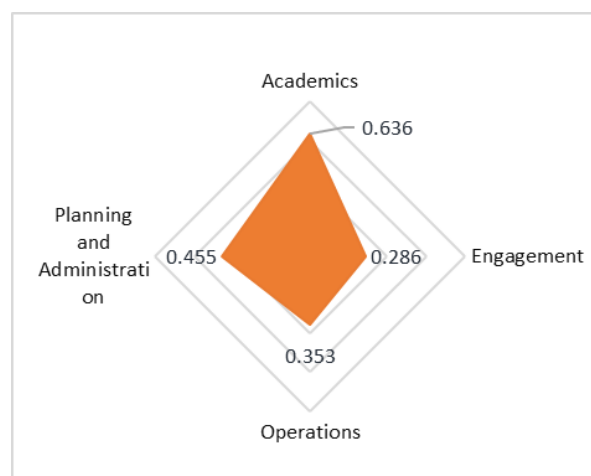
The results of the sustainability performance from Universitas Pendidikan Ganesha based on the STARS system are presented in Table 2 and Figure 2. Based on the STARS system analysis, the university has good performance in academics categories with the information ratio is 0,636. From the academic perspective, the university has developed enough curriculum to introduce the sustainability concept. The scientist from the university also published some research in the sustainability context. The university's ma-

agement should improve the university's performance, particularly in the context of an operation. The university should consider publishing internal guidelines related to the implementation of the sustainability concept. In the future, the university's management should improve its performance in the environmental and operations field.

**Table 2.** Sustainability performance analysis of Universitas Pendidikan Ganesha based on STARS system

Sustainability Performance	Information Percentage	Information Ratio
Academics	63.6%	0.636
Engagement	28.6%	0.286
Operations	35.3%	0.353
Planning and administration	45.5%	0.455

Research from Findler et al. (2019) examined the main impacts of higher education institutions in the sustainable development context. The university's management can focus on social performance and environmental performance to support sustainable development. The university's management should realize that the university organization has an important role to support the society to become a sustainable society.



**Figure 2.** General Chart of The Sustainability Performance of Universitas Pendidikan Ganesha Using the STARS System

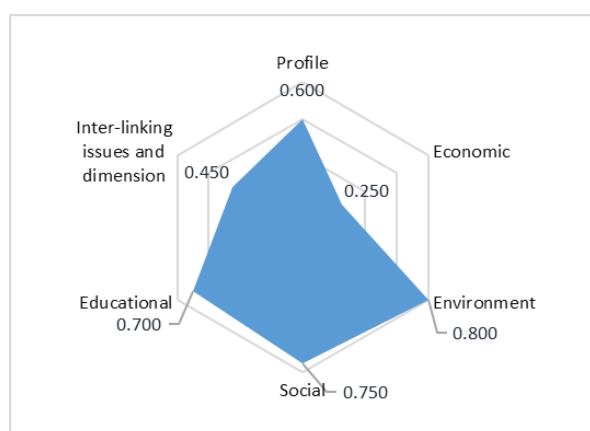
## The Result of the Sustainability Performance of Universitas Indonesia

The sustainability performance from the Universitas Indonesia was analyzed based on information submitted in the university's sustainability report in 2018. The content analysis method is used for analysis and this analysis process also used the GASU method and the STARS System model. The results of the sustainability performance analysis from Universitas Indonesia based on the GASU method have been presented in Table 3 and Figure 3.

**Table 3.** Sustainability Performance Analysis of Universitas Indonesia based on GASU Method

Sustainability Performance	Information Percentage	Information Ratio
Profile	60.0%	0.600
Economic	25.0%	0.250
Environmental	80.0%	0.800
Social	75.0%	0.750
Educational	70.0%	0.700
Inter-linking and dimensions	45.0%	0.450

Based on the analysis of sustainability performance with the GASU method, this study showed that the sustainability performance of the Universitas Indonesia in the social sphere, education field, and the environmental field has a high value.



**Figure 3.** General Chart of The Sustainability Performance Analysis of Universitas Indonesia Using GASU Method

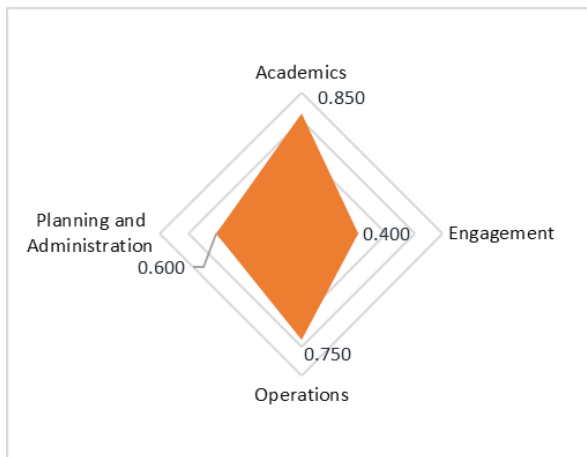
It can be seen from the comprehensive information presented in the university's sustainability report where the most information presented is information on university performance on social and environmental fields. Information on environmental performance has the highest percentage. This indicates that the university's management has had a strong commitment to environmental issues. On social and education performance, the university's management has disclosed information about community service activities that have been performed, the university's curriculum that has been integrated with the concept of sustainability, and the budget for sustainability research.

The sustainability performance analysis using the STARS system also reflects the same result. As shown in Table 4 and Figure 4 the Universitas Indonesia has a high performance in the academics and operations field.

**Table 4.** Sustainability performance analysis of Universitas Indonesia based on STARS system

Sustainability Performance	Information Percentage	Information Ratio
Academics	85.0%	0.850
Engagement	40.0%	0.400
Operations	75.0%	0.750
Planning and administration	60.0%	0.600

The university's management has developed the perfect curriculum integrated with the sustainability concept. The purpose of this integrated curriculum is to build the initial awareness about the sustainability concept for the students and develop the sustainability concept in the social community. The university also has a high effort to build its internal operating system based on the sustainability concept. The university's management has developed the waste management system and create the framework of using renewable energy for the university's operation process. It means the university's ma-



**Figure 4.** General Chart of The Sustainability Performance of Universitas Indonesia Using the STARS System

nagement has a high effort to implement a good environmental system. The level of the university's environmental system will connect with the university's environmental performance. If the university has a high university environmental system, therefore the university will have a high environmental performance in its internal activities.

### **Is It Possible to Implement the Sustainability Accounting Concept in Higher Education Institution (Public Sector Organization)?**

The sustainability performance analysis by using the GASU model and the STARS System described that Universitas Indonesia and Universitas Pendidikan Ganesha had a high sustainability performance. The results showed that both universities had a sufficient ability to implement the sustainability accounting concept in the organization activities. The assessment process of sustainability performance is important to assess the ability of an organization before implementing the concept of sustainability accounting to the internal organization. In general, the university's activities, including in the education field, do not produce negative externalities to the university's stakeholders.

The absence of adverse effects on the social community and environment caused by the university's activities is evidenced by the high performance on environmental performance indicators and social performance indicators. These results indicate that a university or higher education institution may implement the concept of sustainability accounting with a focus on environmental performance and social performance. To improve the performance quality in the field of the environment, the university's management can practice the measurement of environmental costs contained in the internal activities of the university. The recognition of the environmental costs will show a high commitment to the university's management to develop the university's sustainability performance.

Research from Vargas, Mac-Lean, and Huge (2019) has identified the four stages to implement the sustainability concept in the internal university. These stages are emergence, popularization, formalization, and maturity. Based on this research result, the implementation process of the sustainability concept in the research object is still in the popularization stage. It means the university's management should release their high effort to promote the sustainability concept in their university.

The university's management can develop the concept of corporate social responsibility. This concept can be the initial concept for university social responsibility. The concept of university social responsibility means that the university has a real contribution to the wider social community and the impact of this process is the university's management should prepare the budget for the university social responsibility in their budgeting process. This social budget reflects the commitment from the university's management to its social community. Hasan and Yun (2017) found that the organization's so-

cial responsibility had a positive correlation with the organization's reputation. It means if the university prepares a high amount of the social budget and use this budget for the real contribution to the social community, the reputation of that university will increase significantly.

The university's management can disclose their financial information and non-financial information through the university's sustainability report. The previous research showed that the university (as a non-business organization) had enough resources to create the sustainability report. Research from An, Davey and Harun (2017) found that the public university in New Zealand had disclosed its sustainability report, unfortunately, this process needed the support from the wider stakeholders to increase the process quality. Research from Gamage and Sciulli (2017) examined the development of sustainability reporting by Australian universities and found that the development process needed support from the social community. Based on this research result, the university's stakeholders have an important role to help the university's management to prepare and develop their sustainability report. The sustainability report has a high role in the context to maintain the relationship between the university's management and its stakeholders. The university's sustainability report is an "information bridge" to transfer the internal information from the university's management to its important stakeholders.

In the future, the university's management also prepares for its integrated reporting process. Integrated reporting is the "evolution" from the organization's reporting process which contains more comprehensive information about the organization's performance (including financial performance and non-financial performance). Previous research from McNally, Cerbone, and Maroun (2017) examined the challenges of preparing the

integrated report. The policy-maker can use this research result to develop the appropriate guideline for the integrated reporting process. Today, public universities can hold an important role to be a pioneer in the context of reporting. The public university is the role model for the other organization to disclose financial information and non-financial information. By disclosing the comprehensive information (financial information and non-financial information), the public university can improve the quality of their transparency and accountability. This process will improve the reputation of the organization and this process will promote sustainability reporting in the higher education ecosystem. The process of implementing sustainability accounting concepts needs support and commitment from the university's management. The commitment to implement a sustainability accounting concept can be written in the organization's vision and mission. Thus, all the university's internal stakeholders will know this commitment. It is important to promote the implementation process to all internal stakeholders and increase the participation from the internal stakeholders to support the implementation process.

The university's management should also improve the internal stakeholder engagement (staff engagement) to support the implementation process of the sustainability concept. Research from Dyball et al. (2015) suggested to the university's management to improve their staff participation in the implementation of the sustainability concepts in the university. The university's internal stakeholders have an important role in the implementation process and the university's management should give appreciation for the internal stakeholders if the implementation process is successful. The university's internal stakeholders can be divided into the lecturers, the students, and the department staff. Each group in the internal stakeholders

should have the same participation level to support the implementation of the sustainability concepts in their internal university. The internal stakeholders should commit to support the implementation of the sustainability concept in the university. This commitment can help the university's management to create an organizational culture that supports the implementation of the sustainability concept. For supporting this statement, this study has analyzed the sustainability report from Universitas Indonesia and found the statement said

*"There are 59 student organizations related to sustainability, with 198 events related to sustainability. More than 300 scholarly publications on sustainability are published."*

and

*"About 160.920.652,793 rupiah (27% from total fund) is dedicated to sustainability research."*

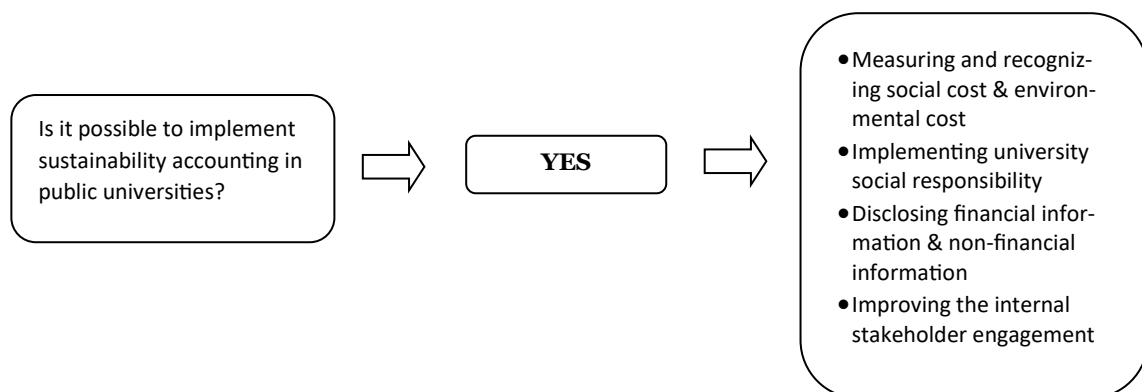
That statement shows that Universitas Indonesia gives a high participation level to its students to participate in a sustainability concept. The university's students will know about the sustainability concept and try to implement the concept in their activities. This is an example of how the university's internal stakeholders promote the sustainability concept in their academic community. The university's management also has a high concern in sustainability research. This university has allocated 27 percent of the research fund to support sustainability re-

search. It will improve the quality of sustainability research and can help to promote the concept to the outside academic community. Through research, the sustainability concept will be developed and the research result will have a real contribution to the social community and the environment condition.

The author conducted a semi-structured interview with the university's management from Universitas Pendidikan Ganesha to receive a comprehensive perspective about the implementation of sustainability accounting in public universities. The university's management said

*"We believe that sustainability accounting is an important tool for the future. We realize that the university has a big responsibility for the social community and the environment. We need to measure and recognize our social cost and, in the future, we have a high commitment to disclose our comprehensive information through the university's sustainability report."*

Based on the statement, it can be concluded that the university's management realizes that sustainability accounting is an important element in the future. Using the sustainability accounting concept, the university's management can measure and recognize its social cost and environmental cost. The sustainability accounting concept could also help the university's management to disclose its comprehensive information (financial in-



**Figure 5.** How to implement sustainability accounting concept in public university

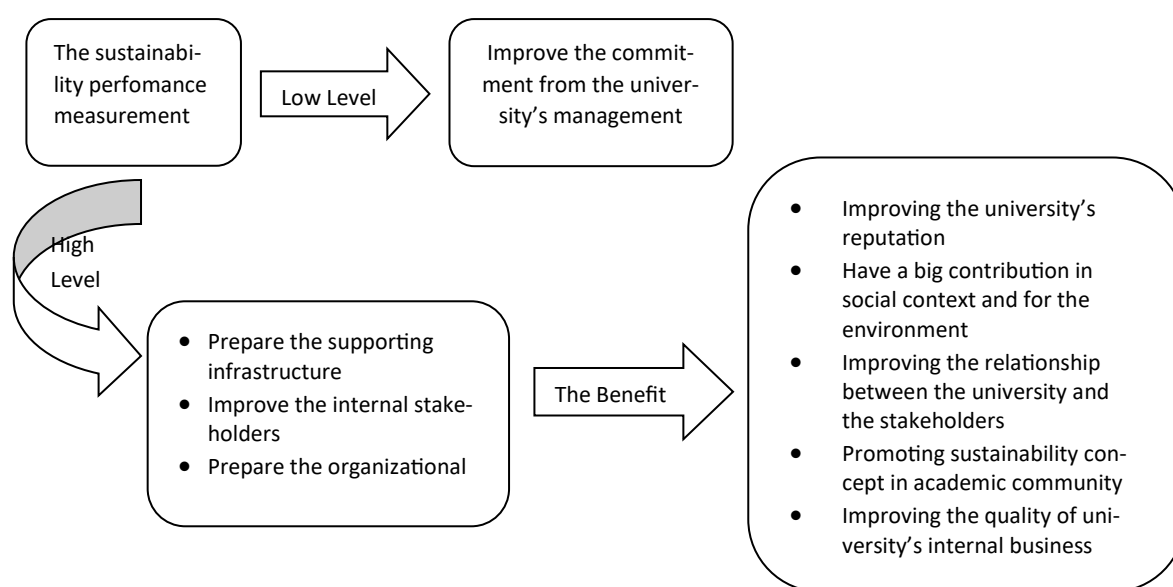


formation and non-financial information). Universitas Pendidikan Ganesha has launched the green campus program which divided into several programs, for example, the commitment to reduce plastic waste and improving the participation from the university's stakeholders to protect the environment.

Figure 6 is the diagram to explain the connection between sustainability performance measurement and the implementation of sustainability accounting in the public university. The diagram begins with the first stage, namely the measurement of sustainability performance. In this stage, university management can use several methods to check their sustainability performance (generally university management will use the GASU method and the STARS System method). The university's sustainability performance consists of three dimensions, financial performance, social performance, and environmental performance. Measurement of sustainability performance will provide information to university management, whether the university has a low or high level of sustainability performance. If the measurement of sustainability performance

shows that universities have a low level of sustainability performance, that means university management must increase their commitment to applying the concept of sustainability. The commitment of university management is the starting point for applying the concept of sustainability. If the measurement of sustainability performance shows that the university has a high level of sustainability performance, this is good news for university management. For completing the high sustainability performance, the university's management should prepare the supporting infrastructure, improve the role of internal stakeholders in the context of sustainability, and prepare the organizational culture.

As for the supporting infrastructure, university management can create special sections or special departments to handle the university's sustainability performance. Some universities have specialized departments that are responsible for ensuring the implementation process of the concept of sustainability. University management can also release specific guidelines to support the implementation process. The role of the university's internal stakeholders is crucial for the imple-



**Figure 6.** the sustainability performance measurement and the implementation of sustainability accounting in the public university



mentation process. It is important because the engagement process of internal stakeholders can support the implementation process. The university's management also needs to prepare the organizational culture for the implementation of sustainability accounting. This means that every section in the organization understands with the sustainability concept and the university's management has a big responsibility to ensure it. After the implementation of sustainability accounting, the university will receive the benefits.

This study has identified some benefits for the university if the university's management has a high level of sustainability performance. The first benefit is improving the university's reputation in the academic community. It means that the university has a big contribution to the social community and the environment. Every university in Indonesia has created a specific budget for the community service program and this policy is important to improve the role of the public university in a social community. This study interviewed the accounting staff at Universitas Pendidikan Ganesha to receive another perspective about the university's community service program. The statement obtained is

*"Each year, the university has created a specific budget for the community service program. We do not understand the social cost (and also sustainability accounting). There are no guidelines about sustainability accounting for the public university. We realize that the budget for the university community service is a social investment from the university in the future to build our local community."*

Based on this statement, it can be concluded that the university's management has a high effort to help the social community through its budget decision. That budget is the investment from the university (university's social investment) to build the quality of the local community. The next benefit for the universi-

ty is improving the relationship between the university's management with its important stakeholders. Disclosing the comprehensive information through the university's sustainability report will help this process. The university's stakeholders can use comprehensive information in the university's sustainability report in the context of the decision-making process. The comprehensive information will help the university's stakeholders produce their decision and will improve the decision's quality.

The next benefit is the university will help to promote the sustainability concept in the academic community. The members of the academic community will have enough knowledge about sustainability (also sustainability accounting) and the result is the other universities will implement the sustainability accounting concept. The last benefit is the implementation of sustainability accounting will improve the university's internal business. The university's management will concern with the university's social and environmental performance, recognize and measure the university's social cost and the environmental cost, and push each department in the university to disclose their comprehensive information. These benefits are important for the university and the university's stakeholders.

The study also identifies the obstacles and challenges in the implementation process of sustainability accounting in the higher education institution. First, there are no standards or guidelines in the application of the sustainability accounting concept for the university is a major challenge in the application of this concept. Some of the organizations concerned in the development of sustainability accounting concepts, for example, the SASB, have issued guidelines and standards for the implementation process of sustainability accounting at higher education institutions. Problems can arise when the guideline or guidance is not suitable for the characteristics of higher

education institutions in Indonesia. Different characteristics may cause special standards or guidelines can not be applied to universities in Indonesia. Based on this fact, it is important to build a specific standard for the public university in Indonesia. This is a small step to promote the implementation of the sustainability accounting process in a higher education institution. The policy-maker should realize and understand that promoting sustainability concept is important for the next generation. The university's management should take this crucial role and start to promote the sustainability concept in its internal organization.

Second, the university's stakeholder groups have not put serious attention to university to apply the concept of sustainability accounting. Previous research, for example, Amran and Keat Ooi (2014), Bradford, Earp, Showalter, and Williams (2017) also O'Dochartaigh (2017), found that the presence of pressure or request from the organization's stakeholders for their organizations to disclose information in a sustainability report to be one of the crucial factors that drove the management's organization to prepare a sustainability report. A stakeholder group is an important group that supports the implementation of the sustainability accounting concept. The stakeholder group can request comprehensive information (financial information and non-financial information) to the university's management for supporting this implementation process. This initial step will impact the university's internal activity. Each part and section in the internal organization will prepare the specific information and this information can collaborate into one report. The university's sustainability report will contain comprehensive information and the stakeholder's group can use this report in the context of the decision-making process. Another obstacle and challenge are there is no integration between the university's curriculum and the sustainability concept.

## CONCLUSION

The focus of this study is to examine the sustainability performance from the higher education institution. Using two different models (the GASU Method and The STARS System), this study found that the research object had a good performance in the context of sustainability performance. The study concluded that Universitas Indonesia and Universitas Pendidikan Ganesha can implement the concept of sustainability accounting in the organization's activities. The results of the sustainability performance measurement indicate that the Universitas Indonesia and Universitas Pendidikan Ganesha have an excellent sustainability performance (especially on social performance and environmental performance) and these results can be used as a basis or arguments for implementing the concept of sustainability accounting at a university (public sector organization). Based on the study result, the important factors that support the implementation of sustainability accounting in public universities are the commitment from the university's management and the support from the university's stakeholders. The policy-maker also supports this process by creating the perfect guidelines for the implementation process of sustainability accounting in the public university. If the appropriate guidelines are available, the university's management can practice and implement the sustainability accounting comprehensively in their internal organization.

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<p><i>Selected and Revised Papers from The International Conference of State Finance and Accountability (InCSFA 2019) (Badan Pemeriksa Keuangan Republik Indonesia, by 10<sup>th</sup> October 2019) after peer-reviewed by Organizing Committee of InCSFA and Peer-reviewers of Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara</i></p>
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**JURNAL**  
**TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA**

Volume 6, Number 1, Jan-Jun 2020, 73-86

e-ISSN 2549-452X

p-ISSN 2460-3937



## **BUDGET RATCHETING IN GOVERNMENTAL BUDGETING: AN EMPIRICAL INVESTIGATION**

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### **ABSTRACT**

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Previous literature has documented various aspects of behavior in the budgeting process. Behavioral problems that are often discussed include budgetary slack and opportunistic behavior that occur due to information asymmetry. However, there is little attention to behavioral problems in previous studies called ratcheting behavior. This study investigates such behavior in a governmental budgeting setting. Besides, this study extends by testing ratchet behavior when local government adopts a well-known budget control mechanism, called analysis on standardized expenditure. To accomplish this purpose, study participants role-played as the budget preparer on a government budgeting task. The experiment used a web-based instrument that involved 51 participants. Results showed that budget preparer engaged in a ratchet behavior when setting their budget. Furthermore, budget ratcheting did not occur when preparer using an analysis of standardized expenditure. However, this situation only remains for one year. In the next year, preparer engaged in a ratchet behavior, at a lower intention. These findings underscore the importance of analysis of standardized expenditure in a government budgeting process environment. As a practical contribution, these findings suggest that using and monitoring for the adoption of analysis on standardized expenditure should be maintained continuously.

### **KEYWORDS:**

Budgeting; budget ratcheting; control; analysis of standardized expenditure

**DOI: 10.28986/jtaken.v6i1.400**

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### **ARTICLE HISTORY:**

**Received at** : 20 February 2020

**Published at** : 28 June 2020

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## INTRODUCTION

Various literature has documented various aspects of behavior in the budgeting process. Behavioral problems that are often discussed include budgetary slack and opportunistic behavior that occur due to agency problems and information asymmetry (such as Hobson, Mellon, & Stevens, 2011; Rankin, Schwartz, & Young, 2008; Abdullah & Asmara, 2007; Ahn, Choi, Hwang, & Hyeon, 2018). There are some behavioral problems that have not been studied yet in the previous studies, which is called ratcheting behavior. Ratcheting occurs when overspending at the last year's expenditures (actually exceeding those budgeted) lead to the greater absolute changes in current budgeted expenditures than underspending with a similar magnitude. For example, if there is overspending (actually higher than budgeted) of 5%, it is likely that next year will be budgeted at least 105% than the previous year's budget. However, if the realization showed an underspending for 5%, then next year's budget will not be reduced to 5%.

Past performance certainly provides meaningful information that helps the superior to assess subordinates' abilities and performance potential (Banker, Darrough, Huang, & Plehn-Dujowich, 2013). Indjejikian, Majejka and Schloetzer (2014) suggest that the use of current performance as a basis for determining future targets, often referred to as "ratcheting," is a common practice in many organizations. However, theoretical studies have argued that target ratcheting gives rise to the effort reduction problem referred to as the ratchet effect, the incentive for subordinates not to exert themselves to their full potential (Freixas, Guesnerie, & Tirole, 1985; Weitzman, 1980; Ahn, et al., 2018).

Lee and Plummer's claim (2007) states that

their research is the first empirical test of budget ratcheting in government indicates the limitation of the research on this topic in the government/public sector. Although this claim is not entirely valid as the discovery of Hercowitz and Strawczynsky (2002) also Ahn et al. (2018), who also examine ratcheting in the government, the statement that there is still limited research on ratcheting in the public sector is acceptable. Cumulatively, both in the private and the public sector, among the previous studies of budget ratcheting that are still limited are Leone and Rock (2002), Kim and Yang (2012) also Bouwens and Kroos (2011) who did it in the private sector settings, while Lee and Plummer (2007) also Hercowitz and Strawczynsky (2002) in the public sector. Lee and Plummer analyzed ratcheting operational costs at district schools in Texas, while Hercowitz and Strawczynsky (2002) conducted a budget ratcheting analysis by looking at the economic cycle in Organisation for Economic Co-operation and Development (OECD) countries. Meanwhile, Ahn et al. (2018) investigate ratcheting intensity in the State-Owned Enterprises in Korea. Since the limitation of research in budget ratcheting, especially in the context of government, this study wants to fill in this gap by testing whether ratcheting also occurs in local government (public sector) budgeting in Indonesia. Similar with Lee and Plummer (2007), this study also focused on the analysis of operational expenditure and operational sub-expenditure.

Lee and Plummer (2007) assert that the phenomenon of budget ratcheting and its implications is different among private and public sector. Budget ratcheting in the government environment is ratcheting, which involves asymmetric growth in expenditure while ratcheting in the private sector focuses on asymmetric growth in income (earnings). Leone and Rock (2002) associate budgeting ratcheting with the choice of managerial dis-

cretionary accruals, while Bouwens and Kroos (2011) examine budgeting ratcheting concerning sales targets in the fourth quarter of the company's business units. In a similar vein, Kim and Yang (2012) use data on earnings-per-share (EPS) targets, the most common performance measure in executive bonus plans, and show that EPS target increases are significantly associated with prior-year favorable performance relative to the target. The private company will face obstacles in the form of penalties for increased spending, which is not accompanied by an increase in performance in the capital market.

However, in the government sector or the public sector, penalties like this do not exist. There is no formal penalty for overspending or an award for underspending. Therefore, it can be predicted that administrators and government employees have incentives and opportunities to increase or expand their budgets, and this is the subject of constraints that are weaker to spending than the case in the private sector. Based on this reason, it is suspected that the government budget is ratchet. Then, ratcheting to the private sector associated with profit-based bonuses recognizes management actions as profitable actions for companies. This situation indicates that the ratcheting budget benefits the stock trader. Different things occur in the public sector; the budget ratcheting phenomena may expense the public interest.

Lee and Plummer (2007) find that budget ratcheting occurs when controls are considered weak. They use several instruments of control over government expenditure (district school), both direct control such as Tax and Expenditure Limitation (TEs), accounting regulations and budget reporting, and indirect control through the media (newspapers, television, and radio). In the context of controlling government spending, Giroux and Shields (1993) use accounting controls and political competition. In this

study, related to the phenomenon of budget ratcheting and control, the existence of Analysis of Standardized Expenditure (ASE) is used as a control mechanism over budget ratcheting behavior.

The term ratcheting in government budgeting was first introduced by Weitzman (1980). Weitzman (1980) developed a model where economic planners used current performance as a partial basis to set performance targets for the next period, a trend which was then referred to as a "ratchet principle". For government entities, "performance" is measured using expenditures needed to reach a certain level of goods or services, with lower expenditures representing better performance. Ratcheting is closely related to the determination of performance targets both revenue targets and expenditure targets when determining future targets using past performance as a basis (Aranda, Arellano, & Davila, 2014).

Two models explain the fiscal behavior of local governments related to the phenomenon of budget ratcheting for the government's spending. First, the median voter model, which implies that government employees will act for the best interest of the voters, and consequently will determine expenditure based on voter preferences (Black, 1958, Lee & Plummer, 2007). Second the Leviathan Model which implies that local governments have monopoly power and run budgets to maximize the interests of bureaucrats (Brennan & Buchanan, 1977, 1978).

Previous research has provided empirical evidence that ratcheting from budgeted income occurs in the private sector, and the evidence implies that ratcheting is rational and profitable to companies (Leone & Rock, 2002). However, budget ratcheting in government is different from what happens in the private sector (Lee & Plummer, 2007). The first sector focuses on earnings, while

the second emphasizes ratcheting from the expenditure side. Then, the implications of ratcheting in the public/government sector are not necessarily beneficial to constituents or voters. Furthermore, Indjejikian et al. (2014) suggest that target ratcheting has an adverse effect on incentives because self-interested managers may withhold effort in the current period to avoid higher targets in the future. According to the importance of control and suspected of the occurrence of budget ratcheting, the problems in the study are formulated as follows:

1. Does budget ratcheting occur in local government operational expenditure?
2. Is the budget ratcheting trend smaller in the government with more effective expenditure controls?

Since there is a budget ceiling in government budgeting that cannot be skipped, testing using secondary data or surveys is not possible to be done. Therefore, this study was conducted using the experimental method by creating an overspending scenario completing the underspending conditions. This is based on the assumption that 100% expenditure achievement may actually still require an additional budget set forth in the amended budget (Anggaran Pendapatan dan Belanja Daerah-Perubahan, APBD-P).

Using the Weitzman Ratcheting model (1980) and modified with the model used in Lee and Plummer (2007), this study aims to investigate the occurrence of asymmetric budget ratcheting in local governments empirically. Asymmetric ratcheting is a phenomenon in which an increase in the budget due to overspending, and a decrease in the budget due to underspending, are unequal (Lee & Plummer, 2007). This study also aims to provide empirical evidence about the effect of the control mechanism on the occurrence of budget ratcheting patterns.

This study provides several contributions to

the research on local governments' budgeting. First, this study complements empirical studies to examine budget ratcheting in the public/government sector, which is still limited. Second, according to the issue of control and monitoring has been more prevalent in the private sector, this study fills this gap by examining the impact of controls on government operational budgets. Third, this study complements existing government budgeting studies that are more focused on discussing opportunistic behavior and budgetary slack.

Target Setting is at the core of planning and budgeting in an organization. Setting accurate targets is important for resource allocation and coordination (Leone & Rock, 2002). Targets are defined as the expected level of performance and are included in planning documents such as the budget. Coordination, resource allocation, and performance evaluation are organizational activities that are closely related to planning and targeting. In budgeting, the target sets at least the revenue and expenditure target. In the Indonesian government, there is also a financing target in addition to revenue and expenditure targets. These targets are formally included in the government budget, both the state budget (Anggaran Pendapatan dan Belanja Negara, APBN) and the local governments' budget (Anggaran Pendapatan dan Belanja Daerah, APBD). At the end of the year, the achievement of this target will be delivered in the financial statements and government performance reports as stipulated in Government Regulation Number 8 of 2006 concerning Government's Financial and Performance Reporting.

### **Government Budgeting in Indonesia**

The budget is the primary tool of the government to carry out all obligations, promises, and policies into concrete plans and it is integrated to what actions will be taken, what



results will be achieved, at what cost and who will pay these costs (Dobell & Ulrich, 2002). Meanwhile, Freeman and Shoulders (2003) state that the stipulated budget can be seen as a performance contract between the legislature and the executive. According to Rubin (1993), public budgeting is a reflection of the relative strengths of various budget actors who have different interests or preferences on-budget outcomes. The lack of funds owned by the government is the reason why budgeting is the most critical mechanism for the allocation of resources.

The implementation of regional autonomy in Indonesia is inseparable from the paradigm shift in regional management and budgeting. Performance budgeting is a concept in budgeting that explains the link between resource allocation and the achievement of measurable results. Performance-based budgeting began to be implemented in Indonesia based on Government Regulation Number 105 of 2000 and Ministry of Home Affairs Decree Number 29 of 2002 in the 2003 or 2004 fiscal year. Performance budgets encourage the participation of stakeholders so that the goal of achieving results is following public needs.

The process of budgeting in performance budgeting starts from the organization units in the local government, through a budget proposal document called the Local Government Organization Unit Budget (*Rencana Kerja dan Anggaran-Organisasi Perangkat Daerah*, RKA-OPD). The local government budget team then examines the RKA-SKPD (*Rencana Kerja dan Anggaran-Satuan Kerja Perangkat Daerah*) to assess its feasibility (based on the urgency and availability of funds) accommodated in the Local Government Budget Plan (*Rancangan Anggaran Pendapatan Belanja Daerah*, RAPBD), which will be submitted to the legislature. The RAPBD is then studied by the legislative budget committee and responded by all com-

missions and factions in the budget discussion.

### **Controlling Government Expenditures**

Although local governments are given the authority to prepare budgets according to local needs, there are some restrictions in the form of regulations on the amount of expenditure/expenditure they can spend. This is done to make the value for money can be adequately realized. One form of restrictions imposed is that local governments must follow the guidance of the analysis of expenditure standards in the budgeting process.

Related to the explanation above, Law Number 32 of 2004 emphasized the need for a Performance-Based Budget (PBB). The PBB approach emphasizes accountability not only to the allocation of inputs but also considers outputs and outcomes. PBB can be used to measure performance in assessing the success or failure of implementing activities/programs/policies following the stated goals and tasks. For the performance measurement purpose, it is essential to establish a performance indicator first, namely, input indicators in the form of funds, resources, and work methods. It is necessary to assess its fairness so that that input can be accurately informed in a budget. In assessing the fairness of inputs and outputs, the role of the ASE is required. ASE is the assessment of the reasonableness of the workload and costs used to carry out an activity. ASE is one of the main elements for performance-based budgeting to achieve economic, efficient, and effective financial management (application of value for money concept). ASE is assessed as a formal link between the input issued and the output and outcome achieved. This encourages the local government to always pay attention to every rupiah earned and used.

Furthermore, the significance of the ASE is reinforced again in Government Regulation

Number 58 of 2005 concerning the Local Government's Financial Management. The regulation then elaborated again in the Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Local Government's Financial Management (as amended by Number 59 of 2007 and Number 21 of 2011). In these regulations, it is always suggested that ASE is one of the main instruments in performance-based budgeting. Although ASE is an essential instrument in the local budgeting process, not all regions have ASE. This study assumed that the existence of ASE is considered as a stronger form of control over local government expenditure.

### **Fiscal Behavior of the Government**

Ungureanu and Iancu (2012) identify that there are several behavioral models in budget-maximization theory, including the Niskanen Model of bureaucratic behavior and the Leviathan Model, which explain the differentiation between bureaucrats and politicians behavior in government budgeting processes. Meanwhile, Wills (1995) states that two models may explain the determination of government expenditure budget, namely the agenda-setter model and the median voter model. On the other hand, Lee and Plummer (2007) imply there are two theories of government behavior about budgeting with different perspectives from each other, namely the Median Voter Model and the Leviathan Model. Lee and Plummer (2007) state that the two models they convey are relevant to the research that wants to test whether ratcheting on expenditure occurs in the public sector. In this regard, this study refers to the classification presented by Lee and Plummer (2007).

The median voter model implies that government officials will act in the best interests of constituents and determine budgets based on their preferences (Black, 1958; Bowen,

1943; Gerber & Lewis, 2004). Ideally, the government should provide goods and services at the level desired by the constituents at the lowest cost. This explanation is consistent with the principles of efficiency, effectiveness, and economy (value for money concept) in government budgeting. This model implies that the government apparatus will make adjustments to the next year's budget fairly and appropriately related to overspending and underspending, without a priori reasons why overspending should be emphasized more than underspending.

However, empirical evidence shows that government spending is not correspondence to the level of service desired by voters (Dye & McGuire, 1997; McGuire, 1999; Romer, 2004). In fact, the economic literature, in general, supports the Leviathan model to explain government behavior related to budgeting, which states that local governments have monopoly power and run budgets to maximize the interests of bureaucrats (Brennan & Buchanan, 1977, 1978,). As a result, government spending is more influenced by the bureaucrat's utility function than the median voter. Government administrators have incentives to maximize their budgets to get excess consumption perquisite, "over-produce" public goods, make less effort, and spend resources on less essential activities that produce personal enjoyment (Giroux & Shields, 1993). For almost all employees in individual government institutions, a larger budget can increase their job security if it causes legislators and constituents to perceive that the services of these institutions are relatively essential. These particular institutions are rarely subject to budget deduction by the legislature, and even if they are subject to deduction, the number is small. It will only affect a small number of employees. Giroux and Shields (1993) argue that government administrators also try to maximize their budgets to get financial slack.

It should also be noted that government administrators may increase the budget to improve services to the public or their constituents. They try to increase the budget so that the goods and services they provide to the constituents or voters based on their interest. If the budget ratcheting is done in this situation, it can be said that budgeting expenditure is allocate and practicing to meet social desirability. To capture this phenomenon, Lee and Plummer (2007) conducted a sensitivity analysis by examining the relationship between budget ratcheting and student academic performance as a representation of socially desirable outcomes.

### Ratcheting in Budgeted Expenditure

The use of performance currently is used as a partial basis for setting future targets that have almost become a universal feature of economic planning (Weitzman, 1980). This principle came to be known as the "ratched principle". Weitzman (1980) developed a model in which economic planners used current period performance as a basis for setting targeted future performance. For government entities, "performance" is measured using the amount of expenditure/expenditure needed to reach a certain level of public goods or services. The lower the expenditure is, the better of performance grade. By using  $B_t$  notation to represent budgeted expenditure in year  $t$ , and  $A_t$  to represent actual expenditure, the Weitzman (1980) model applied to the public sector predicts:

$$B_t - B_{t-1} = \delta + \lambda (A_{t-1} - B_{t-1})$$

This equation can be interpreted that the current year's expenditure budget depends on, in part, the variance of last year's budget (through the adjustment coefficient  $\lambda$ ), and independent growth  $\delta$ . Weitzman (1980) assumes that, at a constant level of government service, government administrators will be

rewarded if the actual expenditure is lower than budgeted expenditure ( $A_t < B_t$ ). This provides an incentive for government administrators to reduce the actual budget. This model predicts that administrators face a trade-off between current and future rewards. Rewards of current performance ( $A_{t-1} < B_{t-1}$ ) must be weighed against the costs that arise for future performance sacrifices. Due to the adjustment coefficient  $\lambda$ , better current performance will reduce  $B_t$  in the coming period, and this makes it difficult for administrators to get rewards in the future. Weitzman (1980) also shows that the future cost of good current performance will increase when  $\lambda$  increases.

The trade-off between current and future rewards in the Weitzman model arises because the government apparatus has an incentive to reduce actual expenditure so that  $A_{t-1} < B_{t-1}$ , which results in downward pressure on budgeted future expenditure. Lee and Plummer (2007) assume that government administrators also face relatively strong personal incentives to expand their budgets. The absence or limitation of rewards for minimized expenditure, along with incentives to increase the budget, provides an environment that they predict to form an asymmetrical ratcheting pattern. Specifically, they predict that government administrators will make greater adjustments to their budgets to reflect last year's overspending ( $A_{t-1} > B_{t-1}$ ) than if underspending occurs. This explanation is the reason Lee and Plummer modified the equation in the Weitzman model to show differential adjustments depending on the sign of variance. The modification equation becomes:

$$B_t - B_{t-1} = \delta + \lambda^+ (A_{t-1} - B_{t-1}) + \lambda^- U_t^* (A_{t-1} - B_{t-1})$$

In this case,  $U_t$  is equal to 1 if the budgeted expenditure exceeds the actual expenditure (underspending), and 0 if the opposite.  $\lambda^+$  is the adjustment coefficient for overspending ( $A_{t-1} > B_{t-1}$ ) and  $\lambda^-$  is the

differential coefficient for underspending ( $A_{t-1} < B_{t-1}$ ). The second sum of the coefficients ( $\lambda^+ + \lambda^-$ ) is the adjustment coefficient for underspending. If government administrators respond more to overspending than to underspending, then  $\lambda^-$  will be negative. Lee and Plummer (2007) refer to  $\lambda^-$  as the coefficient of ratcheting.

Lee and Plummer (2007) find that budget control mechanism provided by district local government influence the magnitude of budget ratcheting. They find that budget ratcheting is more pronounced when controls on government spending are likely to be weaker. Ahn et al. (2018) find that ratcheting intensity is substantially greater (lower) for target-setting methods that have utilized limited (plenty of) information on past performance and that the ratchet effect increases with ratcheting intensity.

Based on an explanation of the budgeting process, the upper limits on government expenditure, fiscal behavior of government budgeting and budget ratcheting to local governments, the hypothesis of this study are:

H1: There is a budget ratcheting in government operational spending.

H2: Ratcheting tends to occur (more pronounce) in local governments with weaker budget control

## RESEARCH METHOD

This study uses a laboratory experimental approach. Participants act as employees in the planning and budgeting section of the Regional Apparatus Organization (RAO), who are in charge of preparing the annual budget. The budget line is focused on the operational budget. They were asked to propose a 4-year budget based on the realization of the previous year. From the realization of the previous year, participants received two years with an overspending condition and

another two years in an underspending condition. To control the confounding effect of information about the realization of expenditure in the previous year, all participants received the same information. Then, some participants will get the treatment of a proper budget control through the ASE instrument, while other participants get conditions without adequate control (have no ASE).

The participants of this study were planning and budgeting staff at the local government in Sumatera who attended the Workshop at Andalas University, both conducted by the Center for Financial and Development Studies (Pusat Studi Keuangan dan Pembangunan, PSKP) and the Center for Accounting and State Finance Studies (Pusat Studi Akuntansi dan Keuangan Negara, PSAKN). PSKP is annually trusted by the Directorate General of Fiscal Balance (Direktorat Jenderal Perimbangan Keuangan, DJPK) of the Ministry of Finance of the Republic of Indonesia to carry out various education and training, including planning and budgeting. Likewise, PSAKN also carries out similar activities in several activities in 1 year. Participants were recruited through the direct notification, which was followed up by repeated notification via Whatsapp to each prospective participant. Participants then completing experimental tasks online through a web-based instrument by log in to the system after stating their willingness to participate.

This study uses the basic model of Weitzman's (1980) ratcheting budget modified by Lee and Plummer (2007). By doing the modification, this model is able to show a differential adjustment in government expenditure by looking at the sign of variance. Meanwhile, to see the difference in the occurrence of budget ratcheting in the regions with a stronger control mechanism, cross-sectional testing will be conducted between samples. Samples that have ASE are consi-

dered regions with stronger control (coded 1), and on the contrary, regions that do not have ASE are considered to have weaker budget control (coded 0). By coding the two categories (dummy variables), model testing will be done separately for each local government category.

## RESULT AND DISCUSSION

The participants of this study start by opening the assignment's website and logging in using the specified username and password. Fifty-eight participants were completing the assigned tasks, and the data was recorded into the system. Based on the manipulation check test, 7 participants failed to give an appropriate response, so the data was not used. This resulted in 51 observations that can be used. Before taking data to the participants, a pilot test was conducted involving 30 undergraduate students of the Department of Accounting, Faculty of Economics, Andalas University who took Government Accounting courses. Of the 51 participants, 21 were male (41.17%), and 30 were female (58.83%). The average work experience of the participants was 77 months or 5.45 years, with an average age of 38.61 years.

Statistical testing was carried out for three years of budgeting. Descriptive statistics and the results of the paired-sample t-test are presented in Table 1.

**Table 1.** t-test for the 1st year (baseline)

	Controlled	Uncontrolled
Underspending	-2.04	-2.36
t-test	t = 0.458; p = 0.651	
Overspending	7.00	6.64
t-test	t = 0.547; p = 0.589	
Total	4.96	4.28
t-test	t = 0.764; p = 0.452	

Hypothesis 1 predicts that ratcheting occurs in local government budgeting. From table 1,

it can be seen that in responding to the underspending of the previous year with an average of 10%, the proposed budget variance from the previous target for regions planning ASE was -2.04%, while the comparison that would not implement ASE was -2.36 % of the previous year's target amount (100% condition). A variance of -2.04% indicates that in the condition of underspending 10%, the apparatus planner proposes a budget of 100% minus 2.04% or 97.96% of the previous year target. This figure shows that even though the budget experienced underspending up to 10%, the proposed budget still approached the target to know beforehand. With the same interpretation, another proposer proposes 97.64% of the previous year's target of only 90%. This result implies that the budget proposer is not "willing" to reduce it to 10% following the realization of the previous year. The t-test results in this underspending condition showed no difference between the two groups treatment (t = 0.458, p = 0.651).

Furthermore, in overspending conditions, it can be seen that the budget variance of each group is 7% and 6.64%, respectively. The 7% variance meant that the budget proposer proposed a budget of 7% higher than the previous year's target when there was overspending of 10%, and the comparison proposed an increase of 6.64%. Both groups proposed a budget that was getting closer to realization and did not want to propose the same amount as the previous year, even though it did not exactly reach a 10% increase. The t-test results in this overspending condition also showed no difference between groups (t = 0.547, p = 0.589).

Finally, table 1 shows that in total, the proposed budget variance is 4.96 and 4.28. T-test results for the total budget conditions also showed there was no significant difference between groups (t = 0.764, p = 0.452). The overall test results showed that there

was a smaller variance when the previous year's underspending occurred than when there was overspending. These results indicated the occurrence of budget ratcheting. The study also showed that there were no significant differences between groups. This finding implies that the occurrence of ratcheting covered all local governments. Thus, hypothesis 1 is supported.

Hypothesis 2 predicts that the probability of the occurrence of ratcheting is higher in local governments with weak budget control (without ASE) than local governments with better control (through the application of ASE). The results of the t-test in the second year as the first year of ASE implementation in some local governments as indicated by the manipulation of the presence or absence of ASE are presented in Table 2.

**Table 2.** t-test for the 2nd years (first-time ASE Adoption)

	Controlled	Uncontrolled
Underspending	-3.44	-0.96
t-test	t = 6.619; p = 0.000	
Overspending	<b>3.48</b>	<b>6.44</b>
t-test	t = 5.220; p = 0.000	
Total	<b>0.04</b>	<b>5.48</b>
t-test	t = 8.019; p = 0.000	

As can be seen in Table 2, in responding to the underspending of the previous year with an average of 10%, the proposed budget variance from the previous target for regions applying ASE for the first time was -3.44%, while the comparison of regions not applying ASE was -0.96%. This result can be interpreted that when the previous year, there was an underspending of 10%, regions with ASE proposed a budget of 96.56% from the previous year's budget. In comparison, regions without ASE proposed 99.04%. The t-test results in this underspending condition showed that there were differences between groups (t = 6.619, p = 0.000).

Likewise, in the overspending condition, it can be seen that the budget variance of each group is 3.48% and 6.44%, respectively. This result meant that when there was overspending of 10% in the previous year, regions implementing the ASE incited expenditure proposals that were closer to the 100% target of 103.48% of the previous year's budget than those without the ASE who proposed 106.44% of the previous year's budget. The t-test results in this overspending condition also showed a difference between these two groups (t = 5.220, p = 0.000). Furthermore, Table 2 showed that in total, the proposed budget variance was 0.04% in the group with ASE implementation compared to 5.48 in the non-ASE group. T-test results for the total budget conditions also showed that there were significant differences between the two groups (t = 8.019, p = 0.000). Overall test results showed that there was a smaller variance when there was underspending the previous year than when there was overspending, especially for regions without ASE. The existence of significant differences between groups shows that the existence of ASE, as a budget control tool, influences the occurrence of budget ratcheting. In other words, the tendency for the occurrence of ratcheting is higher (more pronounced) in areas without ASE. This result indicates support for hypothesis 2.

**Table 3.** t-test for the 3rd year (Second year of ASE Adoption)

	Controlled	Uncontrolled
Underspending	-2.00	-2.11
t-test	t = 0.259; p = 0.780	
Overspending	<b>5.92</b>	<b>6.80</b>
t-test	t = 1.178; p = 0.250	
Total	<b>3.96</b>	<b>4.68</b>
t-test	t = 2.883; p = 0.132	

A sustainability test for the effectiveness of ASE as a control tool was also carried out. The results of testing in the third year as the

second year of ASE implementation are presented in Table 3. From Table 3, it can be seen that in the underspending condition, there is no difference in the proposed budget variance between groups that apply ASE or not. The same thing happens in the overspending and total data even though the data shows that the variance in the underspending condition is smaller than in the overspending condition.

This unequal variance shows the number of proposals getting closer to 100%, which means that there is ratcheting. Based on the conditions of implementing ASE, ratcheting is seen more clearly in conditions without ASE than in the condition of ASE. This result implies that ASE still influences budgeting practices in the next year. However, statistically, this effect is no longer as significant as in the first year, the ASE was firstly implemented ( $t = 2.883$ ;  $p = 0.132$ ).

In addition to the budgetary slacks issue, budget ratcheting is also a behavioral issue that needs attention in the budgeting process. Ratcheting occurs if there is asymmetric variance in the budget proposal under conditions of underspending and overspending with the same magnitude. This study aims to examine the occurrence of ratcheting in the budgeting process in local government and the impact of the adoption of the ASE as one of the budget control tools from preparation to implementation.

The results of hypothesis testing indicated that there was ratcheting in the budgeting by the local government. This means that the government has a tendency to keep the amount of the budget close to the target amount of the previous year if it experiences underspending and increases the budget close to realization when overspending occurs. In the case tested in this study, when underspending and overspending occur at a magnitude of 10%, the budget proposer pro-

poses the next year's budget with a pattern of not following a 10% variance when underspending occurs and will propose a budget approaching a 10% variance if experiencing overspending in the previous year. This asymmetrical variance shows the occurrence of ratcheting practices in the budget proposal. The findings of this study are consistent with Lee and Plummer (2007), who find ratcheting behavior in budgeting in district schools in the state of Texas.

This budget ratcheting practice is expected to be minimized or mitigated through the implementation of the ASE. The test results show that ASE is effective in minimizing the behavior of this ratchet. Areas that implement ASE show a much lower rate of ratcheting than those shown by regions without ASE. This finding is also in line with the findings of Lee and Plummer (2007), which show the effectiveness of control mechanisms applied in government budgeting. It is also consistent with Ahn et al. (2018) who find that ratcheting intensity is substantially lower for target setting method that has utilized plenty (in comparison with limited) of information on past performance. They consider that target setting methods as ratchet control mechanism.

The findings of this study suggest the need for budget control, starting from the preparation until the implementation and reporting stages. ASE, as a control tool in local government budgeting, can play a strategic role in controlling ratchet behavior. This finding implies the importance of local governments in preparing this instrument. Besides, it needs to be a concern that the implementation of ASE from year to year should be accompanied by continuing monitoring from all of the stakeholders. As found in this study, although not hypothesized, ratcheting behavior re-emerges with almost equal magnitude in areas that have applied ASE compared to regions that do not apply ASE.

## CONCLUSION

This study aims to examine the occurrence of budget ratcheting in local government budgeting processes. By involving budget makers in local governments in Sumatera, the results of this study show that ratcheting behavior occurred in the preparation of local government budgets. Then, by applying the ASE, such behavior can be minimized. This study indicates that regions that apply ASE show a much smaller level of budget ratcheting than regions without ASE.

These findings imply that the ASE is critical when the local government prepare its budget. The existence of budgeting instruments such as ASE can control the tendency to ratchet behavior. As such, it is recommended for local governments to have and apply an ASE, not only to meet the requirements of a performance-based budget framework but also as a control mechanism in government budgeting processes.

Several limitations can be identified in this study. First, this study uses conditions that give rise to overspending conditions that are not found in government budgeting due to budget ceiling limits. Second, the time span of testing the effectiveness of ASE implementation is limited to one year after the first-time adoption. Future study needs to consider these two crucial factors. Future study may also test the effectiveness the other form of control by investigating the influence of final budget authorities (superior or subordinate), the arrangement of the past performance data, and modification of target setting methods.

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## **THE ROLE OF POLITICAL POWER IN THE BUDGETING PROCESS: HOW TO ACCOMMODATE THEM? A CASE STUDY**

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### **ABSTRACT**

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This research has two main objectives. The first objective is to identify the role of political power in the budgeting process, while the second is to propose a control mechanism to enable a budgeting process to accommodate political power in terms of accountability. Indonesia's Corruption Eradication Commission reports on the misuse of political power to manipulate budgeting in an organized manner. Execution of the budgeting process that does not follow the prevailing strategic policy constitutes fraud. The functions of budgeting are allocation, distribution, and stabilization. This study analyzes budgeting that intertwines with the wielding of political power. The study employed qualitative research supplemented by a case study to explain why and how such phenomena are occurring. The analysis was conducted using the thematic method by way of open-ended questionnaires to explain the data and information that were accumulated concerning the topic at hand and their relevance. Results show that political power plays both negative and positive roles. The positive aspect of the exercise of political power is that it is used as a public channel between society and the government, while its negative impact is the various risks that it poses, such as political power being used to advance self-interests. Political power does not share the same degree of impartiality as statutory rules. The form of politics can alter a budgeting activity or program. The application of a certain budgeting system is proposed to reduce errors and record activity history. Concerning the evaluation of APBD by the DPRD, APIP must help enforce control by reviewing budget changes against the relevant goals and objectives.

### **KEYWORDS:**

Political power; DPRD; head of local government; budget; accountability

DOI: 10.28986/jtaken.v6i1.412

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### **ARTICLE HISTORY:**

Received at : 27 March 2020

Published at : 28 June 2020

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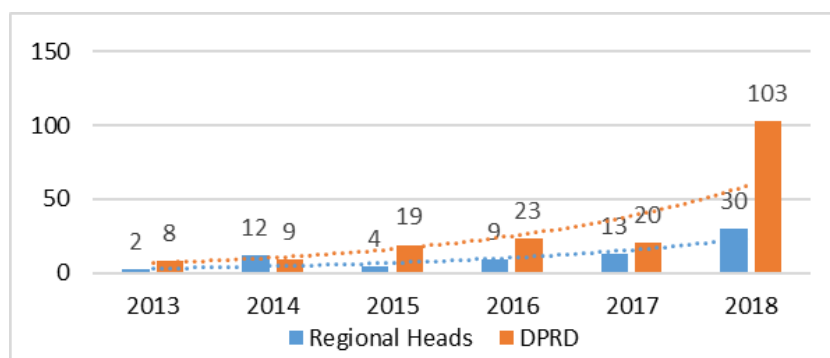
## INTRODUCTION

The Indonesian government adopts the concept of participatory budgeting as laid out in Government Regulation (Peraturan Pemerintah, PP) Number 8 of 2008. Participatory budgeting involves a step where negotiations occur between the government and the public represented by the Regional Houses of Representatives (Dewan Perwakilan Rakyat Daerah, DPRD). The local government budget plan (Rencana Anggaran Pendapatan dan Belanja Daerah, RAPBD) is prepared and submitted by the head of the local government and subsequently discussed by the DPRD (PP Number 58 of 2005, as amended by PP Number 12 of 2019). However, as news media have reported, many of these institutions have not undertaken these roles as required, abused their authority, and misappropriated the budget in an organized and structured manner, with those involved being dubbed as the "budget mafia" acting in concert to manipulate the budget. Misappropriation of the budget in contravention with the strategic policy constitutes fraud. Indonesia's Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK) (2020a) published data showing that the number of corruption cases involving members of the local parliament or DPRD is rising, as shown in Figure 1.

The national newspaper Kompas on October

17, 2018, reported that there have been 38 heads of local government and 86 DPRD members on the Sumatra Island arrested by the KPK on account of corruption (Gabrillin, 2018). The arrests were made on charges of violation of the Corruption Act, such as in the procurement of helicopters, medical devices, infrastructure components, other goods, and services, as well as involving business travels. Districts and cities on the island have ranked the highest in terms of number corruption cases nationally (KPK, 2020b).

Presently the Indonesian government is still struggling with issues relating to the state's financial management, as highlighted in the Summary of Semester Audit Report (Ikhtisar Hasil Pemeriksaan Semester, IHPS) published by The Audit Board of The Republic of Indonesia (Badan Pemeriksa Keuangan Republik Indonesia, BPK RI) in 2018. The report reveals that there have been 9,808 findings, consisting of 15,773 issues, with 7,539 of those relating to the internal control system, 8,030 items with a total value of 10.06 trillion rupiah relating to non-compliance, and 204 issues with a value of 1.46 trillion rupiah stemmed from inefficiency, inefficiency, and ineffectiveness (BPK RI, 2019). Indonesia's Central Bureau of Statistics (Badan Pusat Statistik, BPS) in 2018 reported that the number of poor people in the country was at 25.95 million, representing 10 percent of Indonesia's overall population of



**Figure 1** Corruption Cases by Heads of Local Government and DPRD Members

*Source: KPK (2020a) Corruption Cases by Heads of Local Government and DPRD*

265.05 million (BPS, 2019).

Shah (2007), in his introduction to participatory budgeting literature, states that participatory budgeting runs the risk that it will only be used by groups that attempts to achieve a certain self-serving purpose, with the decision-making processing being controlled by such groups. The phenomenon makes an interesting research subject, as the budgeting process is vital in financial management at the local level. The study is driven by the following research questions: (1) what is the role of political power in the budgeting process, and (2) how does the budgeting process able to accommodate political power in terms of accountability. The analysis conducted in this study used an open-ended questionnaire organized by thematic topics. The analysis used the NVIVO application to collate the responses given by the respondents to the topic. The topic explains the phenomenon that occurs.

### **Participatory Budgeting and Budgeting Process in Indonesia**

Shah (2007) defines participatory budgeting as a decision-making process, where the outcomes generated by the forum feed into negotiations for public resources. Participatory budgeting first appeared in 1989 in Porto Alegre, Brazil, where participatory budgeting voting was based on public participation. In a democracy, participatory budgeting reflects strategic priorities in determining public policy (Bassoli, 2011). Benjamin and Schurgensky (2019) further discuss participatory budgeting interlinked with democracy and find that participatory budgeting is a tool used as a media for learning democracy among states with an interest in politics in decision making. Therefore decision making is undertaken to achieve the goals of the public. Budgeting plays a role in planning, control, and decision making. Budgeting coordinates communication between sections,

which covers planned revenue targets and projected expenses. In some cases, the budget is intended as an action plan for a company to achieve the desired goal or target. The successful outcome of a budget is determined by the commitment of the person carrying out the budget. The results of the budget implementation are evaluated to improve future performance (Hansen, Mowen, & Guan, 2009).

Governments in Indonesia implement the participatory budgeting concept (PP Number 8 of 2008). One step in the participatory budgeting process is a discussion where negotiations occur between the government and the public represented by the local representatives. Government Regulation Number 8 of 2008 on Stages, Drafting Requirements, Control and Evaluation of Local Development Plans, specifically its Article 1, stipulates that the process of local planning and development must involve these stakeholders for future development projects that make use of existing resources. The involvement of the government and the public in such discussions is facilitated through the development planning consultation process, called the Development Consultative Assembly (Musyawarah Perencanaan Pembangunan, Musrenbang). The purpose of Musrenbang is to draft the Local Long Term Development Plan (Rencana Pembangunan Jangka Panjang Daerah, RPJPD). The RPJPD serves as guidelines in preparing the local government budget (Anggaran Pendapatan dan Belanja Daerah, APBD).

Government Regulation Number 58 of 2005 on the Financial Management of Local Governments, as amended by Government Regulation Number 12 of 2019, sets forth the process of preparing the Local Budget, with begins with the preparation of the Local Government Work Plan (Rencana Kerja Pemerintah Daerah, RKPD) that in turn produces the Local Medium Term Development

Plan (Rencana Pembangunan Jangka Menengah Daerah, RPJMD) which is essentially a breakdown of the vision and mission of the head of the local government in line with RPJPD. From this RKPD, the local government then sets the General Budget Policy (Kebijakan Umum Anggaran, KUA) and the Provisional Priority Budget Ceiling (Prioritas Plafon Anggaran Sementara, PPAS). KUA PPAS consists of the programs and budget of every sector. KUA PPAS is approved jointly by the head of the local government and the DPRD and incorporated in a memorandum of agreement. Based on the memorandum of agreement, the head of local government issues guidelines for preparing the Budget Work Plan (Rencana Kerja Anggaran, RKA) of the Local Government Work Unit (Satuan Kerja Perangkat Daerah, SKPD). The RKA SKPD consists of programs, activities, and budgets, taking into account estimations, performance outcomes, and performance analysis. The RKA SKPD is compiled and merged into RAPBD. The RAPBD is then submitted by the head of the local government to and discussed with the DPRD. The discussion covers the alignment of the KUA PPAS with activities laid out in the RAPBD. The results of the discussion are then evaluated at the provincial level and subsequently formalized through their incorporation in a by-law or local regulation (Peraturan Daerah, Perda) governing the local government budget.

The government regulation sets forth the implementation of the APBD, which is further laid out in detail in a Budget Implementation Document (Dokumen Pelaksanaan Anggaran, DPA) of the SKPD, used by the administration to implement and create the APBD. Budget implementation covers the process of realization of revenue and expenditure for programs and activities. Concerning such implementation, the local government is required to account for what has been realized and report the same to the na-

tional government and the public as a form of accountability. The local government is accountable for its activities.

### **Accountability Theory**

Vance, Lowry, and Eggett (2015) explain that accountability theory is a process in which a person should explain what has been done to those that are required to know (the stakeholders). Accountability according to Mulgan (2003) in Boven (2005) is a relationship that arises between actors and forums, where actors, in this case, are the governments that must be responsible for what has been done to the forum. The forum, in this case, is society. Boven (2005) explains further on how persons use the responsibility mandated in terms of managing finances. This responsibility is then published through reports which the forum will use or concerning which the public has the opportunity to ask what has been done and this process is called accountability.

United Nations Economic and Social Commission for Asia and The Pacific (UNESCAP) (2020) explains that good governance is a decision-making process that decides whether or not the results of decisions are implemented. In this process, there is an actor, which is the government itself, who consider various factors before making decisions as their decisions have a bearing on public interest. As it can be agreed that the local governments' budget constitutes a decision formalized through local bylaws, the budgeting process is a form of governance. UNESCAP explains that there are eight main principles of good governance: participation, orientation towards consensus, accountability, transparency, responsiveness, sensitivity, and effectiveness, also compliance with rules.

UNESCAP (2020) states that accountability is an important element in realizing govern-

ance. Accountability is the actors' responsibilities on how to make decisions and what considerations are used to produce the decisions. This responsibility also carries forward to the implementation of the decisions that have been made. The government as the actor will be responsible for the forum or the public affected by the decision and the implementation of decisions it has made.

Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019 explains accountability in managing local government finances. The government's responsibility includes the process of preparing the budget, implementing it, up to the reporting stage. Accountability is a form of public control over the government. The government is accountable for the managerial duties it has undertaken and the execution of its mandate. Musgrave and Peacock (1958) explain the framework of public finance. The government as a public sector actor has three important roles to play, namely:

1. Allocation; the government provides needed goods, services, and facilities to the public.
2. Distribution; the government must equitably distribute public resources.
3. Stabilization; the government is tasked with maintaining stability in the main areas of governance, such as the economy, law, social affairs, defense, and security.

The government is responsible for discharging its tasks and duties. To discharge its responsibilities, it must pay attention to the planning process up to the reporting phase. Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019 explains the government's responsibility includes budget preparation, budget implementation, and reporting.

Spada (2009) developed research about the

political and economic effects of participatory budgeting. Results generated by the study found that there is a political and economic appeal for the head of the local government to adopt participatory budgeting. The wider the extent by which a region adopts participatory budgeting, the higher the budget for public spending of such region. Krenjova and Raudla (2013) did similar research on participatory budgeting at the local government. The study offered a different perspective on participatory budgeting, namely concerning different sets of challenges and opportunities for democracy. It was found that participatory budgeting stimulates democracy within society. Tsurkan et al (2016) expanded upon the effect of participatory budgeting on economic and infrastructural development. Infrastructure represents a measure of economic growth. It was found that the public was engaged via participatory budgeting in determining infrastructure budget to meet local economic needs. Svaljek, Bakaric, and Sumpor (2019) support previous research findings on participatory budgeting. They explain that participatory budgeting is crucial for decision making and it is a product of democracy. Public capacity is accommodated via participatory budgeting, allowing the government to bring more value to the public.

Alt and Lassen (2006) researched the budgeting processes in developed countries and how politics influenced the process. This research was an empirical study using a regression model. The results of this study indicate that budgeting involving different political groups would influence those who are not from the group. The research reveals that political influence is rendered by the president and the parliament in the budget drafting process. Palanjian (2008) examined the effect of politics on budgeting in developed countries.

The result of the study also found that politi-

cal interference is present in the budgeting process. Koeswara, Liesmana, Hanida, and Muluk (2013) examined how the budget is used for political financing, namely for post-conflict local elections funding using local budgetary sources. The result of the study found that political funding in post-conflict local elections using the local budget created ineffectiveness and non-compliance in the use of the budget.

Astuti and Yulianto (2016) examined good governance in village financial management in anticipation of the coming into effect of Law Number 6 of 2014. The result of the study established that good financial management can be achieved through good governance, namely the application of the principles of transparency, accountability, and public participation in financial and village management. Pratiwi (2012) examined the extent of politics being present in the budgeting process in Batu City. The study explained that political power strongly influenced the preparation of the budget and provided public space through Musrenbang, although it failed to make its way into the agenda of political institutions due to insufficient public control in the management of the local budget. Schulze and Sjahrir (2014) explain that in Indonesia the phenomenon of politics influencing the local budget represents a democratic, decentralized, and public service delivery. Meanwhile, Mo (2008) has shown the negative effect of political instability that causes reduced economic growth and that political instability within governance is partly the cause of failure in accountability.

Shopiana and Panjaitan (2017) found that characteristics of a budget's purpose influence the performance of civil servants. Such influence has a positive effect, meaning that the properly allocated budget with a sound objective will create a good performance. Patty (2019) found that errors in a budget

forecast will result in budget deviation. Budget plays an important role in local governance, where potential surpluses and deficits are determined during the planning and implementation phases.

Government actions lead to accountability and responsibility. Brandsma and Schillemans (2013) have developed an accountability model consisting of a cube that measures government accountability. Participatory budgeting is one responsibility of a government that operates under a democratic political system. It is established that accountability is divided into three dimensions, namely discussion, information, and consequences. The more discussions are held, the more the consequences are and information needed, which represent higher accountability. Previous research on the budget was mostly conducted using quantitative methods and case studies, whereas this study was undertaken using qualitative methods as well as case studies in explaining how and why such phenomena occurred.

## RESEARCH METHOD

This study employs a qualitative method and case studies. Stake (1995) describes a case study as a methodology that deals specifically with a case by looking at the main important points that are discussed in the case. A case study will reveal what happened and explain why it happened and how it happened. The authors used questionnaires with thematic analysis as a means of data collection.

Braun and Clarke (2006) explain that one technique for analyzing qualitative data is thematic analysis. The methods used in the thematic analysis are identification, analysis, and presentation of the topics represented by the data. The method explains in greater detail the data and information gathered and



provides an explanation of the phenomenon and its relevance. The present study aims to acquire the information directly from the relevant persons on the application of political power in the budgeting process and how political influence can lead to the financial loss suffered by the local government. The authors intend to reveal the phenomenon and explain at greater length on how this phenomenon occurs and what the effects are. Following the collection process, the authors processed the data inductively, ultimately drawing out the phenomenon and linking it with existing theories.

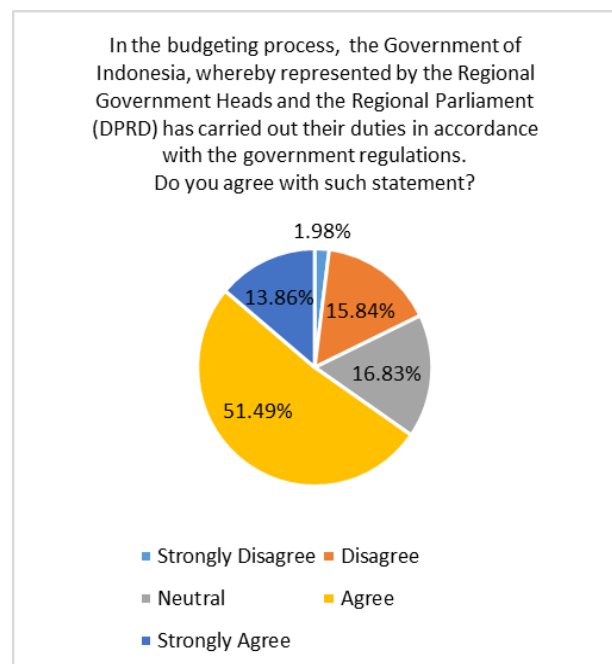
Content of the responses given in the open-ended questionnaires was analyzed using content analysis, in which the sentences and words contained in the answers are analyzed. Additionally, data processing was carried out using the thematic analysis method to identify the topics or themes raised by the political policies in the preparation of the budget, and subsequently evaluate participation that enables good governance. According to Creswell (2014), data analysis requires a specific step to analyze qualitative data. As such, the authors used the NVIVO application to analyze data to extract texts from the results of the questionnaires. Respondents who filled out questionnaires were unrelated persons as they had no personal interest in the research. Validity was proven by the answers from unrelated respondents. There was no relationship between the authors and the respondents. Link to the online questionnaire was distributed using the Whatsapp application. The research focused only on the relevant answers, thus in order to avoid biased information the open-ended questionnaires were adapted to the research questions.

## RESULT AND DISCUSSION

### Political Power in the Evaluation Phase between the Head of Local Go-

### vernment and DPRD as well as the Role of Political Power in the Budget Formulation Process

One of the steps in the budgeting process is the involvement of political power in the RAPBD evaluation. The RAPBD is submitted by the head of local government to the DPRD to be discussed and approved as a local regulation concerning APBD. This is under the mandate of Article 44 of the Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019. The analysis target of this study is one of the districts on the island of Sumatra with employees as respondents who have been involved in the budget preparation process based on the results of a questionnaire on how political power has carried out its duties and functions accordingly as shown in Figure 2.

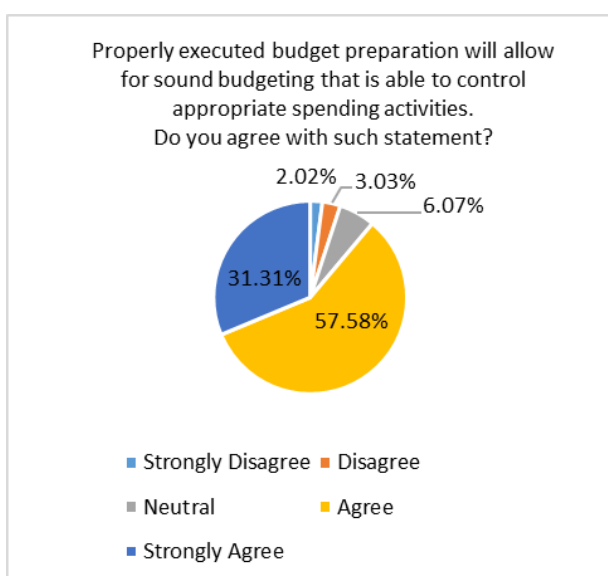


**Figure 2.** Percentage of Local Governments that had performed well during the Budgeting Process

It can be seen that some of the respondents or 51.49% and 13.86% strongly agreed that the head of local government and DPRD had carried out their functions accordingly in the budgeting process. The remaining 1.98% expressed their strong disagreement, 15.84%

less agree, 16.83% expressed their neutrality. This percentage portion proved that the government had fulfilled the mandate of government regulations to carry out the budget preparation process properly.

Governments who perform their functions and their duties properly represent good responsibilities and accountability. One sign of the realization of good governance is the process of preparing a budget following the mandate of Government Regulation, and it is expected to reduce the chances of fraud. The results are shown in Figure 3.



**Figure 3.** Aspects of the Budgeting Process that abides to the Regulation will Minimize the Chances of Fraud

Nearly 57.58% of respondents agree and 31.31% strongly agree. This reveals that budgeting processes that are well and properly executed and abides with the regulation will be able to reduce the chances of

fraud which constitutes local government's losses. Only 2.02% stated strong disagreement, 3.03% stated disagreement and 6.06% gave a neutral opinion. Supported by Nordiawan and Hertianti (2010), they both explained that one of the functions of the budget was as a control tool. Properly executed budget preparation will allow for sound budgeting that can control appropriate expenditure activities.

### The Role of Political Power in Budgeting Process

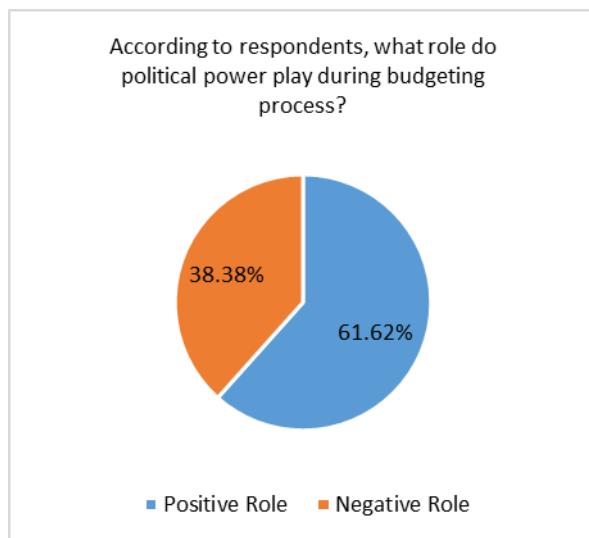
The role of political power in budgeting is participatory budgeting. The result of the study revealed that politics played a role in the process of budgetary contribution and explained by participatory budgeting. The results are shown in the form of a word map in Figure 4.

Based on Figure 4, it can be seen that political power in the process of preparing a budget is the activity of preparing a budget that involves local planning in the community where the process itself would be suitable with the regulations to meet the needs and interests of the society. Level seven and eight of the respondents expressed transparency and responsibility. The budget preparation process is a demonstration of government responsibility for the society whose implementation is expected to be transparent as a manifestation of accountability.

Word Frequency Query											
Level											
1	2	3	4	5	6	7	8	9	10	11	12
Budget	Draft	Obligation	District	Channel	Social	Transparent	Embodie	Public	Priority	Result	Document
		Planning	Matched		Needs	Accountability	Accountability	Role	Source	Target	Duties
Society	Activities	Purpose	Available	Past Event	People	Establish	Politik	Regional Head	Finance	Report	Rule
	Government	Reason	Process	Distribute	Public	Budget		Suitable	Ability	Aspiration	Mechanism
					Development	Preparation	Performance		Manageble	System	Information

**Figure 4.** Word Map of The Role of Political Power in the Budgeting Process

On those levels, it is explained that political power in the budget process is related to the priority use of the budget as the budget has limited resources in an economic capacity and periods so it needs to be a priority. Some considerations become problematic and to set priorities, these considerations have been discussed by listening to the aspirations expressed by each community representative. Another important factor from this word map is the rise of effectiveness and efficiency during the budget process. These two words describe that the budget must follow principles that are effective and efficient. Mardiasmo (2009) reveals that the effectiveness and efficiency of the budget reflect the performance and productivity thus budget must have these two principles. Further, this study examines the role of political power in the budgeting process as shown in Figure 5.



**Figure 5.** Percentage Shows Hows Political Power Influence the Budgeting Process

According to Figure 5, it is known that 61.62% state that political influence has a positive role and 38.38% state that political power has a negative role in the budget preparation process. It can be concluded that the budget preparation process requires a political element. The political element is a forum for capturing aspirations as expressed by Shah (2007) who says that the decision-making process is executed through the results of deliberations by considering the negotiation of

public resources. Meanwhile, the negative role of political power expressed by Shah (2007) is that there is a risk that groups with other intended objectives will benefit from the decision-making process. There is potential or opportunity to abuse authority which involves political influence in the budget preparation process.

### Political Power with a Positive Role

There were 61.62% of respondents who expressed that political power had a positive role in the budget preparation process. They provided further explanation of the intended positive role. The researcher used NVIVO to summarize words that were often expressed in respondents' explanations. The top eight words are shown in Table 1.

**Table 1.** Top Eight Words in the Descriptions of Respondents Who Consider that Political Power has a Positive Role

Word	Length	Count	Weighted Percentage (%)
Society	10	27	4.11
Budget	8	14	2.13
Public	6	14	2.13
Politic	7	13	1.98
Channel	7	11	1.67
Aspiration	8	9	1.37
Reason	6	9	1.37
Needs	9	9	1.37

The word "public" or "public community and society" are the top three expressed by respondents who shared that political power has a positive role. Respondents informed that the positive role of political influence derived from the budget participation process. The participatory process is the platform to convey the aspirations of the community. Political power provides a public hearing space to be delivered to the government during the budget process. Political

power is a place of aspiration. Community needs are conveyed through representatives of the DPRD. Political power functions as a channel connecting community needs with the government.

The most dominant problem of this positive role is reflected in three words, namely aspirations, needs, and society. As declared by Nordiawan and Hertianti (2010), they say one of the functions of the budget is to serve as a means for coordination and communication. The public cannot directly participate in the budget preparation process. They communicate their aspirations through representatives in the DPRD. Therefore, the DPRD's authority is to ensure that community needs are satisfied and those needs can be met through the implementation of programs and activities within the APBD. Every time programs and activities in the APBD have been accomplished would mean that public aspirations have been heard and political forces are functioning well.

### Political Power with a Negative Role

There are 38.38% of respondents declared that political power has a negative role in the budget preparation process. They were given further explanations about the intended negative role. The researcher utilized NVIVO to summarize the words that are often expressed in the respondents' explanations. The top nine words are described in Table 2.

On the other hand, political power also has a negative role in the budget preparation process. Politics and interests are the top two words raised by respondents. The authority of the DPRD in the budget preparation process can be misused. Political influences representing people's aspirations and needs are used to meet personal needs. As such, it is one of the weaknesses of the participatory budgeting. The power that is abused for personal purposes will be controlled by taking

advantage of political power in the budget preparation process. This study is supported by a theory concluded by Pratiwi (2012), that revealed the same notion where political influence is very strong in budgeting by providing public space through Musrenbang but unsuccessful due to hidden agendas of political institutions.

**Table 2.** Top Nine Words in the Descriptions of Respondents Who Declares that Political Power has a Positive role

Word	Length	Count	Weighted Percentage (%)
Politic	7	16	4.32
Interest	11	13	3.51
Budget	8	5	1.35
Parliament	7	5	1.35
Society	10	5	1.35
Influence	8	5	1.35
Delegation	6	4	1.08
Personnal	7	4	1.08
Entrusted	7	4	1.08

### Factors Affecting Changes in the APBD

Several factors influence changes in the APBD, therefore this study explains further the factors in the APBD evaluation process which take place between the heads of local government and DPRD. There are various explanations on how to change the budget in the evaluation process. According to the questionnaires, three factors contributed to the changes, namely the first is the priority, the second is political power in the form of ideas and recess, and other factors such as national government, strategic issues, government functions, and policy changes. Further elucidation of these factors is shown in Figure 6.

### Priorities

Forty percent of respondents said that the changes occurred due to priority considera-

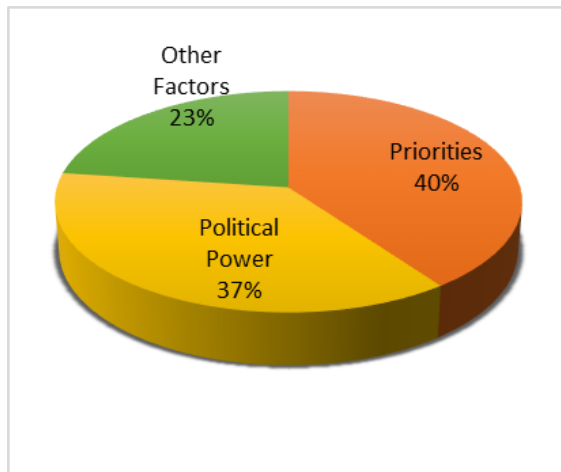


Figure 6. Factors that Affects Changes in APBD

tions. The ability of local government to plan budgets has several resource limitations. Among these limitations, there are two of them, namely limits on economic capacity and periods. Limitation of economic capacity is the ability of funds held by the region to create limited APBD. The region itself has its original local income, but this is not enough to meet existing needs. So far, most regions have been assisted with funds from the central government. Budget execution is also limited in one fiscal year. Therefore local governments have their priorities in determining the programs and activities that appear in the budget. Based on priorities, it is possible to change budgets.

Priorities are established based on which needs are most urgent and important. In preparation, there are business affairs that are mandatory and therefore must be treated as a priority. Some non-urgent items can be allocated in the following year's budget. The determination of functions must be regulated and established by the central government while the choices of functions are the authority of the local government. The theme to be promoted in priority is the ability of regions that are short of funding to ask local governments to determine which is more urgent to allow them to make budget changes.

## Political Power

Thirty-seven percent of respondents said that the budget change occurred due to political power in the form of recess and the main ideas of the DPRD. The function of the DPRD is to represent the community or the media to communicate their aspirations and needs. There is a meeting forum from the community through Musrenbang. In this Musrenbang, DPRD members participate in discussions and provide perspectives. These ideas are then conveyed in an evaluation phase that is allowed for budget changes. Some respondents stated that this main idea was only a figure of speech. Based on the opinions of some respondents, this is an attempt to incorporate specific personal and group goals and it creates a conflict of interest resulting in budget changes.

Another factor similar to the DPRD's main ideas is recess. The recess takes place when DPRD visits the community. During their visit, the DPRD facilitated claims that community needs were not addressed during the Musrenbang therefore such aspirations could be conveyed during the recess. Not all recesses are the result of proposed activities to change the budget, however, through the recess, it can result in proposed changes. Recess also deals with setting priorities on urgent matters.

## Other Factors

Twenty-three percent of respondents stated that budget changes occur as a result of other contributing factors such as problems at the central issues, strategic issues, main tasks, and functions, also policy changes. The rest of the respondents represent other factors that cause budget changes. The most dominant word in other factors is the central issue. It is the central government's authority to determine policies and strategic issues that might make changes to the budget.



Changes concerning the affairs of central and local authorities as well as changes in duties and main functions amongst SKPD.

### The Form and Role of Government Accountability

Based on the content analysis derived from the questionnaires, the form and role of government accountability in the budget preparation process can be captured from the top nine words shown in Table 3.

**Table 3.** Top 9 words Provided By Respondents Regarding the Form and Role of Government Accountability

Word	Length	Count	Weighted Percentage (%)
Society	10	46	3.23
Accountability	18	30	2.11
Budget	8	29	2.04
Channel	7	25	1.76
Aspiration	6	23	1.62
Government	10	23	1.62
Toward	6	21	1.48
Forum	5	20	1.41
Report	7	18	1.26

The topic being presented is regarding accountability. The role of government accountability to the public is in the form of responsibility. Respondents are delivered through two platforms, namely forums and reports. Reports are mandated in Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019 whereas the government is obliged to make a report on its progress and accomplishments. In the budget preparation, a report refers to the disclosure of information regarding the APBD itself. So far reporting has been done but not yet fully utilized. The local government through its official Legal Documentation and Information Network (Jaringan Dokumentasi dan Infor-

masi Hukum, JDIH) website periodically uploads documents related to the APBD.

The second platform is a forum, a form of discussion that is rarely carried out between the community and the government also has not been implementing as it should be. The form of discussion so far has only been limited to top-down communication from the government to the community. Brandsma and Schillemans (2013) in the accountability cube introduces a forum of discussions between the government and the community. The more intensive discussions are carried out, the higher the accountability situation is reflected, compared to discussions that are rarely conducted.

### Benefits of Accountability and Future Improvements

Based on the content analysis of the questionnaire result regarding the benefits of government accountability in the budget preparation process, the top nine words used to describe these benefits are shown in Table 4.

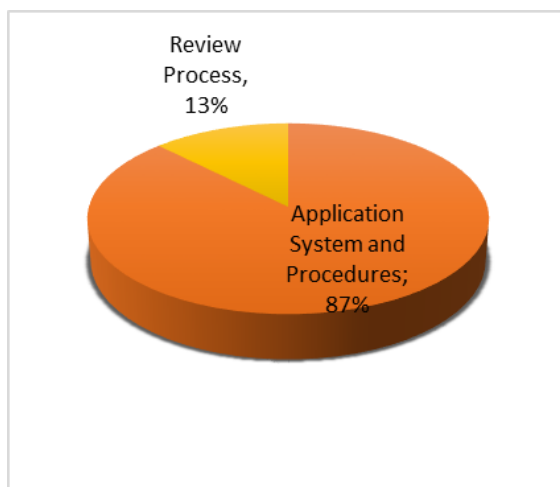
**Table 4.** Top 9 words used by respondents to describe the benefits of government accountability

Word	Length	Count	Weighted Percentage (%)
Society	10	25	2.55
Government	10	20	2.04
Accountability	21	12	1.23
Transparant	10	10	1.02
Effectiveness	7	8	0.82
Responsibility	13	7	0.72
Efficient	7	7	0.72
Budget	12	7	0.72
Performance	9	6	0.61

In their responses, the respondents described the benefits in a variety of ways. The top nine words that carried the most profound meaning occupy only a small percentage but significantly represented the themes

discussed. The result was well saturated. It can be derived that the dominant theme of the benefits of accountability is the ability of the government to take proper responsibility for the budgeting process, duly considering performance. The various words used to describe the benefits intend to convey the concept of budgetary transparency, which allows the realization of an efficient and effective budget.

Following the discussion on the various forms of benefits and roles, the authors will further elaborate on what could be done to improve the current budgeting process. There are two main ideas put forward by respondents on bringing about improvements. The first idea involves fixing existing systems and procedures. The second requires a review of the process. An explanation of these two recommendations is outlined in Figure 7.



**Figure 7.** Aspects targeted for improvements in the current budget process

### Application System and Procedure

Eighty-seven percent of respondents stated that improvements should be introduced through the application system and procedure. However, the organizations that were the subject of the present study have not yet adopted an application system. Their budget preparation process still uses a computer file

that is copied using a flash drive to allow review, adjustment, and incorporation as a formal APBD. Such a manner of preparation is highly probed to errors. Respondent suggests the use of an application system to counter such risk. The application system should integrate the overall process, from budget preparation, realization, to supervision.

The integrated system would also facilitate coordination and verification, thereby minimizing the possibility of mistakes and errors. The application system would also help the documentation process, thus all changes made during the budget preparation process can be tracked. The government has indeed developed and applied an application system to facilitate budget preparation called e-Budgeting. However, the application system is yet to be adopted by the local governments that were studied for this research.

Another recommendation is to improve the procedure. The mandate set forth in Article 44 of Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019 concerns evaluation conducted jointly by the head of the local government and DPRD. Evaluation is intended to maintain alignment between RAPBD, KUA, and PPAS.

### Review Process

Thirteen percent of the respondents proposed for improvements to be made to the review process. During evaluation by the head of local government and DPRD, no further review of the evaluation results is conducted. Government Regulation Number 58 of 2005 as amended by Government Regulation Number 12 of 2019 does not provide for a review process by Government Internal Supervisory Apparatus (Aparat Pengawasan Internal Pemerintah, APIP) after the evaluation process carried out by DPRD. Results of the evaluation of RAPBD are then submitted to a higher level,

i.e. the province, to be subjected to another round of evaluation and subsequently approved. The absence of a review by APIP at this step creates a risk of abuse of political power. An idea raised by a respondent was for the evaluation results to be further reviewed by APIP, which is the Local Government Inspectorate. The recommendation of the review held by APIP should check any changes to budget items against the set objectives.

## CONCLUSION

In participatory budgeting, the involvement of political power is a vital necessity, as such an aspect facilitates the delivery of the people's aspirations in a decision-making platform by taking into account negotiations for public resources. Political power has a positive role, serving as a channel for public aspirations. On the other hand, there also exists a risk that political power benefits only those who have their agenda. Abuse of authority, which can be for personal or group interest, is the risk caused by the presence of political power in the budgeting process. Political power is more independent than rules. However, this risk can be minimized by upgrading the mandatory procedures. APIP should be allowed to review the results of the evaluation jointly conducted by the head of the local government and DPRD also subsequently makes use of an integrated system to reduce mistakes and errors.

The principle of accountability must be maintained and upheld to ensure that the public is secure in the trust that the government can be held accountable for the budgeting process. This form of accountability takes the form of reports and forums. Accountability is something that must be maintained by the government as a form of responsibility. Although an automated budgeting system has been developed and in use for some time

(in the form of an application system), some users among civil servants do not yet understand the system. Therefore, for further research, it recommended that a simpler system can be introduced to overcome this problem. Further research could also improve the research sample, samples should not only be collected from the Sumatera Island but from wider geographical area to discover other factors that may influence the application of political power in the budgeting process.

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## AUTHOR GUIDELINES

### General Requirements

This journal broad scope provides a platform to publish primary and secondary research (review articles) related to state finance in areas of accounting (public sector accounting), auditing, governance and accountability of state finances, public administration policy, and state finance law. The article should be free from plagiarism and written accordingly under the guidelines from JTAKEN. The article has never been published in any other publication media or publishing houses, either in printed or electronic form. The article shall be written in English.

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1. The paper used by the author should be prepared in A4 paper.
2. The article published in JTAKEN should be accompanied by Curriculum Vitae (CV) & Statement of Authenticity and Copyright Release. The template is available online at [jurnal.bpk.go.id](http://jurnal.bpk.go.id).
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4. The length of the article around 18-20 pages, including figure, graphic, or table.

### The Article Guidelines

#### 1. Research Article Structure

##### a. Article Title

- Briefly describe the substance of the article, no more than 15 words, 18 point Calibri, UPPERCASE, bold, centered, exactly 16 point line spacing, 0 point spacing before and after.

##### b. Authors

- This line consists of the author's name (full name with no abbreviations) and the author's affiliation along with the address and email address.
- Authors' name is written using 11 point

Calibri and centered below the title.

- If the author is more than one person, they should be separated with a comma (,).
- If the address more than one, it should be marked with an asterisk (\*) and followed by the current address.
- Author's address and email using 10 point Calibri, exactly 15 point spacing, 0 point spacing before and after.

#### c. Abstract and keywords

- The abstract should concisely inform the reader about the research purpose, its background, methods, findings, and value, or conclusion.
- An abstract consists of no more than 200 words in English.
- Abstract using 10 point Georgia and single line spacing.
- Keywords in abstract consist of 3-6 words, separate with a semicolon (;).

#### d. Article's Body

The body of the article consists of an introduction, research method, result and discussion, and a conclusion. The body of the article is written as follows:

- Using 11 point Georgia, exactly 15 point line spacing, before 8 point and after 8 point, 2 cm for top and inside margin and 2.5 cm for bottom left margin.
- Abbreviations should be followed with an explanation when the first time mentioned except for the unit of measurement.

#### e. Introduction

The introduction must contain (shortly and consecutively) a general background, objective, literature review (state of the art) as the basis of the brand new research question, statements of the brand new scientific article, main research problems,

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and the hypothesis (optional). The introduction contains previous similar research and the differences with the present research as well as the contributions given.

f. Research Method

In general, research methods include framework, data collection method, data analysis method, location, and time of research. The research method describes the type, data source, and variable definition. The method also provides detailed descriptions so that other authors can assess and duplicate the procedure.

g. Result and Discussion

This part consists of the research results and how they are discussed. Research results can be presented in a table or figure followed with information that easy to understand. In the discussion section, it is stated that there is a relation between results and basic concepts or the research hypothesis so that it can be seen in its suitability and contradiction with other research. The discussion also explains the limitation of the research and its implications both theoretically and by the application.

h. Conclusion

This is the final part containing conclusions and advice. The conclusions will be the answers to the hypothesis, the research purpose, and the research findings. The suggestion is based on the result of the analysis and conclusion made and also associated with further ideas from the research.

i. References

- The author must cite the publications on which the article work is based. Cite only items that the author has read.
- Primary references should be  $\pm 40\%$ -80% of all references cited.
- References should be taken from the last ten years.

- The references use Georgia 11 point in indentation special hanging paragraph format, exactly 15 point line spacing, 8 point before and after, the upper and right borders are 2 cm each, while the left and bottom borders are 2,5 cm each.
- All references must be written in American Psychological Association (APA) style and listed in alphabetical order. The references should use reference management software such as Mendeley, End Note, Zotero, etc.

j. Appendices/Acknowledgements

Appendix (es) can be included if necessary. The author can only write essential acknowledgments for those who have contributed to the research.

2. Non-research (review) article structure consists of article title, authors, abstract and keywords, introduction, result and discussion, conclusion, references, appendices/acknowledgments.

3. Heading

Heading should be made on three levels. Level four cannot be accepted.

- Heading level 1: UPPERCASE, left-aligned, bold, 18 point Calibri, exactly 15 point line spacing, 8 point spacing before and after.
- Heading level 2: *Capitalize Each Word*, left-aligned, bold, 11 point Georgia, exactly 15 point line spacing, 8 point spacing before and after.
- Heading level 3: *Sentence Case*, left-aligned, bold, italic, 11 point Georgia, exactly 15 point line spacing, 8 point spacing before and after.
- Heading level 4 is not recommended.

4. Table

- The table placed left-aligned.
  - Table title placed above the table, left-aligned, 10 point Calibri, exactly 15 point line spacing.
  - Table content using 9-10 point Calibri, exactly 12 point line spacing, 0 point
-

spacing before and after.

- The number of table is identified using Arabic numerals (1, 2, 3,...).
- "Table" and "Number" written in bold, while table title is written in normal format.
- Source and information placed below the table, left-aligned, italic, 9 point Calibri.

#### 5. Figure

- The figure can be a graphic, matrix, picture, diagram, and others placed centered on the page.
- Figure title is written below the figure, using 10-11 point Calibri, exactly 15 point line spacing, left-aligned. "Figure" and "Number" written in bold, while the content written in normal format.
- Number of figure is identified using Arabic numerals (1, 2, 3,...).
- Source and information placed below the figure title, left aligned, italic, 9 point Calibri.
- The figure should be in black and white with extension .jpg or .tif. If it is made in color to explain the meaning, it must provide the respective high-resolution figure minimum 300dpi.

#### 6. Citation Format

The authors should ensure that every reference cited in the text appears in references and vice versa. All references cited should follow APA referencing style and the formatting guide as follows:

- References to previous research must be made in text with a year-old system on one of two forms, for example, Andrianto (2007) or (Andrianto, 2007).
- If the reference used is more than one, it should be mentioned together with the arrangement in the order of date, for example: (Mardisar & Sari 2007; Solomon, 2010; Muljono, 2012).
- If there are more than 2 (two) authors, then the author's name must be followed by "et al."

There are two types of references, those are electronics and non-electronic sources. The reference examples are as follows:

##### a. Book

###### 1) Without the author's name

*Employment the professional way: A guide to understanding the Australian job search process for professionally qualified migrants.* (2000). Carlton, Australia: Australian Multicultural Foundation.

###### 2) One author

Saidi, M. D. (2011). *Hukum keuangan negara*. Jakarta: Raja Grafindo Persada.

###### 3) Two authors

Hendriksen E. S., & Van Breda, M. F. (2002). *Accounting theory*. New York, NY: McGraw-Hill.

###### 4) Three to five authors

Albrecht, W. S., Albrecht, C. O., Albrecht, C. C., & Zimbelman, M. F. (2014). *Fraud examination* (5th ed.). Boston: Cengage Learning.

###### 5) Six or more authors

List the first six authors,... and ended the last author without "&".

Siregar, B., Suropto, B., Hapsoro, D., Widodo, E., Herowati, E., Kusumasari, L., Nurofik. (2013). *Akuntansi biaya*. Jakarta: Salemba Empat.

##### b. E-book

Jonick, C. (2017). Principles of financial accounting. Retrieved from <https://www.e-booksdirectory.com/details.php?ebook=12161>.

##### c. Books published by organizations or institutions

Ikatan Akuntan Indonesia. (2011). *Standar profesional akuntan publik*. Jakarta: Salemba Empat.

##### d. Journal Article

###### 1) Printed Edition

Journal with volume and number

Gumanti, T.A. (2001). Earnings management dalam penawaran saham perdana di Bursa Efek Jakarta. *Jurnal*

*Riset Akuntansi Indonesia*, 4(2), 165-183.

Journal with volume

Elliston, F.A. (1982). Anonymity and whistleblowing. *Journal of Business Ethics*, 1, 167-177.

2) Online Edition

Lowe, D. J., Pope, K. R., & Samuels, J. A. (2015). An examination of financial sub-certification and timing of fraud discovery on employee whistleblowing reporting intentions. *Journal of Business Ethics*, 131(4), 757-772. doi: 10.1007/s10551-013-2020-8.

e. Thesis/Dissertation

1) Unpublished thesis/dissertation

Ramadhany, A. (2004). *Analisis faktor-faktor yang mempengaruhi penerimaan opini going concern: Studi empiris pada perusahaan manufaktur yang mengalami financial distress di Bursa Efek Jakarta*. (Unpublished master's thesis). Universitas Diponegoro, Semarang.

2) Thesis/dissertation from online database

Burger, M. A. (2012). *Accounting measurement and beta risk measures*. Retrieved from ProQuest Digital Dissertations. (UMI No. 3522298).

f. Magazine

For magazines that are published monthly, the date of publication consists only of year and month. But for magazines that are published weekly, the exact date of publication is provided.

Sianturi, H. R. (2019, Januari). Memanggul beban utang atik harga BBM. *Gatra*, XXV(9), 92-95.

Hamel, G., & Zanini, M. (2018, November-December). The end of bureaucracy: How a Chinese appliance maker is reinventing management for the digital age. *Harvard Business Review*, 96(6), 51-59.

g. Newspaper

1) Printed Edition

Sutaryono, P. (2019, Januari 3). Tantangan perbankan 2019. *Kompas*, p.6.

2) Online Edition

Zain, W. (2018, June 8). Behind the rise of income inequality in Indonesia. *The Jakarta Post*. Retrieved from <http://www.thejakartapost.com/academia/2016/06/08/behind-the-rise-of-income-inequality-in-indonesia.html>.

h. Internet Documents

Dawson, J., Smith, L., Deubert, K., & Grey-Smith, S. (2002). *Trek 6: Referencing, not plagiarism*. Retrieved from <http://www.academicworld.com/referencing-not-plagiarism.html>.

7. The Editorial Board and Managing Editor reserve the right to amend, refine the article as long as it does not alter the substance of the article. The article which is inappropriate with the JTAKEN writing guidelines will be returned to the author before the reviewing process.

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## PUBLISHING WITH JTAKEN: STEP BY STEP

The author submits the article via Open Journal Systems (OJS) on the [jurnal.bpk.go.id](http://jurnal.bpk.go.id) page. To submit an article, the author must have a user account and registered as a user.

### User Registration

- The registration process is started by clicking the "register with this site" button on the register page.

Figure 1. JTAKEN Home Page for Registration

- Authors are required to fill out a form that includes language, username, password, and profile.

Figure 2. Author Registration Form Page

- b. Click "Confirmation" to get your username and password sent to author's email. Next on "register as" section, click the "reader" and "author" then click "register" to complete registration.

URL

Phone

Fax

Mailing Address

Country

Bio Statement  
(E.g., department and rank)

Confirmation

Working Languages

Register as

☒ Send me a confirmation email including my username and password

☐ Bahasa Indonesia

☐ English

☒ Reader: Notified by email on publication of an issue of the journal.

☒ Author: Able to submit items to the journal.

**Register** **Cancel**

\* Denotes required field

**Figure 3.** Author Registration page

## Article Submission

These are the following steps to make an online submission for the article:

- a. After login, you will be directed to your Author's User Home Page. To start the submission, click "New Submission".



**Figure 4.** Page "New Submission"

- b. Article submission consists of five steps, including start, upload submission, enter metadata, upload supplementary files, and confirmation. In the first step, the author can download the Curriculum Vitae (CV), and Statement of Authenticity and Copyright Release. Besides, the author can give comments to the Editor before click "Save and continue".



Home > User > Author > Submissions > **New Submission**

## Step 1. Starting the Submission

1. **START** 2. **UPLOAD SUBMISSION** 3. ENTER METADATA 4. UPLOAD SUPPLEMENTARY FILES 5. CONFIRMATION

Encountering difficulties? Contact Veronika Dewi P for assistance (021 25549000 ext 3311).

### Submission Language

This journal accepts submissions in several languages. Choose the primary language of the submission from the pulldown below.

Language \* English

### Submission Checklist

Indicate that this submission is ready to be considered by this journal by checking off the following (comments to the editor can be added below).

- ☐ Please read carefully. The journal only accepts articles that meet the JTAKEN's format and style. Any articles written in different format will NOT be reviewed.
- ☐ Due to the need for correspondence, all authors' personal contacts are required. Please provide e-mail address, and phone/mobile number.
- ☐ Submission articles supported with supplementary documents including and can be downloaded here:
  - **Author CV**
  - **Statement** of Originality and copyright transfer (Rp6000.00 stamp duty); and

Figure 5. "Starting the Submission" page

- c. The second step is uploading the article file. This page provide instructions to submit the article. The type of uploaded is Microsoft Word.

## Step 2. Uploading the Submission

1. **START** 2. **UPLOAD SUBMISSION** 3. ENTER METADATA 4. UPLOAD SUPPLEMENTARY FILES 5. CONFIRMATION

To upload a manuscript to this journal, complete the following steps.

1. On this page, click Browse (or Choose File) which opens a Choose File window for locating the file on the hard drive of your computer.
2. Locate the file you wish to submit and highlight it.
3. Click Open on the Choose File window, which places the name of the file on this page.
4. Click Upload on this page, which uploads the file from the computer to the journal's web site and renames it following the journal's conventions.
5. Once the submission is uploaded, click Save and Continue at the bottom of this page.

Encountering difficulties? Contact Veronika Dewi P for assistance (021 25549000 ext 3311).

### Submission File

File Name 132-622-1-5M.docx  
 Original file name 2. Contoh Submission Artikel.docx  
 File Size 28KB  
 Date uploaded 2018-02-05 03:45 PM

Replace submission file Browse... No file selected. Upload ENSURING A BLIND REVIEW

Save and continue Cancel No file selected.

Figure 6. "Uploading the Submission" Page

- d. After that, the author must fill the article metadata. Metadata is information about the submitted articles, including author information, article title and abstract, indexation, and references that have been used. The author can change metadata during the article review process. The more complete metadata, the easier the author's indexing/citation process will be. Some points that must be considered in filling metadata are:
- An author whose name consists of one word has to fill in his/her name in the last name. The first name can be filled with repetitions of the last name or filled with dots or hyphens.
  - If the author is more than one person, then click the "Add Author" button to add the author's information.
  - By clicking the up and down arrows (↑ ↓), articles with multiple authors can be arranged by the author's order. The arrow will change the author's position of the first, second, and so on.
  - At the end of each author column, the author can find the delete function.
  - The author has to write an abstract using the language according to the article written.
  - List the "keywords" in the keywords column at the indexing section and separated it with a semicolon.
  - Fill in all references or bibliography that become references to journal articles. Then click "Save and Continue" to proceed to the next step.

Last Name \* nita

Email \* vdewip@gmail.com

ORCID ID

ORCID IDs can only be assigned by the ORCID Registry. You must conform to their standards for expressing ORCID IDs, and include the full URI (eg. <http://orcid.org/0000-0002-1825-0097>).

URL

Affiliation

(Your institution, e.g. "Simon Fraser University")

Country Indonesia

Bio Statement (E.g., department and rank)

**Add Author**

Figure 7. Page to add author

**Title and Abstract**

Title \* Contoh Submission Artikel

Abstract \*

**Abstrak**

Abstrak menyajikan secara singkat dan padat mengenai latar belakang, tujuan, metode penelitian dan kesimpulan atau temuan utama dari penelitian ini. Abstrak berdiri sendiri, dalam arti tidak ada kutipan di dalamnya. Abstrak ditulis dalam dua Bahasa, yaitu bahasa Indonesia paling banyak 250 kata, dan abstrak dalam bahasa Inggris, paling banyak 200 kata (Georgia, 10 poin, spasi 1). Apabila naskah menggunakan bahasa Indonesia, maka abstrak didahulukan dalam bahasa Inggris ditulis dengan huruf cetak miring (*italic*), sedangkan abstrak dalam bahasa Indonesia ditulis tidak dengan huruf cetak miring, dan sebaliknya.

**Indexing**

Provide terms for indexing the submission; separate terms with a semi-colon (term1; term2; term3).

Keywords Kata Kunci: tiga sampai enam kata dan dip

Language id

Figure 8. "Title, Abstract, Keywords, and Reference" Page

- e. In the fourth step, the author must upload supporting documents such as research instruments, research data, figures, or tables if needed. The author also uploads the required supporting documents such as Curriculum Vitae (CV), Statement of Authenticity, and Copyright Release. Then click "Save and Continue" to proceed to the next step.

Home > User > Author > Submissions > **New Submission**

**Step 4. Uploading Supplementary Files**

1. START 2. UPLOAD SUBMISSION 3. ENTER METADATA 4. **UPLOAD SUPPLEMENTARY FILES** 5. CONFIRMATION

This optional step allows Supplementary Files to be added to a submission. The files, which can be in any format, might include (a) research instruments, (b) data sets, which comply with the terms of the study's research ethics review, (c) sources that otherwise would be unavailable to readers, (d) figures and tables that cannot be integrated into the text itself, or other materials that add to the contribution of the work.

ID	TITLE	ORIGINAL FILE NAME	DATE UPLOADED	ACTION
No supplementary files have been added to this submission.				

Upload supplementary file **Browse...** No file selected. **Upload** ENSURING A BLIND REVIEW

**Save and continue** Cancel

Figure 9. "Uploading Supplementary Files" Page

- f. In the final step, the summary of all files uploaded will be displayed. To complete the article submission, click "Finish Submission".

Home > User > Author > Submissions > **New Submission**

## Step 5. Confirming the Submission

1. START 2. UPLOAD SUBMISSION 3. ENTER METADATA 4. UPLOAD SUPPLEMENTARY FILES 5. **CONFIRMATION**

To submit your manuscript to Jurnal Tata Kelola & Akuntabilitas Keuangan Negara click Finish Submission. The submission's principal contact will receive an acknowledgement by email and will be able to view the submission's progress through the editorial process by logging in to the journal web site. Thank you for your interest in publishing with Jurnal Tata Kelola & Akuntabilitas Keuangan Negara.

### File Summary

ID	ORIGINAL FILE NAME	TYPE	FILE SIZE	DATE UPLOADED
622	2. CONTOH SUBMISSION ARTIKEL.DOCX	Submission File	28KB	02-05

**Finish Submission** Cancel

Jurnal Tata Kelola & Akuntabilitas Keuangan Negara registered in:

Figure 10. "Finish Submission" Page

## Monitoring The Submitted Article

After doing the five steps, the author can see the status of the article by clicking "active submission" on the user's home page. On this page, you can see the status of the article is "awaiting assignment" (waiting for assignment). Furthermore, the progress status of the article can be seen on this page too.

## The Steps Passed By Each Submitted Article Are:

- 1) Awaiting Assignment: the submitted article is waiting to be examined by the editor or section editor. The author cannot delete or cancel submissions from the system if the article is proposed in this status.
- 2) Queued for Review: the article is in the queue for the review process. The author will receive a notification about the results of the review decision.
- 3) Queued for Editing: the review process has been completed and the article is in the editing process.
- 4) In review: the article is in the review process which will result in a decision:
  - a) Revision required: articles need minor revision by the author and must be sent back to the editor.
  - b) Resubmit for review: articles need major revision and reviewers need to review again.

**Both of those decisions can be changed to accepted or declined.**

  - c) In editing: accepted article without revision and in the editing process.
- 5) Decline: if the article is rejected, the article will be automatically removed to archive. If the author wants the article to be accepted then the author has to resubmit the article according to the advice of the reviewer.

Home &gt; User &gt; Author &gt; Active Submissions

## Active Submissions

ACTIVE ARCHIVE

ID	MM-DD SUBMIT	SEC	AUTHORS	TITLE	STATUS
132	02-05	ART	nita	<a href="#">CONTOH SUBMISSION ARTIKEL</a>	Awaiting assignment

### Start a New Submission

CLICK HERE to go to step one of the five-step submission process.

Figure 11. "Active Submissions" page

## The Revision of Article

An article that has been reviewed and needs to be revised, will be sent back to the author. The author will receive notification and some notes via email. Some steps to revise the article are:

- Click the article title on the "Active Submission" page, then click the "Review" button.

Home &gt; User &gt; Author &gt; Submissions &gt; #140 &gt; Review

### #140 Review

SUMMARY REVIEW EDITING

#### Submission

Authors	Sut Mutiah
Title	IMBAS INVENTARISASI ASET TERHADAP LEGAL AUDIT DAN PENILAIAN ASET (STUDI KASUS PADA PEMERINTAH KOTA BANDUNG)
Section	Articles
Editor	Geger Adelia, S.E., M.Acc

#### Peer Review

Figure 12. "Review" page

- Next, the author must download the article file from the "editor version" on the "Review" page.
- After that, the author revises the article according to the editor's notes and uploads it again through the "Upload author version". The editor will automatically receive a notification if the article has been sent/uploaded.

### #115 Review

SUMMARY REVIEW EDITING

#### Submission

Authors	A [REDACTED]
Title	ANALISIS ANGGARAN PENDAPATAN DAN BELANJA DAERAH KABUPATEN PASURUAN
Section	Articles
Editor	Ratna Perwitasari, S.E., M.P.P., Ak., CA

#### Peer Review

##### Round 1

Review Version	115-408-2-RV.DOCX 2017-10-13
Initiated	2017-10-13
Last modified	2017-11-07
Uploaded file	Reviewer A 115-499-1-RV.DOCX 2017-11-07 Reviewer A 115-499-2-RV.DOCX 2017-11-07

#### Editor Decision

Decision	Revisions Required 2017-11-08
Notify Editor	Editor/Author Email Record 2017-11-08
Editor Version	115-466-1-ED.DOCX 2017-10-13
Author Version	None
Upload Author Version	Choose File No file chosen Upload

Figure 13. Downloading and uploading revised article

## Copyediting

After the author has finished revising the article and stated accepted (Accept Submission), the next step is copyediting. The author will accept an e-mail/notification from the editor to review the article. Some steps to see copyediting result are:

- Click the article title that will be revised on the "Active Submission" page. Then click the "Editing" page.
- The author can see and download files from the Editor on the "Initial Copyedit" section and recheck the article. The author can accept/reject any changes made by the editor in this step.
- The author uploads the article file again on the "author copyedit" section. Click on the "e-mail" icon to send a notification e-mail to the editor.

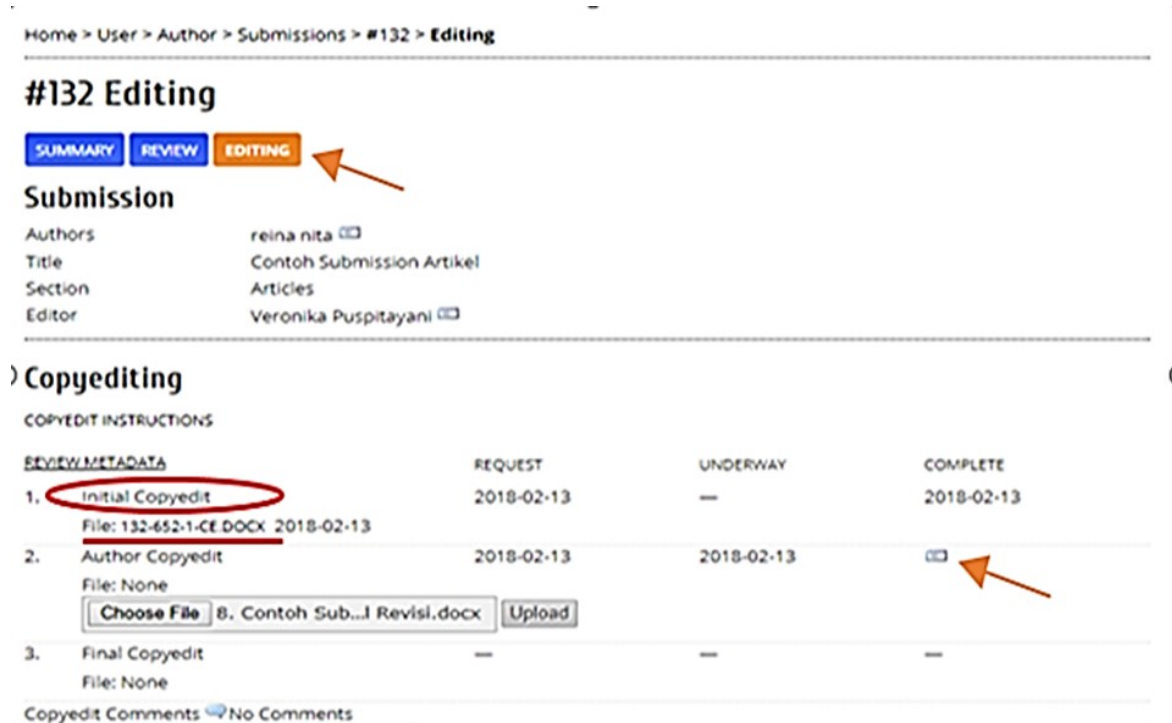


Figure 14. "Copyediting" page

## Proofreading

The next step after copyediting is proofreading. The author will receive an e-mail/notification from the layout editor informed that the layout already finished and uploaded the galley. The author can proofread at following these steps:

- Click the selected article title on the "Active Submission" page. Then click the "Editing" page.
- The author can see if the initial galley already correct by clicking the "view proof" on galley format in the "proofreading" section.
- The author can write suggestions and add comments on the proofreading corrections feature. After checking the view proof, the author must review the article metadata by clicking "review metadata".
- The author will finish the process by clicking "complete". This is the last step before the article published. When the journal has been published, the author will receive a notification.

REVIEW METADATA

1. Initial Copyedit

File: 132-652-1-CE.DOCX 2018-02-13

2. Author Copyedit

File: 132-654-1-CE.DOCX 2018-02-13

Choose File No file chosen

3. Final Copyedit

File: None

Copyedit Comments No Comments

Layout

Galley Format

1. PDF (Bahasa Indonesia) VIEW PROOF

Supplementary Files

Layout Comments No Comments

Proofreading

REVIEW METADATA

1. Author

2. Proofreader

3. Layout Editor

REQUEST

2018-02-13

—

—

UNDERWAY

2018-02-13

—

—

COMPLETE

☒

—

—

Proofreading Corrections No Comments

PROOFING INSTRUCTIONS

jurnal.bpk.go.id says:  
Are you sure you wish to mark this task as completed? You may not be able to make changes afterwards.  
OK Cancel

Figure 15. "Proofreading" page



**iii - iv      FOREWORD**

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**1-18**

**EXPLAINING EXISTING PERFORMANCE OF INDONESIA'S  
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Adfin Rochmad Baidhowah

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Deri Yanto, Vid Adrison

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