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**DIREKTORAT UTAMA PERENCANAAN, EVALUASI DAN KEBIJAKAN PKN**  
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## Financial Distress and the Commitment to Promoting Innovation in State-Owned Enterprises: A Critical Perspective

Rahmat Husein Andri Ansyah, Akbar Maulana Firmansyah

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 1-16

Financial distress in State-Owned Enterprises (SOEs) has been a problematic issue for a long time. By 2020, the total debt of SOEs in Indonesia reach 1.682 trillion Rupiahs, whereas 68% out of all SOEs that receive state capital injections are facing bankruptcy. However, a more critical perspective still needs to investigate how commitment to promoting innovation relates to financial distress in SOEs. The existing studies of financial distress in SOEs have mainly focused on analyzing technical and structural factors and the predictive models using company financial indicators. This study aims to analyze the financial distress and innovation in SOEs critically. This study uses official data of PT Krakatau Steel from 2015-2020 and employs the combined analysis method. Quantitative regression analysis analyzes the company's financial distress throughout the period. In contrast, qualitative content analysis analyzes the relevance of the company's innovation commitment in the same period. The study shows that apart from ineffective capital structure decisions, low commitment to innovation is an important factor influencing financial distress in SOEs. The prospect of restructuring as a short-term strategy is also discussed.

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### Keywords:

Innovation;  
financial distress;  
State-Owned  
Enterprise

## The Implementation of Utilizing Government Capital Funds Policy in the Indonesia Logistics Bureau

Akhsanul Khaq, Bahrullah Akbar, Khasan Effendy, & Sampara Lukman

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 17-38

This study analyzes the policy implementation of Government Capital Funds (GCF) for the Indonesia Logistics Bureau (Perusahaan Umum Badan Urusan Logistik, Perum BULOG) to support national food security. This study also aims to identify any obstacles and determine the development of an effective policy model for implementing the policy. This study uses qualitative methods, and the primary data was obtained from informants using the snowball technique collected from in-depth interviews. The result of this study is that the implementation of GCF fund utilization could have been more optimal in achieving the set targets due to several obstacles. These obstacles include the incomprehensiveness and inconsistencies in GCF policy planning, the difficulty of undertaking land acquisition and obtaining an environmental license, GCF funds are much less than the total needs that should be met, and the discontinuation of the RASTRA Program for low-income families and poor food security governance. In addition, developing an implementation model for the effective use of GCF funds requires strengthening the authority of national food security management institutions. This study recommends that the government upgrade the status of Indonesia's Logistics Bureau to become a ministry-level institution. The relationship pattern with the National Food Agency must also be strengthened for better food policy governance.

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### Keywords:

Implementation;  
policy; food  
security;  
Government  
Capital Funds



## Insight and Oversight Function of BPK to Improve the Management of Indonesian Migrant Workers

R. Luki Karunia, Nico Andrianto

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 39-56

### Keywords:

Indonesian Supreme Audit Institution, insight and foresight function, performance audit, migrant workers

This research discusses the role of BPK through insight and oversight function to improve the management of the Indonesian Migrant Workers (PMI) program. The study was conducted using a qualitative approach by analyzing the contents of the performance audit report as well as the viewpoint/opinion of BPK regarding Indonesian migrant workers released by BPK from 2010 to 2021. Various performance audits are carried out periodically by BPK by targeting PMI recipient countries with multiple characteristics, which determine different strategies regarding the dynamics of policies in PMI recipient countries. This study concludes that BPK plays a significant role in encouraging the improvement of PMI management through various performance audit recommendations and viewpoints/opinions. These audit recommendations have carried out the insight and oversight functions related to governance and implementation of the PMI program, as well as policies that need to be improved accordingly. Traditionally seen as only conducting financial audits, performance audits conducted by BPK, primarily through insight and oversight functions, can improve government management related to the Indonesian Migrant Workers program.

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## Measuring Employee Readiness for Knowledge Management Implementation in the Audit Board of the Republic of Indonesia

Risfayanti, M.R. Khairul Muluk, Fadillah Putra

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 57-70

### Keywords:

Knowledge management; employee readiness; SEM; BPK

The Audit Board of the Republic of Indonesia is one of the largest public institutions with frequent job rotations and high employee turnover. The current COVID-19 pandemic, which has forced employees to adopt work from home whether they are ready or not, has compelled the organization to implement knowledge management successfully urgently. Employee readiness is one of the critical factors in the implementation of knowledge management. If the employee is not ready, it will lead to the organization's failure. This study aims to measure the level of employee readiness in BPK to implement knowledge management by using the intention to be involved in the SECI (Socialization, Externalization, Combination, and Internalization) process. The analysis was conducted by using SEM (Structural Equation Modelling). The result reveals that employees of BPK are ready to implement knowledge management. This is shown by the development of the SEM analysis and by the results of descriptive statistics with high values. The SEM analysis displays 14 out of 16 items considered the most representative dimensions in the SECI Process.

DOI: 10.28986/jtaken.v9i1.1007

## Analysis of Business Process Management Principles in Performing Remote Audit at the Audit Board of the Republic of Indonesia

Agus Joko Pramono, Suci Nurlaeli

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 71-85

The Audit Board of the Republic of Indonesia must quickly adapt to its duties in the COVID-19 pandemic era. BPK forced all work to be done remotely. This study aims to analyze the application of Business Process Management Principles (BPM) in conducting remote audits at BPK following the COVID-19 pandemic. This study applies the descriptive qualitative with study literature and Likert survey on seven representative offices of BPK. The analytical tool used is BPM Principles with pattern matching. The results show that BPM principles in the remote audit have accomplished various implementation qualities. The result is divided into two types: principles that have worked properly and principles that have not maximally worked. The appropriately worked principles are context awareness, enablement, holism, continuity, institutionalization, purpose, and technology appropriation. The BPM principles that have been implemented but not maximized are the principle of involvement, the principle of joint understanding, and the principle of simplicity. Remote audits can only be conducted smoothly if all principles are implemented accordingly.

### Keywords:

Business process management, remote audit, BPK

DOI: 10.28986/jtaken.v9i1.1137

## Fraud Hexagon: Detection of Fraud of Financial Report in State-owned Enterprises in Indonesia

Sudrajat, Nyoman Adhi Suryadnyana, Taufiq Supriadi

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 87-102

This study aims to identify the potential for fraudulent financial reporting using the Fraud Hexagon approach with pressure, capability, collusion, opportunity, rationalization, and ego indicators. The population in this study is state-owned companies with observations for 12 years, from 2010 to 2021, and uses regression analysis with SPSS tools to test the Hypothesis. The results showed that pressure and ego could detect the potential for fraudulent financial reporting. There is a tendency for management to report conditions that are different from the actual conditions when under pressure in the form of performance targets that are not supported by the resources they have. CEO duality also provides an excellent opportunity for fraudulent financial reporting practices because when there is a position war, there is no cross-check between departments, so other parts cannot detect the potential fraud committed by the CEO. This condition also indicates weak control processes that provide wider opportunities for fraudulent financial reporting. At the same time, variables of ability, collusion, opportunity, and rationalization cannot detect financial statement fraud. This condition is because state-owned companies are required to implement the Minister of Finance Regulation number PER-11/MBU/07/2021 and the Financial Services Authority number 13/POJK.03/2017 as the basis for the implementation of Good Corporate Governance so that it is possible to commit financial reporting fraud very small.

### Keywords:

Fraud hexagon; financial report; State-owned Enterprise

DOI: 10.28986/jtaken.v9i1.1358

## The Lack of a Strong and Accountable Public Procurement Ecosystem in West Papua to Prevent Corruption

Sopian, Bagas Johantri, Rachma Aprilia

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 103-121

### Keywords:

Ecosystem; public procurement; tender; West Papua

West Papua has a relatively high risk of corruption during the implementation of its public procurement. It is critical to recognize that public procurement business processes are analyzed as an ecosystem with interactions between actors. This research aims to determine the need for a conducive ecosystem for public procurement (PBJP) in the West Papua province and propose recommendations for improving or increasing the credibility of public procurement. This research is qualitative because primary data are obtained through interviews and forum group discussions with selected participants. The results of the study show that the public procurement ecosystem consists of Budget User Authorities (KPA) or Contract Officers (PPK), Working Units for Public Procurement (UKPBJ), Vendors, Internal Control, and Regulators who are credible procurement actors as focal offers. Examining each actor's issues has led to the conclusion that to boost the credibility of public procurement goals. It is necessary to strengthen leadership commitment, improve the quality of human resources, and simplify laws. The research findings are expected to assist practitioners and policymakers in understanding why there is a lack of public procurement ecosystem in West Papua and propose the necessary corrective policies.

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## The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health Matter?

Muhamad Rizal Yuniar, Amrie Firmansyah

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 123-150

### Keywords:

Capital expenditure; financial health; fiscal autonomy; local government; investment

This study examines the impact of fiscal autonomy, capital expenditure for basic services, and local government investment on the transparency level of local government. In addition, this study includes local government financial health as a moderator in the association between the dependent and independent variables. This study employs a quantitative approach. Data are obtained through content analysis of the local government's official websites. The total sample of this study amounted to 349 observations collected from 2016 to 2019 and was selected by purposive sampling. The hypothesis test employs multiple linear regression analysis with the ordinary least square. The study suggests that fiscal autonomy is positively associated with the transparency level of local governments, capital expenditure for basic services is negatively associated with the transparency level of local governments, and local government investment is not associated with the transparency level of local governments. This study also finds that local governments' financial health has a role in strengthening the positive effect of local government investment on the transparency level. However, the local government's financial health weakens fiscal autonomy's positive effect on the transparency level of local government. Furthermore, the local government's financial health has no moderator in the association between capital expenditure for basic services and the transparency level of local government. The study result suggests that the Indonesia Ministry of Finance and the Indonesia Ministry of Home Affairs should boost the policies that encourage transparency in local governments and enhance the independence level to generate local revenues.

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## The Determination of State Budget Governance of Indonesian Public Higher Education Institutions Post COVID-19 Pandemic

Muhammad Alfarizi

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 151-171

The communication and information openness era, which has become increasingly massive after the COVID-19 Pandemic, has encouraged open relations between the community and state universities in education programs, especially budget management. This study aims to analyze the determination of state university budget management in terms of budget realization, the role of technology, and public information disclosure. This study raises the dimensions of the variable position of technology, perceptions of budget realization, public information disclosure, principles of general financial management, transparency, and accountability concerning managing state finances in universities. Convenience sampling became the technique chosen for sampling and was further analyzed with the SEM-PLS procedure through the SmartPLS application with 237 respondents. This study found the effect of budget realization and public information disclosure in fulfilling the principles of positive public financial management. However, this study does not support the role of technology in supporting the principles of public financial management. This study also notes the positive influence of public financial management principles on state universities' transparency and accountability. This study highlights the maximum future strengthening of higher education budget management with the organizational commitment of higher education institutions under the strict supervision of the government and the community indirectly. Technology does not support it, but it impacts the public in tracing information on Higher Education budget management according to the mandate of various parties, including the Indonesian Supreme Audit Institution.

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### Keywords:

State university;  
state budget;  
accountability;  
transparency

## An Analysis of Village Governance With Organizational Commitment as a Moderating Variable

Vera Oktari, Ulfa Afifah

Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara, 9(1) 2023: 173-184

The number of administrative violations and corruption cases at the village level has been in the spotlight recently. Good village governance is one of the steps to overcome it. This study aims to identify the factors that influence village governance and examine the moderating effect of organizational commitment on the relationships between village financial management and apparatus competence in village governance. This study was conducted in the Village Government in Rokan Hilir Regency and employed quantitative data analysis. The data was obtained using a questionnaire, and the respondents were selected using purposive sampling. This study used an analysis method using the structural equation model (SEM). The result shows that the government's internal control system and village financial management can affect village governance in Rokan Hilir Regency. However, apparatus competence cannot influence village governance, and organizational commitment cannot strengthen the performance of the apparatus in implementing village governance. Nevertheless, organizational commitment is needed to enhance the relationship between village financial management and governance in Rokan Hilir.

DOI: 10.28986/jtaken.v9i1.796

### Keywords:

Village  
governance;  
internal control;  
performance;  
organizational  
commitment



## **Financial Distress and the Commitment to Promoting Innovation in State-Owned Enterprises: A Critical Perspective**

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### **ABSTRACT**

Financial distress in State-Owned Enterprises (SOEs) has been a problematic issue for a long time. By 2020, the total debt of SOEs in Indonesia reach 1.682 trillion Rupiahs, whereas 68% out of all SOEs that receive state capital injections are facing bankruptcy. However, a more critical perspective still needs to investigate how commitment to promoting innovation relates to financial distress in SOEs. The existing studies of financial distress in SOEs have mainly focused on analyzing technical and structural factors and the predictive models using company financial indicators. This study aims to analyze the financial distress and innovation in SOEs critically. This study uses official data of PT Krakatau Steel from 2015-2020 and employs the combined analysis method. Quantitative regression analysis analyzes the company's financial distress throughout the period. In contrast, qualitative content analysis analyzes the relevance of the company's innovation commitment in the same period. The study shows that apart from ineffective capital structure decisions, low commitment to innovation is an important factor influencing financial distress in SOEs. The prospect of restructuring as a short-term strategy is also discussed.

### **KEYWORDS:**

Innovation; financial distress; State-Owned Enterprise

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## INTRODUCTION

Financial distress is one of the urgent strategic issues in managing State-Owned Enterprises (SOEs), known as Badan Usaha Milik Negara (BUMN) in Indonesia. Financial distress, defined as a continuous decline in the company's financial performance within a certain period, carries the risk of forcing SOEs into bankruptcy. As many as 68% of SOEs that receive state capital injections are threatened with bankruptcy (Pratama, 2021), whereas until 2020, the total debt of SOEs reached 1.682 trillion Rupiahs (Ramalan, 2021b). As Indonesia's largest steel producer and state-owned enterprise, PT. Krakatau Steel (KRAS) is on the verge of facing bankruptcy (Mulyana, 2021). Where in the last seven years, the issuer coded KRAS as suffering consecutive losses, an accumulated debt reaching 31 trillion Rupiahs, stalled investment projects, massive employment termination, and the resignation of several independent commissioners at that time (Asmara, 2021; Hakim, 2021). Such condition forces the government to pay more attention to dealing with financial pressure or financial distress experienced by SOEs (Ramalan, 2021a). This particular attention is crucial as a continuous failure of financial management in SOEs, indicated by inefficiency and failure in achieving its objectives, indicates weak national governance and could lead to the risk of corruption (Baum Hackney, Medas, & Sy, 2019).

Not only in Indonesia but financial distress in SOEs has also always been a point of interest worldwide. Research regarding its development, policy, and influence has been growing worldwide, such as in China, South Africa, Brazil, and emerging European economies. For example, a study on Italian state firms from the late 1980s showed that state-owned enterprises respond to financial pressure by increasing productivity and reducing employment (Bertero & Rondi, 2000). Other

means of dealing with financial distress in state-owned enterprises also include massive privatization (either partial or complete privatization) like what happened in 1990s European emerging markets (Bortolotti & Faccio, 2009; Cardinale & Belotti, 2022; Iwasaki, Kočenda, & Shida, 2021) and merger and acquisition (Del Bo, Ferraris, & Florio, 2017). In China, where SOEs are crucial, financial distress is related to managerial overconfidence and corporate social responsibility (CSR). In the presence of overconfident managers, SOEs are least likely to face financial distress (Emuron, Yixiang, Coffie, & Opoku-Mensah, 2021). Also, CSR positively impacts the firm's financial performance, making it less likely to face financial distress (Wu, Shao, Yang, Ding, & Zhang, 2020). In South Africa, SOEs that increase non-executive director (NED) compensation when the firm has a positive performance and penalize NED when facing financial distress have a better financial performance. Thus, a compensation policy for NEDs is important for preventing or dealing with financial distress in SOEs (Emuron & Yixiang, 2020). This explanation proves that financial distress in SOEs is a continuously growing study worldwide.

Studies related to financial distress in SOEs tend to be either descriptive or predictive rather than in a more critical perspective. Descriptive studies focus on identifying and assessing the occurrence of financial distress (Herlin, Effendi, & Ayu, 2021; Nakamura, 2021) and identifying technical or structural factors such as income management (Sayidah, Assagaf, & Faiz, 2020), investment, leverage, cash flow, and firm size (Gunawan, Assagaf, Sayidah, & Mulyaningtyas, 2019; Sayidah & Assagaf, 2020), audit committee characteristics (Putra & Serly, 2020), and government policies (Prasetyanto, Probohudono, Chayati, & Endiramurti, 2021). Meanwhile, predictive research focuses on the assessment of the

possibility of financial distress in SOEs using the Profitability Index (Marota, Alipudin, & Maiyarash, 2018; Rahmat, 2019), Financial Discriminant Models (Iqbal & Asyriana, 2020), Altman Z-Score Method (Resfitasari, Gumelar, Ulhaq, & Rusmayanti, 2021), as well as a combination of several models at once (Gunawan & Nurfithriyani, 2019). All these studies contribute to a better understanding of the known aspects of financial distress in SOEs, such as increasing productivity, company structuring, merger and acquisition, and so forth. However, studies on financial distress in SOEs that employ a critical perspective, particularly those that emphasize the urgency of innovation, still need exploration.

The critical perspective for financial distress and innovation in SOEs is important for several reasons. First, innovation is the key to firms' sustainability, including SOEs, in an increasingly competitive business ecosystem because innovation is among the strategic variables influencing a company's competitiveness (Madrid-Guijarro et al., 2011; Porter, 1979). Second, there is still a conceptual gap in discussing financial distress and innovation in SOEs. The existing studies are under the context of private firms in general, where different aspects are explored, such as the urgency of innovation in firms during hard times (Perel, 2005), the relationship between risk-taking and innovation in financially distressed firms (Sheth, Shepp, & Palmon, 2011), and the effects of R&D investment in the risk of bankruptcy (Agostino, Scalera, Succurro, & Trivieri, 2022).

This study features a case study of KRAS for two reasons. Firstly, KRAS has experienced multiple years of chronic financial pressures that went quite badly. Secondly, it has become one of the government's targets of restructuring strategy to improve the financial situation of SOEs. Concerning the preceding, this study brought up three research ques-

tions to be addressed in this study, namely a) What was the level of financial distress of KRAS during the period of 2015-2020; b) What was the innovation undertaken by KRAS in addressing financial distress during that period; c) What are the possibilities for the restructuring of KRAS in dealing with financial distress considering its lack of attention in innovation. The answers to these three questions are expected to provide meaningful insight into strategic measures to handle financial distress in SOEs.

This study is based on the argument that companies that experience financial distress must implement innovation comprehensively. Mitigation strategies (such as restructuring policy) can produce the expected outcomes. Innovation works suitably for companies when there is clear and uncompromised commitment at all levels of the organization. Unfortunately, instead of carrying out innovation holistically, SOEs often use innovation as mere jargon manifests in peripheral innovation programs without making any significant changes to its products, business processes, or governance. It does not provide added value for the company. Under these circumstances, the restructuring policy adopted will only provide pseudo-financial health for the company. This implies that the company's financial health is artificial as it only shifts financial pressure from the short term to the long term without being supported by any significant improvement in conditions, as experienced by many companies that remain in financial distress for years after restructuring (Kaur & Srivastava, 2017).

## Literature Review

Financial distress is a general term to describe a condition where a company experiences financial difficulties in meeting its obligations on an ongoing basis. In practice, various terms are used to describe the formal conditions and processes of companies experiencing distress and characterize the accom-

panying economic problems, including failure, insolvency, default, and bankruptcy. Although these terms are sometimes used interchangeably, each has its formal meaning and usage (Altman, Hotchkiss, & Wang, 2019). Financial distress has a systemic negative effect, for example, increasing costs (costs of lost investment potential, increased interest costs on debt) also decreasing productivity of managers and employees. The decrease happens due to more time wasted worrying about job security caused by the company's financial distress (Brigham & Daves, 2007). Therefore, financial distress generally leads to negotiations with the company's creditors to resolve this condition before reaching the final stage, the declaration of legal bankruptcy (Wruck, 1990).

Internal and external factors can influence financial distress. Internal factors include management inefficiency, debt and capital ratio imbalances, and fraud (Fadrul & Ridawati, 2020; Resfitasari et al., 2021). Other factors also contribute to financial distress, such as low operational performance, lack of technological innovation, and high unexpected costs (Altman et al., 2019). Internal factors that also greatly affect the occurrence of financial distress include the ineffectiveness of earnings or income management (Gunawan & Nurfithriyani, 2019; Sayidah et al., 2020), as well as investment, leverage, cash flow management, and company size (Putra & Serly, 2020; Sayidah & Assagaf, 2020). External factors that influence the occurrence and intensity of corporate financial distress include the financial crisis, deregulation of key industries, and the competitive effects of new industries (Altman et al., 2019), as well as government policies, bank health, market infrastructure (Shin, 2017) and interest rates (Amri & Aryani, 2021). Thus, financial distress analysis includes identifying the debt-to-equity ratio (D/E ratio), company value, and income capacity through sales growth.

In Indonesia, SOEs are business entities where the state owns the entire or most of the capital through direct participation from separated state assets (Indonesia, 2003). SOEs are established to contribute to the development of the national economy and state revenues, pursue profits, and provide public benefits in the form of high-quality and adequate goods and/or services for the people, being a pioneer in various activities. SOEs are also expected to manage businesses that have not been able to be implemented by private sectors and cooperatives as well as actively participate in providing guidance and assistance to entrepreneurs from economically vulnerable groups, cooperatives, also the community. The role of the economy in the country's development is reflected, for example, in infrastructure development in 2015-2019, where SOEs are expected to contribute IDR 1,066.2 trillion (22.2%) of the total required funds (Salim, 2017). SOEs are different from private companies in that they carry business economic responsibilities and a social mission in facing the challenges of globalization (Ansari, Sahrasad, & Iryadi, 2020).

As state property managed by the government, SOEs have at least three advantages over private companies (Lin, Lu, Zhang, & Zheng, 2020). First, government intervention enables functions in these capital-intensive industries to operate and drives the economy by providing construction infrastructure. Second, the government sees SOEs as one of the best solutions for maintaining social stability, which is necessary for the economy to function properly. For example, SOEs can be one of the instruments involved by the government in filling the industrial tree for competitive and prioritized products, especially during the pandemic (Salim et al., 2020). Third, the government uses SOEs to control key societal elements (Lin et al., 2020). Unfortunately, many studies show that SOEs often have lower performance and



profitability than private companies due to lower production efficiency (Rosyda & Raharja, 2020). Many influential factors include liquidity, capital structure, sales growth, and even independent commissioners, all of which significantly influence the profitability of SOEs (Adriaty, Purwanto, & Ermawati, 2019). One of the quickest ways to overcome this is through privatization, by selling some shares to the public. In many cases, the privatization of SOEs has proven to positively impact their financial performance (Fitriiningrum, 2020; Rosyda & Raharja, 2020).

Innovation is the human way of responding to challenges and opportunities, generating new meanings, ways, and artifacts (Roberts et al., 2005). Innovation is also defined as applying a completely new product, process, marketing method, or organizational method, either completely new or significantly changed in business practices, workplace organization, or external relations (OECD & Eurostat, 2005). The goal of innovation is to achieve a new balance that considers financial performance and sustainable development responsibilities (Ezzi & Jarboui, 2016). Measurement of innovation can use various dimensions such as human resources, innovation efforts (training, research and development costs, costs of purchasing machinery and equipment, costs of implementing technological innovations), and relational capital (external research and development costs, costs of acquiring knowledge from external sources (Saliba de Oliveira et al., 2018). The outcome of innovation in a company is a competitive advantage that allows for a return in the form of sales and greater company growth (Bigliardi, 2013).

Thus far, the conceptual frameworks that explain the relationship between financial distress and innovation come from research in the context of private firms in general, not particularly in SOEs. The latest empirical

research, for example, shows that firms' default probability is increasing in R&D investments and decreasing in innovation and productivity of research (Agostino et al., 2022). It also points out that firms carrying out R&D, adopting process innovation, and filing for patents show the lowest probability of default. However, whether the condition applies in the SOEs is still questioned. Furthermore, the existing studies' conclusion about the relationship between innovation and financial performance varies. Several studies prove that innovation significantly positively affects financial performance in general (Bigliardi, 2013; Ezzi & Jarboui, 2016; Muharam et al., 2020; Purwati, Budi-yanto, & Suhermin, 2021). This also includes achieving a better post-crisis recovery (Bockova & Zizlavsky, 2016). Other studies, however, show that innovation does not necessarily improve financial performance given the fact of their nature which contains certain risks (Lemonakis, Garefalakis, Giannarakis, Tabouratzi, & Zopounidis, 2017; Memba & Job, 2013; Saliba de Oliveira et al., 2018).

## RESEARCH METHOD

This study employs a combined method approach with data spanned over the last six years (2015-2020). The first research question is answered by a quantitative method that analyzes the company's financial performance data, including the components needed to calculate the debt-to-equity ratio (D/E ratio), company book value, and sales performance. The primary source used is the annual report from 2015-2020. Every single report was obtained from the official website of PT. KRAS in January 2022. The financial and sales data for 2016-2020 were taken from the 2020 report, whereas the 2015 financial and sales data were taken from the 2019 report because they were unavailable in the 2020 report.

Data analysis employs descriptive statistics on financial performance indicators, and linear regression analysis is employed to determine the effect of debt structure on firm value.

Qualitative document analysis methods answered the second and third research questions. Document analysis is very useful for understanding the overt and hidden values in policies and programs in organizations where policies are implemented (Leavy, 2014). The primary source used is the annual report document from 2015 to 2020 which is also obtained from the official website of PT. KRAS. Data is collected through reading and recording written data on the company's financial performance and company performance, in general, using keywords related to the subject of the study, including 'liability,' 'productivity,' 'production capacity,' and 'innovation.' The collected data were analyzed through the Miles and Huberman mode of analysis using a process of selection, reduction, classification, and interpretation to produce coherence with the conceptual framework of the study (Miles & Huberman, 1994). Figure 1 shows the conceptual framework of the study.

## RESULT AND DISCUSSION

### Significant Increase of Debt-to-Equity Ratio (D/E Ratio)

KRAS's financial distress is substantiated by the D/E ratio, which increased sharply in 2015-2020. Specifically, in the last three

years (2018-2020), the D/E ratio has increased multiple times compared to 2015-2017, as shown in Table 1.

The average D/E ratio of manufacturing companies in Indonesia in 2015 was 1.1363 (Februansyah & Yanuarti, 2017) while in 2020 the value fell to 0.90050 (Chandra et al., 2020). Table 1 shows that in the last 5 years the D/E ratio of KRAS has been below the national average. Since 2017 the D/E ratio of KRAS has increased very significantly. The sharpest increase eventuated in 2018-2019.

### Significant Decrease of Company Value

The following evidence of KRAS's financial distress is the company's value which has declined sharply in the last five years. The firm value is measured from book value by calculating the difference between the company's total assets and total liabilities. The significantly repetitive decline in the book value of KRAS is shown in Table 1.

KRAS's company value is decreasing occasionally. First, the value of assets remained relatively high, indicating no significant investment in technology. Second, the company's value in 2020 was 25% of its value in 2015. This declining value is not only caused by the increasing total liabilities from year to year but also because the total assets increase is overwhelmed by the significant increase in liabilities. Interestingly, the decline in the company's value coincided with the increase in the D/E ratio from year to year. The decline in firm value and the increase in

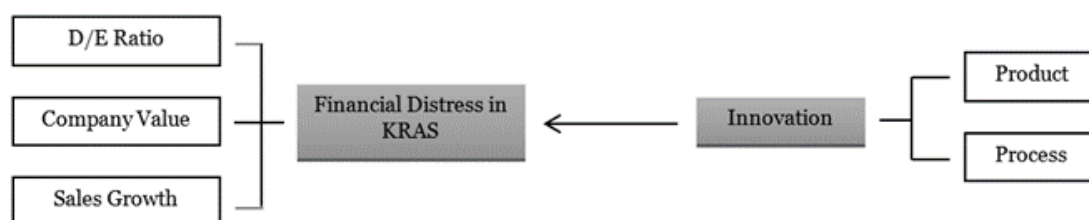


Figure 1. Research Conceptual Framework

**Table 1.** D/E Ratio and Book Value of KRAS 2015-2020

(thousands USD)

DESCRIPTION	2015	2016	2017	2018	2019	2020
Current Liabilities	1,465,327	1,224,501	1,503,312	1,783,672	2,494,040	827,496
Non-Current Liabilities	448,788	872,535	1,052,445	984,829	446,757	2,210,130
Total Liabilities	1,914,115	2,097,036	2,555,757	2,768,501	2,940,797	3,037,626
Increase from previous year		9.6%	21.9%	8.3%	6.2%	3.3%
<b>Equity Attributable to:</b>						
Owners of the Parent Entity	1,781,000	1,841,600	926,772	854,862	389,803	492,878
Non-Controlling Interests	7,029	(1,923)	(40,859)	(40,861)	(42,563)	(44,155)
Total Equity	1,788,029	1,839,677	885,913	814,001	347,240	448,723
Increase from previous year		2.9%	-51.8%	-8.1%	-57.3%	29.2%
D/E ratio	1.07	1.14	2.76	3.24	7.54	6.16
Current Assets	892,290	997,324	1,008,562	961,072	690,608	835,342
Non-Current Assets	2,809,854	2,939,389	2,433,108	2,621,430	2,597,429	2,651,007
Total Assets	3,702,144	3,936,713	3,441,670	3,582,502	3,288,037	3,486,349
Increase from previous year		6.3%	-12.6%	4.1%	-8.2%	6.0%
<i>Book value</i>	1,788,029	1,839,677	885,913	814,001	347,240	448,723

Source: PT. Krakatau Steel Annual Report of 2019 and 2020

the D/E ratio can be seen in Figure 2.

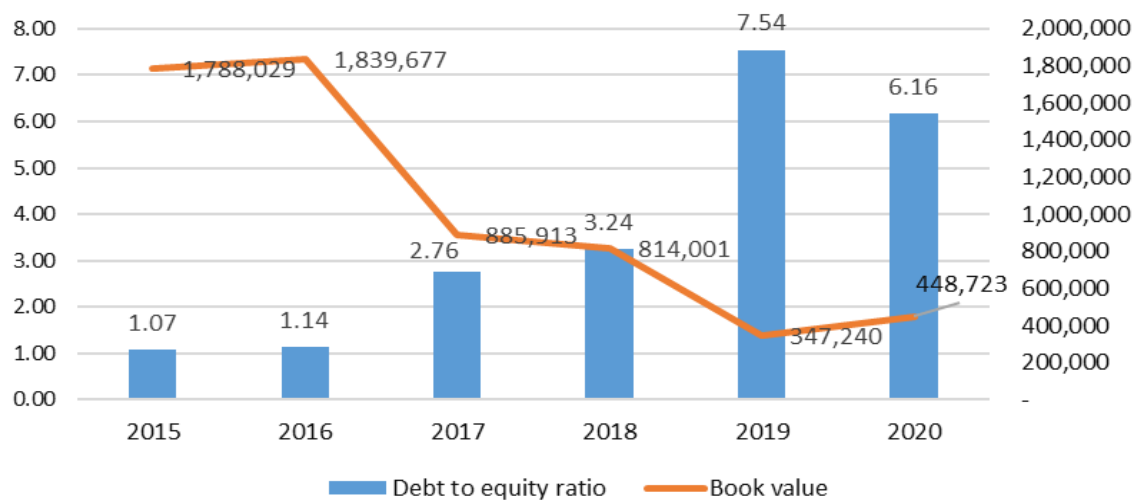
### Sales Capacity Stagnancy

KRAS's financial distress is also evidenced by the undeveloped production and sales of all lines in 2015-2020, as shown in Appendix 1. During the last six years, sales only increased in 2018. Unfortunately, this increase could not be maintained, so sales fell again in the

following two years. This stagnation in sales performance is visualized in Figure 2.

### Unhealthy capital structure and debt

A poor capital structure is the cause of KRAS's financial distress. A poor capital structure is characterized by a very high D/E ratio value which affects the decline in the value of the company from period to period.



**Figure 2.** Book value and D/E ratio of KRAS 2015-2020

Analysis of the effect of the D/E ratio on firm value (book value/BV) shows that the D/E ratio has a significant effect on firm value, as shown in Table 2. This table displays the strong influence of the D/E ratio on BV with a correlation value (R) of 0.891 and a coefficient of determination (R<sup>2</sup>) of 72.7%. This effect is negative, which is indicated by the negative value of the X coefficient.

The capital structure uses various sources of capital to finance company operations, including long-term debt, short-term debt, equity, and income from sales (Suardi & Noor, 2015). The capital structure decision is a crucial element for the company, and many studies have proven that the capital structure, especially the D/E ratio, significantly impacts the company's profitability (Gill, Biger, & Mathur, 2011). Specific studies on manufacturing companies confirm that the higher the D/E ratio, the lower the profitability (Chandra, Wijaya, Angelia, & Hayati, 2020), and low profitability impacts the low firm value (Natsir & Yusbardini, 2017). Based on the analysis in Table 2, this study confirms that the higher the D/E ratio, the lower the firm value of KRAS. Interestingly, this study attests that the D/E ratio is the

dominant factor in the overall decline in the value of the KRAS company, as indicated by the coefficient of determination of 72.7%. Thus, the decisions regarding the capital structure taken by the management of KRAS in the 2015-2020 period have become the dominant factor in the company's financial distress.

Inappropriate capital structure decisions impact the company, both internally and externally. Internally, increasing debt suggests increasing company costs. The referred costs consist of costs to pay interest on debt and other costs that accompany it. This automatically also means reduced net income and company profits. Externally, the increase in debt also gives advantages to competing companies. Companies that acquire assets using debt financing increase future profits for rival companies (Chevalier, 1995). Purchasing assets using debt shows the company's low financial capacity to finance its development. For a public company like KRAS, this is a declaration of financial weakness to the public, including to competing companies. For example, competing companies can use this situation to win the trust of quality suppliers, thereby lowering KRAS's credibil-

**Table 2.** Regression Analysis on D/E ratio to Book Value KRAS 2015-2020

Regression Statistics					
Multiple R	0.891812358				
R Square	0.795329282				
Adjusted R Square	0.72710571				
Standard Error	308430.0899				
Observations	5				
ANOVA					
	df	SS	MS	F	Significance F
Regression	1	1108985825775.67	1108985825775.67	11.6577	0.0420
Residual	3	285387361069.13	95129120356.38		
Total	4	1394373186844.80			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	1705586.3660	281660.9754	6.0555	0.0090	
X	-201147.6501	58912.6700	-3.4143	0.0420	



ity in the eyes of suppliers. Systemically, competition at this point increases costs in the following stages of the business process, ultimately making the value of the company's products less competitive.

### ***Lack of innovation in an increasingly competitive business ecosystem***

A significant factor that affects the financial distress of KRAS is a low level of innovation in facing competition nationally and globally. The demands for innovation are increasing due to intense competition driven by the development of new technologies (Salo, 2010), price wars (Pratiwi, 2013), and foreign tariff policies (Minardi, Taufik, & Ridha, 2019). Innovation can cover at least four aspects: product innovation, process innovation, marketing innovation, and organizational innovation (OECD & Eurostat, 2005). The search for the 2015-2020 annual report on the vision, strategy, and implementation of innovation also proves that innovation is still a formality jargon. The search shows there are no innovation programs in the product aspect. Innovation runs only in a very limited scope of processes and is not a priority program in the company. The investment program that has been going on in previous years, which is expected to provide added value for the company, has proven not to result in an increase in assets, production capacity, production volume, and sales volume in the following years. In addition, as shown in Appendix 1, the development of derivative business lines in the form of sales of real estate industry services, engineering and construction, port management, and other services did not contribute significantly because they only accounted for <20% of the company's total revenue. This fact proves the low level of innovation of KRAS in facing competition in its industrial sector.

The low level of innovation has a systemic negative impact on the company. First, the

product needs to be developed accordingly. Having innovative new products can improve the company's image in the eyes of consumers and differentiate it from competing companies (Salo, 2010). With low product innovation, companies cannot compete in competing for the market for new needs that arise due to technological developments. On the other hand, more innovative domestic and foreign competitors can seize more of the industry's market opportunities—second, low innovation results in inefficient production costs. Low investment in technology development makes the company's production and operational processes rely on old technology. As a result, the operating and production processes cost many times, with lower product success in the market. Third, the lack of innovation results in slowing company performance. Product and process innovation, for example, has a positive and significant effect on company performance (Atalay, Anafarta, & Sarvan, 2013). With low product and process innovation, demand slows down, and operations and production also slow down. As a result, the company's overall performance slowed down, and the company's finances were under increasing pressure. This confirms previous studies on firms generally that default probability decreases when a firm invests in innovation and research productivity, adopts process innovation, and files for patents (Agostino et al., 2022).

### ***Prospects of restructuring in overcoming financial distress***

Most firms are unprepared for hard times and typically respond to economic difficulties with draconian measures that promise short-term alleviation (Perel, 2005), such as budget cuts, layoffs, or restructuring. Debt restructuring, mainly, shows a positive prospect in overcoming financial distress because it reduces short-term financial pressure and can potentially increase firm value.

As shown in Table 2, in 2020, KRAS was restructured; therefore, the proportion of long-term debt is greater than short-term debt. This is in line with studies proving that restructuring can reduce financial dilemmas, reducing the debt burden of companies—which in turn increases the level and efficiency of investment, especially in government-owned companies (Jiang, Liu, & Yang, 2019). In addition, restructuring in many companies has also been shown to have positive impacts, such as increased profitability and financial stability of companies (Kwaning, Churchill, & Opoku, 2014), as well as increased economic sustainability of companies (Danovi, Magno, & Dossena, 2018).

However, further observations are still needed to ensure that the restructuring of KRAS has a positive long-term effect. First, data on improving financial performance still needs to be improved in 2020. Consequently, it cannot be concluded that the restructuring has been effective and that the company's finances are fully healthy. Other research proves that restructuring does not continually improve the company's condition even up to five years from the period of restructuring (Kaur & Srivastava, 2017). Second, after implementing good corporate governance, restructuring only improves the company's financial performance. Restructuring risks weakening organizational strength, for example, due to staff reductions, demands for cost efficiency, and reduced supply of creditors and incoming investment (Chung & Ratnovski, 2016). Company management needs to conduct comprehensive and ongoing studies related to external and internal factors to reduce uncontrollable factors that can lead to dysfunctional restructuring in the long term (Kaur & Srivastava, 2017) such as financial supervisors, government policies, bank health, market infrastructure, and dimensions of restructuring company (Shin, 2017).

## CONCLUSION

Amid the scarcity of studies focusing on financial distress and innovation in SOEs, this study provides a starting point for further investigation. The lack of commitment and investment to promote innovation could be attributed significantly to state-owned enterprises facing financial distress. When SOEs do not adopt innovation in their process or product, the probability of default increases. This confirms existing studies that companies' default probability is increasing in R&D investments and decreasing in innovation and productivity of research. In addition, a short-term solution such as a restructuring strategy does not guarantee success in overcoming financial distress in the long term. Restructuring did help reduce pressure on costs and capital structure. However, the company's long-term sustainability is determined mainly by productivity and asset development, which depends on product innovation and company business processes. Thus, innovation in SOEs is a crucial factor in solving financial distress in the long term.

This study aims to contribute to the study of financial distress in SOEs in two ways. Firstly, this study offers a perspective of innovation in analyzing the underlying issue of SOEs' financial distress. Previous studies on the financial distress of SOEs have not included this perspective. In contrast, studies on financial distress and innovation are still limited in the context of private companies with different natures and characteristics from SOEs. Secondly, this study supports existing studies where restructuring does not automatically solve the problem of financial distress. A comprehensive and continuous commitment is needed for the company to implement product, business processes, and organizational innovations. Thereby restructuring can produce positive outcomes in the long run. However, further investigation with larger numbers of subjects and data

could extend this study for future conceptual development.

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## APPENDIX

### Appendix 1. Sales Performance KRAS 2015-2020

*(thousands USD)*

DESCRIPTION	2015	2016	2017	2018	2019	2020
Steel Domestic Sales						
Hot Rolled Coil	434,983	492,145	584,802	774,594	632,142	540,991
Cold Rolled Coil	316,732	309,971	380,917	391,265	241,224	240,290
Wire Rod	61,546	49,370	31,622	56,666	7,408	1,039
Reinforcing Steel Bars	110,764	96,249	64,495	73,742	54,186	25,018
Steel Section	35,966	34,548	29,859	36,295	14,926	22,964
Steel Pipe	43,083	52,553	70,137	85,216	66,327	54,547
Others	36,396	28,962	55,686	65,196	30,031	195,877
Subtotal	1,039,469	1,063,800	1,217,518	1,482,973	1,046,243	1,080,725
Steel Export Sales						
Hot Rolled Coil	13,664	47,079	16,500	39,872	132,255	63,423
Cold Rolled Coil	-	-	-	405	-	-
Others	-	-	-	598	-	-
Subtotal	13,664	47,079	16,500	40,875	132,255	63,423
Total Steel Sales	1,053,133	1,110,879	1,234,018	1,523,848	1,178,498	1,144,148
Sales of Service						
Industrial Estate & Hotels	22,947	31,622	28,551	28,927	36,541	23,175
Engineering & Construction	112,799	52,659	31,971	29,941	31,676	29,517
Port Services Provider	57,224	62,657	64,844	66,774	76,100	77,823
Other Services	75,720	86,899	89,636	92,357	97,685	78,994
Total Sales of Service	268,690	233,836	215,002	217,999	242,002	209,509
Total Sales	1,321,823	1,344,715	1,449,020	1,741,847	1,420,500	1,353,657

## **The Implementation of Utilizing Government Capital Funds Policy in the Indonesia Logistics Bureau**

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### **ABSTRACT**

This study analyzes the policy implementation of Government Capital Funds (GCF) for the Indonesia Logistics Bureau (Perusahaan Umum Badan Urusan Logistik, Perum BULOG) to support national food security. This study also aims to identify any obstacles and determine the development of an effective policy model for implementing the policy. This study uses qualitative methods, and the primary data was obtained from informants using the snowball technique collected from in-depth interviews. The result of this study is that the implementation of GCF fund utilization could have been more optimal in achieving the set targets due to several obstacles. These obstacles include the incomprehensiveness and inconsistencies in GCF policy planning, the difficulty of undertaking land acquisition and obtaining an environmental license, GCF funds are much less than the total needs that should be met, and the discontinuation of the RASTRA Program for low-income families and poor food security governance. In addition, developing an implementation model for the effective use of GCF funds requires strengthening the authority of national food security management institutions. This study recommends that the government upgrade the status of Indonesia's Logistics Bureau to become a ministry-level institution. The relationship pattern with the National Food Agency must also be strengthened for better food policy governance.

### **KEYWORDS:**

Implementation; policy; food security; Government Capital Funds

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## INTRODUCTION

The 1945 Constitution of the Republic of Indonesia instructs the Government to carry out public duties by fulfilling the welfare of each of its citizens. In carrying out public duties, the Government can appoint State-Owned Enterprises (SOE) through the Public Service Obligation (PSO) scheme (according to Law Number 19 of 2003 concerning state owned-enterprises) with Government Capital Funds (GCF) taken from the State Budget. For the GCF disbursed to Perum BULOG, Perum BULOG is one of the many SOEs that receive GCF funding and is a strategic SOE that plays a role in realizing food security in Indonesia according to the mandate of Government Regulation Number 13 of 2016 concerning Indonesia Logistics Bureau (Perusahaan Umum Badan Urusan Logistik, Perum BULOG).

Indonesia Government Regulation Number 13 of 2016 also states that in its duty as the guardian of national food security, Perum BULOG is obliged to maintain price stability of national staple food prices, both from the producer and consumer sides. From the producer side, Perum BULOG purchases rice or grain from farmers, while from the consumer side, Perum BULOG maintains food stability by conducting market operations. Perum BULOG is also assigned as a national food stock buffer and then distributes rice to low-income families as a form of aid. Moreover, it also undertakes the task of distribution for emergency conditions such as natural disasters or other assignments from the Government. In the event the national rice stock runs low, Perum BULOG is also allowed to import rice to maintain price stability, and according to Regulation of the Minister of Trade of the Republic of Indonesia Number 1 of 2018, Perum BULOG is the only company in Indonesia that is permitted to import rice.

The task of maintaining stability puts forth a

burden on internal financial resources. The Joint Study of the Ministry of SOEs and the Ministry of Finance of the Republic of Indonesia in 2015 (Joint Study of 2015) stated that the working capital required by Perum BULOG to stabilize food prices at the producer side, namely the purchase of rice or grain rice from farmers, amounted to IDR 21 trillion, of which the entire working capital fund is covered by commercial banking credit. High working capital debt ultimately compels Perum BULOG to pay interest every year, even though, based on Law Number 19 of 2013 concerning Protection and Empowerment of Farmers, it is specified that every SOE receiving an assignment must be compensated by the Government. Based on the preceding, the Joint Study of 2015 proposed that a GCF of IDR 3 trillion be awarded to Perum BULOG and legitimized through Government Regulation Number 49 of 2015.

The disbursement of GCF is intended to strengthen the capital structure and increase the business capacity of Perum BULOG. Such an effort to strengthen the capital structure and increase business capacity aims to facilitate Perum BULOG in stabilizing food prices, purchasing domestic grain/rice, and distributing rice to low-income families. In 2016, the Government redispersed GCF to Perum BULOG in IDR 2 trillion per Government Regulation Number 70 of 2016 to re-strengthen the capital structure and increase business capacity post-harvest infrastructure development. Based on the Joint Study between the Ministry of SOE of the Republic of Indonesia and the Ministry of Finance of the Republic of Indonesia in 2016 (the Joint Study of 2016), the construction of this infrastructure is intended to maintain the quality of food commodities purchased by Perum BULOG.

The disbursement of GCF to Perum BULOG to stabilize staple foods, especially rice, puts Perum BULOG in a vital position. Salasa

(2021) states that a country can only develop its economy if the food needs of its people have been met. Therefore, based on this background, this study is interested in analyzing the implementation of GCF at Perum BULOG to support the national food program.

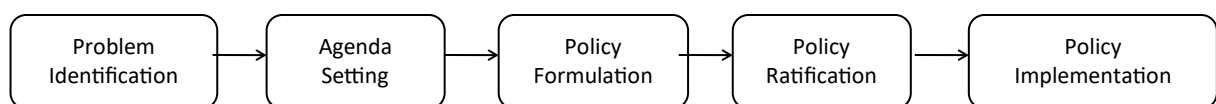
There are pretty several studies related to the implementation of such policy, such as research by Alfiani, Rahayu, and Nurbaiti (2017), Barbu and Price-Kreitz (2018), and Sinaga, Hamdi, Wasistiono, and Lukman (2020), and some of them include implementation related to food security such as Mooij (1999). Furthermore, the study related to Perum BULOG has also been studied many times, such as Trinugroho et al. (2011), who reviewed the cost structure of subsidized rice, followed by Timmer (1996), who questioned whether Perum BULOG should stabilize rice prices also Yulianis, Sarastuti, Risfaheri, and Rachman (2021) who analyzed synergy of national food reserves. However, of all the studies that have been published, studies relating to the utilization of GCF funds at Perum BULOG have never been carried out, albeit their relevance for research.

This study designed a framework of thought by reconstructing the theories that describe the idea of this study in order to present a clear position of the problem in this study, display a complete picture of the research problem, and provide guidance in finding answers to these problems. Based on this description, we have formulated a framework of thought which includes: *First*, grand theory as a theory that functions as an umbrella theory for applying middle range theo-

ry and applied theory. The Grand Theory of this study is government theory, as presented by Brasz (1975), that the science of government is a science that studies how institutions in government are structured and how government institutions function internally or externally for the people. Meanwhile, in another theory of government, as Strong (1960) stated, the government has the authority to maintain peace within its territory. It must also have financial adequacy to implement policies to meet the needs of its people.

*Second*, middle range theory serves the purpose of connecting the grand theory with applied theory. The middle range theory in this study is the theory of public policy, the theory of state finance, and the theory of welfare. In the public policy theory, Cochran et al. (2011) defines *policy* as a unified series of actions taken by the government to achieve common goals and is not limited to only making laws. This series of unified actions taken by the government can include doing something or even not doing anything (Dye, 2017) to solve problems that arise in society, such as the economy, education, health, and social issues (Willian, 2004). Meanwhile, Dye (2017) describes policy implementation as one of a series of policy processes, beginning with identifying problems to be resolved, followed by setting an agenda for how these problems will be resolved, then policy formulation developed by government officials and interested parties, after which the policy is ratified by the government and implemented by the government or institutions appointed by the government.

Furthermore, the basis for the following



**Figure 1.** The Policy Process  
*Sources: Dye (2017)*

middle-range theory is welfare theory. Welfare includes many dimensions (Goggin, Bowman, Lester, & O'Toole, 1990). However, according to Bubolz and Sontag (1993), *welfare* is the achievement of the quality of human life where the achievement of the quality of life is that basic life needs have been fulfilled and the desired values have been obtained. Meanwhile, *social welfare* means the existence of a system in the nation regarding services to assist the community in meeting their economic, social, educational, and health needs (Whitaker & Federico, 1997). The third middle-range theory is the theory of state finance. State finance is one of the elements of the government in carrying out its objectives (David, 2014), in which state finances are given management rights to the government based on the law for a certain period (Goedhart, 1982). Musgrave (1959) divides state finances into the following (1) allocation decisions, which are the authority of the government in allocating its economic resources (especially public goods of significant value) to the community, (2) distribution decisions, namely the government's authority to distribute economic resources so that resources are guaranteed and can be accessed by the whole community (3) stabilization decisions, in which the government is authorized to maintain macroeconomic stability. Concerning state finances at Perum BULOG, which in this case is a state-owned enterprise, according to Law Number 19 of 2003, the state finances are included in state assets. Therefore, financial management does not eliminate its nature as a state asset.

*Third*, the applied theory is a driven theory which is the theoretical basis for preparing operational concepts of research variables. The applied theory is implementation theory, where implementation, according to Jones (1984), is "finishing the job by doing it." We use policy implementation theory as proposed by Meter and Horn (1975), which

contains (1) policy standards and objectives, (2) policy resources, (3) communication between organizations and strengthening activities, (4) characteristics of policy implementers, (5) social, economic and political conditions (6) disposition/tendency of implementers. The theoretical framework is depicted in Figure 2.

## RESEARCH METHOD

This study applies a qualitative method, and in analyzing the utilization of GCF funds at Perum BULOG, we use six main variables developed by Meter and Horn (1975). In conducting the analysis, we compiled a practical implication of each variable by taking the perceptions of interpretations and opinions of the informants until empirical findings were found, as is usual in a qualitative study (Creswell, J. W. and Poth, 2016). After obtaining empirical findings, we developed an ideal model for utilizing GCF funds as a model development for this applied theory.

The data sources for this study consist of primary and secondary sources. Primary sources are who become informants in this study. Interviews with informants were carried out in-depth interviews using the snowball technique. The determination of a person to become an informant is by considering his position and competence in implementing the GCF funds utilization policy at Perum BULOG. Our informants represented three institutions, first from Perum BULOG itself, which consisted of 11 informants, five of whom are Board of Directors (BOD) and the remaining six are regional Division Heads for the Jakarta-Banten area, West Java, Central Java, East Java, South Kalimantan, and North Sumatra. Second, one representative from the Ministry of State-Owned Enterprise of the Republic of Indonesia is an informant who is

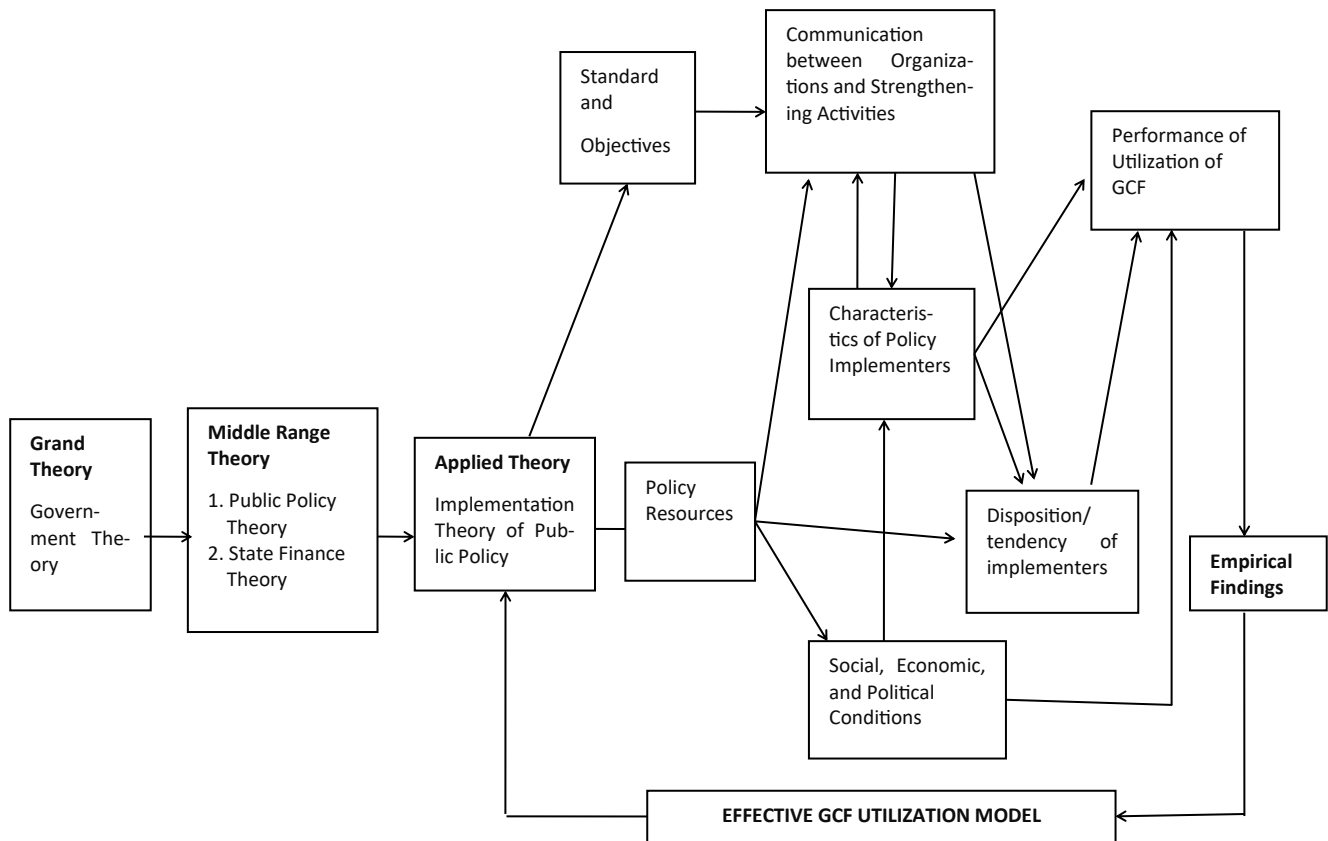


Figure 2. Theoretical Framework

the Deputy Minister. Third, one respondent from the Ministry of Finance of the Republic of Indonesia is the Director General of State Assets.

The secondary data sources consist of information about Perum BULOG and food security through relevant policies, laws, and regulations, annual reports, video documentation of meetings, and the theories needed to enrich this research. This study also checks the validity of the data in order to ensure that the data being collected are reliable.

## RESULT AND DISCUSSION

According to Government Regulation Number 44 of 2005, GCF is a state asset separated from the State Budget (Anggaran Pendapatan dan Belanja Negara, APBN). The mechanism for granting GCF to Perum BULOG is based on a proposal from the Min-

istry of Finance to the President of the Republic of Indonesia, which includes a Joint Study between the Ministry of Finance of the Republic of Indonesia and the Ministry of SOEs. The President then approved the proposal for granting GCF with the issuance of Government Regulation Number 49 of 2015 for the disbursement of GCF for IDR 3 trillion and Government Regulation Number 70 of 2016 for the disbursement of GCF of IDR 2 trillion. The joint study describes the considerations and parameters for the success of granting GCF; hence, the joint study and Government Regulations issued to provide GCF are an inseparable unit.

### GCF Policy Standards and Objectives

Based on the Joint Study of 2015, in its role in carrying out the task of national food sovereignty, Perum BULOG requires a working capital of IDR21 trillion to buy rice and grains from farmers, store them as national buffer stocks, and distribute them in mar-



ket operations (if the stock is rice at the consumer side is running low), deal with natural disasters, and other assignments such as providing regular rice assistance to the poor. Perum BULOG obtained funds of IDR 21 trillion from commercial bank loans. Against this background, the Government provided GCF to Perum BULOG in 2015, amounting to IDR 3 trillion, to achieve the targets described in Table 1.

The first parameter is price stability on the producer and consumer sides. This policy's parameters are vague and not explicitly elaborated in the Joint Study of 2015. However, we use data from Statistics Indonesia (Badan Pusat Statistik, BPS) further to explore price stability on the producer and consumer sides. On the producer side, the average price of Harvested Dry Grain (HDG) was relatively stable between 2015 and 2017, which is in the range of IDR 4.600 per kilogram. Meanwhile, in 2018, there was an increase in the price of HDG to IDR 4.894/kg, and it stabilized again in the following year (2019), which reached IDR 4.828/kg. We consider the increase in grain prices to reflect the increasing welfare of national farmers (Wahed, 2015; Putri, Novindra, and Nuva, 2013). As for prices on the consumer side, which is also based on data from the BPS, in 2015, the average price of rice at the trade level was IDR 10.915/kg, then increased to IDR 11.511/kg in 2016 and remained stable until 2017, which is at IDR 11.535/kg. In 2018 there was another increase to IDR 12.054/kg, which was stable in the following year (2019), amounting to IDR 12.091/kg.

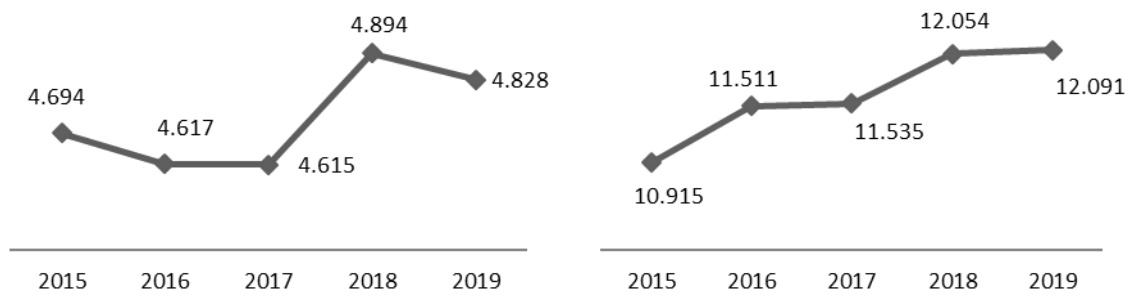
The second parameter is the purchase of grain/rice from farmers of, 1.47 million tons annually. Based on the findings of the Audit Board of the Republic of Indonesia (Badan Pemeriksa Keuangan, BPK) Special Purpose Audit Report Number 46A of 2016, the purchase of grain/rice from farmers was only 344,050 tons or only reached 23.4% of the total target. The figure of 344,050 tons is the total purchases to national farmers from 2015 to August 31, 2016. That condition occurred due to the disbursement of GCF funds from the Government to Perum BULOG, which was only disbursed in November 2015 and lost the momentum of the harvest season (BPK RI, 2016).

The third parameter is the distribution of rice to the poor, as outlined in the Prosperous Rice Program (Beras Sejahtera, RASTRA) of 2,784,000 tons/year. Perum BULOG's annual report shows that the distribution of RASTRA only reached the target in 2015, which was 3,554,883 tons/year or 115.02% of the total target. Then in the following years, the distribution of RASTRA rice decreased. In 2016 it fell to 2,782,326 (99.94%). In 2017, it decreased to 2,542,405 tons per year (91.32%). In 2018 it went down to 1,207,269 tons per year (43.36%). The decline in performance, especially in 2018, was due to the shift in the program distribution. RASTRA is a cash aid program transferred to the poor through the BPNT (Non-Cash Food Assistance) program under the Minister of Social Affairs Regulation Number 11 of 2018.

The following parameter is interest efficiency

**Table 1.** GCF 2015 Success Parameters

Purpose and Objectives	Fund Needs	GCF Value	Success Parameters
Acceleration of grain/rice purchases from farmers to achieve national food sovereignty	IDR 21 trillion	IDR 3 trillion	<p>Stable food prices and increased farmer welfare.</p> <p>Purchase of grain/rice from farmers is 1.47 million tons/year</p> <p>The distribution of rice distribution for the poor is 2,784,000 tons/year.</p> <p>Bank interest efficiency of IDR 300 billion/year</p>



**Figure 3.** Price Chart of Harvested Dry Grain-HDG and Average Rice Prices in IDR/Kg

Source: BPS (2020)

of IDR 300 billion/year. This parameter needs to be more specific and explained in the joint study regarding the target for the total bank interest that must be paid each year. For this matter, we assume that the target bank interest to be paid is IDR 774 billion annually or has succeeded in streamlining bank interest expenditures from 2015, IDR 1,074 trillion. This assumption is based on the realization that the 2015 GCF was only transferred towards the end of 2015 (November); therefore, measuring efficiency can only be done after the GCF funds have been disbursed. Therefore, based on this and referring to the annual report of Perum BULOG, the interest efficiency target has never been achieved. Even bank interest payments by Perum BULOG continued to rise yearly, namely IDR 1,416 trillion in 2016, IDR 1,754 trillion in 2017, and IDR 1,927 trillion in 2018.

As for the disbursement of GCF in 2016, based on the Joint Study of 2016, these funds are intended for constructing post-harvest infrastructure facilities such that the harvested commodities purchased can be main-

tained in good quality. The details of the post-harvest infrastructure built are presented in Table 3. In subsequent developments, Perum BULOG was unable to execute immediately due to factual demands in the field, such as (1) moving the location of the Modern Rice Milling Plant, which is too close to the population, (2) differences in the calculation of investment needs between the results of Joint Study of 2016 and the Feasibility Study, (3) errors in determining the location of soybean warehouses that are not in the production center area (4) changes in the allocation of GCF funds such as adding commodity warehouses for rice, corn, and soybeans.

Perum BULOG, through the Review of the Financial and Development Supervisory Agency of the Republic of Indonesia (Badan Pengawasan Keuangan dan Pembangunan, BPKP) Number SP-1715/D4/02/2018, changed the GCF allocation so that there is an allocation that must use Perum BULOG's internal cash for investment needs. Details of the approval of the amendments are described in Table 4.

**Table 2.** Efficiency of Bank Interest Payments After GCF 2015

Year	Interest Payment/Year (More Efficient IDR 300	Interest Paid	Efficiency Bank
2015	IDR 0	IDR 1,074 trillion	IDR 0
2016	IDR 774 Billion	IDR 1,416 trillion	(IDR 642 billion)
2017	IDR 774 Billion	IDR 1,754 trillion	(IDR 980 billion)
2018	IDR 774 Billion	IDR 1,927 trillion	(IDR 1,153 trillion)

**Table 3.** Allocation the Infrastructure Construction of GCF 2016

*(In Thousand Rupiah)*

No	Description	GCF Allocation
1	For Rice Commodity - Modern Integrated Rice Milling Plant - Rice To Rice Machine	1,346,746,000 96,000,000
2	For Corn Commodity - Drying Center & SILO	479,254,000
3	For Soybean Commodity - Warehouse	78,000,000
Total Investment		2,000,000,000

Based on the Audit Results from the Public Accounting Firm (PAF) Kosasih, Nurdiaman, Mulyadi, Tjahjo, and Partners with Report Number KNMT&R-15.02.2014/04 on 15 February 2018 and Report Number 00007/2.1051/RK/11/0269-2/ 1/II/2019 on 26 February 2019, the physical development of post-harvest infrastructure construction is still low and can only be carried out in 2017 with the disbursement of only IDR 586,512,000 for that year. Whereas in 2018, the construction was still minimal, and the disbursed budget was only IDR 10,442,700,600 that year. The total disbursement for the construction in the two years (2017 and 2018) combined only reached IDR 12,315,701,000 - or less than 1% of the total budget of GCF (IDR 2 trillion). The land has yet to be acquired to build post-harvest infrastructure. In this regard, the tar-

get to maintain the quality of food purchased cannot be achieved because the construction of the infrastructure has yet to be carried out.

### Resources

For financial resources, based on the 2015 and 2016 annual reports, the Paid-up Capital of Perum BULOG prior to the GCF was IDR 6,847,135,795,560.00, where the Government owns the entire capital as the shareholder. After being granted the GCF, the total paid-up capital of Perum BULOG increased to IDR 12,847,135,795,560. The reason for adding GCF as Paid-up Capital is that to buy rice from national farmers, a fund of IDR21 trillion is needed by Perum BULOG. Therefore with this GCF, Perum BULOG's dependence on commercial banking credit is reduced. However, the disbursement of GCF

**Table 4.** Allocation of GCF 2016: Before and After

*(in Thousand Rupiah)*

No	Description	Before (GCF)	GCF	After Internal Cash	Total
1	For Rice Commodity Modern Integrated Rice Milling Plant Rice To Rice Machine	1,346,746,000 96,000,000	1,133,835,000 338,213,000	139,334,254 92,399,000	1,273,169,254 430,612,000
2	For Corn Commodity - Drying Center & SILO	479,254,000	311,767,000	31,866,000	343,633,000
3	For Soybean Commodity - Warehouse	78,000,000	21,626,000	-	21,626,000
4	Combined Food Commodities - Warehouse	-	194,559,000	-	194,559,000
Investment Amount		2,000,000,000	2,000,000,000	263,599,254	2,263,599,254

is still considered insufficient because, based on Perum BULOG's annual report, Perum BULOG's leverage ratio is still high, namely 287% (2015), 214% (2016), 152% (2017), and 302% (2018). This ratio shows that the debt of Perum BULOG is still higher than the capital owned. The high debt ratio leads to Perum BULOG paying high interest yearly.

Meanwhile, for human resources, the quality of the resources of Perum BULOG is quite good. Between 2016 and 2018, employees with a higher education level (Diploma and above) make up more than 50% of the total employees. In addition, quality development through employee training is continuously carried out and is increasing yearly, with 1,719 employees in 2015, 3,000 employees in 2016, 3,222 employees in 2017, and 4,715 employees in 2018. A good level of education will ultimately improve the quality of company resources in order to achieve effective and efficient performance (Ukkas, 2017).

### **Inter-Agency Communication and Strengthening Activities**

As a state-owned enterprise, Perum BULOG is officially under the subordination of the Ministry of SOEs. However, in national food governance, Perum BULOG has links to many institutions, so communication between institutions must be carried out by Perum BULOG. Good communication has been established with the Ministry of SOEs and the Ministry of Finance of Perum BULOG. The form of communication is formal through regular official reports or informal communication. However, even though coordination has been carried out periodically, miscommunication still often occurs, especially between Perum BULOG and the Ministry of Finance, where communication barriers are frequent slow payments of Government receivables to Perum BULOG. Furthermore, to understand communication between institutions, we will describe the integration before and after the

existence of the National Food Agency, which was formed on July 29, 2021, based on Presidential Regulation Number 66 of 2021.

### **Inter-Agency Communication Before the National Food Agency Existed**

In national food management, Perum BULOG also collaborates with the Ministry of Agriculture and the Minister of Agriculture as the Daily Chairman of the National Food Council (based on Presidential Regulation Number 45 of 2015). In purchasing grain/rice from national farmers, Perum BULOG uses the purchase price for unhulled rice/rice, which refers to Presidential Instruction 5/2015, while to buy unhulled grain/rice, Perum BULOG must refer to the Regulation of the Minister of Agriculture Number 3 of 2017.

After the rice/grain from farmers is purchased by Perum BULOG, the commodities will be labeled as Government Rice Reserve (GRR) and serve as a buffer stock whose ideal amount of rice reserves is determined by the Ministry of Agriculture based on Presidential Regulation 48/2016. As explained in the preceding, one of the distributions of GRR is through market operations. Regarding the Regulation of the Minister of Agriculture 12/2017, Perum BULOG shall not conduct such operations by itself before carrying out market operations. However, instead, they must await further instructions from the Minister of Agriculture. Upon receiving instructions from the Minister of Agriculture, Perum BULOG can conduct market operations by selling rice. The higher shall not be higher than the Highest Retail Price (HRP) set by the Minister of Agriculture.

The authority within the Ministry of Agriculture overlaps with that of the Ministry of Trade. Referring to the Regulation of the

Minister of Trade Number 127 of 2018, the Ministry of Trade also has the authority in market operations. It sets HRP to determine the selling price of GRR in market operations. The same authority between the Ministry of Agriculture and the Ministry of Trade will certainly confuse Perum BULOG as the executor of market operations (Ministry of Trade, 2018).

In the event the GRR stock in the warehouse of Perum BULOG or at the consumer side market is running low, therefore based on Government Regulation Number 13 of 2016 and Regulation of the Minister of Trade Number 1 of 2018, Perum BULOG can import with the approval of the Minister of Trade for buffer stock or price stabilization purposes. However, Perum BULOG and the Ministry of Trade often need help communicating regarding rice imports. Perum BULOG considers the stock of GRR in the warehouse of Perum BULOG to be very large and even tends to accumulate over the years due to the cessation of distribution of RASTRA rice to low-income families, while the Ministry of Trade as the authority views that the stock of GRR in the warehouse of Perum BULOG is insufficient to meet national food needs.

Furthermore, as mentioned earlier, the stock of GRR in the warehouse of Perum BULOG is also distributed to low-income families through the RASTRA program. Based on the General Guidelines for the RASTRA Subsidy, the Coordinating Ministry for Human Development and Culture is in charge of this program. At the same time, the Ministry of Social Affairs is the technical Ministry that holds the Budget Holder Authority. As a result, hence Perum BULOG in distributing the RASTRA program must be based on instructions from the Minister of Social Affairs. The distribution of the RASTRA program is one of the targets of GCF. It is also a source of distribution of GRR rice from Perum BULOG, causing incoherent communication

between all stakeholders (Perum BULOG, Ministry of Finance and Ministry of BUMN as the proponent of GCF funds, and the Ministry of Social Affairs and Coordinating Ministry of PMK as the RASTRA authority holder) GCF program.

Regarding the management of GRR stored in the warehouse of Perum BULOG, it is often the case that the quality of GRR becomes damaged due to prolonged storage. In order to overcome this, the Minister of Agriculture released Regulation of the Minister of Agriculture Number 38 of 2018, which governs the release of GRR; which in the event the GRR is stored for more than four months or is damaged, it can be sold, processed, or donated. However, for the mechanism for releasing GRR, Perum BULOG cannot immediately release it but must submit a letter requesting the release of GRR to the Minister of Agriculture by attaching the results of the Surveyor verification, after which the Minister of Agriculture will forward the matter to be decided in a Limited Coordination Meeting (RAKORTAS) comprising the Coordinating Minister for Economic Affairs as Meeting Coordinator, the Minister of Agriculture, the Minister of Trade, the Minister of Finance, the Minister of SOEs and the President Director of Perum BULOG. The complicated release mechanism causes the release proposal to be lengthy. Communication between Perum BULOG and the relevant ministries has been well established. However, such communication often needs to be improved by the protracted decision-making on GRR issues due to bureaucratic problems.

Furthermore, to achieve GCF objectives, communication and coordination between Perum BULOG and Regional Government have also been established regarding price stabilization on the consumer side in market operations and distribution of RASTRA to low-income families. However, if we look at the land acquisition constraints that are ob-

stacles to GCF 2016, communication and integration between Perum BULOG and Regional Government should be able to be resolved by applying for Regional Government land for at least 30 years based on Government Regulation Number 27 of 2014 concerning Management of State/Regional Assets. This will become an essential and more efficient breakthrough to achieve the goals of the 2016 GCF. The integration of Perum BULOG and the Regional Government will also be more optimal in achieving the 2015 GCF goal, particularly Regulation Number 17 of 2015, which has yet to be met in the regions (Kurnia et al., 2020). The optimal utilization of GCF funds cannot be separated from the many links between Perum BULOG and other institutions in the context of national food security. Therefore the above explanation can be summarized in Appendix 1 regarding food governance before establishing the National Food Agency on July 29, 2021.

### Integration After the National Food Agency Existed

The fat bureaucracy finally compelled the government to revise national food governance by establishing the National Food Agency on July 29, 2021, based on Presidential Regulation Number 66 of 2021. The National Food Agency, in its authority, took over the authority that the Ministry of Trade assumed in formulating and determining policies to stabilize prices and national food distribution. In addition, the authority of the Ministry of Agriculture was also taken over by the

National Food Agency regarding the formulation of the government's purchase price and the number of national food reserves. Finally, the National Food Agency also took over the authority of the Minister of SOEs to assign Perum BULOG in terms of national food policy.

Such policy transformed and streamlined food governance. However, strengthening food institutions is our responsibility, considering that the National Food Agency has not yet taken over the distribution of the RASTRA program, which is still under the Ministry of Social Affairs and the Coordinating Ministry for Human Development and Culture. This transfer of authority is essential, considering that the portion of the distribution of the RASTRA program reached 90% annually before the program was revoked in 2018 (see Table 5). The absence of the RASTRA program has made it difficult for Perum BULOG to purchase rice/unhulled rice from farmers because the Government requires Perum BULOG to purchase rice/unhulled rice. At the same time, there are no rice distribution posts due to the abolition of the RASTRA program. Although the National Food Agency is still in the consolidation process and has yet to operate effectively, it provides hope for better national food governance. National food governance can be summarized in Appendix 2.

### Characteristics of Policy Implementers

Perum BULOG has a structure that outlines

**Table 5.** Distribution of BULOG's Rice Distribution

Description	2018	%	2017	%	2016	%	2015	%
PSO Distribution (Tons)	1.860.27	100.00	2.716.91	100.00	3.212.80	100.00	3.554.88	100.00
- RASTRA Program	<b>1.207.27</b>	<b>64.90</b>	<b>2.542.40</b>	<b>93.58</b>	<b>2.782.33</b>	<b>86.60</b>	<b>3.202.02</b>	<b>90.07</b>
- Budget Group	101.36	5.45	102.68	3.78	110.12	3.43	91.57	2.58
- GRR	551.64	29.65	71.82	2.64	311.55	9.70	249.70	7.02
- Etc	0	0.00	0	0.00	8.81	0.27	11.59	0.33



precise tasks and functions for each section concerning the characteristics of the organizational structure. In connection with the implementation of the GCF, which could not be carried out because the study's results differed from the factual conditions, as we have previously stated, this needs to be minimized if Perum BULOG has an Internal Research Division. In addition, with the Internal Research Division, there is no roadmap for using GCF funds as indicated by BPK's audit results Number 46A/Auditama VII/PDTT/11/2016, which the company's Internal Research Division can carry out.

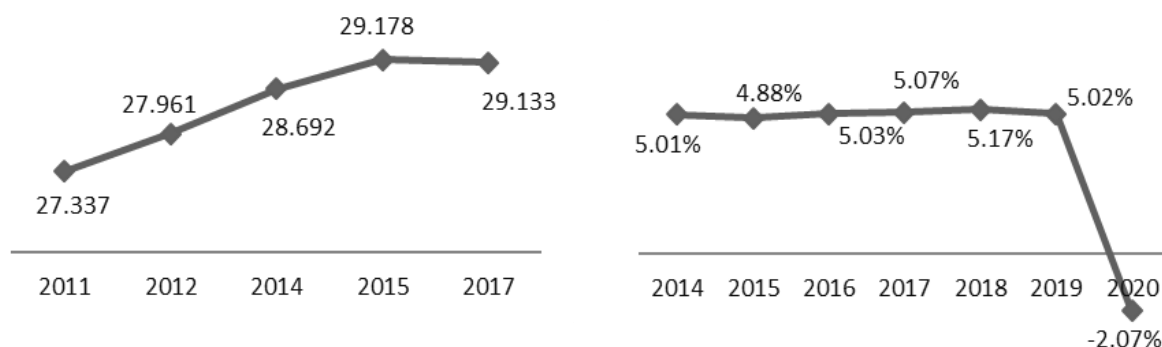
In the context of company characteristics in the form of company norms, Perum BULOG has implemented Good Corporate Governance, one of which is by making a Public Official Wealth Report (Laporan Hasil Kekayaan Penyelenggara Negara, LHKPN) for all companies. LHKPN reporting is mandatory, and officials who do not report it will be imposed with a sanction that denies them their office allowance.

The understanding of GCF policies still needs to be fully understood by officials. There are different interpretations of the 2015 GCF objectives, namely the efficiency of bank interest of IDR 300 billion/year based on an audit from the Public Accounting Firm of Kosasih, Nurdiyaman, Tjahyo, and Partners on 26 February 2018 related to the utilization of GCF funds to cover the working

capital debt of Perum BULOG in the Bank. The follow-up to these findings has been completed by returning the GCF funds used to cover the working capital debt to a separate GCF account. Furthermore, the understanding of GCF needs to be socialized to the regions, as Perum BULOG acknowledges. An inadequate understanding of each region will make it more difficult for Perum BULOG to achieve GCF goals. Concerning the policy response, Perum BULOG officials' response in GCF is very positive. This is understandable considering the finances of Perum BULOG, which are encumbered by working capital to purchase grain/rice from national farmers.

### Social, Economic and Political Conditions

The implementation of GCF Funds utilization can be very strategic, considering that the ultimate goal of GCF is for national food sovereignty. The social conditions of Indonesian people have a high preference for consuming rice, with national rice consumption reaching 29,1 million tons per year in 2017, as seen in Figure 4. This high preference is because rice reflects high social status and is imaged as a good source of nutrition with a delicious taste and is easier and faster to serve (Martianto & Ariani in BPS, 2018). While from an economic point of view, Indonesia's economic growth is stable at around 5% annually for the 2014-2019 period. How-



**Figure 4.** National Rice Consumption and Economic Growth National

Source: BPS (2020)

ever, in 2020, Indonesia's economic growth was -2,07% due to the impact of covid-19 (Oelieстина, 2021; Wuryandani, 2020). Minus economic growth due to COVID-19 has made the distribution of RASTRA to the poor relevant and needed.

Meanwhile, in the political context, the support for providing GCF is a form of the Government's political support to actualize food sovereignty which is a national priority agenda as stated in the 2015-2019 National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional, RPJMN), which is a derivative of the Presidential Regulation Number 2 of 2015. Political support from the House of Representatives (Dewan Perwakilan Rakyat, DPR) is also evident. DPR wants Perum BULOG's become national buffer stock and urges the Ministry of Finance to pay Perum BULOG's outstanding receivables immediately.

### **The Obstacles to Implementation of GCF Fund Utilization**

#### *Policy planning less comprehensive and inconsistent*

Based on the Joint Study of 2015, the purpose of the 2015 GCF is to purchase grain/ rice from national farmers. The assumptions built in the policy planning in the Joint Study of 2015, Perum BULOG are expected to rotate their inventory three times a year, namely 1,47 million tons per year. This figure of 1,47 million tons per year is the target for GCF of 2015, as described above. However, based on the BPK Audit Report (BPK, 2016), the realization for purchasing grain/rice only reached 344.050 tons or did not reach three times the expected turnover. Based on the annual report of Perum BULOG in 2013, inventory turnover only happened 1,86 times, while in 2014, inventory turnover occurred 2,08 times. For this reason, GCF's target of wanting an inventory turnover of three times per year or 1,47 million tons per year be-

comes excessive.

Policy inconsistency can be seen from the 2015 GCF target setting to distribute the RASTRA program to the poor at 2,784,000 tons annually. Meanwhile, the Government has stopped the RASTRA program policy, and termination of the RASTRA program policy by itself will disrupt the achievement of GCF targets. Other less comprehensive policies can also be seen from GCF 2016, whose contents are irrelevant to factual conditions. Such as (1) having to move the location of the Modern Rice Milling Plant, which is too close to residential areas, (2) there being a difference in the calculation between the results of the joint study and the feasibility study, (3) errors in determining the location of the soybean warehouse development that is not in the production center area, (4) changes in the allocation of GCF funds such as adding commodity warehouses for rice, corn, and soybeans.

#### *Difficulties in land acquisition and obtaining environmental license*

In GCF 2016, the budgeted funds of IDR 2 trillion could only be used as much as IDR 12,3 billion or less than 1% in two years (until the end of December 2018) due to the difficulty of land acquisition. The difficulty of land acquisition can be solved by establishing good communication between Perum BULOG and Regional Government regarding land use according to Government Regulation 27 of 2014. It is possible, considering local governments are also interested in maintaining food security in their regions according to the instructions specified in Government Regulation 17 of 2015 (Venkatesh et al., 2012).

In addition, in building post-harvest infrastructure as the goal of GCF 2016, Perum BULOG is also bound by development regulations in Indonesia which require obtaining an Environmental License before construction. The processing of this permit takes up to four

months, and the slow bureaucracy of obtaining permits has undoubtedly hampered the absorption of the 2016 GCF funds.

#### *Lack of GCF Funds and confusion of BULOG's business model*

Based on the Joint Study of 2015, the working capital requirement of Perum BULOG to buy grain/rice from national farmers is IDR 21 trillion. From this capital requirement, the funds covered by the government in the form of GCF are IDR 3 trillion, and the remaining (IDR 18 trillion) must be covered by commercial banks. The use of bank funds causes the finances of Perum BULOG to be weighed down. In 2015 the bank interest to be paid was IDR 1.074 trillion and continued to increase yearly.

The imposition of bank interest due to the PSO or the necessity to buy rice/grain from national farmers needs to be clarified in Perum BULOG's business model. In the case of PSO in the government's interest, these funds should apply and not use bank money, or even if they must apply for bank money, according to Law Number 19 of 2003, this bank interest should be charged to the government.

#### *Discontinuation of the RASTRA Program*

PSO in the form of the obligation to buy rice/grain from national farmers differs from the existence of a distribution source of the grain/rice. The policy of the Coordinating Ministry for Human Development and Culture and the Ministry of Social Affairs as a technical ministry in terminating the RASTRA Program for low-income families resulted in a slow turnover of Perum BULOG's stock, bearing in mind that this program held an average of 90% of the total distribution of rice (see table 5). The length of stock rotation also results in a higher potential for the damaged stock. This condition was also exacerbated by the purchase of rice/grain using

bank money; as a result, Perum BULOG had to bear higher interest rates due to the slow rotation of the stock.

The confusion of the business model is also seen where bank interest must be paid for slow stock turnover. However, the stock turnover cannot be used by Perum BULOG, bearing in mind that the stock belongs to the government. This means that the stock in the warehouse of Perum BULOG cannot be transferred without the government's permission. The existing management function of the government makes the shelf life of stocks extensive, even approaching four years. The extended shelf life makes the damaged grain/rice stock in Perum BULOG very large. In order to release it, Perum BULOG must first send a letter to the Ministry of Agriculture attaching the results of the Surveyor's analysis. The Ministry of Agriculture will schedule a Limited Coordination Meeting (RAKORTAS) led by the Coordinating Minister of Economic Affairs, with members of RAKORTAS comprising the Minister of Agriculture, the Minister of Trade, the Minister of Finance, the President Director of Perum BULOG. In practice, the decision to release damaged stock at RAKORTAS can only be decided after some time. However, it must seek an opinion again from the Development Finance and Supervision Agency. The decision to release the damaged stock due to poor food management took a very long time and even exacerbated the condition of the damaged stock.

This poor food governance is also observed in the distribution of stock for Market Operations, where the authority of Market Operations overlaps in two Ministries, namely the Ministry of Agriculture and the Ministry of Trade. Determining the Highest Retail Price (HRP) set by these two ministries to sell rice during market operations will also confuse Perum BULOG in determining which HRP to use.

In maintaining food stability as the GCF's target, Perum BULOG is also authorized to import or export when the stock at Perum BULOG accumulates or runs low. As mentioned, this authority rests with the Ministry of Trade. Perum BULOG and the Ministry of Trade often have different opinions concerning the necessity of imports under certain conditions. Perum BULOG stated that food stocks were adequate for an extended period, whereas the Ministry of Trade stated otherwise. Such disagreement occurred because the ideal parameter regarding the amount of stock in the warehouse of Perum BULOG has never been established. Unfortunately, the Ministry of Agriculture should establish such an ideal parameter based on Presidential Regulation Number 48 of 2016 rather than by the Ministry of Trade or BULOG Perum.

### **Policy Implementation Model for the Utilization of GCF at Perum BULOG**

As mentioned earlier, one of the obstacles to implementation is poor national food governance and excessive bureaucracy. However, on July 29, 2021, the government, based on Presidential Regulation Number 66 of 2021, formed the National Food Agency and changed the national food governance structure. The National Food Agency takes over the authority and powers of the three Ministries.

The establishment of the National Food Agency has not entirely resolved the complexities of the food management bureaucracy, where the National Food Agency has not taken over the RASTRA program for low-income families. This takeover is significant, considering that the share of Perum BULOG's stock distribution is 90%. The RASTRA program must remain in place to ensure distribution, bearing in mind that the absence of a distribution source disrupts Perum BULOG's effort to maintain price stabil-

ity on the producer side due to slow stock rotation. The instability or even the reluctance of Perum BULOG to buy rice/grain from farmers causes farmers' bargaining position to become weak in front of traders. For this matter, we propose that the National Food Agency also strengthen its authority by taking over the role of the Coordinating Ministry for Human Development and Culture and the Ministry of Social Affairs to deliver the RASTRA program for low-income families. We also propose that the authority of the National Food Agency be strengthened and improve facilities and infrastructure for farmers, specifically for rice/grain, to supervise farmers to produce the quality of grain/rice.

The strengthening of the authority of the National Food Agency can be seen in Appendix 3. The presence of the National Food Agency and the reinforcement of its authority is a new synthesis in responding to poor national food governance. Thus, we propose an institutional strengthening of the National Food Agency as the Sole Authority for Food Public Policy that supports Perum BULOG as a Food Policy Implementor as a model development for effectively utilizing GCF funds in Appendix 4.

## **CONCLUSION**

From this study, the implementation of GCF at Perum BULOG has not been optimal against the set targets due to Perum BULOG's need for more institutional authority to carry out policies. Therefore, it is necessary to strengthen institutions to manage national food sovereignty, with the National Food Agency as the sole authority in the food sector at the ministerial level and Perum BULOG as the policy implementer. Institutional strengthening can make policies more integrated so that they can be easily imple-

mented in the PMN in the food security framework.

Therefore, the obstacles to the implementation of this GCF are (1) policy planning is not comprehensive and inconsistent, (2) difficulty in acquiring land and obtaining an environmental license, (3) lack of GCF funds compared to the total working capital required and confusion in the BULOG business model, (4) termination of the RASTRA Program for low-income families and poor governance of food security. Furthermore, the development of a model for the effective utilization of GCF funds is strengthening the authority of the National Food Agency as the sole authority for a food policy that supports Perum BULOG as the food policy implementor.

Based on the preceding, the authors provide recommendations to elevate Perum BULOG's status as an institution to the status of a ministry-level institution. In addition, it is best if the pattern of relations with the National Food Agency is strengthened for even better food policy governance, such as the formulation and determination of food infrastructure, food stability, and export and import policies so that the management of national food reserves can be carried out in an integrated and comprehensive manner.

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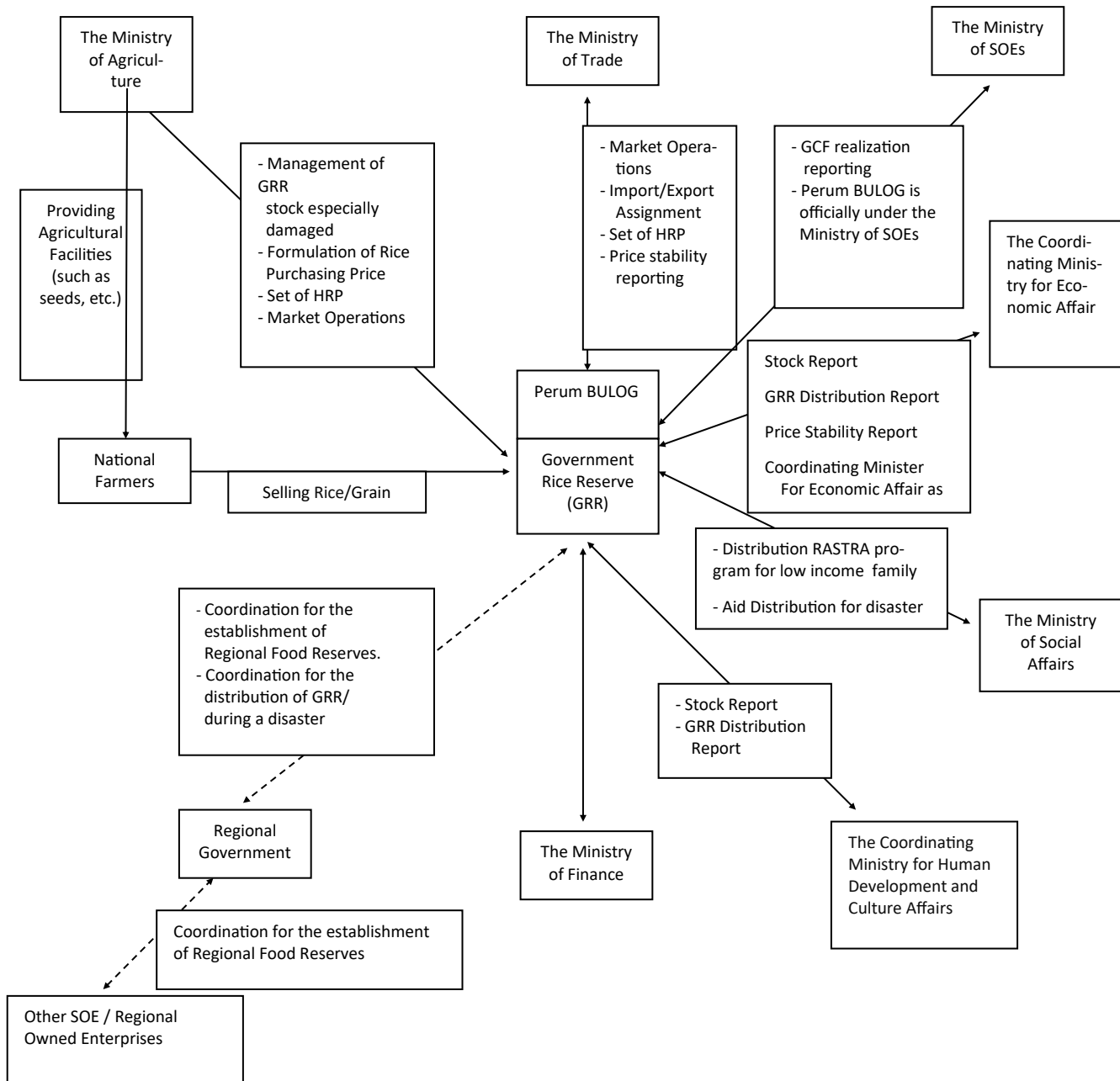
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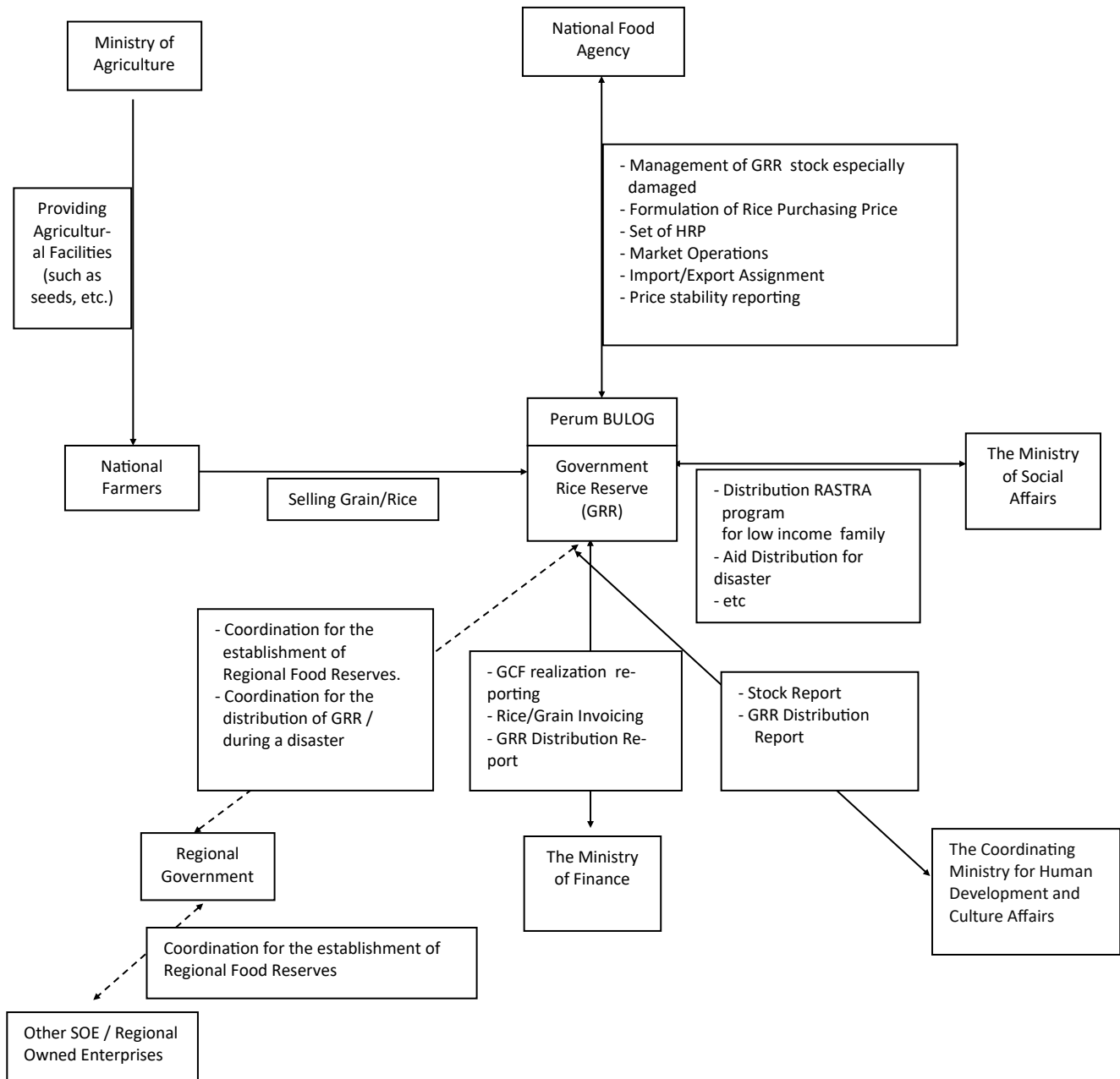
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## APPENDICES

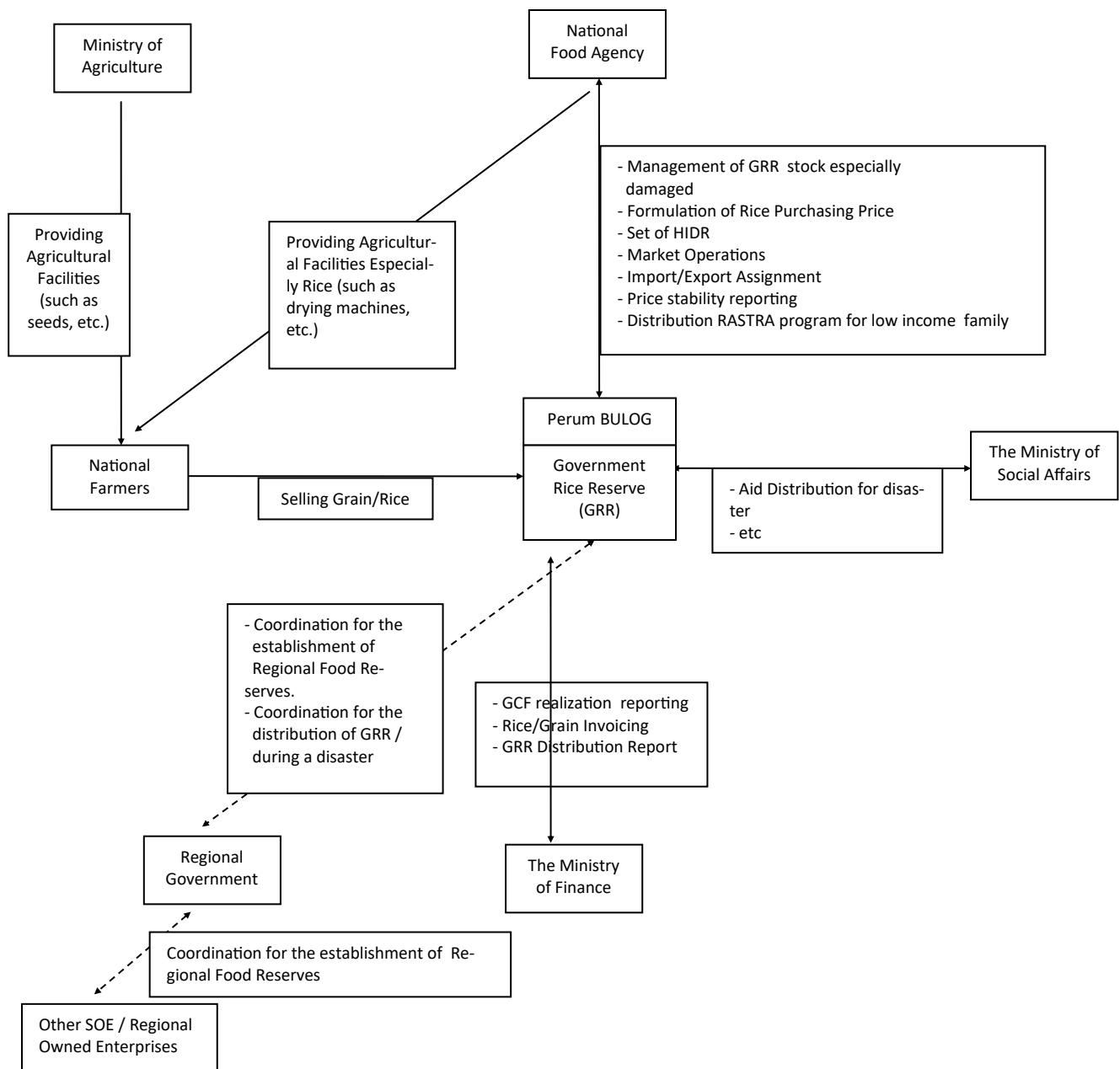
### Appendix 1. Food Governance Before the National Food Agency



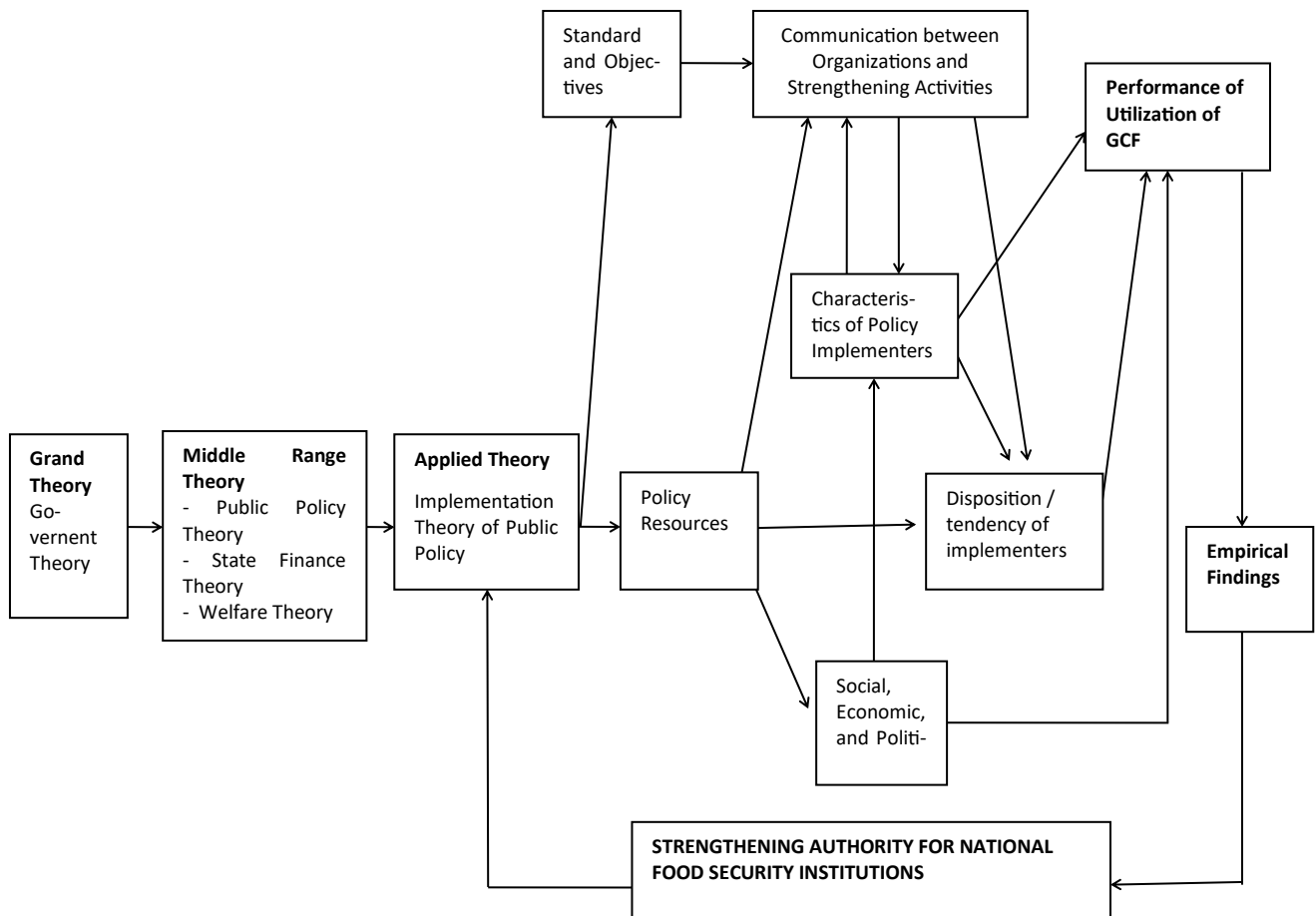
**Appendix 2. Food Governance After the National Food Agency Existed**



**Appendix 3.** The National Food Agency as the Sole Authority for Food Policy that Supports Perum BULOG as the Implementor of Food Policy



**Appendix 4.** Model Development for the Implementation of Effective Utilization of GCF Funds



## **Insight and Oversight Function of BPK to Improve the Management of Indonesian Migrant Workers**

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### **ABSTRACT**

This research discusses the role of BPK through insight and oversight function to improve the management of the Indonesian Migrant Workers (PMI) program. The study was conducted using a qualitative approach by analyzing the contents of the performance audit report as well as the viewpoint/opinion of BPK regarding Indonesian migrant workers released by BPK from 2010 to 2021. Various performance audits are carried out periodically by BPK by targeting PMI recipient countries with multiple characteristics, which determine different strategies regarding the dynamics of policies in PMI recipient countries. This study concludes that BPK plays a significant role in encouraging the improvement of PMI management through various performance audit recommendations and viewpoints/opinions. These audit recommendations have carried out the insight and oversight functions related to governance and implementation of the PMI program, as well as policies that need to be improved accordingly. Traditionally seen as only conducting financial audits, performance audits conducted by BPK, primarily through insight and oversight functions, can improve government management related to the Indonesian Migrant Workers program.

### **KEYWORDS:**

Indonesian Supreme Audit Institution, insight and foresight , performance audit, migrant workers

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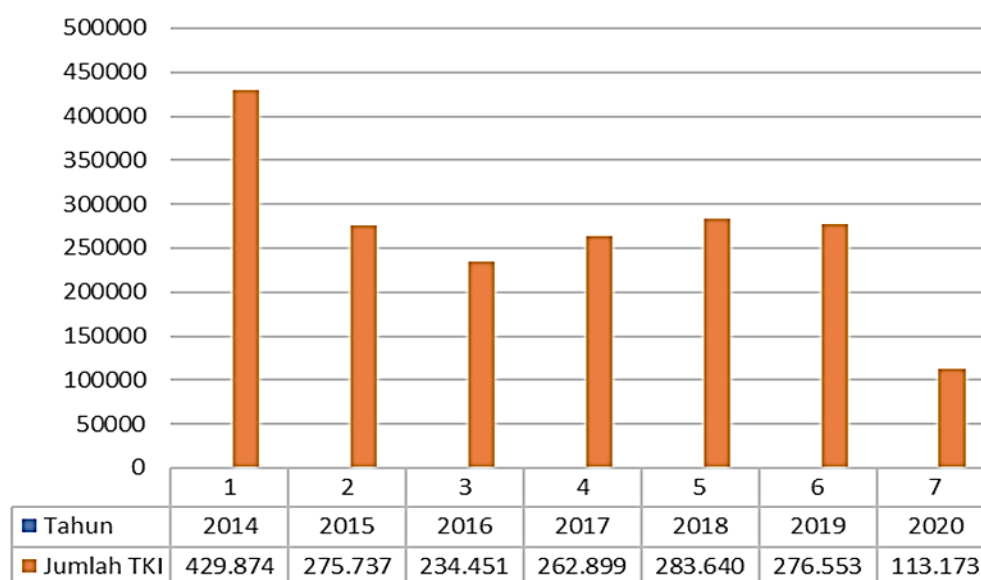
## INTRODUCTION

Indonesian Migrant Workers (Pekerja Migran Indonesia/PMI, formerly Tenaga Kerja Indonesia/TKI) are recognized as significant foreign exchange heroes. As Indonesian citizen who will, is currently doing, or has done work to earn wages outside the territory of the Republic of Indonesia (Wahyuni & Sihalo, 2022), they will need the role of the Government of Indonesia in the context of providing them protection and also undertake the management of Indonesian migrant workers program. According to Tjiptoherijanto and Manurung (2017), the scope of public services in the current era of globalization is not limited to citizens who live in that country but also citizens who are in other countries or have an international dimension. According to Aeni (2017), poverty is a factor that drives the decision for Indonesian citizens to pursue opportunities as migrant workers.

Data from the National Agency for Placement and Protection of Indonesian Migrant Workers (formerly abbreviated as BNP2TKI and currently known as BP2MI) shows that from 2010 to 2012, as many as 1.66 million

Indonesian migrant workers came from 33 provinces and 482 cities/regencies throughout Indonesia and were placed in 64 destination countries. In 2019 Indonesia sent 276,553 PMIs, consisting of 133,993 Formal PMIs and 142,560 Informal PMIs, where the Informal PMI placement rate exceeded 50 percent. Based on gender, the composition is 85,316 men and 191,237 women. When viewed from the level of education, it consists predominantly of Diploma and Basic Education graduates, as many as 32 post-graduates, 1,495 undergraduates, 2,463 Diplomas, 82,242 high school graduates, 101,440 junior high school graduates, and 88,881 elementary school graduates (BNP2TKI/BP2MI, 2020). The largest recipient countries for Indonesian migrant workers in 2020 are Malaysia, with 1.63 million people; Saudi Arabia, with 0.83 million people; Taiwan, with 282,000 people; Hong Kong, with 231,000 people; and other countries, with 231,000 people. Yearly PMI placement abroad from 2014 to 2020 is shown in Figure 1.

According to the remittance data, in the third quarter of 2018, remittances from Indonesian migrant workers in Saudi Arabia were the highest, with a total value of 2.9 bil-



**Figure 1.** PMI Placement Abroad 2014 - 2020

Source: BNP2TKI/BP2MI, (2018), (2020)



lion dollars, followed by remittances of Indonesian migrant workers working in Malaysia, with a total value of 2.7 billion dollars, in Taiwan reaching an amount of 1.4 billion dollars, those working in Hong Kong contributed 1 billion dollars, and Indonesian migrant workers in Singapore contributed 284 million dollars to the national economy (Rizky, Rachmawati., & Wulandari, 2021). The total remittances sent by 3.2 million Indonesian migrant workers in 2020 amounted to 9.42 billion US dollars, with details based on the leading country of PMI placement shown in Figure 2.

In addition to the enormous potential for remittances generated, the placement of Indonesian migrant workers in various destination countries is also faced with multiple problems that the government and relevant stakeholders must address (Hanifah, 2020). Among these multi-faceted problems are the large number of low-skilled informal workers who dominate PMI, which gives rise to complaints from employers, the non-fulfillment of Indonesian migrant workers' fundamental rights, unilateral job termination, and often leads to cases of

torture (Nizar, Inayah, & Dwijono, 2018; Sumiyati, 2013). Moreover, pre and post-placement management, both legal and illegal (Anwar & Idami, 2020), and a minimum understanding of the local country's language, culture, and laws often lead to various humanitarian or legal problems.

Nahartini, Dewi, Fitriah, Defianty, and Anasy (2021) state that the lack of English proficiency has often led to misunderstandings between Indonesian migrant workers and employers, causing unfavorable PMI competitive positions compared to other countries. On the other hand, Kusdarini, Puspitasari, Sakti, and Wahyuni (2021) state that usually, Indonesian migrant workers do not have sufficient legal literacy, causing exploitation in many occurrences. According to Widodo and Belgradoputra (2019), the maximum protection of Indonesian migrant workers can be achieved if government authorities and relevant stakeholders implement the laws and regulations consistently. Moreover, Yazid (2018) identifies the significant role of such women migrant worker advocates in addressing the women migrant worker problems.

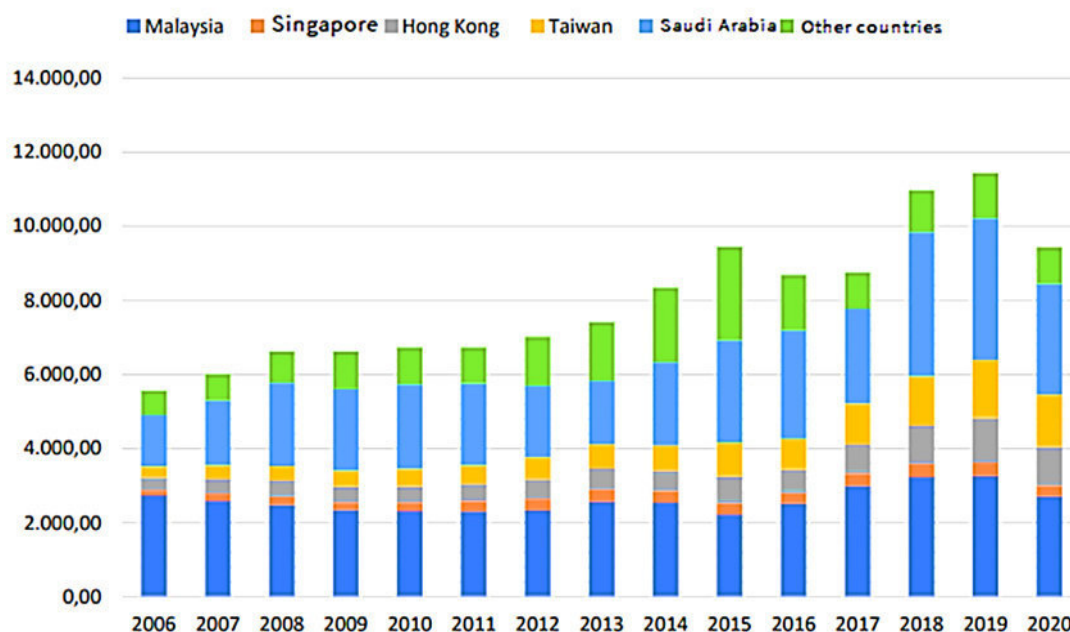


Figure 2. Remittances Based on PMI Placement (US \$ Million), 2006-2020

Source: Rizky et al., (2021)

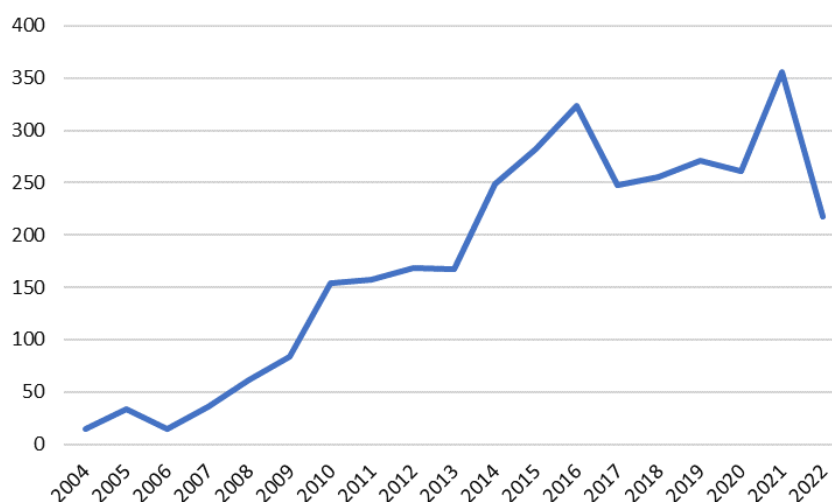
In the context of PMI management, as the external auditor of the government, BPK can play an active role in audits, especially through the type of performance audit. Dwiputrianti (2011) emphasized the importance of public sector audit reports by recommending the importance of performance accountability to avoid government programs/activities that do not achieve the desired targets or waste state finances. Hence, there is a need for audits beyond financial audits by emphasizing audits to encourage people's welfare through performance audits. The number, complexity, and quality of performance audits carried out by BPK continue to increase in line with the process of developing performance audit capacity, as shown in Figure 3.

The International Standards of Supreme Audit Institutions (ISSAI) 300 par-10 (INTOSAI, 2013) emphasizes the importance of performance audits to provide new information, analysis or insights, and recommendations for improvement. Performance audits provide knowledge or value by (1) providing analysis of new insights, i.e. broader or deeper analysis or new perspectives; (2) making existing information more accessible to various stakeholders; (3) providing independent views or conclusions based on audit evidence; and (4) providing

recommendations based on analysis of audit findings.

The United States Government Accountability Office formulated the Supreme Audit Institution (SAI) maturity accountability model in 2006 that was accommodated by INTOSAI in 2007, where the model was introduced by Anwar Nasution, the Chairman of BPK from 2004–2009. This model became a reference in seeking the organizational maturity model of BPK, especially through BPK's Strategic Planning (Mukthadir, 2015; Prabhawa & Prasajo, 2021). According to this model, Supreme Audit Institutions can undertake three roles, namely oversight function, which is to improve the effectiveness of financial supervision, insight function to increase insight into public policy, and foresight function or a review of alternative future options (Sendjaja, Rismanto, & Andrianto, 2015).

Based on the preceding, this study is conducted to explore the performance audit by BPK regarding the management of Indonesian migrant workers by the government. While another study has focused primarily on PMI management actors, this study focuses on the role of external audit institutions that audit government programs related to managing and protecting Indone-



**Figure 3.** The Number of Performance Audit Conducted by the BPK 2008 - 2022

*Source:* Andrianto, Sudjali, & Karunia (2021); BPK (2022)

sian migrant workers involving other stakeholders. BPK has been traditionally seen as only conducting financial audits. Therefore performance audit conducted by BPK, especially through insight and oversight function, has opened opportunities to improve government management. Hence, this study is also intended to provide constructive input in the field of administrative science/public policy in the Indonesian context through the performance audit practices carried out by BPK, especially concerning PMI management. The rest of the article will explain the literature review, the research method that has been applied, the analysis and discussion, and a conclusion and recommendation.

## **Literature Review**

### ***Migrant workers and their potential***

According to Sørensen (2016), development-related migration proceeds in complex and interdependent ways. Global inequalities in access to decent work, resources, education, health care, human rights, and other livelihood conditions explain why individuals, families, and communities migrate between countries. According to Tirtosudarmo and Mulyani (2013), the demand for Indonesian workers from the Gulf countries, Malaysia, Singapore, and Hong Kong has increased since the mid-1980s. Furthermore, research conducted by Maksum, Tsay, and Muhammad (2021) concluded that both Indonesia and Taiwan benefited economically from migrant workers through the remittances from Indonesian income and the fulfillment of the workforce and geopolitical aspects for Taiwan. Likewise, natural disasters and man-made disasters are often followed by humanitarian crises, another essential factor that drives migration.

According to Widodo and Belgradoputra (2019), Indonesian migrant workers are every Indonesian citizen who will, is currently,

or has worked and receives wages outside the territory of the Republic of Indonesia. Indonesia is one of the sending migrant workers in the world, and the largest placement areas for Indonesian Migrant Workers are the Asia Pacific and the Middle East. In Indonesia, the release of remittance data for PMI is conducted by the Bank of Indonesia, as quoted by the Harkat Negeri Foundation (Rizky et al., 2021).

Linking migration to development is not new (Sorensen, 2016). The growth of remittances or even counter-cyclical capacity in times of economic recession explains why development-migration discussions take place in international institutions such as the World Bank, regional development banks, United Nations Development Programme (UNDP), United Nations Educational, Scientific and Cultural Organization (UNESCO), and International Organization for Migration (IOM). Furthermore, Sørensen (2016) also states that the proposed mechanism to strengthen the link between migration and development requires regulatory objectives to facilitate migration and mobility of people in a safe, orderly, and responsible way through implementation and well-managed policies.

Furthermore, Sørensen (2016) explained that since the mid-2000s, international efforts have encouraged migration to support development through remittances. Organizational measures began to focus on collective remittances transferred by diaspora or other organized migrant groups. Unlike individual remittances, collective remittances can more easily be directed to community development projects in infrastructure, health care, and education or invested in productive areas that generate local employment, with the potential for a significant multiplier effect on the local economy.

Migrants and migrant organizations linking people living abroad with their communities

and/or countries of origin have emerged as essential development agents. Migrant remittances are a significant source of external development financing, although accurate data are difficult to obtain. Research by Muksin, Shabana, and Tohari (2019) shows that PMI's online communication with their families in their home countries is related to financial management to solve their domestic problems and to fulfill secondary needs, such as property/house and land/rice fields assets. The primary source of official data on migrant remittances comes from each country's annual balance of payments records, compiled in the Balance of Payments Yearbook published annually by the International Monetary Fund (IMF).

The largest volume of remittances is sent directly from migrants to family members left in their home countries, generally used to meet basic needs, such as food, education, and health care. Migrants can also send money to build or repair housing. In addition, remittances also generate direct demand for products and services in the destination area, thus creating a multiplier effect. According to Sørensen (2016), research on transnational migration through economic sociology has demonstrated the macroeconomic developmental impacts of migration beyond remittances directed to the Global South, including multiplier effects in financial arrangements and international trade and cultural production and consumption. Research conducted by Wahyuni and Sihalo (2022) shows a strong relationship between remittance delivery rates and the level of household welfare of migrant workers.

Many of the changes brought about by migration include another important transfer, namely "social remittances"; ideas, practices, identities, and social capital flowing from the communities of the receiving country to the sending country. Remittances of "social

money" are transferred by migrants during home visits or exchanged by mail, telephone, internet, or other modern forms of communication. They can promote migrant entrepreneurship across borders. International development-migration cooperation has generally limited the understanding of social remittances to skills transfer.

Bringing together migration issues and development policies of various governments and international organizations, according to Sørensen (2016), a Global Commission on International Migration was founded in 2005 to promote a more coherent, comprehensive, and global response to migration issues. The International Bank for Reconstruction and Development (IBRD) annual meeting seeks to establish a new global process designed to enhance the positive impact of migration on development by adopting a more consistent policy approach, identifying new instruments and best practices, exchanging knowledge and experience on innovative ways and methods, and building cooperative relationships between various actors involved.

According to Ely, Tuhulele, and Daties (2022), various international regulatory instruments have regulated the protection of migrant workers, including the 2006 Maritime Labor Convention, the International Labour Organization (ILO) Convention 188 concerning the Work in Fishing Convention, then the International Convention on The Protection of The Rights of All Migrant Workers and Members of Their Families, and the Universal Declaration of Human Rights (UDHR). However, the occurrence of COVID-19 globally is the latest challenge that can cause health, economic, and psychosocial problems, unemployment, and reduce the number of sending migrant workers abroad (Rahmawati & Kamilah, 2020; Elviandri & Shaleh, 2022, Aswindo et al., (2021).

## **Performance audit by BPK**

Performance audit is a relatively new practice at the Indonesian Supreme Audit Institution (BPK) as its development has been intensive since 2006. The emergence of this type of audit began with the enactment of Law number 15 of 2004 concerning Audits on the Management and Responsibility of State Finances, which was strengthened with Law number 15 of 2006 concerning BPK. Both laws explicitly introduce performance audits as a type of audit at BPK.

The emergence of performance audits is mainly due to the strengthening of attention to the public sector, significant public sector restructuring, SAI-led initiatives, similar developments in other countries, government initiatives, and the mandate to carry out this type of audit (Manaf, 2010). Performance audits provide benefits for the government to improve the quality of state management and/or improve government services to the community (INTOSAI, 2013). ISSAI 300 defines a *performance audit* as “an independent examination of the efficiency and effectiveness of government activities, programs, and organizations, taking into account economic aspects, intending to push towards improvement.”

Performance audits have various names, including in England; according to Parker, Jacobs, and Schmitz (2018), which is known as value for money (VFM) auditing, and in Canada, it is called comprehensive auditing (Everett, 2013). Performance audit focuses more on assessing whether a program, activity, or organization is managed economically, efficiently, and effectively (3E). In addition to providing an assessment of the 3E aspects, when auditors find problems that hinder the entity's performance, auditors are required to provide recommendations for improvement. Hence, performance audits aim to correct existing weaknesses, not only find errors

and determine who should be responsible for these errors. However, the scope of performance auditing could be expanded beyond 3E's, which are environment (and sustainability) (Irawan & McIntyre-Mills, 2016), equity (Johnsen et al., 2019; Reichborn-Kjennerud, 2013), and ethics (Bringselius, 2018).

In the context of an audit with an SDGs perspective, according to INTOSAI Development Initiative (IDI), the following three things are always considered in designing the audit, namely policy coherence, multi-stakeholder engagement, and leaving no one behind (IDI, 2020). Meanwhile, BPK's contribution to the impact of audits, according to IDI (2021), is determined by the value chain, which for performance audits is determined by (1) outputs: namely coverage, quality, timeliness, and issuance of audit reports; (2) outcome: follow-up by the Legislative and implementation of recommendations by the government, and (3) the role of SAI in building impact through improving public services and improving people's quality of life.

According to Tjokroamidjojo (1991, in Tjiptoherijanto and Manurung, 2017), public administration primarily performs policy formulation, controls administrative elements, and uses organizational dynamics. PMI management must be well prepared, starting from the recruitment, placement, and repatriation stages. Furthermore, PMI management must be coordinated across stakeholders to encourage its effectiveness. It is necessary to ensure the sound management of PMI that performs to achieve the effectiveness and efficiency of this program for the preparation and protection of Indonesian migrant workers as a whole, as well as encouraging the delivery of skilled migrant workers. Indonesia's Human Capital Index (HCI) is in 87th position, 157 in the world, or 6th in Southeast Asia. Indonesia's relatively low HCI

rating affects the quality of Indonesian Migrant Workers, so according to Solechan, Utami, and Azhar (2020), it is necessary to increase the competitiveness of Indonesian Migrant Workers to increase their bargaining power in the international world.

## RESEARCH METHOD

This study uses qualitative content analysis to identify key information in the Audit Report (Laporan Hasil Pemeriksaan, LHP) of BPK's Performance audit and BPK's viewpoints regarding the management of Indonesian Migrant Workers. In addition, a literature study was conducted to strengthen the research's theoretical basis. Statistical data was also obtained, both from institutions that manage PMI, research institutions, and data from the Directorate of Evaluation and Audit Reporting (Direktorat Evaluasi Pelaporan Pemeriksaan, Direktorat EPP) of the BPK. The study is also enriched by information from various online media.

Qualitative research methods have four data collection techniques: observation, interviews, documentation, and combination/triangulation. As a form of triangulation, discussions were held with experts from the auditor and auditee regarding Indonesian migrant workers and the role of BPK's performance audit in improving PMI management. Data processing is carried out in conjunction with collecting data and information. Since the start of the preliminary research, data processing has been carried out until the research proposal is compiled. During the interviews, data, and information collected at the research location, data processing was carried out in more depth and continued with checking the validity of the data. Data validity or data credibility is carried out by asking for confirmation of the data obtained from the interview results and comparing the data with other data and related information.

The final stage is interpreting data and information checked for validity using a triangulation analysis approach.

## RESULT AND DISCUSSION

In addition to the potential for remittances and foreign exchange generated, discussing Indonesian migrant workers in other countries is also necessary to address the various problems surrounding them. Behind the vast potential to develop the country/region of origin, the BPK's performance audit results show that there are many problems related to Indonesian Migrant Workers abroad, which have many implications for legal and humanitarian issues. Research conducted by Zein, Kurnia, and Putra (2021) in the Nunukan Regency area concluded that to minimize the number of illegal migrant workers, there are legal protection efforts and the closure of illegal cross-border routes by the government.

According to Rahayu (2011), in some cases, sending migrant workers involves elements of human trafficking, such as threats or acts of violence, fraud, debt bondage, forced labor, or slavery-like conditions. Furthermore, according to Nasirin (2020), the main problems of Indonesian Migrant Workers in Malaysia are low qualifications and no assurance of qualifications by professional certification bodies. Various parties should help to resolve these Indonesian Migrant Workers, according to Saleh, Utami, and Oktafiani (2019), including the Indonesian Student Association in Malaysia, the migrant workers union (Sumardiani, 2014) and its leader (Susanti & Nugroho, 2018).

Along with the development process of performance audit at the BPK, from 2010 to 2021, there has been a performance audit with the theme of TKI/PMI management. Through this performance audit, it is hoped that there will be continuous improvement

through the implementation of various recommendations given. The performance audit with the theme of TKI/PMI is also expected to encourage improvements in governance and resolve various problems that arise during the management of the PMI program. In addition, the escalation of performance audit recommendations into BPK's viewpoint submitted to the President is expected to further encourage the improvement of PMI management. This shows that BPK has stepped into the insight function through BPK recommendations and viewpoints that touch upon aspects of government policy in PMI management.

Based on the results of the search and analysis of data at Direktorat EPP, there are Performance Audit Reports related to TKI/PMI from 2010 to 2021, as shown in the Appendix. Through performance audit, BPK highlighted the management of PMI starting from the establishment of training centers in the areas of origin of PMI, the role of relevant Ministries and technical institutions, Indonesian Representatives in PMI receiving countries, as well as the placement and protection of PMIs both with Government to Government and Private to Private schemes.

Several recommendations for improvement in PMI management are related to PMI policies, governance, and implementation, which are encouraged through various periodic performance audits targeting PMI recipient countries with different characteristics. The strategy carried out by the Government includes utilizing various diplomatic means and anticipatory steps for various opportunities and challenges that can arise at any time, for example, related to amnesty policies in PMI recipient countries.

These efforts must be integrated across Ministries/Agencies by emphasizing synergistic collaboration or a whole government approach.

Based on the results of discussions with the auditors, in formulating recommendations, BPK involves all important stakeholders to increase involvement, and it is hoped that their implementation will be widely accepted. Based on the chronology of the audit themes above, there have been improvements made by the Government, both in terms of regulations, governance, and supporting policies as a follow-up to BPK recommendations. In addition, PMI improvements were made on the service side during recruitment, debriefing, placement, and after repatriation. Various media reports support this government claim, to which BPK auditors have also agreed. Moreover, the number of PMI complaints handled by BNP2TKI is also increasing yearly, providing measures to solve the problems entirely by involving all stakeholders (BNP2TKI, 2020).

Furthermore, according to the Ministry of Manpower, the problems of Indonesian migrant workers are complex and involve many stakeholders, including the Ministry of Manpower, BP2MI, Ministry of Foreign Affairs, Ministry of Home Affairs, Regional Government, Police, Immigration, and the private sector, as well as the government of the placement country. Performance audits from outside parties that are independent and objective are constructive as input for related parties to improve the quality of PMI placement and protection governance. The results of the Performance Audit conducted by BPK should be a shared reference document for all stakeholders in the PMI placement and protection governance cycle to evaluate regulations, policies, institutions, mechanisms, and synergy between stakeholders.

Hence, BPK has not only carried out its traditional function of oversight but has also touched on insights, including recommendations for a moratorium on sending informal migrant workers to countries that do not yet have protection for migrant workers, encouraging the government to anticipate the momentum of amnesty by the government of Saudi Arabia in



2013, and reviewing the placement of informal migrant workers, and increase formal and professional migrant workers (PMI). Confirming these government efforts result, Low's (2020) research concluded that the pressure from migrant worker sender countries and calls for migrant worker protection regionally and globally had pushed the Malaysian government to do labor reforms. Such labor reforms include a recruitment system through an agreement between Government and Government, increasing ethical issues in the recruitment process, and adopting a zero-cost migration process.

Confirming BPK performance audit results, some of the improvements have been made by the Ministry of Manpower in terms of governance of the placement and protection of migrant workers, including:

1. Review of Cooperation Agreement with Malaysia;
2. One-channel Placement Agreement with Saudi Arabia;
3. Issue Ministry of Manpower Regulation (Permenaker) Number 4 of 2023 concerning Social Security for Indonesian Migrant Workers, replacing Permenaker Number 18 of 2018 as it no longer follows developments and legal needs;
4. Carry out training for labor attaches serving in PMI placement countries so that they can carry out their duties more optimally; and
5. Integrate the service application for Indonesian migrant workers, namely Sisko TKLN (owned by BP2MI), with the SIAPKerja employment service application owned by the Ministry of Manpower.

## CONCLUSION

Based on the previous description, it can be concluded that BPK plays a significant role in encouraging management improvements through various performance audit recommendations given to all entities related to

Indonesian migrant workers. One of the recommendations by BPK that touch on policy or the implementation of its insight function is to ask the Government to conduct a moratorium on sending informal migrant workers to countries that do not yet have any regulations to protect Indonesian migrant workers and/or to countries that do not yet have a written agreement (MoU) with the Government of Indonesia. In addition, BPK has escalated the results of performance audits related to PMI into viewpoints/opinions submitted directly to the President in order for the President to coordinate across Ministries/Agencies to resolve problems related to PMI. The limitation of this study is that it tends to cover the area of traditional PMI placement, which is closely related to recipient countries. However, this study only covers some areas due to the new characteristics and current PMI trends.

As a suggestion in the future, BPK needs to direct the PMI performance audit in areas that are still not covered by legal protection, for example, Indonesian migrant worker at sea where there are cases of slavery involving fishing boat workers, which are becoming a public concern, or workers across national borders that are susceptible to protection vulnerability. According to Hidayati (2013), jobs that are vulnerable to slavery are those working as domestic workers in the factory and farm sectors and the fishing industry. Therefore, BPK needs to continue to monitor media coverage related to Indonesian migrant workers, both nationally and internationally, by utilizing big data analytics. Another limitation of this study might be related to the response bias of the informant from government officials, which other research can improve.

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## APPENDIX

**Appendix.** Performance Audit Report Related to PMI from 2010 to 2021

No	Year & Performance Audit Nature	Title of Performance Audit Report	Substance of Significant Findings, Problems and/or Recommendations
1.	2010 oversight	Performance Audit Report on Management of Competency-Based Training for Fiscal Years 2008 and 2009 at the Center for the Development of Overseas Job Training in Bekasi.	<ol style="list-style-type: none"> <li>1. Maximizing the function of the implementing team through specific job descriptions for members of the training implementation team in organizing training and implementing these tasks;</li> <li>2. Increase the quantity and quality of instructors; Improve the quality and quantity of facilities and infrastructure.</li> </ol>
2.	2011 oversight, insight	Performance Audit Report on the Placement and Protection of Indonesian Migrant Workers Abroad.	BPK recommends to the Minister of Manpower and Transmigration as well as the Head of BNP2TKI to conduct a thorough evaluation of the legislation, policies, systems, and mechanisms for the placement and protection of Indonesian Migrant Workers abroad and to immediately implement a moratorium (temporary suspension of sending) of informal migrant workers to countries that do not yet have regulations/laws that protect Indonesian migrant workers and/or a written agreement (MoU) with the Government of Indonesia
3.	2013 oversight	Performance Audit Report on Placement and Protection of Indonesian Formal Migrant Workers Government to Government Program at the Ministry of Manpower and Transmigration, National Agency for Placement and Protection of Indonesian Migrant Workers, Service Center for Placement and Protection of Indonesian Migrant Workers, Representatives of the Republic of Indonesia and Other Related Agencies in Jakarta, Central Java, Japan, and South Korea	<ol style="list-style-type: none"> <li>1. The implementation of socialization carried out by BNP2TKI is not integrated, does not involve BP3TKI in the regions, and does not reach rural communities, which are the majority of formal job seekers abroad.</li> <li>2. The Korean Language Job Training Institute, as an entity that plays an important role in the process of placing Indonesian migrant workers G to G Program in South Korea has not been regulated in an adequate regulation.</li> <li>3. The Technical Service Commitment Arrangement between BNP2TKI and HRD K has not been adjusted to the current conditions, and the implementation and monitoring of the EPS TOPIK fee refund process are inadequate.</li> <li>4. CTKI G to G program to South Korea did not receive adequate information about employment and was not given sufficient opportunity to review the Standard Labor Contract (SLC) before signing it.</li> <li>5. The function of the KTKLN application system as a data collection tool for migrant worker departures is not optimal.</li> <li>6. The implementation of data collection on the return and empowerment of the Indonesian migrant workers Formal G to G program is not optimal.</li> </ol>

No.	Year & Performance Audit Nature	Title of Performance Audit Report	Substance of Significant Findings, Problems and/or Recommendations
4.	<b>2013</b> oversight	Performance Audit Report on Placement and Protection of Indonesian Formal Migrant Workers Government to Government Program (Placement Period) at the Ministry of Manpower and Transmigration, National Agency for Placement and Protection of Indonesian Migrant Workers, Service Center for Placement and Protection of Indonesian Migrant Workers, Representatives of the Republic of Indonesia and Other Related Agencies in Jakarta, Central Java, Japan, and South Korea	<ol style="list-style-type: none"> <li>1. The Indonesian migrant workers placement database at the Indonesian Representatives in Japan and South Korea does not yet include all data on TKI who enter and work in the country of placement.</li> <li>2. The problem of overstayer interferes the protection efforts, placement quotas, and the continued placement of Indonesian migrant workers in South Korea.</li> <li>3. Indonesian migrant workers with fake documents will interfere with the continued placement of TKI G to G in South Korea.</li> <li>4. The data collection of problematic TKI cases at the RI Representatives in South Korea is not integrated into one database management for handling TKI cases.</li> </ol>
5.	<b>2013</b> oversight, insight	BPK viewpoint/opinion on Amnesty in Saudi Arabia.	<p>Encourage the Indonesian Government to immediately take anticipatory steps to prevent unwanted events after the amnesty period ends, including:</p> <ol style="list-style-type: none"> <li>1. Establish a cross-Ministerial task force to anticipate the surge in Indonesian migrant workers services;</li> <li>2. Increase diplomatic efforts to improve the service performance of the Saudi Arabian immigration authorities;</li> <li>3. Develop guidelines for services for Indonesian Migrant Workers/Indonesian Citizens related to amnesty by considering all the worst possibilities;</li> <li>4. To collect data on Indonesian Migrant Workers/Indonesian Citizens regarding the possibility of large-scale repatriation to Indonesia;</li> <li>5. Take advantage of the amnesty momentum for protection purposes and encourage the acceleration of the signing of the MoU with the Government of Saudi Arabia.</li> </ol>
6.	<b>2015</b> oversight	Performance Audit Report on the Governments Guidance and Supervision in the Placement and Protection of TKI Private to Private Scheme at the Ministry of Manpower and Transmigration, BNP2TKI, Provincial/District/City Manpower Offices, and Other Related Agencies in DKI Jakarta, West Java, East Java, West Nusa Tenggara, and Riau Islands Province.	<ol style="list-style-type: none"> <li>1. The law that regulates all stages of the implementation of the placement and protection of Indonesian Migrant Workers is available but needs improvement.</li> <li>2. There are overlapping rules regarding the placement and protection of TKI, which results in confusion in the process of placing and protecting Indonesian Migrant Workers.</li> <li>3. The financing charged to CTKI is inadequate, among other things, because the cost structure for the placement of TKI has not been fully transparent, detailed, and valid according to actual conditions in the field.</li> </ol>

No.	Year & Performance Audit Nature	Title of Performance Audit Report	Substance of Significant Findings, Problems and/or Recommendations
7.	<b>2016</b> oversight, insight	Performance Audit Report on Placement and Protection of Indonesian Migrant Workers in Private to Private Placement Period Stage.	<ol style="list-style-type: none"> <li>1. Evaluating the fairness of the Cost Structure by considering the provisions in force in the country of placement and actual conditions.</li> <li>2. To propose to the President that an integrated cross-ministerial/ institutional team be formed to study further and follow up on the Grand Design for the Placement and Protection of Indonesian Migrant Workers, which has been prepared by the Ministry of Manpower;</li> <li>3. To conduct a comprehensive study of the problems of Indonesian Migrant Workers and the underlying/ systemic causes to establish a more comprehensive policy for handling problematic Indonesian Migrant Workers;</li> <li>4. Reviewing policies for the placement of informal Indonesian Migrant Workers and increasing the placement of formal and professional TKI.</li> </ol>
8.	<b>2017</b> oversight, insight	Performance Audit Report on the Management of Placement and Protection of Indonesian Migrant Workers (TKI) Government to Government (G to G) Program at the Ministry of Manpower (Kemnaker), National Agency for Placement and Protection of Indonesian Migrant Workers (BNP2TKI), and other relevant agencies 2014 until Semester I 2016 in Jakarta, Tokyo, and Seoul.	<ol style="list-style-type: none"> <li>1. The organizational structure and working procedures of the Ministry of Manpower and BNP2TKI are not yet fully clear and are implemented by authorized officials and/or employees.</li> <li>2. The Ministry of Manpower has not yet stipulated regulations regarding the insurance of Indonesian Migrant Workers placed by the Government.</li> <li>3. The information system for the placement and protection of Indonesian Migrant Workers has not been fully integrated and has not been able to provide accurate and complete information.</li> <li>4. The preparation of the TKI employment contract with the country of placement in South Korea has not optimally protected the interests of the TKI.</li> <li>5. Indonesian representatives in Japan and South Korea still need to improve the guidance and supervision and fulfill the rights of Indonesian Migrant Workers in the G to G Program.</li> </ol>
9.	<b>2018</b> oversight	Performance Audit Report on Protection of Indonesian Citizens Abroad at the Ministry of Foreign Affairs and Other Related Agencies in 2015 and 2016 in Jakarta, Johor Bahru, Jeddah, Los Angeles, and Cape Town.	<p>Representatives of the Republic of Indonesia have not been optimal in providing services in the context of protection for Indonesian Migrant Workers abroad due to the following conditions:</p> <ol style="list-style-type: none"> <li>1. The mechanism for self-reporting is unclear for the four representatives tested as the sample, namely the Indonesian Consulate General in Johor Bahru, the Indonesian Consulate General in Jeddah, the Indonesian Consulate General in Cape Town, and the Indonesian Consulate General in Los Angeles;</li> <li>2. The socialization carried out by representatives of the Republic of Indonesia has not been effective in increasing the awareness of Indonesian citizens to self-report;</li> </ol>



No.	Year & Performance Audit Nature	Title of Performance Audit Report	Substance of Significant Findings, Problems and/or Recommendations
			3. Representatives of the Republic of Indonesia have not fully implemented services for Indonesian citizens, especially Indonesian migrant workers, in accordance with applicable local, national and international customs and procedures.
10	<b>2019</b> oversight	Performance Audit Report on Protection for Indonesian Citizens Abroad at the Indonesian Consulate General in Hong Kong in 2017 and Semester I 2018.	As a preventive measure against the risk of PMI cases, the Indonesian Consulate General in Hong Kong held PMI capacity building activities through welcoming programs, during-stay programs, and exit programs. These efforts have a significant impact on the achievement of settlement of cases handled related to Indonesian citizens and the high level of acceptance of Indonesian citizens in Hong Kong and Macau for efforts to resolve cases carried out by Indonesian representatives.
11	<b>2019</b> oversight	Performance Audit Report on Protection for Indonesian Citizens Abroad at the Indonesian Embassy in Seoul in 2017 and Semester I 2018.	As a preventive measure against the risk of PMI cases, the Indonesian Embassy in Seoul carries out various information dissemination programs to prevent cases from occurring since PMI arrived in South Korea through a welcoming program. Another achievement is that from the cases that were resolved in 2017, the Indonesian Embassy in Seoul has succeeded in fighting for the financial rights of Indonesian citizens/PMIs and sent them to their heirs in Indonesia with a value of Rp.10,920,416,393.00. This action had a significant impact on the achievement of the target for resolving cases of Indonesian citizens handled and the high level of acceptance of Indonesian citizens in South Korea for efforts to resolve cases carried out by Indonesian representatives.
12	<b>2021</b> oversight	Performance Audit Report on the Effectiveness of Protecting Indonesian Migrant Workers in the Repatriation Process 2020 until Semester I 2021 at the Indonesian Migrant Worker Protection Agency and Other Related Agencies in DKI Jakarta, Banten, West Java, and East Nusa Tenggara.	BP2MI has had several achievements related to protection for PMI, especially the repatriation of those who are problematic/sick/died to their area of origin from the destination country, including: 1). The Government has released various PMI protection regulations with their derivative rules (Law 18/2017 on the Protection of Indonesian Migrant Workers, PP 59/2021 on the Implementation of the Protection of Indonesian Migrant Workers, Presidential Regulation 90/2019 concerning the Indonesian Migrant Worker Protection Agency), which forms the basis for the synergy of various stakeholders optimally. 2). BP2MI already has an Integrated Repatriation Information System for PMIs who are problematic/sick/died. 3). BP2MI has taken proactive steps to provide repatriation services for troubled/sick/died PMIs to their areas of origin. Several audit findings that require improvement, including 1). BP2MI does not yet have adequate regulatory support in the PMI repatriation process. 2). BP2MI does not yet have adequate institutional support in the PMI repatriation process. 3). The management of the Integrated Repatriation Information System (Sipunten) is not yet optimal in supporting return services and providing reliable data. and 4). The service for returning problematic PMI is not adequate.

## **Measuring Employee Readiness for Knowledge Management Implementation in the Audit Board of the Republic of Indonesia**

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### **ABSTRACT**

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The Audit Board of the Republic of Indonesia is one of the largest public institutions with frequent job rotations and high employee turnover. The current COVID-19 pandemic, which has forced employees to adopt work from home whether they are ready or not, has compelled the organization to implement knowledge management successfully urgently. Employee readiness is one of the critical factors in the implementation of knowledge management. If the employee is not ready, it will lead to the organization's failure. This study aims to measure the level of employee readiness in BPK to implement knowledge management by using the intention to be involved in the SECI (Socialization, Externalization, Combination, and Internalization) process. The analysis was conducted by using SEM (Structural Equation Modelling). The result reveals that employees of BPK are ready to implement knowledge management. This is shown by the development of the SEM analysis and by the results of descriptive statistics with high values. The SEM analysis displays 14 out of 16 items considered the most representative dimensions in the SECI Process.

### **KEYWORDS:**

Knowledge management; employee readiness; SEM; BPK

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## INTRODUCTION

Knowledge is a valuable resource for any organization. Knowledge is regarded as a competitive advantage for maintaining and restraining activity in the market (Razak, Pangil, Zin, Yunus, & Asnawi, 2016). Knowledge has become an essential economic resource for any organization. Therefore, organizations must understand the fundamental principles of knowledge and effectively manage their knowledge assets (Edosio, 2014). In line with those scholars, González, René, Hidalgo, and Alberto (2016) conclude that knowledge is the currency of the economy today and perhaps the most valuable commodity of the twenty-first century as a result. Similar to those scholars, Dalkir (2013) stated that knowledge had become a more crucial aspect of competition. It is one of the essential commodities found in goods (mostly in high-tech products). It is also embedded in highly mobile employees' tacit knowledge. Dalkir (2013) embraced the definition of knowledge management (KM) as the process of capturing, structuring, managing, and disseminating knowledge throughout the organization in order to work more efficiently, repurpose best practices, and prevent expensive rework from project to project.

Employee readiness is the main factor defining the success of implementing KM. No matter how well the other factors are addressed, if the employee is ready to implement KM, it will only be implemented successfully. Abdel-Ghany (2014) mentions that organizational change beliefs are encouraged with the aid of using employee readiness factors. Employees develop change beliefs based on how they perceive the change (readiness) and establish their behavior based on whether they support or oppose it. Individual readiness to participate in KM will affect organizational readiness to adopt KM as it will help to identify opportunities

and barriers before adopting KM. Determining readiness will also help to identify the right approach for KM.

The preceding notion is similarly found in many research. A study carried out by Marouf and Agarwal (2016) discovered a strong link between organizational preparation and individual readiness in universities. Therefore, the university administration should pay special attention to the individual factors of openness, knowledge self-efficacy, collegiality, and reciprocity due to their significant effect on personal readiness. The unit department with the highest scores across all of these factors and for overall organizational and individual readiness should be selected as the pilot site when introducing KM across the institution, as this will help to ensure early success. The implementation could be expanded to other university schools or departments after publicizing the success story.

Furthermore, individual readiness is influenced by personal competence and ideas on knowledge sharing. The organization must create a shared commitment to knowledge sharing to increase process readiness. An organization's ability to implement the knowledge-sharing process is represented by a supportive organizational setting that includes communication, engagement, and learning. The interactions between the components of change readiness and the knowledge-sharing process are also shown to be moderated by organization archetype, inter-profession disparities, and knowledge nature (Rusly, Sun, & Corner, 2014).

The value of knowledge is essential to manage; the failure of knowledge management or unmanaged knowledge will lead to the loss of valuable assets. Knowledge must be well-managed to avoid staying with a particular employee. In other words, the knowledge has yet to belong to the organization. The

knowledge embedded in the particular employee will disappear if the employee retires, resigns, or leaves the organization. KM will also help improve public sector innovation and intellectual capital as a buffer between intellectual capital and innovation. KM is critical for companies and organizations to develop intellectual capital and produce innovation. This type of KM is required for organizations to respond to environmental changes, issues, and challenges that arise due to continuous knowledge renewal (Akil, Soemaryani, Hilmiana, & Joeliaty, 2021). KM also improves the public sector performance as well as in the private sector. Al-Ahbab, Singh, Balasubramanian, and Gau (2018) found that all of the knowledge management processes, which included knowledge creation, knowledge storage, knowledge sharing, and knowledge application and use, had a positive and significant impact on the operational, quality, and innovation performance of the United Arab Emirates public sector.

The Audit Board of the Republic of Indonesia (Badan Pemeriksa Keuangan, BPK) has 34 representative offices in provinces and more divisions in its headquarters. Job rotation for each employee occurs every five years and generally happens at least twice a year. In other words, there might be a new employee every six months in the representative offices or divisions. Also, each division and representative office may have distinct characteristics. Furthermore, employee turnover in BPK is high. Meanwhile, the knowledge and experience embedded in an employee might be essential to the organization. If that knowledge is not managed well, it may vanish with the employee.

By implementing KM, knowledge will be shared easily with other employees, and the knowledge belongs to the organization. It is not embedded only in someone's mind. Furthermore, the successful implementation of

KM will make the knowledge accessible to employees anywhere. In addition, the current COVID-19 pandemic condition has forced millions of employees to adapt and "work from home." Therefore, the successful implementation of KM in this situation is also urgently needed, and employees must be able to access the knowledge anywhere.

KM is mostly implemented in the business sector. In Indonesia, KM has yet to be applied widely in the public sector. Meanwhile, KM is aligned with the Grand Design of Bureaucratic Reform for 2010–2025. KM is one of the strategic programs designed to facilitate knowledge-sharing activities, which are helpful for policymaking in bureaucratic reform and as a benchmarking tool for ministry and local government. Following up on this grand design, the Ministry of State Apparatus Utilization and Bureaucratic Reform (Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi Republik Indonesia, Kemenpan RB) issued Menpan-RB Regulation Number 14 of 2011 concerning Guidelines to Implement Knowledge Management Program (Permenpan-RB Nomor 14 Tahun 2011 tentang Pedoman Pelaksanaan Program Manajemen Pengetahuan). Following these regulations, BPK began implementing KM as outlined in BPK's Strategic Plan.

The critical factor in implementing KM is the employees of the organization. Research conducted by Chua and Lam, as cited by Sayyadi Tooranloo, Ayatollah, and Alboghobish (2018), shows that one of the major failure factors affecting KM stages is cultural factors, such as the unwillingness to share knowledge. Here we can see that one success factor is the employee's willingness to share knowledge. Knowledge is a privilege. People might obtain many advantages from the knowledge they have. By sharing their knowledge, they might lose the privilege and benefit they might obtain in the future.

Moreover, an organization should assess its knowledge management readiness before investing and adopting various potentially expensive knowledge management-related activities, systems, and technologies (Karim, Razi, & Mohamed, 2012). Organizations should measure employee readiness beforehand rather than allocating too much budget for a failed implementation of KM. Therefore, assessing employee readiness to implement KM in BPK successfully is essential.

The process of socialization turns "tacit knowledge into new tacit knowledge." It might occur through social interactions, for example, spending time with one another or living in the same area. This process promotes both knowledge creation and sharing. Subsequently, the process of externalization can assist in transforming "tacit knowledge into explicit knowledge" by codifying processes such as concepts, analogies, images, metaphors, etcetera. Such a process assists in knowledge capture and is regarded as one of the components of knowledge creation. The combination process converts explicit knowledge through a systematic exchange mechanism. This process assists in developing new explicit knowledge through systematizing explicit knowledge. The internalization process transforms explicit knowledge into tacit knowledge. This process is known as praxis, and it occurs when knowledge is applied and employed in a practical setting to provide the foundation of a new routine (Razi, Karim, & Mohamed, 2015).

A previous study by Bučková on KM in Public Administration Institutions highlighted the most important factors influencing the development of KM in the particular field of public administration. The result shows that employees in public sectors must continue to be educated, obtaining new knowledge and skills to improve their performance and interactions with citizens. KM strives to eradicate unproductive habits and practices of

each individual and, hence, in the organization (Bučková, 2015).

Further, Rusly, Corner, and Sun (2012) argue that readiness for change is multiple structures. The eagerness to change for each individual may be influenced by their understanding of the need, rewards of change, and appropriateness shaping the change's beliefs. Coworker's behavior can affect the willingness to change as these ideas evolve in an employee whose effort is dependent on other employees. Hence, to evolve at the individual level, the ideas for change should be viewed as the organization's member's collective attitudes or intentions. Furthermore, he stated that the ability to change depends on the individuals' and the organizations' ability to undergo changes. This capability includes sufficient financial, human, and information resources to prepare members for new ideas or programs. It also depicts the organization's and its members' circumstances as they embark on the transformation (Rusly et al., 2012).

Another study was conducted by Samaranayake and Takemura (2017) on employee readiness for organizational change in a Sri Lanka's export-oriented manufacturing. They examine the relationships between organizational commitments, trust in peers and management, and employee change readiness. Some factors were also investigated, such as the effects of gender, age, and working experience (demographic characteristics) on employees' organizational commitment, trust in peers and management, and change readiness. Their research finding reveals that it is challenging to modify or change employees' demographic characteristics to achieve the desired change or steer the organization in the desired direction. Employees' organizational commitment and trust in their peers and management significantly influence their willingness to change than demographic characteristics. Human

resource development functions such as employee career development, employee training, and mentoring can influence these two factors. Meanwhile, intervention from Human Resource Division can also enhance the level of education of the employees, resulting in a multi-level impact on increasing employee readiness (Samaranayake & Takemura, 2017).

Mohajan's (2019) research showed that a significant barrier to knowledge sharing in organizations is a lack of trust. The effect of company culture, a lack of competent leadership, and a lack of suitable rewards impede knowledge sharing. Lack of communication, inequalities in status, a lack of leadership and management, a lack of sharing resources, deficiency of sharing resources in the organization, a lack of formal and informal mechanisms and spaces to increase sharing activities, a lack of sharing initiatives within the organization, a lack of proper knowledge sharing space, a lack of willingness to share knowledge of the highly skilled and experienced employee, and a lack of an exigency of network connection are the barriers to knowledge sharing (Mohajan, 2019).

Karim et al. (2012) conducted research that measured employee readiness using the intention to be involved in the KM SECI processes. The research was based on the established KM SECI process measures and instruments that had been adopted and adapted. The research was conducted on 313 executives working in the selected organizations in the Sri Lankan telecommunication industry using a survey research methodology approach. The research finding provides the revised measurement model for employees' intention to be involved in KM SECI processes. All four variables of the intention to be involved in KM SECI processes emerged as a significant and reliable measure of KM readiness. The finding also indicates that employees in the Sri Lankan telecommunica-

tion industry have a positive level of involvement in KM processes (Karim et al., 2012).

According to Alavi and Leinder as cited by Karim et al. (2012), there are four basic processes of KM commonly known in the literature: creating, storing/retrieving, transferring, and applying knowledge. However, among the KM processes, knowledge creation and sharing processes have been given much attention. According to Nonaka, Byosiore, Borucki, and Konno (1994), organizational knowledge creation, as distinct from individual knowledge creation, occurs when all four models of knowledge creation (SECI) are organizationally managed to form a continual cycle. SECI processes propose four different modes of knowledge conversion.

1. Tacit knowledge to tacit knowledge (Socialization)

Socialization is sharing experiences and creating tacit knowledge, such as shared mental models and technical skills. The conversion might occur through observation, imitation, and practice rather than through language.

2. Tacit knowledge to explicit knowledge (Externalization)

Externalization is the process of illustrating tacit knowledge into explicit knowledge. It is a fundamental process of knowledge creation in which tacit knowledge is transformed into explicit knowledge in metaphors, concepts, hypotheses, analogies, or models.

3. Explicit knowledge to explicit knowledge (Combination)

The combination is the process that organizes ideas into a knowledge system. This sort of knowledge conversion requires combining diverse bodies of explicit information. Individuals exchange and combine knowledge using various media such as computerized communication networks, meetings, phone calls, and documents.

#### 4. Explicit knowledge to tacit knowledge (Internalization)

Internalization is a process of transforming explicit knowledge into tacit knowledge. It is similar to "learning by doing."

These processes are termed SECI (Karim et al., 2012).

Another study was conducted by Salwa and Susanty (2016) using SECI processes in the private sector using the structural equation model (SEM). The variable of employee readiness is made up of the SECI process. One result shows that to achieve the readiness stage, the organization should consider reviewing its program based on the SECI model (Salwa & Susanty, 2016).

Based on the preceding, this study aims to measure and evaluate employee readiness for KM implementation in BPK. As used by prior studies, is the SECI process able to measure the intention to be involved in KM activities and the employee readiness to implement KM? The result of this study is expected to fill the knowledge management implementation gap in Indonesia regarding employee readiness in the public sector. As most of the available literature currently discusses, KM is in the business sector. In addition, no literature is found discussing employee readiness for KM in the public sector in Indonesia. It is also expected to help BPK and other public sector organizations to implement KM successfully by measuring employee readiness beforehand.

## RESEARCH METHOD

This study focuses on evaluating employee readiness for KM. How intense the employees are in allowing themselves to be involved in the KM process shows they are ready. This study was conducted in BPK, considering the high turnover of employees

in BPK. Moreover, its vast organizational structure and the current COVID-19 pandemic force employees to adapt and "work from home."

Primary data was collected through questionnaires submitted to employees in the headquarter and representative offices using a random sampling method. The questionnaire used for this study is associated with the previous research, and such a questionnaire is tailor-made to BPK's condition. The detail of the questionnaire is attached in Appendix 1. Each questionnaire was ranked by a 5 points Likert Scale. Meanwhile, secondary data was collected from the literature, previous research findings, and BPK's internal data.

Employee readiness is represented by the intention to be involved in KM activities (SECI process). Structural Equation Modeling (SEM) is the analytical technique to ensure whether models and indicators are valid and to enable the measurement of employee readiness (Salwa & Susanty, 2016). Confirmatory Factor Analysis (CFA) is performed using AMOS (Analysis of Moment Structures) to validate and confirm the measurement. This technique will be used to refine the measurement items to achieve reliability and validity for a proposed readiness model in Figure 1.

The method performed are unidimensionality, validity, and reliability. Any item with a low factor loading should be deleted to ensure the unidimensionality of a measurement model. Thus the factor loading that is less than 0.6 was removed. Further, all squared multiple correlations (SMCs) must be at least 0.40 (Karim et al., 2012). Variables with factor loading less than 0.60 and SMCs less than 0.40 has been removed, and the rest has been considered for further analysis to assist in constructing a new model. Construct validity is achieved when

the Fitness Indexes for a construct achieve the required level. The fitness indexes indicate how qualified the items are in measuring their respective latent construct.

This study used a value of Composite Reliability of 0.6 or higher and an Average Variance Extracted (AVE) is 0.5 or higher. Descriptive statistical analysis was then performed to obtain the mean score for each variable and the overall score. Descriptive statistics are analyses that summarize, describe, and portray data in ways that make it easier to understand. It aids in understanding and describing characteristics of a specific data set by offering brief observations and summaries about the sample, which can help to indicate the trends. Typically, summaries include quantitative data and visuals such as graphs

and charts (Conner & Johnson, 2017).

## RESULT AND DISCUSSION

The data was collected by using a questionnaire from 216 respondents. Most respondents are around 31 – 40 years old, with 75% of the total respondents, 45.8% of the respondents are female, and 54.2% are male. The majority of the level of education, which represents 57.9% of the respondents, is undergraduate. Meanwhile, the average work length is 11-15 years, representing 58.8% of respondents. Most of the sample were employees from the West Region, with 44.4% of respondents.

Confirmatory factor analysis was performed to validate and confirm the dimensions test using AMOS version 27. This analysis meth-

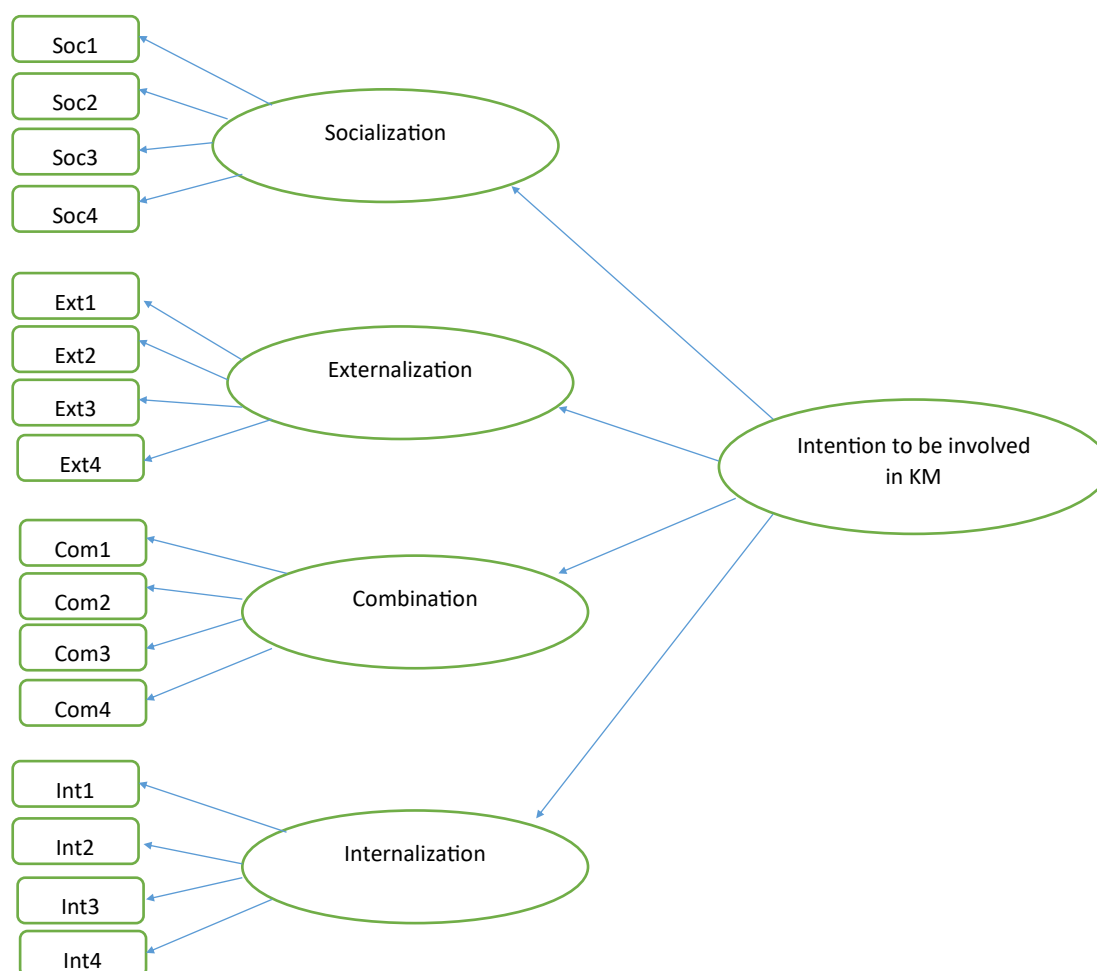


Figure 1. Research Model



od was performed to refine the measurement to attain reliability and validity for a confirmed readiness model. The first test was run for the first model in Appendix 2, and the factor loadings and SMCs are shown in Appendix 3. The first model shows that factor loading for every item is higher than 0.60 except Ext5. Furthermore, SMC for all items is higher than 0.40 except Com1. It suggests that all other item is valid except for Ext 5 and Com1, so both items will be removed from further analysis. A second-order analysis was then conducted, and the new construction is shown in Appendix 4. The construct was performed using CFA to measure the validity and reliability. The result is shown in Appendix 5.

The second-order analysis results show that all factor loading and SMCs are higher than the expected value. In addition, the item deletions for this construct are 10.53% (2 out of 19 items). This suggests that the construct is valid (less than 20%). The result of the model fit for this study and the criteria used are summarized in Table 1.

According to the result of various model fit in Table 1, we can see that some methods did not achieve a good model fit. However, researchers have no agreement on which fitness indexes to use. The technique of model fit will depend on several factors, such as the

amount of sample and literature source (the value of acceptable model fit might differ from researcher to researcher). Furthermore, for the reliability test, the AVE is run manually using Formula 1, with K as Factor Loading and n as the number of items. The result is shown in Table 2.

$$AVE = K^2/n \quad \dots\dots\dots (1)$$

According to the result of various model fit in Table 1, we can see that some methods did not achieve a good model fit. However, researchers have no agreement on which fitness indexes to use. The technique of model fit will depend on several factors, such as the amount of sample and literature source (the value of acceptable model fit might differ from researcher to researcher). Furthermore, for the reliability test, the AVE is run manually using Formula 1, with K as Factor Loading and n as the number of items. The result is shown in Table 2.

**Table 2.** AVE Results

Items	AVE
Socialization	0.6380
Externalization	0.5805
Combination	0.5854
Internalization	0.7397

The AVE scores, which compute the convergent validity for all variables, are above the

**Table 1.** The Result of Various Model Fit

Item	Criteria	Result	Category
Parsimonious fit (X2/Df)	< 3.00	2.811	Fit
Goodness of fit index (GFI)	0.90	0.839	Less Fit
Adjusted Goodness of fit index (AGFI)	0.90	0.786	Less Fit
Root mean square residual (RMR)	<0.05	0.022	Fit
Root mean square error of approximation (RMSEA)	<0.08	0.092	Less Fit
CFI (Comparative Fit Index)	>0.90	0.921	Fit
NFI (Normed Fit Index)	>0.90	0.884	Less Fit
TLI (Tucker-Lewis Index)	>0.90	0.907	Fit

minimum suggested value of 0.5 for all constructs. This suggests that the construct is reliable and has achieved its convergent validity. It implies that BPK's employee is ready to implement knowledge management. In addition, a descriptive statistic was conducted to obtain the mean score for each variable and the overall score. The results of the descriptive statistics are shown in Table 3.

Based on the results of descriptive statistics, the average Mean for each item is in the high category (maximum Likert value is 5). The results indicate that BPK employees have high readiness to implement knowledge management as measured by the intention to engage in socialization, externalization, combination, and internalization.

## CONCLUSION

BPK employees are ready to implement KM. The results of the SEM analysis revealed that there were 14 out of 16 items considered the

most representative dimensions in the SECI process. The descriptive analysis also substantiated this, which showed average value in the high category. Both analyses reveal that employees of BPK are willing to be involved in KM activities.

This study reveals that socialization, externalization, combination, and internalization are applicable to measure employee readiness for KM implementation in BPK. The result of the second-order analysis shows this. Furthermore, each dimension's factor loading value is higher than 0.6. It implies that all the criteria of the goodness of fit model tested qualified.

Further studies are required to add more variables, extend the number of samples, and use different methods. Moreover, instead of the SECI process, the subsequent researchers might use the concept of Ba for knowledge exchange and creation: Originating Ba, Dialoguing Ba, Systematizing Ba, and Exercising Ba (Sujatha & Krishnaveni,

**Table 3.** Descriptive Statistics

Item	N	Mean	Standard Deviation
Soc5	216	4.31	0.573
Soc4	216	4.15	0.679
Soc3	216	4.22	0.700
Soc2	216	4.47	0.570
Soc1	216	4.32	0.574
Ext4	216	4.46	0.536
Ext3	216	4.12	0.692
Ext2	216	4.15	0.666
Ext1	216	4.37	0.564
Com5	216	4.16	0.615
Com4	216	3.96	0.746
Com3	216	4.00	0.692
Com2	216	4.19	0.589
Int4	216	4.15	0.625
Int3	216	4.13	0.663
Int2	216	3.97	0.715
Int1	216	4.07	0.661

2018). As the SECI process is popularly cited in the KM literature as the basic process for knowledge creation and sharing, further studies might consider other knowledge cycles or processes to measure employee readiness.

Meanwhile, for BPK to achieve readiness, it is suggested to conduct, facilitate, and institutionalize knowledge management activities in job descriptions by conducting the socialization, externalization, combination, and internalization processes. Moreover, it is also suggested that knowledge creation activity be extended, for example, by encouraging research and development and by conducting publications, delivering presentations, preparing websites, formulating white papers, teaching, learning activities, policies, reports, and other mechanisms of knowledge sharing.

Furthermore, it is suggested that public institutions implementing knowledge management assess employee readiness beforehand. However, employee readiness will define the institution's successful implementation of Knowledge Management. It will also prevent organizations from allocating too much budget for "failure" implementation of knowledge management. This paper could be used as one of the references to measure employee readiness for the public sector or any organization before implementing knowledge management, especially for ministries or public institutions with employee characteristics similar to BPK.

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## APPENDICES

### Appendix 1. Questionnaire

#### Employee Readiness

I intend to get involved in knowledge management activities

#### Socialization

I intend to be involved in gathering information and experiences from others within my organization

I intend to be involved in sharing information and experience with others within my organization

I intend to be engaged in dialogue with stake holders

I intend to be involved in findings new strategies and opportunities inside the organization

I intend to be involved in creating a work environment that allows colleagues to understand the craftsmanship and expertise

#### Externalization

I intend to be involved in creative dialogues with colleagues

I intend to use deductive (top down) and inductive (bottom up) thinking for strategy formulation

I intend to use metaphors (images/description) in dialogue for concept

I intend to exchange various ideas with colleagues

I intend to provide subjective opinions in dialogues

#### Combination

I intend to use published literature, computer simulation, and forecasting of multi-unit to formulate

I intend to create documents on job/tasks

I intend to create databases on job/tasks

I intend to build up materials by gathering literature and technical information

I intend to transfer newly created concepts to my colleagues

#### Internalization

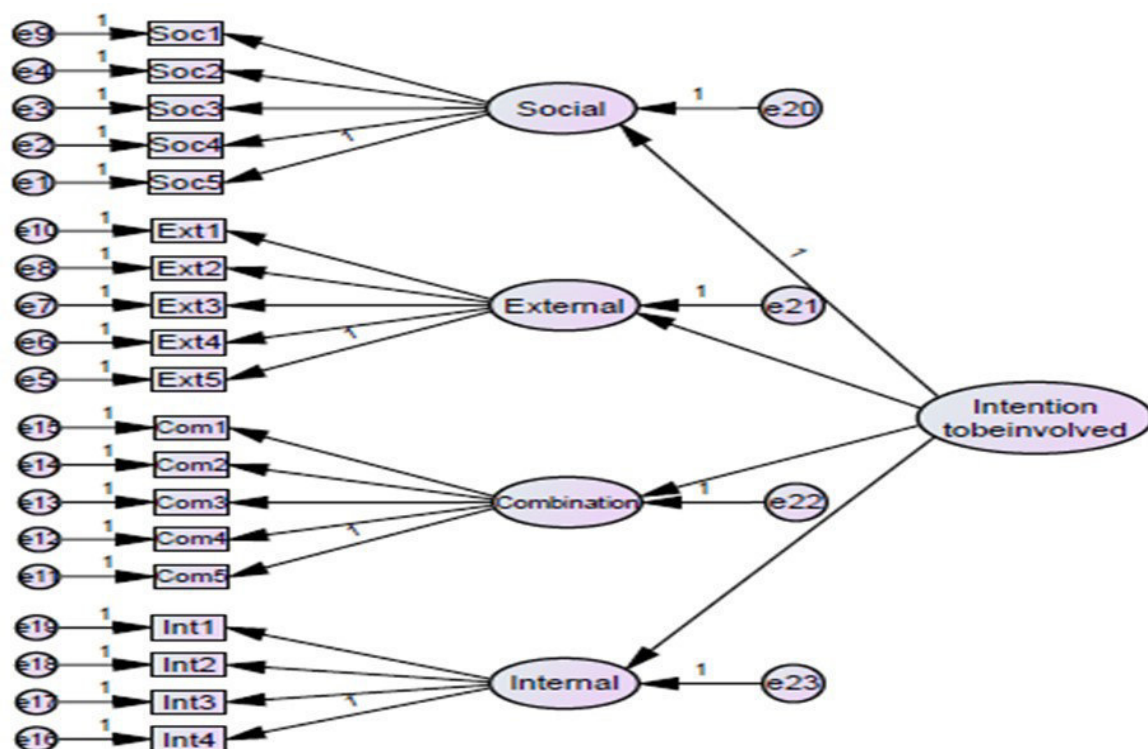
I intend to be involved in liaisoning activities with other departments by developing cross functional

I intend to be involved in setting teams as a model for conducting experiments and sharing results with entire departments

I intend to be involved in searching and sharing new values and thoughts with colleagues

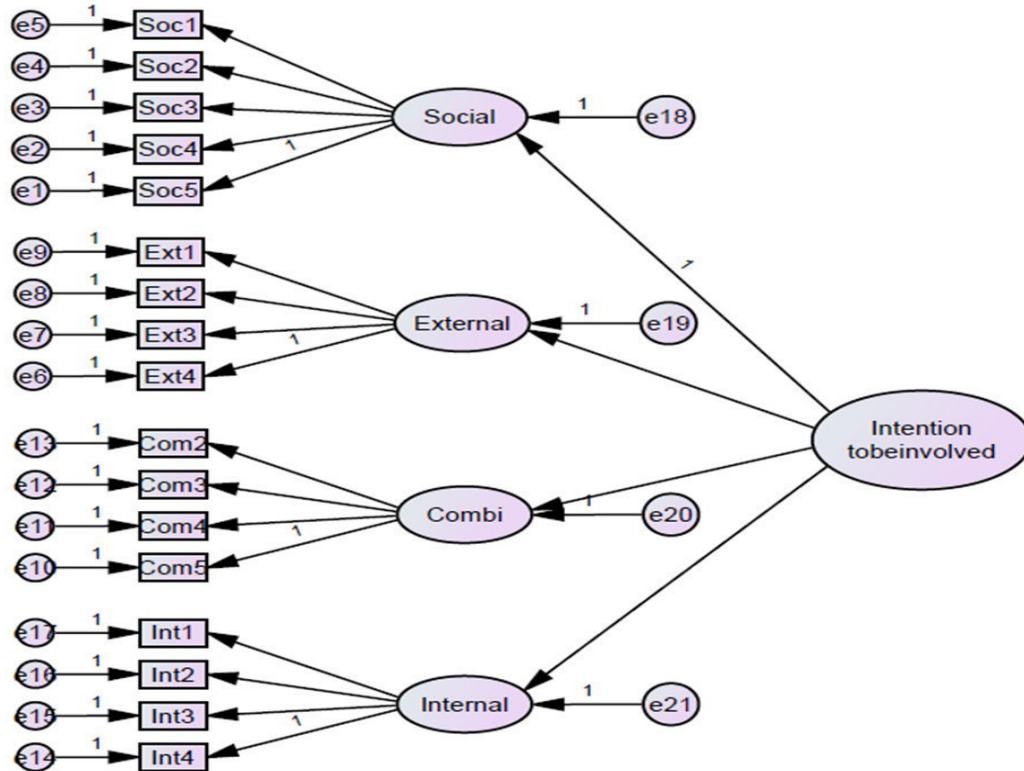
I intend to share and try to understand management vision through communications with colleagues

### Appendix 2. Proposed Model 1



**Appendix 3.** Results of factor loadings and SMC—First Model

Item	Factor loadings	SMC
Social	0.875	0.711
External	0.977	0.745
Combination	0.863	0.955
Internal	0.843	0.765
Soc5	0.837	0.738
Soc4	0.827	0.715
Soc3	0.824	0.828
Soc2	0.740	0.679
Soc1	0.760	0.470
Ext5	0.467	0.571
Ext4	0.739	0.653
Ext3	0.742	0.553
Ext2	0.799	0.605
Ext1	0.771	0.595
Com5	0.685	0.578
Com4	0.778	0.638
Com3	0.743	0.551
Com2	0.808	0.546
Com1	0.756	0.218
Int4	0.824	0.547
Int3	0.910	0.679
Int2	0.846	0.684
Int1	0.859	0.700

**Appendix 4.** Proposed Model of Second Order Analysis**Appendix 5.** Results of factor loadings and SMC— Second Order Analysis Model

Item	Factor loadings	SMC
Social	0.882	0.709
External	0.98	0.683
Combination	0.827	0.959
Internal	0.842	0.779
Soc5	0.835	0.736
Soc4	0.826	0.714
Soc3	0.826	0.829
Soc2	0.741	0.681
Soc1	0.761	0.650
Ext4	0.742	0.622
Ext3	0.735	0.597
Ext2	0.797	0.473
Ext1	0.772	0.595
Com5	0.688	0.636
Com4	0.773	0.54
Com3	0.788	0.551
Com2	0.806	0.579
Int4	0.825	0.548
Int3	0.910	0.682
Int2	0.845	0.682
Int1	0.858	0.697



## **Analysis of Business Process Management Principles in Performing Remote Audit at the Audit Board of the Republic of Indonesia**

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### **ABSTRACT**

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The Audit Board of the Republic of Indonesia must quickly adapt to its duties in the COVID-19 pandemic era. BPK forced all work to be done remotely. This study aims to analyze the application of Business Process Management Principles (BPM) in conducting remote audits at BPK following the COVID-19 pandemic. This study applies the descriptive qualitative with study literature and Likert survey on seven representative offices of BPK. The analytical tool used is BPM Principles with pattern matching. The results show that BPM principles in the remote audit have accomplished various implementation qualities. The result is divided into two types: principles that have worked properly and principles that have not maximally worked. The appropriately worked principles are context awareness, enablement, holism, continuity, institutionalization, purpose, and technology appropriation. The BPM principles that have been implemented but not maximized are the principle of involvement, the principle of joint understanding, and the principle of simplicity. Remote audits can only be conducted smoothly if all principles are implemented accordingly.

### **KEYWORDS:**

Business process management, remote audit, BPK

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## INTRODUCTION

The COVID-19 pandemic has emerged worldwide, spreading in Indonesia in early March 2020. The pandemic has become an uncertainty that affects all aspects of life, including the economy, education, health, and social activities (Sari, Widyastuti, & Indarso, 2022). No one knows how long the COVID-19 pandemic will end, but we hope everything will return to normal soon. The public and private sectors are ready to work from home (WFH), ensuring information technology protocols and strategies for the virtualization era.

All sectors are preparing to go digital. Physical contact was so limited at the time that the digital transformation intensified. The crisis caused by the COVID-19 pandemic ushered people into the VUCA (Volatility, Uncertainty, Complexity, and Ambiguity) era and digital economy (Zahrawati, Shanti, Utami, Khumaedi, & Suhartini, 2021). Nevertheless, regarding audit functions, 58% of Chief Audit Executives' teams work remotely during the pandemic (Internal Audit Foundation, 2021). Auditors are one of the key services in providing financial reporting audit services. (Sari et al., 2022). The purpose of an audit is to ensure that the financial statements are free of material misstatements (IAPI, 2015).

The Audit Board of the Republic of Indonesia (BPK) is the external auditor entrusted with auditing the government's financial statements. BPK is ready to face uncertainty, given that information technology has developed in recent years, such as Enterprise Resource Planning (ERP), to support the integration of planning and management to produce information for decision-making, big data infrastructure, and other support systems (BPK, 2021). The COVID-19 pandemic is like a catalyst in the massive application of information technology, notably supported

by Secretary General Regulation Number 22 of 2020 concerning Procedures for State Financial Audits in Emergencies. However, the economic turmoil occurred due to market uncertainty, resulting in financial distress (KMPG, 2020). Financial difficulties are not only felt by BPK but also by other state institutions due to the limitations of budget policies by the Government of Indonesia. This is the impact of the extreme decline in state income as a result of the domino effect of the COVID-19 pandemic.

BPK has been mandated to audit the management and responsibility of state finances per Article 23E of the 1945 Constitution (UUD 1945), stating that BPK is an institution established under the constitution assigned to conduct the audits of the management and responsibilities of state finances freely and independently. In early March 2020, the Institute of Internal Auditors (IIA) published a paper on remote auditing. Remote auditing is an approach in which auditors use technology to perform audits without the need to go to the auditee's office (IIA, 2021). Remote or long-distance audits are implemented at BPK by considering auditors' and auditees' health and safety factors. Remote auditing is expected to be implemented soon since BPK has the supported technology, even though it is imperfect. The technology intrinsic to BPK can accommodate remote audits performed in the headquarter and its representative office. However, conducting audits in the regions faces other constraints due to the need for more infrastructure to support the connectivity.

The remote audit is a new approach and massively implemented during the pandemic. The Guidelines for Auditing Management Systems have introduced remote auditing to assist the implementation of audits constrained by security reasons or other obstacles (ISO, 2018). Previous research related to remote auditing was conducted from various

perspectives, including from Sookhak, Talebian, Ahmed, Gani, and Khan (2014); Zahrawati et al. (2021); Wardani and Nugraheni (2021); Willy (2021); Santoso (2020); Butarbutar and Pesak (2021); Farcane et al. (2022). BPK has conducted a study on remote audits, followed by a review by the Research and Development Division. The remote audit requires auditors to be competent to gain stakeholders' trust, act proficiently in information technology systems to understand risk and control the information technology environment and analyze big data to cover a broader range (Zahrawati et al., 2021).

The audit of the Central Government Financial Statements (Laporan Keuangan Pemerintah Pusat, LKPP) for the 2019 fiscal year was the first remote audit ever performed (Zahrawati et al., 2021). The audit period of government financial statements is usually divided into two stages, namely (i) interim audit and (ii) detailed audit. However, the implementation time depends on each policymaker. Therefore when the COVID-19 pandemic started in Indonesia, the positions of the central government financial report audit team and regional government financial report audit team differed. All teams in the field should postpone the field audit. There were challenges, especially for the team that reviewed local government financial reports, due to the need for more infrastructure, such as connectivity. The remote audit is also the solution to budget cuts. According to funding sources, expenditures paid for the audit of the BPK are the burden of the State Budget (Anggaran Penerimaan dan Belanja Negara, APBN). Budget pressure due to the COVID-19 pandemic has resulted in spending cuts across all state budget users, including BPK. By carrying out remote audits, travel expenses for audits can be reduced, and as a result, remote audits could reduce the burden on the state budget.

Remote audit increases the use of existing technology to strengthen documentation and reporting (Internal Audit Foundation, 2021). However, when the audit is conducted, it is necessary to ensure that the disclosure of financial statements is adequate in terms of facts and events after the reporting date that can support the audit opinion and produce appropriate audit evidence to maintain audit quality (Sari et al., 2022). Audit quality can be affected by the COVID-19 pandemic (Saleem, 2021). Auditors must be able to carry out alternative procedures in gathering audit evidence, assessing the risk of material misstatement, re-managing the process, and modifying alternative audit procedures (Sari et al., 2022).

Live observation cannot be replaced (Internal Audit Foundation, 2021). The problem of communication is identified as an issue in remote audits. Remote audits create a distance between the auditor and the auditee. Lack of personal touch may cause the opportunity for fraud to occur (Internal Audit Foundation, 2021). There is a risk of falsification of documents sent by the auditee as audit evidence (Achmad, 2020 in Sari et al., 2022). Documents received digitally in the form of scanned documents are not electronic but physical documents submitted electronically. Such physical document has weak evidentiary power (Yurisprudensi Mahkamah Agung Number 3609 K/Pdt/1985 in BPK, 2021). Visual observations cannot be as accurate and precise as conventional audits, as there are opportunities to manipulate the location and quantity of work (Sari et al., 2022).

Auditors encounter many challenges in the process of auditing pieces of evidence. During the pandemic, there are limitations in obtaining audit evidence (Ismanidar, Maksu, Gultom, and Meutia, 2022). The auditor must ensure the reliability of the evidence. In addition, there are issues of securi-

ty, confidentiality, and storage. Therefore, auditors must be able to prepare themselves to face such difficulties (BPK, 2021). Auditors must ensure the protection of confidential data. Moreover, migration to electronic data requires a server and storage. Another challenge is the expertise in using remote audit media from both the auditor's and auditee's sides (BPK, 2021). However, this challenge does not mean that remote auditing is a limitation.

Remote audit guidelines have supported the implementation of remote auditing at BPK. Sixteen legal bases support the preparation of these guidelines. The remote audit guide is described in the software hierarchy at BPK (BPK, 2021). BPK identified several risk areas in remote audits. It takes preparation to run a good remote audit, cost, time, and human resources (BPK, 2021). After two years of performing remote auditing, conventional auditing is implemented again since the severity of the COVID-19 pandemic has decreased. Vaccination rates began to increase in the third year of the COVID-19 pandemic. This shows that remote auditing at BPK is only an effort to deal with uncertainty during the pandemic. It is undeniable that carrying out remote audits, especially in the regions, is a method BPK is unprepared to pursue. In light of this current situation, how is remote audit using Business Process Management (BPM) principles applied in practice?

This study will discuss how to analyze the implementation of remote audits. The analysis tool employs BPM principles with pattern matching. BPM has become one of the most widely used approaches to designing modern organizations and information systems. However, the adoption and use of BPM remain fragmented, and there is little agreement concerning the right scoping of BPM (Vom-Brocke & Rosemann, 2020). BPM is not the same as a technology tool or initiative for business processes (Jeston, 2018).

BPM is about managing end-to-end business processes now and into the future to ensure that they are always relevant to the business (Jeston, 2018).

BPM solutions will facilitate organizations in modeling business processes, automating business processes, monitoring business processes, and making it easier to improve performance through process improvement (Jeston, 2018). The focus on critical processes is too limited, and identified critical success factors do not adequately reflect the basic principles of good BPM (Vom-Brocke et al., 2014). Critical success factors for BPM in general (Buh, Kovačič, & Štemberger, 2015), and more specifically in the public sector of the developing country context (Syed, Bandara, French, & Stewart, 2018), have pointed to top management support and leadership as crucial elements for success (Syed, French, Bandara, & Stewart, 2017). There remains a dearth of research to explain the phenomenon of leadership in BPM initiatives (Devika, Sharifah, & Syed, 2016). The ten principles of BPM are context awareness, enablement, continuity, holism, institutionalization, involvement, joint understanding, purpose, simplicity, and technology appropriation principle (Vom-Brocke et al., 2014). An explanation of each principle is presented in Table 1.

This study posits that BPK is ready to implement remote audits in this context. In order to decide which is the best process audit, a proxy for quality was considered in implementing the principles of BPM. This study aims to contribute to the existing literature on remote audits. First, it provided the difference between remote audits and conventional audits. Thus, this study's findings could identify the difference between remote and conventional audits, particularly in BPK. Second, this study's findings could provide valuable information to evaluate the readiness of BPK to implement remote audits.

**Table 1.** BPM Principles

Variables	Indicators
Principle of context-awareness	Understand the context and implement the context in the process of the business process
Principle of enablement	Using internal resource, have to develop employee capacity
Principle of continuity	Implementation of continuous improvement from the perspective of both the auditor and the entity
Principle of holism	The processes are interrelated
Principle of institutionalization	There is an organizational structure in audit process
Principle of involvement	Stakeholder involvement
Principle of joint understanding	Prevention asymmetric information
Principle of purpose	The audit process is carried out with detailed objectives to achieve those objectives
Principle of simplicity	Can achieve economic, efficiency and effectiveness in audit process
Principle of technology appropriation	Specific use of technology

## RESEARCH METHOD

This study shows the implementation of BPM principles as a theoretical framework and its application empirically based on total data collection. This study uses a descriptive qualitative design with a case study approach. It refers to the systematic and precise description of a problem as an area of research. Furthermore, it helps the decision-making between long-distance and conventional or hybrid audits. Thus, the study is suitable for using the decision scenario case to address the problem: What is the best method between conventional, remote, or hybrid audit for BPK to implement in the short run?

The data has been collected through a perception survey and literature review. The survey was conducted on seven representative units in BPK. The data identified seven representative offices comprised of West Papua, South Sulawesi, West Sulawesi, Central Java, North Kalimantan, Papua, and State Finance Audit Unit III. The Respondents consist of four classes: assistant auditor, junior auditor, senior auditor, and Deputy Director of the Audit Unit. The survey uses a Likert Scale. The

scale used is a Likert Scale of 1-5, with gradations from Strongly Agree (Sangat Setuju, SS), Agree (Setuju, S), Doubtful (Ragu-ragu, RG), Disagree (Tidak Setuju, TS), and Strongly Disagree (Sangat Tidak Setuju, STS). Previous literature has used different proxies to analyze remote audit implementations. This section describes the case in BPK for applying the best audit methods in the short term. Data analysis was performed using pattern matching.

## RESULT AND DISCUSSION

A remote audit is a new approach that uses remote auditing technology and techniques that have existed for several years (Willy, 2021). Jarvis (2020) explains that remote audit, also known as virtual auditing, is a method of conducting remote audits using electronic media such as video conference, telephone, and email to obtain audit evidence as is done during an audit at the audit location. Remote auditing is where an auditor uses technology to perform an audit without visiting the auditee (IIA, 2020).

Remote auditing is defined as the process by which auditors couple information and com-

munication technology (ICT) with data analytics to assess and report on the accuracy of financial data and internal controls, gather electronic evidence, and interact with the auditee, independent of the physical location of the auditor (Teeter et al., 2010). Remote auditing refers to using technology to gather information, interview auditees, and other audit procedures when face-to-face methods cannot be performed (IIA, 2020 in Ismanidar et al., 2022). Auditors need to prepare remote audits that are closely related to the use of information technology (Wardani & Nugraheni, 2021). Remote audits can be achieved with the help of digitization (Santoso, 2020).

IIA (2021) states that remote audit is challenging and requires careful planning, from the document inspection process, physical field examination, and interviews to the closing meetings. The work efficiency of auditors in remote audits is influenced significantly by the digitalization degree of audit activities (Farcane et al., 2022). In the Cambridge dictionary, conventional means traditional, following the usual practices of the past. The conventional audit is conducted at the entity's location or on-site (BPK, 2021). The difference between remote and conventional audits lies in the use of technology and is carried out remotely.

Before carrying out a remote audit, several aspects need to be considered, such as creating programs that enhance employee competencies, building application systems for internal and external parties, and support. The remote audit is new, so it is necessary to increase the competence of employees involved in the long-term audit. Capacity building is delivered through education, seminars, focus group discussions, or workshops. These programs have been carried out by BPK and have played a positive role in building employee perceptions of understanding the concept of the remote audit. In addition, build-

ing a system that could help carry out Remote Audits is necessary. BPK already has a desktop and web-based internal Audit Application System (Sistem Aplikasi Pemeriksaan, SiAP). Through SiAP, it is possible to carry out remote audits that assist auditors in documenting audit evidence and quality control in stages. BPK has designed a security system through a proxy, access authorization, and several virus-protect devices.

There are similarities between remote audits and conventional audits. Both types of audits undergo three stages: planning, implementing, and reporting. However, the implementation of each step differs. Planning in remote audit has been more complicated as the decision of whether a remote audit can be carried out occurs at this stage. The complexity of planning requires greater costs, time, and money, especially in the audit office, which has just started to carry out remote audits (BPK, 2021). Several factors must be considered in the planning stage, such as assessing the feasibility and risks of remote audits, facilities, and infrastructure, gathering evidence, appointing liaisons and conducting trials.

At the implementation stage, conventional audits are carried out by being physically present at the site of the audited party. However, remote audits are done through desk audits and performed remotely using online tools. The audit activity carried out is entry meetings, implementation of the audit program, and exit meetings. All these stages can be replaced by technology. In a remote audit, entry meetings and implementation of the audit program can be held remotely via video conferencing. Whether the selected audit technique can be carried out via long-distance video conference should be noted.

An audit technique that cannot be carried out during a remote audit is an audit technique for physical testing evidence

(Pusdiklatwas BPKP, 2009). Alternative procedures or additional procedures can be carried out for this particular technique. For audit techniques that can be conducted with modifications, this suggests that the technique can be implemented but needs to be adjusted, such as digitization. These audit techniques are audit techniques for documentary evidence and those that can be exercised without modification of procedures, namely audit techniques for analytical evidence.

At the reporting stage, the activity carried out is almost the same as during the conventional audit, except that the meeting to discuss findings is conducted using video conference media. At this stage, the auditor discloses the possible impact of procedures that cannot be carried out during a remote audit.

After a series of audit processes, the auditor will monitor the recommendations in the Audit Report. This process has migrated from what was previously carried out conventionally to digitization. Follow-up monitoring is performed with the help of the Follow-up Monitoring Information System (Sistem Informasi Pemantauan Tindak Lanjut, SIPTL). SIPTL is an online platform that assists in the monitoring of the follow-

up by the entity.

Implementing remote audits in BPK has its strengths and weaknesses. According to the perception survey, it was discovered that auditors involved in remote audits prefer to carry out conventional audits. Respondents answered that 45.5% disagreed and strongly disagreed, and 54.5% responded with doubtful questions about the ease of remote audits.

### Principle of Context-Awareness in Remote Audit

Implementing BPM in numerous entities requires a practice of the identical method. Without awareness, the implementation can fail (Nordiawan & Hertianti, 2022). Auditors should understand the difference between remote audits and conventional processes. The perception survey results in Table 2 show that 91% of respondents agree and strongly agree, while the remaining 9% answered doubtful.

### Principle of Enablement in Remote Audit

The principle of enablement focuses on the need to develop individual and organization-

**Table 2.** The Survey's Result

BPM Principle	Strongly Agree	Agree	Doubtful	Disagree	Strongly Disagree
Context Awareness	45%	46%	9%		
Enablement-Training	27%	46%	18%		9%
Enablement- Workshop/FGD/Seminar	27%	55%		18%	
Continuity		9%	27%	37%	27%
Holism-Planning Stage		27%	27%	37%	9%
Holism-Implementation Stage		9%	27%	37%	27%
Holism-Reporting Stage		27%	55%	9%	9%
Involvement- Feedback from Auditee and Collecting Action Plan	10%	10%	40%	30%	10%
Involvement- Monitoring Follow up		20%	50%	20%	10%
Joint Understanding-Communication		10%	50%	20%	20%

al BPM capabilities (Vom-Brocke & Rosemann, 2020). Remote Audits are carried out with a team structure consisting of BPK employees. Before implementing the remote audit, BPK developed individual capabilities through training, workshops, and focus group discussions. Respondents' perceptions showed that 73% of the respondents attended the preparation training for long-distance audits. Related to the context awareness principle, the output of preparation training can be achieved because the survey perception shows that respondents can fully understand the difference between remote audit and conventional.

According to the survey perception, it has concluded that 73% of the total respondents agreed and strongly agreed with preparation training before carrying out remote audits. In addition, 82% of respondents agreed and strongly agreed with implementing the workshop/focus group discussions. Furthermore, to maintain the quality of output and capabilities, a team system was formed to implement quality assurance and quality control, which are carried out to obtain quality in stages (BPK, 2021).

#### **Principle of Continuity in Remote Audit**

The principle of continuity suggests that BPM requires continuous improvement. Building a long-term period-orientated technique to BPM and a sustainable attitude is vital to enforcing the continuity principle (Nordiawan & Hertianti, 2022). BPK always updates the implementation of remote audits from several instruments, and BPK updates the application, which is the responsibility of the Information Technology (IT) bureau. BPK strengthens legal aspects through the Planning, Evaluation, and Development Directorate. The remote audit guide is the first step of evidence of applying the principle of continuity and continuous improvement.

The perception survey shows that employees involved in remote audits do not agree to continue the remote audit. The implementation of remote audits is met with resistance from the employees (Setiawan, 2016). This is in line with the perception survey results, which show the auditor's difficulties in dealing with the entity during the implementation of remote audits.

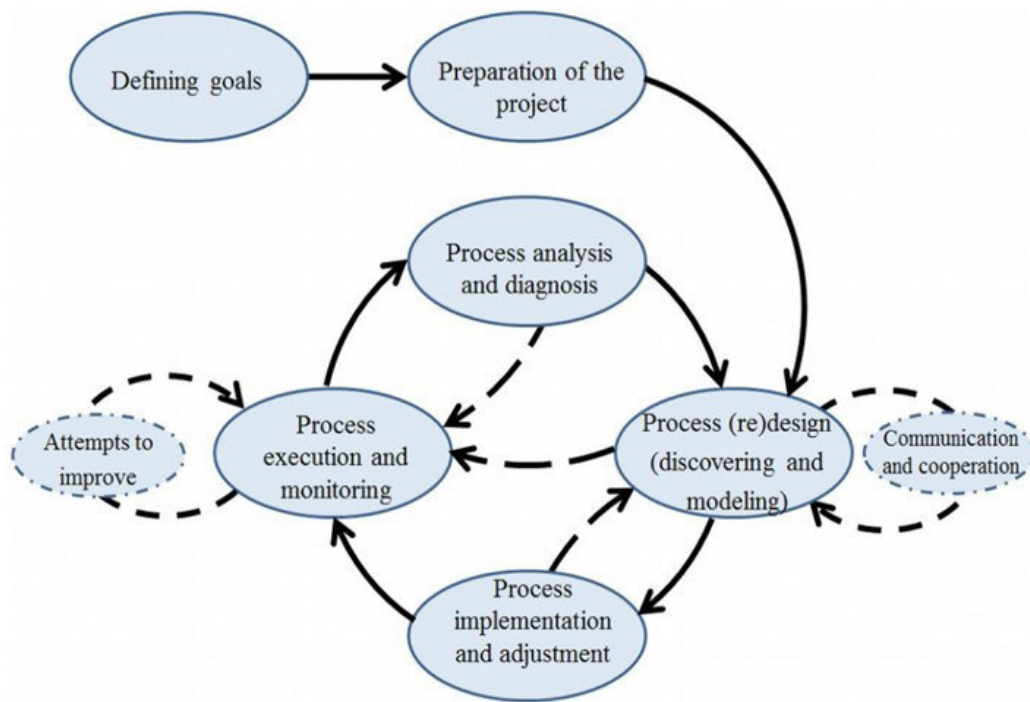
#### **Principle of Holism in Remote Audit**

BPK designed a comprehensive remote audit from planning, implementing, and reporting (BPK, 2021). BPM should not be interpreted solely as a modeling process but as a holistic approach that includes strategic, methodological, and technical aspects (Nordiawan & Hertianti, 2022). Regarding the BPM cycle by Szelagowski (2018), remote is referred to in the model illustrated in Figure 1.

Remote audits facilitate auditing, especially during access restrictions, such as during the COVID-19 pandemic. The remote audit design is regulated in the 2015 Audit Management Guidelines and the 2021 Remote Audit Guidelines, with implementation adjusted to existing conditions. BPK has a working group that is ratified by a decree of the head of BPK in charge of discussing which accommodates audit performance data. The information must be monitored by the control system on an ongoing basis and analyzed and used to support workers on an ongoing basis automatically. Performance information is stored in the SiAP. Through the information technology bureau, analysis of performance data is monitored in the system. The IT bureau could perform feature fixes in the system. The execution and monitoring stage uses storage assistance in the form of big data (still needs to be refined).

According to the perception survey, respondents did not find it easy to carry out remote audits in planning (46%) and implementa-





**Figure 1.** Life Cycle of BPM  
 Source: Szelaowski (2018)

tion (64%). However, the finding shows a different light for the reporting stage. It has been discovered in the perception survey that 27% (higher than the unease perception—18%) of respondents find it easy if the reporting stage is carried out remotely. Boohoene and Williams (2012) in Lumbantoruan, Tewal, and Lumintang (2021) state that resistance is an obstacle in organizations because it avoids change and interferes with the success of change implementation—the resistance, especially at the planning and implementation stages.

### Principle of Institutionalization in Remote Audit

Entrenched habits and adverse circumstances prompt silo behavior in many organizations, preventing horizontal process thinking and acting. The principle of institutionalization calls for embedding BPM in the organizational structure (Vom-Brocke et al., 2014). This principle emphasizes governance and sharing roles in formal organizational structures. The principle of institutionalization hopes that implementing BPM may be connected to spe-

cific capabilities in organizational structure. Even on a vast scale, a separate structure, including BPM divisions or workplaces, may be formed (Nordriawan & Hertianti, 2022).

As a small division, the fiscal sustainability review team has an organizational structure. The team consists of team members, a team leader, a supervisor, a deputy auditor in charge, and an auditor in charge. To prevent BPM from being only an ad hoc responsibility, the position of process owners with actual responsibility, accountability, and authority is pivotal (Power, 2011). Every member of the team has their responsibility and authority. The auditor in charge is responsible for overseeing all activities conducted by team members. The supervisor and deputy auditor in charge is responsible for quality control of the audit result before being approved by the auditor in charge. The supervisor monitors the audit program and gives some advice to the team. The team leader will monitor every work of the team members.

### Principle of Involvement in Remote Audit



The principle of involvement emphasizes that all stakeholder groups affected by BPM should be involved. Studies find that organizations mostly resist stakeholder involvement (Vom-Brocke & Rosemann, 2020). BPK accommodates the involvement of stakeholders starting from the planning, implementation, and reporting stages, and this involvement is shifted from direct to remote at the planning, implementation, and reporting stages. However, respondents' perceptions show that it takes work to apply this principle remotely. Auditors find it difficult to request data remotely, so cooperation from the auditee is needed in carrying out remote audits (BPK, 2021).

The respondent's perception of the convenience of getting feedback from the auditee, collecting action plans, and monitoring follow-up during the remote audit is only 20% (agree and strongly agree). In addition to cooperation, platform and ICT support is important in achieving involvement principle in the remote audit. The request for an action plan for a commitment to follow up on BPK's findings has a perception that tends to lead to the negative side. According to the perception survey, requesting an action plan and monitoring follow-up directly is easier than conducting it remotely.

Organizations can create meaning and a shared understanding across all stakeholders in business process modeling languages (Vom-Brocke & Rosemann, 2020). Another strategy is establishing provisions, explaining the sequence of procedures, and using flowcharts (Nordiawan & Hertianti, 2022). Concerning the involvement principle, one of the factors did not achieve the principle of involvement because the two parties did not reach a mutual understanding. Only 10% of respondents agree with easy communication with the entity. Communication is one of the supporting elements to achieve mutual understanding. This

perception could not be concluded that the auditor needs a better perception of the remote audit process. This indicates the threat which faces the respondents.

#### **Principle of Mutual Understanding in Remote Audit**

Organizations can create meaning and a shared understanding across all stakeholders in business process modeling languages (Vom-Brocke & Rosemann, 2020). Another strategy is establishing provisions, explaining the sequence of procedures, and using flowcharts (Nordiawan & Hertianti, 2022). Concerning the involvement principle, one of the factors did not achieve the principle of involvement because the two parties did not reach a mutual understanding. Only 10% of respondents agree with easy communication with the entity. Communication is one of the supporting elements to achieve mutual understanding. This perception could not be concluded that the auditor needs a better perception of the remote audit process. This indicates the threat which faces the respondents.

Communication carried out on the entity could be assisted by explaining the sequence of procedures or using flowcharts or other tools that are most effective for the entity. Good communication can encourage a more effective and efficient audit process, especially those requiring entity involvement. BPK realizes a risk of communication needing to be established effectively during entry meetings, interviews, and exit meetings (BPK, 2021). BPK stated that to assess this risk by profiling the entity's key personnel. Such things could be mitigated by conducting informal online communication.

#### **Principle of Purpose in Remote Audit**

The principle of purpose is essential because it focuses on creating business and organiza-

tional system transparency, which helps to develop and improve the value that can generate within the organization. In practice, a common pitfall of BPM activities is overdoing some of the tasks and forgetting the true purpose of the activity (Vom-Brocke et al., 2014).

The strategic objectives regulated the audit according to the 2020 BPK decree Number 3 on the 2020-2024 Strategic Planning (known as Renstra 2020-2024). According to Renstra, BPK has a mission to become a trusted audit institution in realizing the quality and valuable state financial governance in achieving state goals. BPK's strategic goal is to improve state finances' quality and valuable governance.

BPK has compiled 17 legal bases to support the implementation of remote audits. The details of the seventeen software include Law Number 15 of 2004 concerning Audit of State Finance Management and Responsibility; Law Number 15 of 2006 concerning the Supreme Audit Agency; BPK Regulation Number 1 of 2017 concerning State Financial Audit Standards; BPK Decision Number 4/K/I-XIII.2/7/2014 concerning Financial Audit Implementation Guidelines; BPK Decision Number 5/K/I-XIII.2/10/2015 concerning Audit Management Guidelines; BPK Decree Number 4/K/I-XIII.2/5/2020 concerning Technical Guidelines for Financial Audits in Emergency Periods; BPK Decision Number 6/K/I-XIII.2/6/2020 concerning Six Pillars of Quality Control Standards for the Supreme Audit Agency; Regulation of the Secretary General Number 22 of 2020 concerning Methods for Auditing State Finances in Emergencies; Directorate of Research and Development Number P-001.0/XII.3.3/2020 concerning Guidelines for Performance Audit in Emergency Periods; and the Directorate of Research and Development Number P-001.0/XII.3.4/2020 concerning Guide-

lines for Compliance Audit Related to Handling COVID-19 in an Emergency Period.

### **Principle of Simplicity in Remote Audit**

Focus on simple solutions means balancing between input and output so that more efficient and effective processes. There are two ways to a simple process: eliminating specific procedures and costly documents (Nordian & Hertianti, 2022). The practice of remote audits adds procedures and due diligence, also another procedure that is deemed necessary for remote audits is digitization, both for auditors and auditees.

The resulting inputs and outputs must be carried out effectively and efficiently (Vom-Brocke et al., 2014). If we look at the perception survey results, it cannot be said that the remote audit carried out by the BPK is running efficiently and holistically. Even though technology has supported this business process, in practice, the respondents felt the benefits of technology less than they should have.

Based on the perception survey results, respondents show consistency and can be peroxide to BPM principles. The principles that have yet to be maximized include continuity, involvement, and mutual understanding. These three principles are interrelated with the principle of simplicity. The involvement principle was not achieved due to the communication problems between the auditee and the auditor. The problems could be asymmetric information or technical problem. Communication is fundamental to achieving the principle of mutual understanding. The factor that causes delays in communication and involvement of entities is a business process that is more complex than the results of the survey perception.

BPK must focus on addressing its communication problem. First, communication in re-

remote audits should be established under guidance. Second, the auditor should have been trained prior to performing audit work. Moreover, both parties must maintain the confidentiality of the audit. A major deterrent to effective audit communication is the existence of an essentially one-way communication channel. Given that intended receivers are remote and widely dispersed, the auditor's report is mainly impersonal, and there is little opportunity for direct feedback from receivers. Furthermore, unlike face-to-face communications, the auditee cannot reply to the report and ask questions regarding misunderstandings.

### **Principle of Technology Appropriation**

According to the survey result, the dominant application used for Remote Audits is through Zoom application. Meanwhile, the internal application developed by BPK, known as SiAP, is used in second place. According to respondents' perception, it is said that to support Remote Audits, the main application is video conferencing.

Countless information technology solutions can compel the business process' performance to run efficiently and effectively (Nordiawan & Hertianti, 2022). In this study, it is known that the use and procurement of technology have increased compared to the pre-pandemic period. It can be seen that the contradiction between technology appropriation increases, but simplicity is low. This implies that the application of technology is not directly burdened with ease. The goal of the ten principles has yet to be achieved. No clause states that the only factor that encourages convenience is technology. Therefore, that does not mean the only cause of inconvenience is not achieving technological goals. It could also be due to other factors (external factors such as the entity's competence), as indicated by the explanation of the previous principle.

## **CONCLUSION**

Remote audit creates a more efficient and effective audit process during the pandemic. Given the preceding, BPK has to ensure the validity of evidence, security data and processes, opportunity cost, and development cost. However, performing the remote audit is a start to joint society 5.0. Moreover, BPK needs more infrastructure, confidentiality issues, and entity commitment. BPM principles in remote audits have accomplished various implementation qualities. The result is divided into two types: principles that have been operating accordingly and principles that have not been optimal.

The BPM principles that have worked accordingly are context awareness, enablement, holism, continuity, institutionalization, purpose, and technology appropriation principles. The context awareness principle works well because respondents can understand the context of a long-distance audit. The enablement principle is implemented well because BPK empowers its employees to audit. There are efforts to build and strengthen capacity through learning, training, workshop, and focus group discussions with instructors. The principle of holism works well because the review process is comprehensively based on the BPM lifecycle. The principle of institutionalization has been implemented well because the review team structure is clear. The principle of continuity has been implemented internally BPK carries out continuous improvement through ICT and legal aspects. The purpose of remote audit supports the organization's goal, and therefore the principle of purpose has been achieved. In the process review, BPK uses technology to create a simple, efficient, and effective process.

The BPM principles implemented but could be more optimal are involvement, joint understanding, and simplicity. The involvement

principle has yet to be optimal as the entity's involvement still faces several obstacles, and this also impacts the application of the joint understanding principle. There needs to be more communication which leads to poor implementation of remote audits and, therefore, the inability to apply the simplicity principle and run an audit effectively and efficiently.

The findings of this study indicate that BPM in the remote audit by BPK is not fully implemented as it should be. This study's findings would be relevant to policy recommendations, establish good communication with the auditee, and set regulations and training for auditors in place. This study has limitations whereby data was collected from seven representative offices and were not considered, which might affect the basis for generalization. Additionally, this study was cross-sectional. Sekaran and Bougie (2013) asserted that a shortcoming of cross-sectional study is the inability to prove cause and effect association among variables.

In order to address the shortcomings, this study recommends that future studies should be conducted on collecting data over a long period and longitudinal to have sufficient time to gather data. Future studies should also investigate the nature of the relationship in more detail, considering the cause-and-effect relationship.

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## **Fraud Hexagon: Detection of Fraud of Financial Report in State-owned Enterprises in Indonesia**

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### **ABSTRACT**

This study aims to identify the potential for fraudulent financial reporting using the Fraud Hexagon approach with pressure, capability, collusion, opportunity, rationalization, and ego indicators. The population in this study is state-owned companies with observations for 12 years, from 2010 to 2021, and uses regression analysis with SPSS tools to test the Hypothesis. The results showed that pressure and ego could detect the potential for fraudulent financial reporting. There is a tendency for management to report conditions that are different from the actual conditions when under pressure in the form of performance targets that are not supported by the resources they have. CEO duality also provides an excellent opportunity for fraudulent financial reporting practices because when there is a position war, there is no cross-check between departments, so other parts cannot detect the potential fraud committed by the CEO. This condition also indicates weak control processes that provide wider opportunities for fraudulent financial reporting. At the same time, variables of ability, collusion, opportunity, and rationalization cannot detect financial statement fraud. This condition is because state-owned companies are required to implement the Minister of Finance Regulation number PER-11/MBU/07/2021 and the Financial Services Authority number 13/POJK.03/2017 as the basis for the implementation of Good Corporate Governance so that it is possible to commit financial reporting fraud very small.

### **KEYWORDS:**

Fraud hexagon; financial report; State-owned Enterprise

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## INTRODUCTION

Financial reports are essential for a company to communicate with stakeholders. Therefore, financial reports should not contain false information resulting from fraud or error that could mislead the users and affect the credibility of financial reports. Fraud is the intentional use of negligence or deceit of a material character that significantly negatively affects decision-making (Suryani, 2019). Fraud as a detrimental action will broadly impact all sectors, both internal to the company and industry in general. The Occupational Fraud 2022 "A Report to This Nations" Survey, published in 2022 by the Association of Certified Fraud Examiners (ACFE), offers a global examination of the costs and effects of fraud. The survey demonstrates fraud's enormous impact on businesses worldwide, spanning 2,110 real cases with origins in 133 countries in 23 industries, losing USD 3.6 billion. The average loss is USD1,783,000 in each case, while the five types of industries with the enormous losses are real estate, wholesale trade, transportation and warehousing, construction, and utilities. The government loses the most money due to fraud, with a percent loss of 48.5%, followed by state-owned companies losing 31.8%, private companies losing 15.1%, non-profit organizations losing 1.9%, and other organizations losing 1.7% (ACFE Indonesia Chapter, 2019).

Findings reinforce this condition (Indonesia Fraud Survei, 2019) that Indonesia is a country that has experienced 269 cases of fraud, including 167 cases of corruption, 50 cases of misuse of assets, and 22 cases of fraud in financial statements. Fraud is a deliberate act by one person against another in which information is manipulated or provided untrue for personal advantage or the benefit of a particular group at the expense of other parties (Murwaningsari, 2022). According to PwC's Global Economic Crime and Fraud

Survey 2022 (2022), 47% of participants acknowledge that fraud has occurred in their firm within the preceding 24 months. This analysis is consistent with earlier research showing that firms lose 5% of their annual income due to fraud (ACFE, 2020).

Based on the findings of the Financial Services Authority, Supreme Audit Agency, and the Indonesian Stock Exchange, there was a state-owned company, namely PT Garuda Indonesia, was indicated to have committed fraud in financial reports in 2018 by making a false statement that the company was in a profitable position, while in fact, the company suffered a loss of USD 175 million. Based on Winarto (2020) that PT Asuransi Jiwasraya failed to pay an insurance claim of Rp814 billion at the end of 2019. The company's inability is due to the director's careless decision-making in making insurance products and weak standard protocols for investing customer funds (Lumbanrau, 2019). This phenomenon indicates the existence of fraudulent practices in several state-owned enterprises. Some research related to fraud shows inconsistent results. Purnaningsih (2022) found that ability, rationalization, arrogance, and collusion positively affected the fraud of financial reports. However, the pressure and opportunity have a negative effect on the fraud of financial reports. Chantia, Guritno, and Sari (2021) concluded that pressure, ability, opportunity, rationalization, and collusion had a strong effect on detecting fraudulent financial statements, while ego had no effect. Nevertheless, Sagala and Siagian (2021) show that only the pressure variable affects financial statement fraud, while the other fraud hexagon elements do not.

Jensen and Meckling (1976) describe an agency relationship where the owner delegates decision-making authority to the management and engages the manager to carry out tasks on the owner's behalf. The agent

(manager) acts to maximize his utility, whereas the principal (owner) requests that the agent operates according to his expectations. Due to this conflict of interests, the principal must pay agency fees to regulate management performance. This conflict of interest may lead to unethical financial reporting methods and fraudulent behavior. Fraud is someone's behavior that is carried out intentionally to harm society, companies, or the government to achieve personal interests (Albrecht, Albrecht, Albrecht, & Zimbelman, 2018). Cressey (1953) presents the fraud triangle, which holds that three components, namely pressure, opportunity, and rationalization, are the basis of the occurrence of fraud and responsible for a person's motivation to commit fraud. Eventually, this theory evolved into a diamond fraud model, which proposes pressure, ability, opportunity, and rationalization as reasons for deception (Wolfe & Hermanson, 2004). In addition, Marks (2009) re-developed the diamond fraud model into a Pentagon Fraud by adding arrogance as a new element in triggering fraud.

The hexagon fraud theory was born as a renewable theory in detecting triggers for fraud. This theory was developed by adding a new element, collusion, as a trigger for fraud (Vousinas, 2019). The element of collusion is added based on major fraud cases such as Enron, Parmalat, and Worldcom, showing that collusion is central to fraud and financial crimes. The same condition also occurs in Indonesia, such as in the case of Garuda Indonesia and Jasa Raharja, which is evidence of collusion that facilitates fraud. Based on the findings of the ACFE Survey (2020) shows that more than one colluding individual commits 51% of frauds. Offenders tend to raise the value of the loss, particularly when three or more players collaborate to perpetrate fraud (ACFE, 2020).

Ghozali, Achmad, and Pamungkas (2019)

found that fraud in financial reports was the submission of financial reports with material inaccuracies that were detrimental to the users of financial reports. Meanwhile, Aviantara (2021) finds that fraud in financial reports is defined as the deliberate misrepresentation or omission of information from a firm's financial reports to deceive readers into thinking the business is in a more advantageous financial position than it is. It can be done by exaggerating income, assets, and profits or by understating losses or hiding profits or income for a certain period to help increase profits or income in the next period (Aviantara, 2021). Statement on Auditing Standard Number 99 of 2002 mentions several ways to carry out fraud of financial report actions, including manipulating, falsifying, or changing supporting documents and accounting records for the preparation of financial reports; negligence, mistake or intentional obstruction of transactions, events or information which is the source of report submission finance; and deliberate misuse of principles related to amount, classification, the procedure for disclosure or presentation (AICPA, 2017).

This study examines how the Fraud Hexagon model's components affect the ability to spot false financial statements. This study has updates which are the relatively long observation period of 10 years in the analysis unit of state-owned companies (Badan Usaha Milik Negara, BUMN) and the Related Party Transactions (RPT) measuring instrument as an indicator for measuring collusion variables which are believed to be the most relevant measuring tools and still rarely used in previous studies.

Fraud can occur due to pressure from individuals in the form of bad habits and a lack of appreciation from the company, both in the form of performance awards and inadequate salary levels. Pressure can also come from companies through performance tar-

gets that must be realized. "Stimulus" is the pressure that fosters illegal financial or non-financial actions (Vousinas, 2019). Pressure occurs when the company's performance has decreased from the average industry performance. This situation demonstrates how the business could not properly utilize its assets and investment capital, even though management is needed to help it reach its targeted goals (Skousen, Smith, & Wright, 2009). The agent has set a gauge for the financial aim in the form of business returns (Apriliana & Agustina, 2017). With the management under pressure in the form of corporate objectives and the resources that cannot support achieving these goals, management attempts to manipulate financial reporting. This may appear to be fraudulent financial reporting (Purwatmiasih, Sudrajat, & Oktavia, 2021).

The capacity is a person's ability to defraud undetected by the company's controllers. It happens when someone has a position that gives rise to the capacity to create or use opportunities others do not have (Ruankaew, 2016). Those opportunities can be used to commit fraud. Changes in the company, like the change of directors, allow the new directors to control all information and control, providing opportunities for fraud. Based on this, the capability variable in this study is measured by the director turnover indicator.

Collusion is an activity that involves two or more people jointly carrying out activities to steal company assets or make intentional recording errors. According to Vousinas (2019), collusion can occur when two or more people agree to commit fraud together. At the same time, Felli and Vallve (2015) state that collusion is a two or even more collaboration or agreement to defraud. Based on Felli and Valve (2015), the agent, in this case, managers and employees, have immense opportunities for collusion that is challenging for principals to detect. This

study measured collusion variables using RPT indicators. RPT is a transfer of management wealth through subsidiaries or related parties. Nugroho and Diyanty (2022) discovered that businesses with high RPT often work with linked parties.

Opportunity is a circumstance or state that makes the possibility for the fraudster to act. In this condition, the perpetrator believes the fraud will not be detected (Vousinas, 2019). Opportunities arise due to abuse of power and weak supervision (Lastanti, Murwaningsari, & Umar, 2022). Opportunity variables can be proxied by using the quality of external auditors, ineffective monitoring, and whistleblowing systems. Romney, Steinbart, Mula, McNamara, and Tonkin (2012) state that opportunity is a situation where actors can act and hide dishonest actions to gain personal gain. The quality of the external auditor is used in this study to gauge the opportunity variable. The selection of external auditors is considered an effort to prevent information asymmetry between principals and agents and to carry out independent checks to reduce opportunities for fraudulent financial statements (Ijudien, 2018). The act of rationalization serves to defend the fraud that has been perpetrated. Wolfe and Hermandson (2004) state that rationalization is an attempt to convince oneself that fraud is worth the risk. Fraud perpetrators feel that the fraud committed is a natural and appropriate thing to do.

Some fraud perpetrators carry out rationalization actions to cover up the fraudulent actions committed (Vousinas, 2019). In this study, rationalization is determined by changing auditors. Companies that frequently change auditors indicate that the company wants to avoid fraud detection found by previous auditors (Umar, Partahi, & Purba, 2020). Ego is an attitude possessed by someone who feels that they have a higher rank and authority, so company policies do not

apply to him (Vousinas, 2019). A person's lack of conscience causes them to develop an underlying sense of superiority, power, and greed known as ego, according to which they believe that internal control somehow does not belong to them (Crowe, 2012). In this study, the ego variable was measured by indicators of Chief Executive Officer (CEO) duality or CEOs with multiple positions.

The principal and agency try to satisfy their respective interest. Therefore, financial targets have a close relationship with the Agency Theory. Management as an agency hopes to get a bonus for fulfilling the principal's wishes, namely the financial target in the form of profit. Management will use every attempt to meet its financial target to receive greater bonuses. However, high financial goals will put management under pressure and motivate managers to conduct fraud on financial statements (Maryani, Natita, & Herawati, 2022). So, it can be said that the greater opportunity for financial report fraud, the greater the company's financial target (Agusputri & Sofie, 2019; Wicaksono & Suryandari, 2021). Based on this premise, the following hypothesis put forth is:

H1: The pressure has a positive effect on the potential of fraud in financial reports.

Nugroho and Diyanty (2022) also Aviantara (2021) state that capability is management's ability to manage or lead a company, and someone with this capability tends to commit fraud. The perpetrators of fraud begin with the ability to find loopholes and create opportunities to carry out activities that are personally beneficial. Fitri, Syukur, and Justisa (2019) also Larum, Zuhroh, and Subiyantoro (2021) find that changes in the board of directors positively impact the likelihood of fraud in financial reports. A specific political motivation for removing the outgoing board of directors may be reflected in changes to management or the board of directors. Changes in the board of directors

could be utilized to get away from individuals who hinder fraud. Management can use power to manipulate decisions to eliminate parties that hinder management from committing fraudulent financial statements. The hypothesis put forth is:

H2: Capability positively affects the potential of fraud in financial reports.

Achmad, Ghozali, and Pamungkas (2022) argue that collusion happens when parties agree to use corporate mechanisms resulting from internal business transactions to achieve goals that only benefit their interests. Typically, businesses shift organizational resources to subsidiaries or RPT. Nugroho and Diyanty (2022) argue that RPT can be used as a means of laundering wealth which can be seen from the number of RPT transactions the company has with its affiliates to ensure that any fraud in RPT can be investigated. Habib, Muhammadi, and Jiang (2017) reveal that companies that carry out high RPT tend to collude with related companies, so they have the potential to commit financial statement fraud. The hypothesis is:

H3: Collusion has a positive effect on the potential of fraud in financial reports.

The external auditor conducts an audit process driven by the information asymmetry between the principal and agency within the company. By engaging an expert external auditor to review the financial reports, the risk of substantial misstatements can be minimized. The external auditor's assessment of financial information's fairness can help reduce information asymmetry and prevent agency fraud. Financial statement fraud poses a significant risk to users when financial statements contain significant errors. Therefore, it is crucial to ensure that financial reports are accurate and reliable (Handayani & Evana, 2022). The hypothesis put forth is:

H4: Opportunity has a positive effect on the potential of fraud in financial reports.

A rationalization, as stated by Achmad et al. (2022), refers to the attempt to justify the deceitful actions of the offender. Fraud perpetrators rationalize their actions to fortify themselves from all accusations directed at them, with the perception that their fraudulent actions are natural and not a violation. Rationalization can be demonstrated by frequent management changing external auditors (Nugroho & Diyanty, 2022). Changes in auditors can be seen as an effort to eliminate fraud traces discovered by earlier auditors (Lou & Wang, 2009). So, the possibility of a misleading financial report increases with the frequency of modifications to financial reports made by companies (Umar et al., 2020). The hypothesis is:

H5: Rationalization has a positive effect on the potential of fraud in the financial report

Ego management can be observed through CEO duality, namely, CEOs who occupy more than one position in a company (Kamarudin, Ismail, & Samsuddin, 2012). CEO duality tends to take advantage of its position by taking actions that have the potential for fraud due to the inadequate oversight function (Wicaksono & Suryandari, 2021), so fraud committed is more difficult to detect (ACFE Indonesia Chapter, 2019; Yang, Jiao, & Buckland, 2017). The hypothesis is:

H6: Ego has a positive effect on the potential of fraud in the financial report

## RESEARCH METHOD

The variables used are the potential fraud in the financial report, pressure, capability, collusion, opportunity, justification, and ego. The data examined in this study are financial reports from state-owned companies listed on the Indonesia Stock Exchange (IDX)

during the years 2010 to 2021 by using a quantitative research methodology. Probability-purposive sampling was used to determine the sample, and the criteria used were BUMN enterprises with an IDX listing for the 2010–2021 time frame and BUMN enterprises with 2010–2021 complete financial reports published.

Several ways can be used to measure fraud variables in financial reports, including the M-score, F-score, and Altman Z-score (Vousinas, 2019). This study uses the F-score to measure the variable financial statement fraud because this indicator was considered the most effective for predicting financial statement fraud. This study assessed the pressure variable using return on assets (ROA) as a financial goal indicator (Larum, 2021). The formula for the F-score model is described in Appendix 1. If a company has an F-score value of more than one, it is indicated that it is committing financial statement fraud. Meanwhile, there is no proof of fraud when the company's F-score is below one. The measures with each independent variable are displayed in Table 1.

The influence between the dependent variable, which is the components of the hexagon fraud model, and the predictor variable, which is financial statement fraud, is examined using a multiple regression model. Based on operational definitions and variable measurements, the model is as follows:

$$\text{Fraud in financial report} = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

..... (1)

## RESULT AND DISCUSSION

The object of research is state-owned companies and as many as 20 companies according to the criteria, so there are 240 companies as samples analyzed. After testing, it turned out

**Table 1.** Independent Variable Measurement

Variable	Model	Measurement
Pressure (X1)	Financial Target	$ROA = \frac{\text{Profit}}{\text{Total Asset}} \text{ (Zaki, 2017)}$
Capability (X2)	Directors Alterization	Dummy variable: Write 1 if there is a change in the main director for the 2016-2020 period and code 0 if not. (Situngkir & Triyanto, 2020)
Collusion (X3)	Related Party Transaction	$RPT AL = \frac{RPT \text{ asset} + RPT \text{ liabilities}}{\text{Equity}}$
Opportunity (X4)	Quality of External Auditors	Dummy Variable: Write 1 when using KAP BIG 4 audit services, and 0 if not (Larum, 2021).
Rationalization (X5)	Auditor Alteration	Dummy variable: Code 1 if there is a voluntary change of KAP in the 2016-2020 period and if 0 otherwise (Wicaksono & Suryandari, 2021)
Ego (X6)	CEO Duality	Dummy variable: Code 1 if the main director has more than one position and code 0 if the main director has only one position (Maryani et al., 2022).

that the research data were not normally distributed, so the author decided to eliminate outlier data using the outlier box spot method and obtained 176 samples. Descriptive statistics for the data are presented in Table 2. The data in this study were normally distributed, as shown by the Kolmogorov-Smirnov test results, which showed a significance value of 0.200 greater than 0.05. Multicollinearity test results show that each variable has a tolerance value of more than 0.100 and a VIF value of less than 10.00, so it is free from multicollinearity. The heteroscedasticity test used the scatterplot graph as a testing tool. The points are scattered above and below 0 on the Y-axis, as shown in the

scatterplot image. These points also do not have a clear pattern, such as wavy, widened, or narrowed. Hence, it can be said that there were no signs of heteroscedasticity in the study's data. A Durbin-Watson (DW) value of 1.848 was obtained from the Durbin-Watson test results. The 4-DU value is 2.1757, and the upper limit value for  $k = 6$  and  $n = 176$  is 1.8243. Thus, it can be inferred that the data in this study do not exhibit autocorrelation.

The results of hypothesis testing are presented in Table 3. According to the H1 test results, which reveal a significance value of 0.000, below the threshold of (0.05), pres-

**Table 2.** Descriptive Statistics Test

	N	Minimum	Maximum	Mean	Std. Deviation
Pressure (X1)	176	-.060	.185	.04155	.045220
Capability (X2)	176	0	1	.30	.458
Collusion (X3)	176	.001	5.519	1.08245	1.196322
Opportunity (X4)	176	0	1	.59	.493
Rationalization (X5)	176	0	1	.18	.387
Ego (X6)	176	0	1	.27	.444
Fraud of Financial Report (Y)	176	-.359	.482	.09742	.147537
Valid N (listwise)	176				

sure has a favorable impact on the likelihood of dishonest financial reporting in BUMN enterprises. Financial targets that management must meet might put pressure on them, which can lead to fraud. The financial target indicates management's success in managing the company. The financial target in this study is proxied by using a profitability ratio, namely ROA. This ratio examines the company's effectiveness in managing its assets to generate profits (Skousen et al., 2009). According to Daromes and Jao (2020), financial targets are also commonly used to assess managerial performance to determine wage increases, bonuses, and others.

When management can meet these targets, management is considered successful in realizing stakeholder interests. Financial targets can be a motivation as well as pressure for company management. The management will attempt to assist the organization in meeting its predetermined goals. Managers may feel under pressure to submit financial reports that are not accurate representations of the situation. The findings of this study are indeed consistent with earlier studies that discovered that pressure on management is the main trigger for deception (Agusputri & Sofie, 2019; Wicaksono & Suryandari, 2021; also Riyanti & Trisanti, 2021).

According to the test results, the capability variable (X2) has a significance value of  $0.414 > 0.05$ . This demonstrates that the possibility of fraudulent reporting is unaffected by the capacity indicator provided by the change in directors. The competence of the board of directors to run the business effectively means that when the directors' performance falls short of the standards established by the company, a replacement will be made. According to Handoko and Natasya (2019), altering the board of directors is anticipated to boost corporate performance. In determining candidates for directors of BUMN companies, this has been regulated in the BUMN Ministerial Regulation of the Minister of State-Owned Enterprises of the Republic of Indonesia Number PER-11/MBU/07/2021 concerning Requirements, Procedures for Appointment and Dismissal of Members of the Board of Directors of State-Owned Enterprises. This regulation regulates the selection mechanism for selecting prospective BUMN board of directors members to be appointed.

In this study, the change of directors during the observation period was carried out 52 times or 30% of the total 176 samples. According to Financial Services Authority Regulation Number 27/POJK.03/2016, mem-

**Table 3.** Hypothesis Testing

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Conclusion
	B	Std. Error	Beta			
(Constant)	.042	.025		1.678	.095	
Pressure (X1)	.954	.252	.292	3.791	.000	H <sub>1</sub> Accepted
Capability (X2)	.019	.024	.060	.818	.414	H <sub>2</sub> Rejected
Collusion (X3)	-.004	.009	-.034	-.448	.655	H <sub>3</sub> Rejected
Opportunity (X4)	-.001	.022	-.004	-.061	.952	H <sub>4</sub> Rejected
Rationalization (X5)	-.002	.028	-.004	-.059	.953	H <sub>5</sub> Rejected
Ego (X6)	.061	.024	.182	2.486	.014	H <sub>6</sub> Accepted

a. Dependent Variable: Fraud of Financial Report (Y)

bers of the board of directors can be fired or appointed by the shareholder's general meeting after passing the fit and proper test. Substitution of directors in state-owned companies generally occurs because directors hold multiple positions outside the company, directors who have served more than two terms, and directors who have entered retirement. In Article 17 of the BUMN Minister Regulation Number PER-11/MBU/07/2021, it is explained that Directors in BUMN companies can be dismissed before their term of office expires if the performance of the directors is deemed not as expected involved in actions that cause losses to BUMN, violates the code of ethics of directors BUMN and others. The company runs a director orientation program whenever a director changes to enable board members to collaborate despite having different educational backgrounds. This program gives a basic overview of the company's current condition. This program will also minimize stress periods that can trigger fraudulent financial reporting. This test's results align with the research of Achmad et al. (2022) also Nugroho and Diyanty (2022). However, they differ from the research results by Aviantara (2021) and Larum et al. (2021), who argue that changes in directors affect the potential for fraudulent financial reporting.

The test findings indicate a significance value of 0.655 larger than (0.05), which renders  $H_3$  unacceptable. This means that the collusion variable proxied by the RPT does not affect the potential for fraudulent financial reporting. In State-owned companies, most of the subsidiary companies are suppliers of the need of the main company, so the transfer of resources from the main company is a series of business process cycles that cannot be combined as financial statements. So far, the activities of BUMN companies have been running according to the applicable regulations, namely the Minister of Finance Regulation number PER-11.mBU/07/2021. These regulations detail the company's operations, limit-

ing fraudulent financial statements in the BUMN. Kang, Lee, Lee, and Park (2014) defined RPT as transactions involving related parties, such as shareholders, associated companies, and board members. RPT can be used to transfer the wealth of the board of directors so that companies with high RPT numbers tend to commit collusion and have the potential to commit fraud. Besides that, Habib et al. (2017) discover that businesses with a large RPT transaction volume prefer non-big Four auditors, which raises the risk of a business working together to perpetrate a fraud on financial statements.

Nonetheless, RPT is conducted honestly (Arm's Length) in compliance with customary business requirements and legal requirements as recorded in PMK Number 7/PMK.03/2015 regarding the Implementation of Transactions on Special Relationships for state-owned enterprises in Indonesia (Peraturan Menteri Keuangan Republik Indonesia, 2015). In addition, the RPT is carried out based on the company's needs and is free from conflicts of interest because the RPT is accompanied by disclosure of transactions by Statement of Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan, PSAK) Number 7 and Capital Market and Financial Services Supervisory Body (Badan Pengawas Pasar Modal dan Lembaga Keuangan, Bapepam LK) Regulation Number KEP-347/BL/2012 concerning Financial Presentation and Issuers and Public Companies Disclosure.

This study shows that all state-owned companies in Indonesia conducted transactions with RPT. However, the RPT must be carried out by the Regulation of the Minister of Finance of the Republic of Indonesia Number 7/PMK.03/2015 concerning Procedures for Forming and Implementing Price Agreements Transfer (Advance Pricing Agreement). So, the possibility for companies to commit collusion is minimal. Additionally,



there is little chance of false financial statements being made. This observation is consistent with studies conducted by (Nugroho & Diyanty, 2022) demonstrates that the possibility of fake financial statements is unaffected by RPT.

According to the results, H4 is not accepted; there is no connection between the caliber of the external auditor and the possibility of misleading financial reporting. The quality of the external auditor is considered the first filter in detecting loopholes in the company's financial system to find fraud in the company's financial reporting. When an external auditor has a new client, there is a possibility they cannot adapt, or they also possible that the assigned auditor does not have specific competence with the new client's business processes. Hence, the client's limited understanding cannot detect the fraudulent financial report. Agency problems will arise when shareholders do not examine all management activities so that there are opportunities for management to commit acts of fraud, especially fraudulent financial statements. When performing their tasks, every public accounting firm, including the Big Four and non-Big Four, has adhered to the same auditing standards and public accounting profession code of ethics established by the Indonesian Institute of Certified Public Accountants (Institut Akuntan Publik Indonesia, IAPI). The data analysis results show that 98 or 55% of BUMN companies use the services of the big four public accounting firm (Kantor Akuntan Publik, KAP), while the rest use KAP services in the top 10 rankings.

The selection of KAPs for BUMN companies is following the Decree of the Minister of State-Owned Enterprises of the Republic of Indonesia Number: SK-103/MBU/03/2021 concerning Criteria for Public Accounting Firms, Public Appraisal Service Offices and Actuarial Consultant Offices in State-Owned

Enterprises. The KAP appointed to audit must meet the criteria following these regulations so that they have the same audit quality. It is believed that applying quality inspection standards and audit processes will be able to find possible fraudulent practices earlier. Therefore, it can be concluded that the likelihood of fraud in the financial report is unaffected by the external auditor's performance using the four major KAP indicators. The results of this research align with those done by Setiawati and Baningrum (2018) also Nadziliyah and Primasari (2022), who argue that using quality external auditors does not affect the potential for fraud in financial reports.

According to Table 3, the rationalization variable's significance value is  $0.953 > 0.05$ , meaning that the fifth hypothesis is rejected. These findings suggest that the possibility of dishonest financial reporting is unaffected by rationalization with indicators of shifting auditors in an organization. The company's change of auditors is considered an act of rationalization to justify fraudulent acts committed by management. Auditor replacement is carried out to eliminate traces of fraud committed before because the newly appointed auditor will require an adaptation period to study the company to be audited so that the audit results show unsatisfactory results compared to the previous auditor. This condition usually occurs when the auditor is voluntary, which means the auditor changes before the audit period must change.

The Financial Services Authority Regulation Number 13/POJK.03/2017 governing the Usage of Public Accountant Services and Offices of Public Accountants in Financial Service Activities applies to auditor changes in state-owned businesses in Indonesia. According to Article 16, the Party Conducting Financial Services Activities may only use audit services for a maximum of three con-

secutive reporting years on yearly historical financial information from the same KAP. Company dissatisfaction with the previous auditor's performance is also one reason for changing auditors in state-owned companies. Only 32 or 18% of companies changed auditors in this research from 2010-2019. These results indicate that only a few companies have changed auditors within a decade of observation. This leads to the conclusion that the former auditor's traces were meant to be retained by the new auditor. In general, auditor changes are made because contracts have ended, and there is another phenomenon where auditor changes are intended to reduce company audit fees to improve corporate governance (Larum et al., 2021). This discovery is consistent with the findings of Nanda, Salmiah, and Mulyana (2019) also Achmad et al. (2022).

The Ego variable's significance value in the hypotheses test is  $0.014 > 0.05$ , supporting H6. This suggests that ego, as determined by CEO Duality, influences the likelihood of fraudulent financial disclosures. A CEO who holds several jobs will use each to advance the company and himself to keep his current position. The supervisory role performed by the audit committee and commissioners may be weakened by directors who hold numerous responsibilities. In addition, CEO duality can breed hubris among directors who hold several positions because they believe the rules do not apply to them. Forty-nine companies in the survey, or 28%, had CEOs that held numerous responsibilities. Most State-owned Enterprises are beginning to understand how the ego element might increase the likelihood of misleading financial reporting. In order to eliminate conflicts of interest that could result in corporate fraud, several BUMN firms currently have provisions in their Articles of Organization that forbid holding concurrent positions in separate business enterprises or governmental institutions. These results confirm studies by

Meidijati and Amin (2022) also Yang et al. (2017) that claim CEO duality influences the likelihood of dishonest financial reporting.

## CONCLUSION

The study results show that the possibility of dishonest financial reporting is positively impacted by pressure, as measured by financial targets, and ego, as measured by CEO duality. As a result, the likelihood of fake financial reporting will increase when a company's financial aim is higher to show excellent business performance and draw investors. A director's ego will also be brought out when they hold multiple positions, leading people to believe they are exempt from the regulations. The likelihood of dishonest financial reporting is unaffected by additional criteria, including capability, collusion, opportunity, and rationalization. The long observation period allows the generalization of the results of this study to be quite broad because the line of business and company characteristics also occur in other companies outside the unit of analysis of this observation. Because the adjusted R<sup>2</sup> value in this study is relatively low, indicating that many other factors influence the likelihood of fraudulent financial reporting, the researchers believe that free cash flow. It is recommended to use an additional independent variable, such as whistleblower and accounting systems.

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## APPENDIX

### Appendix 1. The Formula for F-score Model

$$F - Score = Accrual\ Quality + Finance\ Performanc \dots\dots\dots (1)$$

Accrual quality is calculated using accrual RSST which is formulated as follows:

$$RSST\ Accrual = \frac{(\Delta WC + \Delta NCO + \Delta FIN)}{The\ Average\ of\ Total\ Asset}$$

Details:

WC = (Current Assets - Short Term Liabilities)

NCO = (Total Assets - Current Assets - Investments and Advances ) – (Total Short Term Liabilities - Long Term Liabilities)

FIN = (Total Investment – Total Liabilities)

Financial Performance = Change in Receivables + Change in Inventory + Change in Cash Sales + Change in Revenue

$$Receivable\ Changes = \frac{\Delta Receivables}{Average\ of\ Total\ Assets}$$

$$Inventory\ Changes = \frac{\Delta Supply}{Average\ of\ Total\ Assets}$$

$$Changes\ in\ Cash\ Sales = \frac{\Delta Sales}{Sales(t)} - \frac{\Delta Receivables}{Receivables(t)}$$

$$Changes\ in\ Revenue = \frac{Revenue(t)}{Average\ of\ Total\ Assets(t)} - \frac{Revenue(t-1)}{Average\ of\ Total\ Assets(t-1)}$$

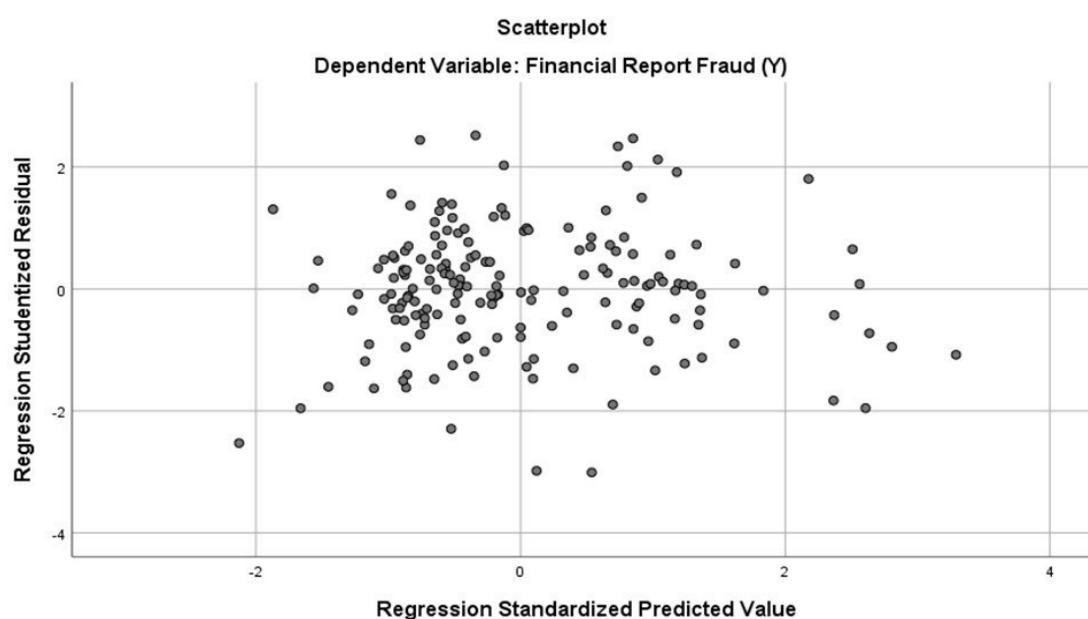
Source: Sakti, Tarjo, Prasetyono, & Riskiyadi. (2021)

### Appendix 2. Normality Test Result

Unstandardized Residual		
N		176
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.13721520
Most Extreme Differences	Absolute	.061
	Positive	.047
	Negative	-.061
Test Statistic		.061
Asymp. Sig. (2-tailed)		.200 <sup>c,d</sup>

**Appendix 3. Heteroskedasticity Test Result**

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Pressure (X1)	.860	1.163
Capability (X2)	.958	1.044
Collusion (X3)	.886	1.128
Opportunity (X4)	.955	1.047
Rationalization (X5)	.985	1.016
Ego (X6)	.955	1.047

**Appendix 4. Multicollinearity Test Result****Appendix 5. Durbin Watson Autocorrelation Test Result**

Total of Independent Variables (K)	Total Samples (N)	Value of Durbin-Watson (DW)	Upper Limit Value (DU)	Value 4-DU	Conclusion
6	153	1.848	1.8243	2.1757	There are no signs of autocorrelation

b. Dependent Variable: Fraud of Financial Report (Y)

**Appendix 6. F-Statistics Test Result**

Model	Sum of Squares	df	ANOVA <sup>a</sup>		
			Mean Square	F	Sig.
Regression	.514	6	.086	4.397	.000 <sup>b</sup>
Residual	3.295	169	.019		
Total	3.809	175			

a. Dependent Variable: Fraud of Financial Report (Y)

b. Predictors: (Constant), Ego (X6), Collusion (X3), Rationalization (X5), Capability (X2), Opportunity (X4), Pressure (X1)

## **The Lack of a Strong and Accountable Public Procurement Ecosystem in West Papua to Prevent Corruption**

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### **ABSTRACT**

West Papua has a relatively high risk of corruption during the implementation of its public procurement. It is critical to recognize that public procurement business processes are analyzed as an ecosystem with interactions between actors. This research aims to determine the need for a conducive ecosystem for public procurement (PBJP) in the West Papua province and propose recommendations for improving or increasing the credibility of public procurement. This research is qualitative because primary data are obtained through interviews and forum group discussions with selected participants. The results of the study show that the public procurement ecosystem consists of Budget User Authorities (KPA) or Contract Officers (PPK), Working Units for Public Procurement (UKPBJ), Vendors, Internal Control, and Regulators who are credible procurement actors as focal offers. Examining each actor's issues has led to the conclusion that to boost the credibility of public procurement goals. It is necessary to strengthen leadership commitment, improve the quality of human resources, and simplify laws. The research findings are expected to assist practitioners and policymakers in understanding why there is a lack of public procurement ecosystem in West Papua and propose the necessary corrective policies.

### **KEYWORDS:**

Ecosystem; public procurement; tender; West Papua

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## INTRODUCTION

Public procurement (Pengadaan Barang Jasa Pemerintah or PBJP) is closely related to absorbing and realizing the state budget (Anggaran Penerimaan dan Belanja Negara, APBN). Data obtained from the National Public Procurement Agency (Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah, LKPP) shows that in 2022 at least Rp1,514 trillion or 52% of the APBN/APBD will be absorbed through public procurement (LKPP, 2022). Furthermore, the government plays a critical role in contributing to the equitable distribution of development and economy throughout Indonesia (Azwar, 2016). To achieve this, the government and LKPP have provided various facilities for small business actors in rural areas to participate in the public procurement market, including the Papuan business actors.

West Papua is one of the provinces in Indonesia that originated as a result of the proliferation of Papua Province. The proliferation of this province was eventuated by Law Number 45 of 1999 with the name West Irian Jaya Province. Subsequently, West Irian Jaya's name was changed to West Papua by Government Regulation Number 24 of 2007. Due to its special autonomy status, the government allocated special autonomy funds to West Papua Province and several other provinces. Papua and West Papua were granted Special Autonomy by Law Number 21 of 2001, later amended by Law Number 35 of 2008. The government allocated a special autonomy fund (Otonomi Khusus, Otsus) in 2022 for Papua and West Papua Provinces, amounting to Rp12.8 trillion (DJPK, 2022). These funds can be utilized for various needs of the particular autonomous regional government, such as accelerating the effort of improving the welfare of the Papuan people and economic development, one of which is realized through public procurement.

Lloyd and McCue (2004) argue that public procurement is all stages of acquiring property or services, beginning with determining a need for property or services and ending with contract completion and closeout. Vaidya and Campbell (2016) specify public electronic procurement as the use of information and communication technology (especially the Internet) by governments in conducting their procurement relationships with suppliers to acquire goods, works, and consultancy services required by the public sector. According to Presidential Regulation Number 16 of 2018, public procurement is goods or services procurement activities carried out by government agencies financed by the national or state budget, by which the process starts from identifying needs and ends with the hand-over of goods and services. PBJP supports local government agencies in achieving their vision, mission, and objectives (Thai, 2009). The government has enacted Presidential Regulation Number 17 of 2019 to accelerate economic development in Papua and West Papua, explicitly regulating the procurement of goods and services in Papua and West Papua. One of the provisions in the regulation is the convenience for Papuan business actors to participate in PBJP without reducing the quality of work (Mansawan, 2021).

Tenders or selections would allow price competition between providers, reflected in the lowest price bids submitted by bidders (Bergman & Lundberg, 2013). Competitive or lowest price setting enables the government to make savings considering that it is enough to pay the tender winner who offers a value lower than the Owner Estimate (Harga Perkiraan Sendiri, HPS). The comparison of the Owner Estimate and the value of the tender contract at the Electronic Procurement Agency (Lembaga Pengadaan Barang/Jasa Secara Elektronik, LPSE) in West Papua can be depicted in Table 1.

**Table 1.** Government Goods and Services Budget and Realization

Year	Budget Plafond			Tender
	Goods	Services	Capital	
2018	1.647	136	1.680	1.527
2019	1.818	129	1.708	1.545
2020	1.622	85	2.184	1.568
2021	1.270	65	2.351	1.639
2022	1.392	63	2.092	1.434
Total	7.750	479	10.016	7.715

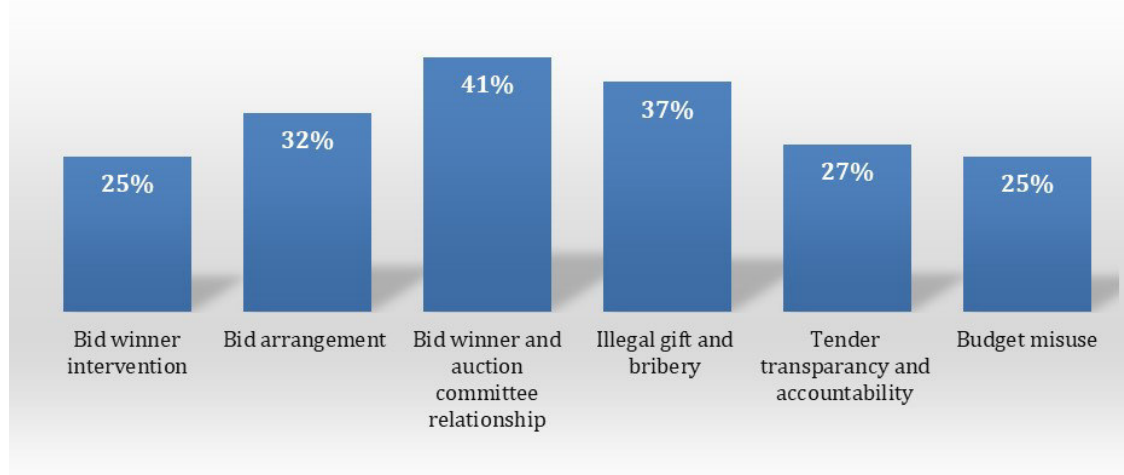
On the other hand, the results of the Integrity Assessment Survey (Survey Penilaian Integritas) conducted by the Corruption Eradication Commission (Komisi Pemberantasan Korupsi, KPK) in 2021 suggest that the risk of corruption related to the procurement of goods and services remains in West Papua. The survey results are shown in Figure 1.

Government procurement of goods and services is one of the activity sectors that is very prone to acts of corruption because the value of goods and services procurement transactions tends to increase every year (Rakhel & Putera, 2021). Meanwhile, Williams-Elegbe (2018) finds that in developing countries, corruption in the procurement of government goods and services transpires due to weak regulations and law enforcement, low

levels of accountability to the public, and low participation of the public in reporting fraud during the process of procuring government goods and services to internal control or law enforcement.

Corruption can occur when decisions are dominated by discretion and monopoly but with little accountability (Klitgaard, 1988). Meanwhile, Tuanakotta (2017) defines corruption as the misuse of public office for personal gain, which can result in receiving something in the government procurement process of goods and services. Lehman and Morton (2017) state that corruption is an abuse of authority by elected politicians, or public officials appointed to obtain personal benefits or gains. Offering gifts and bribes to public officials will cause distortions in investment or public services to the community, which can reduce the quality of government services or infrastructure because the available budget is increasingly limited (Murray, 2009).

In supply chain management, public procurement aims to obtain the right service or goods in terms of time, quality, and acquisition costs; therefore, it does not interfere with the production process (Mentzer et al., 2001). The government provides two mechanisms to obtain goods and services through



**Figure 1.** Integrity Assessment Survey Index of 2021  
Source : (Komisi Pemberantasan Korupsi, 2021)

providers or self-management. Procurement of goods and services through providers is applied when a government work unit cannot provide the requested products. Moreover, potential suppliers/vendors are market players. Direct government intervention in market players can be done by employing the goods and services they produce. The purpose of public procurement includes obtaining the best of service goods, increasing the use of domestic products, increasing the role of micro, small businesses, and cooperatives, increasing the role of national business actors, realizing economic equity, and providing expanded business opportunities, as well as several other goals (Presidential Regulation Number 12 of 2021). It also determines the procurement actors involved in each stage of the procurement. In general, the roles of actors and phases of procurement can be viewed in Table 2.

In general, public procurement can be categorized according to implementation phases. In procurement through providers, the phases consist of at least the procurement planning phase, election planning, selection preparation phase, election implementation phase, contract implementation phase, and work handover phase (Kurniawan & Pujiyono, 2018). At the planning stage, the work unit determines the type of service goods to be obtained, the technical specifications of the service goods, and the estimated price to be the value of the work package. The deal is determined by looking into the specifications

and availability of the budget ceiling. In the preparation stage for the selection, the procuring agent determines the qualifications of the providers who are deemed capable of providing. At this stage, the method of selection is also determined. The method of selecting providers is influenced by the type of procurement and the value of the procurement. One method to choose providers is by way of tender/selection. A tender is a way of selecting providers for procuring goods, construction works, and other services. At the same time, selection is a term used for the selection of consulting service providers openly.

The concept of the ecosystem was first introduced into social science by the sociologist Amos Hawley as a condition of reciprocal relationships within a population in which the entire population operates as a unit to maintain proper environmental conditions for the population's survival (Hawley, 1988). In business strategy, the term ecosystem was coined by (Moore, 1993), which gave rise to the idea that companies were not seen as single individuals but as members of a business ecosystem consisting of companies from various industries and the business ecosystem. Since then, many definitions of the ecosystem have emphasized different aspects in different disciplines. In simple terms, an ecosystem includes a set of actors that contribute to the main offering (focal offer) from the user. Focal offers can be in products or services, implemented with or without a tech-

**Table 2.** Public Procurement Phases and Actors

Phase / Process	Actors
Public procurement planning	Budget user and Commitment officer (PA and PPK)
Public procurement preparation	Commitment officer
Tender/Selection preparation	Commitment officer/procurement working group
Tender execution	Commitment officer/procurement working group
Contract execution	Commitment officer and vendor
Project handover	Budget user, Commitment officer and vendor

Sources: Regulation LKPP Number 12 of 2021

nology-based platform. The key to this definition is the direct relationship between the supply and demand sides of the focal offer and the different considerations of the various actor that contribute to the value creation of the focal offer.

The ecosystem perspective is often juxtaposed with the value chain. However, the two are very different regarding focus and organizational structure. Porter (1985) introduces the value chain concept to analyze the sources of a company's competitive advantage. Competitive advantage cannot be understood by looking at the company as a whole (Kapoor & Lee, 2013). It stems from the many discrete activities a company performs in designing, producing, marketing, delivering, and supporting its product. The value chain perspective focuses on the internal company, seen through concrete activities (Kapoor, 2018). These activities together determine the cost of the company and the value offered to its customers. An important theoretical concept in the value chain perspective is the interdependence among activities that make up the value chain within a company and the synergy between different activities to achieve a company's competitive advantage (Porter & Linde, 1995). Thus, the ecosystem perspective takes a macro view of external actors contributing to creating corporate value. In contrast, the value chain perspective takes a micro view of the company's internal activities.

Employees no longer carry out the selection of supplies through tenders in work units that require the goods and services but instead are carried out by a more independent provider selection work team with available positions. The Regulation of the Minister of Public Works and Public Housing Number 14 of 2020 concerning Standards and Guidelines for Procurement of Construction Services Through Providers also limits the technical requirements that reduce the possibil-

ity that many providers cannot participate in tenders. Tenders and selection have now been carried out with the help of information technology. Tender schedules and information have also been made public and announced on the public website. This effort is aimed at achieving the objective of procuring goods and services through tenders. Research conducted by Puspita and Gultom (2022), Nani and Ali (2020), also Sirait (2018) conclude that the use of electronic media has a good effect on the procurement of government goods and services even though some strengthening is needed. However, organizational and environmental difficulties still exist in the application of e-procurement (Mohungoo, Brown, & Kaban-da, 2020), internal service quality (Costa, Arantes, & Tavares, 2013), human resources quality (Nani & Ali, 2020), and regulatory (Khairina & Dompak, 2022). The ecosystem concept can portray the role of the actors involved in public procurement. Based on the roles played by these actors, we can identify the actors' weaknesses that occur during the public procurement process. We will analyze the results of identifying the actors' weaknesses, which can serve as the basis for providing recommendations for improvement.

Previous studies have focused on spending allocations for the special autonomy fund for West Papua (Budiratna & Qibthiyyah, 2020), the accountability of the special autonomy fund (Sukmalalana, Ramadhan, Pdihego, Huda, & Fadli, 2020), the effectiveness of electronic procurement (Adi, 2017), and measuring the effect of spending on special autonomy fund for prosperity such as education and reducing poverty (Warouw, Nangoy, & Runtu, 2016). This study also discusses the process of spending Local Government Budget (APBD) managed by the West Papua regional government and the weaknesses that could lead to corruption. This study aims to determine the public procure-

ment ecosystem in West Papua's local government and identify its weaknesses. Recommendations will be provided for the policy-makers to improve the public procurement ecosystem in order to prevent corruption. The research questions are structured as follows:

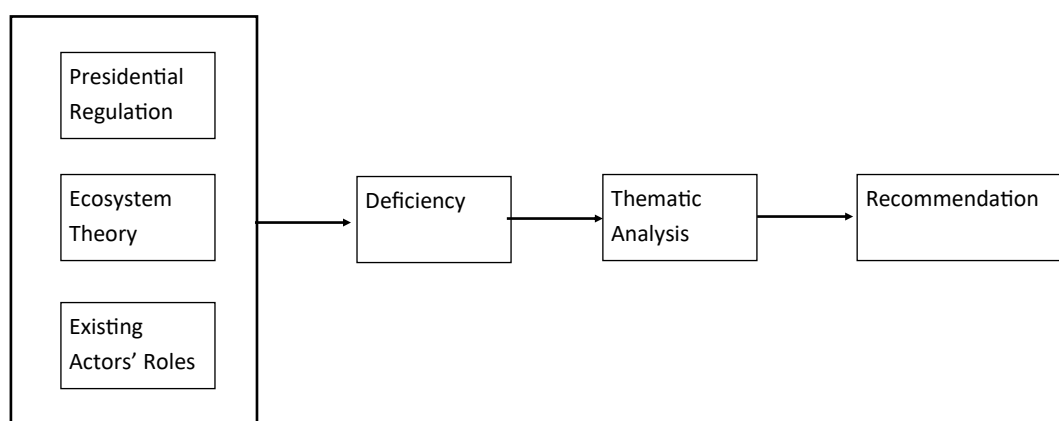
1. What are the existing public procurement ecosystem and the weaknesses in the West Papua government?
2. What are the recommendations that will be proposed to improve the public procurement ecosystem in order to prevent corruption?

## RESEARCH METHOD

This study employed a qualitative research method to obtain a good picture of the public procurement process in West Papua Province. According to Cresswell (2014), the qualitative method can explore the portrait of the procurement of goods and services in West Papua. Research on public procurement using a case study approach in West Papua was carried out by considering the status of government autonomy and regional spending. West Papua is one of the provinces with a particular autonomous region level under Law Number 21 of 2001. In addition, the President of the Republic of Indonesia specifically issued Presidential Regulation 17 of 2019 concerning the

Procurement of Government Goods/Services to Accelerate Welfare Development in Papua Province and West Papua Province.

The data used in this study consisted of primary data from structured and in-depth interviews and secondary data from the West Papua Province LPSE portal. Participants who agreed to be interviewed by the research team were from the LKPP and the Financial and Development Supervisory Agency (Badan Pengawas Keuangan dan Pembangunan, BPKP). There were two participants from LKPP, namely the Head of LKPP for the period of January 2019 to January 2022, and the other is an officer with a general function and in charge of advocacy for the province of West Papua, hereinafter referred to as participant 2 and participant 1. Participants from BPKP consisted of four functional auditors and one head of finance and general affairs. Three auditors have the knowledge and experience to oversee procuring goods and services whose funding comes from the state budget. One auditor oversees the management of regional revenue and expenditure budget funds and has experience as head of the working group for procurement of goods and services. One auditor was involved in supervising the procurement of goods and services during the preparation process for the National Sports Week in West Papua in 2021. The informant from BPKP took part in the interview after that and is referred to as Inform-



**Figure 2.** Theoretical Framework

ant 3 as the interview process was carried out in groups or FGDs. Participants who are Contract Officers (Pejabat Pembuat Komitmen, PPK) are represented by one leader, namely the head of the BPKP general section.

The validity and reliability of primary and secondary data were tested using triangulation techniques. The truth of information or statement will be confirmed between informants and primary and secondary data to ensure validity and reliability. Primary data from the interview results will be processed using thematic analysis. Thematic analysis is a method for identifying, analyzing, and interpreting specific theme patterns used in qualitative research and can translate interview results during the data collection process (Braun & Clarke, 2006). This study employs thematic analysis tools to explore potential themes related to research problems and reduce data unrelated to research problems. In thematic analysis, there are six stages or processes: understanding the research data, organizing and reducing data deductively, information capturing and theme organizing, reviewing and developing the prime themes, classifying the prime themes according to the research question, and producing the research reports.

## RESULT AND DISCUSSION

### Competitive Index and Market Concentration

The types of public procurement are grouped into four based on the characteristics of the work. Administratively, providers need specific permits to be declared competent providers in each type of procurement. Procurement of construction work sometimes requires specific certifications to demonstrate the provider's competence in sub-

construction work, considering that this work is complex. When the tender is only won by 16.51% of all participating providers, it indicates the market is concentrated. High market concentration does not align with the objective of public procurement as a means of economic equity (Peleckis, 2022). Pavic, Galetic, and Piplica (2016) state that Herfindahl-Hirschman Index (HHI) and The Concentration Ratio 4 (CR4) are the indicators to observe the level of competition in a public procurement process.

In this section, concentration measurements are carried out on sub-types of procurement, especially for construction work. The study did not measure concentration on other types of service procurement and procurement of goods, considering that the population for this type was relatively tiny. The breakdown of concentration by subtype for consulting services and construction activities is intended to give a more detailed view. This is done considering that the building construction provider may not be eligible to participate in the road works tender. Likewise, providers with particular specifications for planning work may not be qualified for work on preparing a feasibility study.

In construction work, work is divided into three categories. The first categories, such as bridge, road, and terminal works. The second category includes work related to buildings, buildings, and spaces. The third category includes work related to rivers, jetties, and irrigation. Based on this classification, the value of market concentration in construction work is shown in Figure 3.

The value of the HHI at five years of observation is low. A low level of market concentration indicates competition in the market. The highest value of market concentration is 10,000, while the highest value in the procurement of construction work for water-related categories, such as rivers, ports,

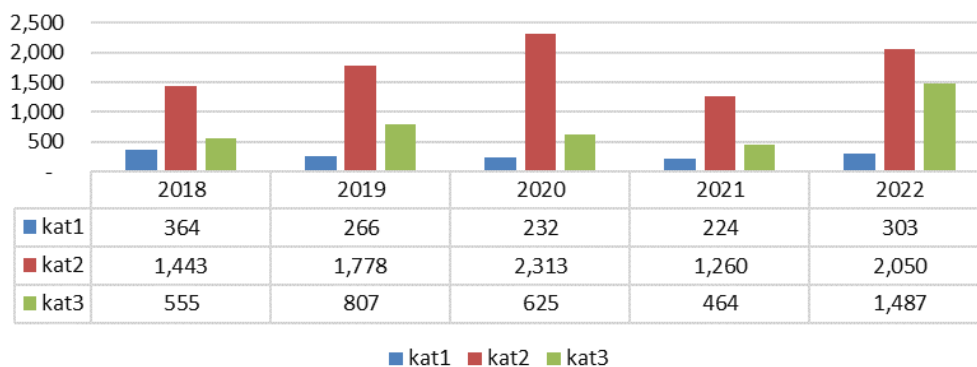


Figure 3. Construction Work Classification

docks, etc., is 1,487 in 2022. Meanwhile, in the building category, the highest value was 2,313 in 2022. The concentration level is deficient in the road and bridge category, with the highest score of only 364 in 2018. There is no general indication of high market concentration in procuring construction work in West Papua for 2018-2022. However, attention tends to increase in 2022 for all job categories of construction. The CR4 value can be seen in the Figure 4.

Based on the results of the CR4 calculation, we can assume a tendency for an increase in CR4 in 2022. Category 1 construction work has the lowest average CR4 among other categories, with the highest value of 27.35% in 2018. Category 2 construction work had the highest average value of 75.05% in 2022. In category 3 construction work, the CR4 value will increase significantly in 2022 compared to 2021. According to Pavic et al. (2016), a CR4 value of 0-50% indicates a low concentration. The market tends to be competitive for providers. CR4, with a value of 60%-

100%, indicates a high concentration, and the market tends to become an oligopoly market.

### Public Procurement Actors

Based on the previous literature review, ecosystem analysis will use the focal offer as the related object and actor. The results of the interviews indicate a significant role that contributes to the achievement of procurement objectives. The focal offer and the actors involved are illustrated in Figure 5.

Actors in procuring government goods and services include officials and employees within the West Papua Provincial Government who serve as Budget User Authorities (Kuasa Pengguna Anggaran, KPA) officers, PPK officers, and Working Units for Public Procurement (Unit Kerja Pengadaan Barang/Jasa, UKPBJ) officers. Supervisors are parties that are not directly involved in the procurement process but participate in supervising the process either through audits,

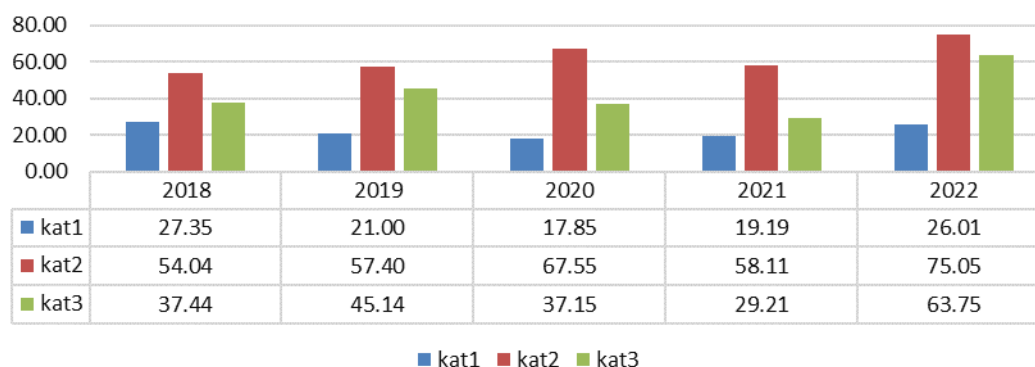


Figure 4. Market Concentration Ratio



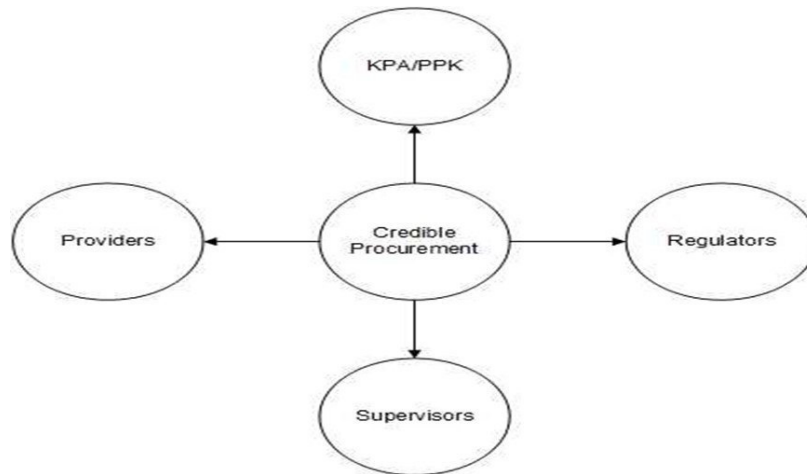


Figure 5. Public Procurement Actors Interaction

monitoring, or evaluation. Parties acting as supervisors include the West Papua Provincial Inspectorate and the West Papua Representative of BPKP. The regulator is the role that sets the rules related to the public procurement and procurement infrastructure, such as the LPSE platform used in the tender system procurement. The actor who acts as a regulator based on the interview results is LKPP. Business actors and Providers are business actors who become government partners through procuring goods and services. The role of providers in West Papua PBJP includes OAP (Papuan people) and non-OAP business actors.

### Budget User Authority/Committee Office

Based on Presidential Decree Number 45 of 2013, KPA is an official in the field of procurement who is determined by the Budget User to use the State Budget or determined by regional heads to use the Local Government Budget. At the same time, PPK is an official responsible for implementing the procurement of goods or services. PPK can be held concurrently by KPA if the scope of the agency is manageable. The role of KPA/PPK in the public procurement ecosystem lies in the planning and preparation stages. The planning phase involves preparing plans, identifying needs, and determining methods, sched-

ules, budgets, and general procedures for procurement (Rencana Umum Pengadaan, RUP). At the same time, the scope of the procurement preparation phase includes the determination of technical specifications, the preparation and determination of the Owner Estimate, and the design of the contract. Because of the preceding, KPA/PPK plays an essential role as a supplier of procurement process inputs in the planning process. However, the interview results stated that Human Resources still faced constraints concerning identifying needs, as expressed by Participant 1.

*“With regards to the capacity of Human Resource... how capable are they in identifying needs, do the targets and policies meet the needs of the Papuan people, are the implementers indigenous Papuans. Once, a region in Papua requested that its procurement not be carried out electronically. Every year there are always those who put forward such request.”*

Participant 2 believes that one of the abilities that KPA/PPK must have are the ability to prepare and establish plans for the needs of goods and services (procurement planning), considering that as someone responsible for the task, one must be well-versed in what is needed. Furthermore, Participant 2 discovered the dysfunction of KPA's authority in preparing and planning the procurement:



*"A very dominant role in planning and budgeting. One must be able to distinguish between procurement planning and procurement plans. Procurement planning is a person planning for the goods and services that one would need. Procurement planning would be the responsibility of the planning and budgeting team. Once it is established, the procurement plan shall be forwarded to UKPBJ. Identification of needs is the responsibility of KPA/PPK. However, more often than not, the work is carried out by functional procurement officials, thereby leading to inaccurate results. The duties of the functional procurement officer cover procurement plans that are fundamentally administrative such as determining the selection method, qualification method, provider requirements, evaluation method, method of submitting bidding documents, and the selection schedule."*

The same opinion was also expressed by Participant 3 as follows:

*"The target of our BimTek (Technical Guidance) is the Contract Officers (PPK) and the Working Units for Public Procurement (UKPBJ). Unfortunately, they are unaware of how to determine the Domestic Component Level/TKDN (Tingkat Komponen Dalam Negeri). From some Contract Officers we have come across, no one has been able to decide on the percentage of the TKDN. This implies that in terms of quality, we conclude that the human resources are still weak."*

Regarding the Owner Estimate, the Contract Officers' area of responsibility, the secondary data analysis results show that the average ratio of contract values to HPS is above 95%. Another study (Johantri & Aprilia, 2021) shows that the average comparison of contract values with the Owner Estimate ranges from 80-90% but with a different research object, namely the LPSE Ministry of Finance. Participant 2 stated that it was premature to conclude that the price for the Owner Estimate was set too high based on the slight difference between the contract value and the Owner Estimate. It requires further examination by conducting market price surveys to

check whether the Owner's Estimate is reasonable and justifiable. Participant 2 added that the tender system selection does not always prioritize the lowest bid value but, instead, a reasonable price or justifiable with valid reasons.

In summary, KPA/PPK still faces challenges regarding human resources competence. On the other hand, good planning was why the Owner's Estimate was too high. However, this still needs to be further proven regarding the reasonable value of the Owner Estimate.

### **Public Procurement Working Unit (UKPBJ)**

Based on LKPP Regulation Number 10 of 2021, UKPBJ is a work unit under the Ministry/Institution that is the Center of Excellence for Public Procurement. The UKPBJ structure usually consists of UKPBJ Leaders who oversee the PBJP Management Unit, LPSE Management Unit, Human Resources (HR) Development Unit, PBJP Assistance Implementation Unit, Consultation, and technical assistance. The Head of UKPBJ can establish an selection working group to manage the selection of providers. The Selection Working Group consists of three people. The number of members of the Selection Working Group may be increased, provided that the number is odd, considering the complexity of the providers to be chosen. A team of experts can assist the Selection Working Group.

The next phase is the selection process which consists of the preparation and implementation. This phase is the responsibility of the UKPBJ or Selection Working Group. Preparation for the selection includes pre-qualification activities in which prospective bidders submit qualification documents proving competence, business capability, and fulfillment of specific requirements from

goods and service providers, including the requirements for indigenous Papuans as per Presidential Regulation Number 17 of 2019.

Tenders in the Papua province have privileges as stipulated in Presidential Regulation Number 17 of 2019 concerning Government Procurement of Goods/Services to Accelerate Welfare Development in the Provinces of Papua and West Papua. In preparing the general plan for procuring goods/services, the PA/KPA determines a work package that provides opportunities for Papuan Business Actors without neglecting the quality of the work. In addition, non-small business actors participating in procuring goods/services in Papua and West Papua provinces are required to empower Papuan business actors. The relationship can be in the form of partnerships and subcontracts. In the case of a partnership being used, the association must be led by a Papuan business actor. If it is a subcontract, this is determined by the PPK and included in the selected document. In addition, there are limited tender provisions to select providers. A small bid is defined as tender with limited participants having to be participants from Papuan business actors. With the privileges and limitations for bidders, based on the NPWP number, out of 38,045 bids, there were 4,589 bids from providers outside Papua. Of the 1,515 work packages, only 128 units were awarded to providers with NPWP outside Papua. No work packages are won by non-Papua providers when the work packages are intended for Papuan business actors.

However, to fulfill the purpose of procurement, namely economic equity for Papuan business actors, it is necessary to ensure beneficial owners from providers who are Native Papuans or politically termed as Orang Asli Papua (OAP), not just administratively, as stated by Participant 1.

*"We should have access to [the procure-*

*ment process] to conduct verification, to identify whether any OAP is present so that proper measurements are taking place, to investigate whether other entities are non-Papuans taking advantage of the procurement system when they should not be. There was also an experience when the non-Papuan used the name of the Papuan/OAP bidder and had the OAP accept the result later."*

Participant 2 also confirmed the same. The statements imply that there are obstacles in verifying in the process because the authority to verify authentic evidence rests with other parties, such as the Population and Civil Registry Office (Dinas Kependudukan dan Catatan Sipil) and the One Single Submission (OSS) manager. Following that is the implementation stage of the selection. When a tender is announced, election documents are registered, explanations are given, bid documents are submitted, opened, and evaluated, a reverse auction is conducted if applicable, possible winners are identified, prices are clarified, technical issues are negotiated, and winners are selected. UKPBJ employs the LPSE platform in pre-qualification activities and the selection process to select providers through tenders.

Several obstacles were revealed from the interviews, including aspects related to HR, infrastructure, and work safety constraints. Regarding HR, Participant 3 stated:

*"...regarding the ability of HR (Human Resources) who are not qualified, this implies that the procurement process could not be implemented accordingly, could it? However, if you wish to obtain data from the Human Resource Management Agency (Badan Pengembangan Sumber Daya Manusia, BPSDM), it only provides information on individuals with certification, that is all. In this province, only sixty people have attended the training and education."*

Regarding infrastructure, Participants 3 and 1 stated that the problem was good internet access or limited network problems. Not all

sub-districts have good internet access, and there is a schedule in which they can use internet facilities. The two participants also expressed issues regarding work safety.

*"During the Construction Management (Manajemen Konstruksi, MK) auction, we were subject to disruption. Once one of the bidders lost, he believed he was the rightful winner. However, based on the results and deliberation of the working group, we decided that he was not eligible to win, and therefore another supplier won the bid. So the losing party went to the BPKP representative office with the intent to conduct a blockade to close the office. Fortunately, we could bring in the police – (voice unclear) to prevent the blockade from happening. Whatever actions that losing party attempted to do did not change our initial decision that he is not fit [to win]."*

Thus, one of the keys to public procurement is the competence and integrity of the UKPBJ.

### Public Procurement Providers

The results of secondary data analysis on competition and market concentration show relatively high competition results (low HHI score). However, several types of work, such as construction and consulting, show that the tender winners are concentrated in the four big players. Participant 3 statement related the dominance of several large providers in the tender process as follows:

*"Yes, that is the way business is conducted here. In a certain area, there are companies, say, the big three companies. The presence of these large companies affects the small companies. They would do whatever it takes. Whenever there is a huge public procurement call for bidding, the smaller companies cannot get their hands in the goods and services procurement bidding process. Usually, the procurement will be awarded to the bigger companies. This happens not only in West Papua. On average, this similar situation happens in other provinces too."*

This information also reinforces the importance of verifying OAP business actors as beneficial owners. In addition, providers also face various obstacles in the supply of goods, including cultural constraints. Participant 3 states that the advantage is if the business partners are OAP, they will be more familiar with community leaders and relatively safer because residents will not interfere with the implementation process. If not, road or area blockages often impede the development process.

It can be concluded that the provider must have a certain strategy to ensure that the work package that has been won can be carried out properly and smoothly. This strategy's determination should consider cultural elements or customs in West Papua. Apart from that, the cost strategy also needs to be taken into account, as stated by Participant 2:

*"The selected bidder/bid winner should allocate a budget. You must have a budget to cover the cost of security and the cost of a communal ritual meal to commemorate or celebrate a particular important momentum (slametan), which does not enrich other people and is not considered a violation of the law. In principle, in addition to being strategic, providers must be able to calculate relevant costs for carrying out work without committing acts against the law or enriching state officials."*

As described in the sub-section of the tender/selection overview in West Papua, the average contract value is close to the HPS value. Further data exploration shows that the tender winner is not always the provider that bids the lowest price. The provider is declared the winner because the provider with the lower bid is disqualified in the tender. The provider failed due to technical qualification requirements that could not be met. Either the terms were not included in the bidding documents when submitting the bids, or the provider failed to demonstrate

the legitimacy or correctness of the requirements they entered in the clarification and evaluation stages of the bidding documents. Many small business actors experience barriers to fulfilling tender requirements. Participant 3 revealed that local entrepreneurs could not compete because they did not meet the qualification requirements.

The two pieces of information align with the data on the previously obtained tender results. When the winner of the tender is not the provider with the lowest bid, the budget savings from the tender becomes less optimal. Technical qualification requirements are essential. We need to consider further which qualification requirements are necessary and must exist and which provisions can be omitted. However, the number of qualification requirements that are many and complex, will become a barrier for providers to enter procurement. It will lead to competition that will not take place optimally.

It is necessary to make it easier for small business actors in obtaining the qualification requirements for encouraging competition while still raising the qualification requirements in tenders. In the construction sector, for example, the qualification requirements for school building work will differ from those for housing building construction. The government's role is needed so that providers can quickly obtain both qualification requirements and satisfy the terms and conditions to participate in more tenders.

### **Supervision of Public Procurement**

The Government Internal Supervisory Apparatus (Aparat Pengawas Internal Pemerintah, APIP) oversees public procurement implementation. BPKP is a body related to the supervisor, although it is not limited to implementing public procurement only. Apart from BPKP, the procurement of goods and services can involve LKPP. LKPP can advise

on a provision or event faced by actors procuring goods and services. Regarding the supervision carried out by BPKP, Participant 3 provided the following information:

*"Based on our experience, the assignments (BPKP) related to public procurement in West Papua are mostly requests coming from central agencies...actually for the implementation of audits, we rarely get to the auction stage...the implementation is complete, then we continue with monitoring, then there are restrictions, in the evaluation guideline itself it is limited, it is limited not including the bidding process carried out by PPK, usually in that state, so we carry out evaluation or monitoring only during the implementation stage, and it is carried out after the work is completed... If it's not with BPK, no ma'am, but with the Inspectorate as APIP, some of the assignments previously carried out by BPKP, maybe now APIP has been delegated or transferred to the regions. For example, for special allocation budget (Dana Alokasi Khusus, DAK) funds, we used to do monitoring, but now it is handed over to the inspectorate, BPKP, as quality assurance only."*

Participant 3 also stated that concerning the quality of internal control during the process of procuring government goods and services.

*"Ideally, the higher the PK APIP level, the more competent the process is. If, for example, the competency level is good, they can give a role not only at the end after the job is finished but they participate in the process. What is that term, probity audit? So the assistance from the start of planning, implementation, bidding, and so on does not wait until the last post-audit is finished. The hope is that if they can have that capability, they can provide an early warning to prevent it and that public procurement can be more orderly, minimizing irregularities. Some are already there (probity audit). Some have started gradually. Back to the leadership's commitment, the first function is the control environment for Papua and West Papua."*

According to Participant 2, the role of LKPP and the synergy between LKPP and BPKP to support procuring government goods and ser-

vices is carried out through monitoring, coordination, and providing probity advice or mentoring.

*"... usually, we have monitoring through the LKPP e-monev right there; just open it later. The LKPP e-monev will be there later; for example, on the State Administration Agency (Lembaga Administrasi Negara, LAN), STAN (Sekolah Tinggi Akutansi Negara) has four work packages, there are goods, only services, there is consultant work, and the construction will appear there, what percentage of the units there are, it will appear. That is why the auditor must know what the SOP is in the area, and local wisdom must exist."*

### Relations Between Actors in the West Papua Public Procurement Ecosystem

The ecosystem concept states that every actor in the ecosystem environment will interact with each other and contribute to the main goal (Moore, 1993). The main goal (focal offer) in the PBJP ecosystem is procuring credible goods and services in accordance with the procurement objectives in Presidential Decree Number 17 of 2019. The relationship be-

tween actors in the ecosystem is described in Figure 6.

KPA/PPK parties play a role by providing input through good planning toward credible procurement objectives. UKPBJ delivers feedback in the form of administering a fair and transparent provider selection process so that it can support a reasonable procurement value. At the same time, the supply side provides input in the form of offering goods and services according to the qualifications of the business actor. The supervisor provides audit services during the process. After the procurement is completed, the regulator's role is to provide input in the form of rules related to PBJP in general and specifically for Papua and obtain data for monitoring procurement.

Apart from contributing to the focal offer, actors in the ecosystem also interact with each other. KPA/PPK provides a General Procurement Plan as material for UKPBJ to carry out the selection stages. UKPJ began the tender selection process by announcing

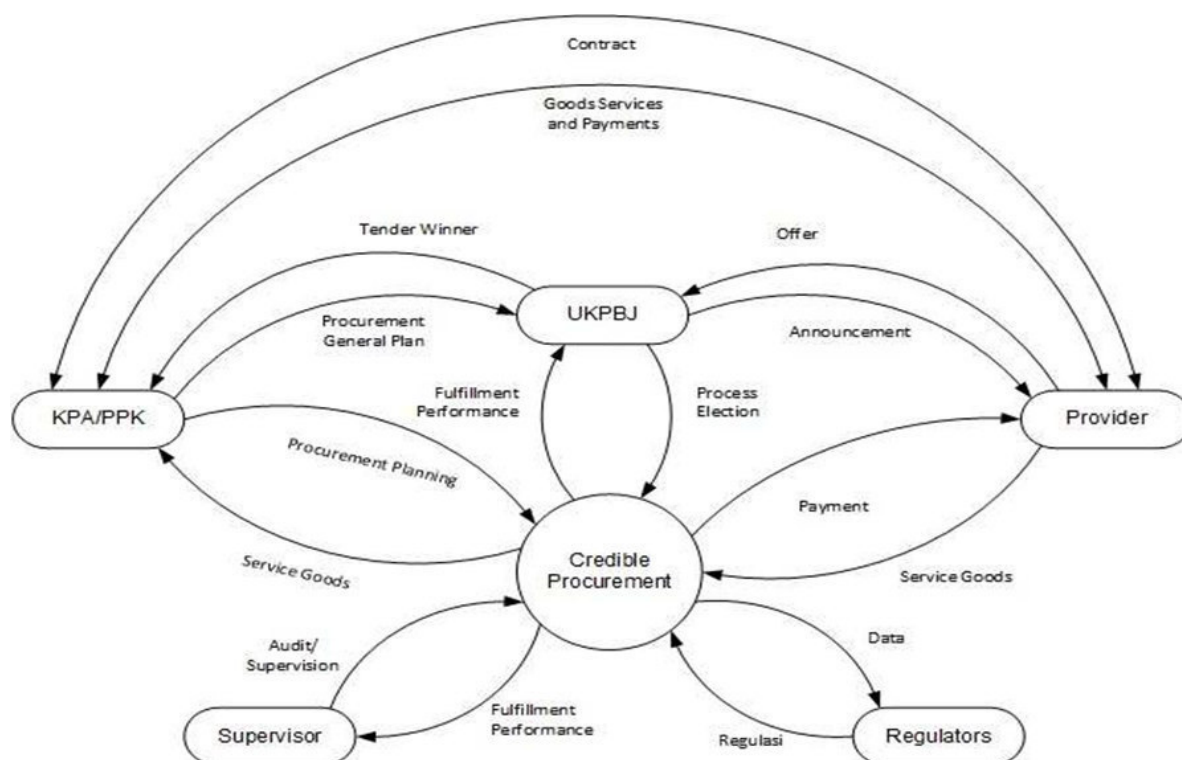


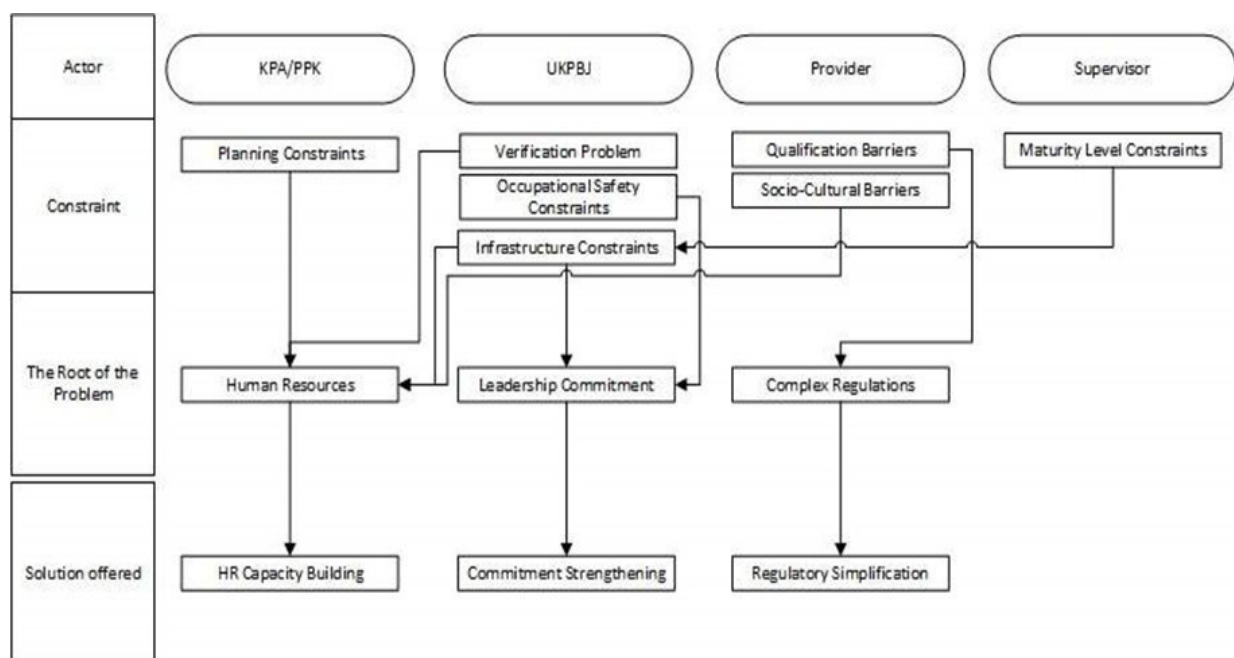
Figure 6. West Papua Public Procurement Ecosystem Relations

bids through the LPSE platform. The provider submits bidding documents according to their qualifications. The bid winner then binds a contract with Contract Officer, then carries out their work according to the agreement, and is entitled to payment after the completion of the contract. Internal supervisors, as parties outside the procurement actors, provide assistance or consultation during the procurement process and conduct procurement audits.

The value network shows that the procurement process begins with the role of the Contract Officer as initial input. Therefore, the improvement solutions will start from KPA/PPK. In formulating solutions, conditions and root causes will be presented in Figure 7.

From the KPA/PPK side, the obstacles identified based on the analysis in the previous sub-chapter are the planning process that is not following the needs and technical regulations. The root of the problem in this condition is the lack of competence of KPA and PPK human resources. Therefore, the solution offered is to increase the competence of KPA/PPK human resources.

Regarding the UKPBJ, the conditions revealed from the analysis results are the lack of functional human resources for certified procurement, OAP authentication responsibilities outside the authority of UKPBJ, occupational safety risks, and lack of internet network infrastructure support. These HR issues can be addressed through training for the procurement function to manage the certified procurement operating staff shortage. The OAP authentication task requires commitment and support from the leadership to carry out data integration that facilitates the authentication process or by delegating the authentication task to agencies with authority regarding OAP identity, such as Dukcapil. Enforcement of the OAP authentication procedure is an essential first step in ensuring equal distribution of business opportunities for local business actors, which can boost West Papua's economy. The problem of occupational safety risks and inadequate infrastructure networks also requires strengthening the leadership's commitment to ensure the safety of its employees by coordinating with law enforcement officials and overseeing the West Papua infrastructure development roadmap according to plan.



**Figure 7.** Public Procurement Weakness and Recommendation

Problems experienced by providers include obstacles in meeting both technical and administrative qualifications and socio-cultural constraints. Obstacles to fulfilling the qualifications are caused by the low resources owned by business actors. This can be addressed by increasing the competence of human resources, which can understand procurement rules, and establishing partnerships with related parties to improve technical qualifications. In addition, obstacles to fulfilling administrative capabilities can also occur due to additional administrative requirements from the PPK, who are too careful, making it difficult for business actors. Therefore, efforts to increase the competence of PPK human resources proposed in the previous paragraph are expected to help overcome the problem of qualification constraints.

Apart from that, it is also necessary to evaluate the regulatory streamlining that the government has made for Papuan business actors to find out the practice in the field and their effectiveness for business actors. As for socio-cultural constraints, this requires a socio-cultural approach through leadership commitment and continuous education from PPK and UKPBJ regarding fair and transparent procurement processes. Business actors must make these efforts to comprehend and assess procurement processes created to guarantee appropriate treatment for all bidders.

The synergy between planning inputs carried out correctly by KPA/PPK and the selection process carried out fairly and transparently by UKPBJ can form a credible procurement process and encourage business actors to compete fairly. In order to achieve the desired outcome, which satisfies the requirement for adequate government goods and services in terms of quantity, quality, time, and cost, as well as other procurement goals, such as economic fairness and convenience

for small enterprises, all of these inputs are required.

## CONCLUSION

Based on the results and discussion, secondary data shows the direction of achieving the goals of public procurement in the province of West Papua. The actual procurement of goods and services at self-estimated prices set by PPK and UKPBJ tends to be close to identical values. On the other hand, the integrity assessment survey results show that the risk of corruption during the public procurement process, such as the intervention of the winner, the close relationship between the committee and the providers, and the arrangement of the winning bidder, is still high.

By using the ecosystem concept, it is known that each actor faces several problems that contribute to achieving public procurement objectives. KPA/PPK meets Human Resources constraints, which creates weaknesses in identifying needs, determining TKDN, and determining administrative requirements that can hinder more comprehensive providers' participation. UKPBJ also has challenges in human resources in the form of a limited number of certified functional officials, internet network infrastructure constraints, difficulties in the OAP authentication process, and work safety risks that require leadership commitment. From the supply side, the conditions faced are fulfilling administrative and technical qualifications due to weak resources owned by business actors. In addition, there are socio-cultural constraints on local business actors, such as the difficulty of accepting defeat and prioritizing violence. Monitoring carried out by supervisors also found obstacles in the form of APIP's maturity level, which still needed to be higher. Therefore supervision still requires improvement. Improvement efforts by each stakeholder in the public procurement eco-



system are expected to reduce the risk of corruption in the PBJ process.

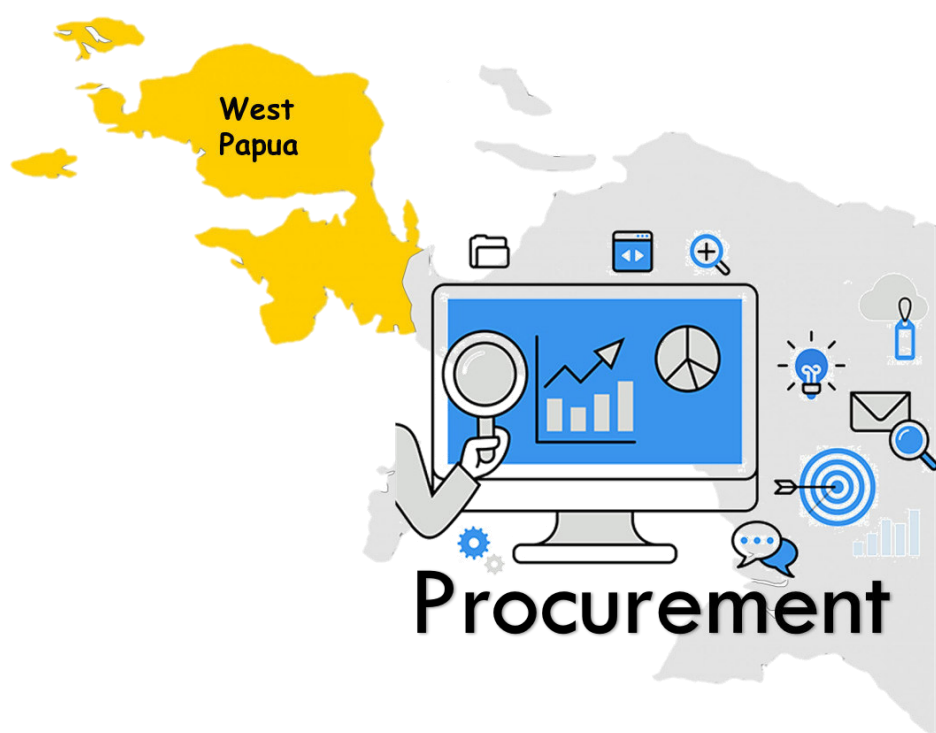
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## **The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health Matter?**

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### **ABSTRACT**

This study examines the impact of fiscal autonomy, capital expenditure for basic services, and local government investment on the transparency level of local government. In addition, this study includes local government financial health as a moderator in the association between the dependent and independent variables. This study employs a quantitative approach. Data are obtained through content analysis of the local government's official websites. The total sample of this study amounted to 349 observations collected from 2016 to 2019 and was selected by purposive sampling. The hypothesis test employs multiple linear regression analysis with the ordinary least square. The study suggests that fiscal autonomy is positively associated with the transparency level of local governments, capital expenditure for basic services is negatively associated with the transparency level of local governments, and local government investment is not associated with the transparency level of local governments. This study also finds that local governments' financial health has a role in strengthening the positive effect of local government investment on the transparency level. However, the local government's financial health weakens fiscal autonomy's positive effect on the transparency level of local government. Furthermore, the local government's financial health has no moderator in the association between capital expenditure for basic services and the transparency level of local government. The study result suggests that the Indonesia Ministry of Finance and the Indonesia Ministry of Home Affairs should boost the policies that encourage transparency in local governments and enhance the independence level to generate local revenues.

### **KEYWORDS:**

Capital expenditure; financial health; fiscal autonomy; local government; investment

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## INTRODUCTION

Implementing a decentralized system in Indonesia has lasted for more than twenty years. However, the administration of government by local governments still needs to be optimal and has caused several problems. Local governments have yet to succeed in carrying out their role to encourage increased regional productivity, even though spending continues to increase (Nasution, 2016). Other problems, such as the increasing opportunities for corruption and the rise of political conflicts in the regions, are also obstacles that have not yet achieved the ideals of decentralization (Haryanto, 2016). Information disclosure is indispensable to the government's efforts to build better governance, encourage increased efficiency of local government policies, and increase public trust to overcome the various complexities of problems in local governments (Muñoz, Bolívar, & Hernández, 2016).

Law Number 22 of 1999 concerning Local Governments marked the start of the decentralization system. Decentralization transfers the central government's management decision-making to lower government units. Decentralization in Indonesia leads to local governments developing regional democracy and managing regional development (Sutiyo & Maharjan, 2017). In addition, Arham (2019) argues that decentralization is also applied to increase regional independence or reduce resource disparities between regions (horizontal gaps) and central-regional disparities (vertical gaps). The government needs good administrative governance (Weiss & Steiner, 2006). According to Weiss and Steiner (2006), there are at least eight components of good governance: accountable, transparent, responsive, fair and inclusive, effective and efficient, following the rule of law, participation, and

consensus-oriented. Meanwhile, according to (OHCHR, n.d.), good governance is related to political and institutional processes and outcomes to achieve development goals with principles such as transparency, responsibility, accountability, participation, and responsiveness to community needs.

One of the principles of good governance is transparency, which refers to government institutions' obligation to disclose information to the public regarding the decision-making process and its results (ICMA, n.d.). The law on public information disclosure states that transparency is the government's effort to create good governance and encourage local governments to become more responsible and provide public services more efficiently and effectively. These definitions show that local government transparency is important to good governance.

From the point of view of legitimacy theory, transparency related to local financial management can be an effort by local governments to maintain their legitimacy from the community. The basic concept of the legitimacy theory in local government is related to the common perception that local governments carry out activities by paying attention to suitability and appropriateness according to the community's values, beliefs, and norms (Suchman, 1995). To make the community have sufficient confidence, local governments will be encouraged to provide information on budget management.

The urgency of providing information on government budgets through digital media is becoming greater because more than half of Indonesians have become internet users (Muhtar, Sutaryo, & Suryanto, 2018). Also, Bolívar, Galera, Muñoz, and Subirés (2016) argue that the demand for information related to the allocation of government spending will increase when an economic

crisis occurs, such as in the current era of the COVID-19 pandemic. The increase in demand is related to the public's desire to know how the government manages spending as an economic stimulus. The increasing demand for local government information also comes from other stakeholders, such as creditors and entrepreneurs, to make lending and investment decisions (Alcaraz-Quiles, Navarro-Galera, & Ortiz-Rodríguez, 2014).

*Public information disclosure* is an issue that is often associated with sustainable development issues (Alcaraz-Quiles et al., 2014). Arbatli and Escolano (2015) state that a transparent fiscal system encourages local governments to formulate policies that strengthen sustainable policies. The issue of sustainable development is not a new thing in Indonesia, but it is still a problem because it has yet to be implemented optimally (Maulana, 2015). The limited resources managed by the local government make it important to pay attention to the proper allocation of targets to ensure the sustainability of development. Every development policy will be recorded in the budget document so that information disclosure becomes a crucial factor in describing the quality of the sustainable development policy that has been determined.

The urgency of local governments to provide transparency in financial management and the increasing need for information by the public have not been taken seriously by many local governments in Indonesia. The results of the monitoring and evaluation of the Central Information Commission in 2020 show that 73% of public bodies in Indonesia (including local governments) have a low level of information disclosure (Kominfo Jatim, 2020). Other studies by Adriana and Ritonga (2018), Muhtar et al. (2018), as well as Nuryani and Firmansyah (2020) also concluded that, in general, the

level of local government transparency in Indonesia was still very low. The concept of transparent government administration has also become a campaign promise for regional heads, but its implementation is still not up to the community's expectations (Velaros-dela, 2020). Some of these findings indicate that local governments have not provided adequate budget management transparency, which is suspected to be one of the causes of the suboptimal implementation of local government.

Transparency of local government financial management with digital media in Indonesia is an issue that needs to be reviewed further because of its urgency as a form of good governance to support sustainable development policies. As public service providers, local governments are expected to provide services that can satisfy the community. To gain recognition for their performance, local governments are encouraged to provide complete information when they can demonstrate good performance. The push for transparency in implementing governance has also been regulated in various laws and regulations, such as Law Number 17 of 2003 concerning State Finance and Law Number 14 of 2008 concerning Public Information Disclosure. From the communities' side as information users, the need for information regarding regional financial management has also increased along with the public's increasing use of digital media. Thus, local government transparency is an important aspect of local government governance that needs to be reviewed further.

Discussions on local government transparency have been conducted in Indonesia and abroad with various methods and perspectives. Criado, Ruvalcaba-Gómez, and Valenzuela-Mendoza (2018) also Krah and Mertens (2020) discussed how research on transparency had been conducted. Another

study discussed the transparency level of local government determinants. Balaguer-Coll and Brun-Martos (2021) also Baldissera, Dall'Asta, Casagrande, and De Oliveira (2020) divided the level of transparency into socioeconomic, regional fiscal/financial factors, and politics.

Most studies on the level of transparency examine the influence of local fiscal or financial factors. Muhtar et al. (2018) also Nainggolan and Purwanti (2016) examined the association between local government size and the level of transparency. Adiputra, Utama, and Rossieta (2018), Alwahidi and Darwanis (2019), also Annisa and Murtini (2018) examined the effect of financial statement opinions on local government transparency. The effect of local government spending and transparency was examined by Nuryani and Firmansyah (2020). Fawziah and Arza (2020) also Sun and Andrews (2020) conducted tests regarding the effect of transfer income on the level of local government transparency. The effect of financial statement opinion on local government transparency was examined by Adiputra et al. (2018) also Nor, Hudaya and Novriyandana. (2019). In addition, previous tests were also carried out to determine the effect of the mechanism for providing public services through capital expenditures, such as those carried out by Araujo and Tejedo-Romero (2016) also Balaguer-Coll and Brun-Martos (2021). Cuadrado-Ballesteros (2014) also Garrido-Rodríguez, López-Hernández, and Zafra-Gómez (2019) discussed the provision of public services through the formation of government-owned companies. In local government or fiscal management, budget management includes planning and determination, implementation, monitoring, and reporting (Undang-Undang RI, 2003). Regional government budgeting is reflected in the Local Government Budget document, which contains estimates of local government

revenues, expenditures allocations, budget deficits/surpluses, and local government financing (Savitri, Hadi, Firmansyah, Hardiana, & Triyanto, 2015). In revenue items, the ability of local governments to earn their revenues is an important issue related to government fiscal management because it is one of the goals of decentralization (Arham, 2019). Furthermore, to support regional economic development, local government spending is expected to focus on (Cuadrado-Ballesteros, 2014; Garrido-Rodríguez et al., 2019) spending greater economic impact, such as capital expenditures for infrastructure development (Sari & Mustanda, 2019). The further issue of fiscal management is related to financing matters. Local government financing should be managed properly to minimize risks and optimize the benefits obtained (Sutarso & Rahandi, 2019).

Fiscal policy management to increase fiscal autonomy is one of the tasks of local governments (Tan, 2020). Fiscal autonomy is the local governments' ability to increase the effectiveness and efficiency of services to the community with their income (Iqbal, Baga, & Hakim, 2017). The law concerning local governments and local taxes and levies provides local governments a legal umbrella related to their authority to carry out mandatory local government revenues. With this authority, local governments should be able to optimize existing resources in their regions to earn their income. Ortiz-Rodríguez, Navarro-Galera, and Alcaraz-Quiles (2018) state that public information disclosure is a source of taxpayer trust, so local government revenues are expected to increase.

The Investigations of the association between fiscal autonomy and the transparency level of local governments have been carried out, both in international and Indonesian contexts. In an international

context, Chen and Han (2018) also Galli, Rizzo, and Scaglioni (2020) examined the effect of fiscal autonomy/local tax revenue on the transparency level of local governments. They prove that fiscal autonomy does not encourage the transparency level of local government. In contrast, Ortiz-Rodríguez et al. (2018) found a positive association between local tax revenues and the transparency level of local government. The investigations on the effect of fiscal autonomy in Indonesia on the transparency level of local government were carried out by Ertianti (2018), Fawziah and Arza (2020), Hadi, Handajani and Putra (2018), Muhtar et al. (2018), also Ratnawati et al. (2020) found evidence that local government revenue encouraged a higher transparency level of local government. Meanwhile, the other three concluded that there was no influence of local government revenue on the transparency level of local government. Previous tests have shown inconsistencies in the results regarding the effect of fiscal autonomy and the transparency level of local government, so further testing needs to be conducted.

Meanwhile, capital expenditure is one of the budget items of concern to many parties because it is expected to have a significant economic impact. Capital expenditure is a budget expenditure to obtain long-term assets in physical infrastructure or long-term intangible assets. Various infrastructures built by local governments are used for the community's benefit. Thus, disclosing information related to capital expenditures to the public is very necessary (Heald, 2012). However, not all infrastructure can be employed by the community directly, such as capital expenditures for government affairs. The government has regulated several basic matters that local governments must prioritize (Peraturan Pemerintah RI, 2018a). These matters should be a priority for local governments in allocating the budget. In this

study, capital expenditure testing focuses on capital expenditures to fulfill basic services. These are related to the local government's commitment to carrying out development that focuses more on the community's interests.

Tests related to the effect of capital expenditures for basic services on the transparency level of local government have not been carried out in previous studies. However, testing with a broader concept of capital expenditure has been carried out at both the International and Indonesian levels. Balaguer-Coll and Brun-Martos (2021) found evidence of a negative effect of capital expenditure on the level of transparency in the Spanish local government. In contrast, other studies such as Araujo and Tejedro-Romero (2016) also García and García-García (2010) found that capital spending boosts the level of transparency of local government. A similar test was conducted by Pontoh, Rura, Rahman, and Ibrahim (2018) in the Indonesian context. Pontoh et al. (2018) obtain evidence that capital expenditure is positively associated with the transparency level of local government. The differences in test results in Indonesia and the International level and the absence of tests that specifically examine capital expenditures for basic services on the local government's transparency level are interesting to investigate.

This study aimed to investigate the effect of fiscal autonomy, basic service capital expenditures, and local government investments on the level of local government transparency. In contrast to this study, previous studies employed the overall local revenue as an indicator of local government independence (Ertianti, 2018; Fawziah & Arza, 2020; Muhtar et al., 2018; Ratnawati et al., 2020). Also, the capital expenditure tested is the overall local government capital expenditure (Araujo & Tejedro-Romero,



2016; Balaguer-Coll & Brun-Martos, 2021; Pontoh et al., 2018). However, this study employs basic service capital expenditures to see how much the local government is committed to meeting the community's basic needs. In addition, to examining fiscal autonomy and capital expenditures, this study also examines the effect of local government investment on local government transparency, which is still rarely used in previous studies.

Local government financing in government investment is mostly conducted through equity participation in local government-owned enterprises. The formation of local government-owned enterprises is a form of local government innovation to provide services to the public (Cuadrado-Ballesteros, 2014). In addition, according to Law Number 23 of 2014, the enterprises also play a role in encouraging the regional economy through businesses related to public services and generating sources of income for local governments. Local government investment is a form of public policy that supports improving people's welfare; the government will be increasingly encouraged to provide information to increase its legitimacy.

Previous studies on the ownership of companies owned by local governments were conducted by (Cuadrado-Ballesteros, 2014; Garrido-Rodríguez et al., 2019). Cuadrado-Ballesteros (2014) examined the effect of functional decentralization on the level of local government transparency. Functional decentralization provides public services through separate entities under local governments' control. The test found evidence that functional decentralization led to higher levels of local government transparency. Similar tests were also carried out by Garrido-Rodríguez et al. (2019) and proved that the more publicly-owned companies, the more transparent the government would be. In Indonesia, tests of

government equity participation have more to do with their impact on financial performance. One of the tests related to government equity participation was carried out by Dinarjito (2019), which tested the effect of government equity participation on the performance of state-owned enterprises. Nur (2020) investigated the effect of government equity participation on the financial performance of regional drinking water companies.

Kadaifi, Dhanny, and Wahyuni, (2019) also Triyanto (2017) examined the effect of local government equity participation on local government financial performance in terms of income. Government investment is widely associated with local governments' financial performance because good financial performance is the expected result of government investment. The success of government investment in achieving expectations is the responsibility of local governments, which should be disclosed. Thus, government investment is related to the transparency level of local government. Tests related to the effect of government investment in the form of local government equity participation on the transparency level of local governments have not been carried out, both in Indonesia and abroad, so testing related to local government investment and transparency in local governments is interesting.

This study includes financial health as a moderator in the effect of fiscal autonomy, basic service capital expenditures, and local government investment on the level of local government transparency. Financial health refers to the ability of local governments to finance all their expenses, including liabilities (Muñoz et al., 2016). Local governments can pay off all their obligations with sufficient financial resources while prioritizing their priority needs. Therefore, financial health can be interpreted as the

ability of local governments to pay off their debt installments after financing mandatory expenditures.

According to the theory of fiscal sustainability, the government must ensure that fiscal policy can last long. It is necessary to have policies that ensure intergenerational justice (Sinervo, 2020). Local governments that finance debt are faced with the possibility of increasing productivity. In addition, the government also faces the possibility of unexpected conditions such as the financial crisis (INDEF, 2018; Navarro-Galera, Lara-Rubio, Buendía-Carrillo, & Rayo-Cantón, 2017). Thus, local governments must maintain financial health so that financial crises do not occur in the future. Financial health will be maintained with good financial management because healthy financial conditions indicate that local governments can manage their financial resources well (Suryawati, Suryono, Saleh, & Muluk, 2018). The ability to manage financial resources properly should also be balanced with implementing adequate governance, one of which is maintaining the principle of transparency. Gore, Sachs, and Trzcinka (2004) reviewed that healthier financial conditions encouraged local governments to be more transparent. Maintaining financial health allows local

governments to achieve their goals, so financial health is also one aspect that needs to be considered by local governments in risk assessment (Peraturan Pemerintah RI, 2018a). Financial health determines how the government allocates its budget, so financial health will also affect the level of fiscal autonomy achieved and basic service capital expenditures and allocated government investment. Therefore, a higher level of financial health should strengthen the effect of fiscal autonomy, capital expenditures for basic services, and government investment on the transparency level of local government.

This study contributes to the development of scientific literature in public sector accounting. This study is expected to be new empirical evidence regarding the determinants of the level of transparency of local government. This study is expected to illustrate the transparency condition in local governments and become a reference in formulating government budget management transparency policies. For local governments, this study can provide information on how budgetary factors affect the level of transparency. For the Ministry of Finance, the results of this study can serve as an illustration of the characteristics of local governments according to their level of

**Table 1.** Sample Selection

Criteria	Amount
Number of local governments in Indonesia (May 2021)	548
Local government expansion/merger from 2016 to 2019	0
The provincial government instead of the city government/regent government	(40)
Number of City government/regent government	508
Years used in research (2016 to 2019)	4
Local government data that can be employed	2.032
Data that does not have debt repayment transactions and government investment in the same year	(1.651)
Data with inaccessible local government official websites	(24)
Unusable data	(8)
Total sample	349

transparency and as input in making policies regarding the management of transfer funds to the regions.

This study includes the financial reporting quality and the size of the local government as control variables. The effect of financial reporting quality on local government transparency has been tested by Adiputra et al. (2018), Nor et al. (2019), and Pontoh et al. (2018). The three studies obtained evidence that the quality of government financial reports is a factor driving the level of transparency of local governments. The quality of financial reports is one indicator that shows the quality of regional financial management.

The size of the local government has been employed by several authors, such as García and García-García (2010), Muñoz et al. (2016), also Nuryani and Firmansyah (2020). These studies proved that transparency tends to be higher in local governments with large sizes. A larger local government size represents greater ownership of resources, resulting in a better ability to manage budgets electronically. On the other hand, considerable resources also allow the government to carry out various programs. The government is encouraged to be more transparent to gain legitimacy from the community.

## RESEARCH METHOD

This study is research with a quantitative approach. Local government transparency level data is obtained through content analysis on the official local government website. Meanwhile, secondary data is from local government financial data obtained from [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id) and [www.bpk.go.id](http://www.bpk.go.id). The sample was selected using the purposive method with the criteria described in Table 1.

The dependent variable in this study is the transparency level of local government. Indonesia Minister of Home Affairs Decree Number 19 of 2020 provides an overview of the procedures for measuring the level of transparency of local governments. According to the regulation, the assessment indicators have included all budget process documents (planning, implementation, and reporting). However, the indicators for calculating the level of transparency, according to the Indonesia Minister of Home Affairs, have not included the components of the Operational Report, Report on Changes in Excess Remaining Budget, and Report on Changes in Equity as regulated in Government Accounting Standards. Therefore, this study's level of local government transparency is measured by following the indicators used by Nuryani and Firmansyah (2020). They have included more complete components of financial statements according to Indonesian Government Accounting Standards (2010). The measurement of the transparency level of local government is carried out by conducting a content analysis of the official local government website. Content analysis is carried out by reviewing budget documents published on local government websites according to the indicators in Appendix 1.

This study has three independent variables: fiscal autonomy, capital expenditures for basic services, and local government investment. Fiscal autonomy refers to the ability of local governments to generate revenue by optimizing the resources under their control. According to Government Regulation (Peraturan Pemerintah, PP) Number 56 of 2018 Concerning Regional Loans, local government original revenue consists of regional taxes, regional levies, separated regional wealth management results, and other legitimate local government original revenue. The method commonly used in previous research is total local government original revenue divided by total local government revenues

(Jaya & Sisdyani, 2014; Muhtar et al., 2018). In another study, the calculation method was the total local tax revenue divided by the population (Bastida, 2017; Chen & Han, 2018).

Meanwhile, another study calculates total local taxes divided by local government revenues (Galli et al., 2020). Due to the large portion of local government taxes and levies to the total local government original revenue, this study adopts the previous calculation method by including the components of local government taxes and levies and total revenue in calculating the level of fiscal autonomy of local governments. This calculation method is similar to that of Galli et al. (2020) by adjusting the elements of local government tax revenues according to the Indonesian context. The level of fiscal autonomy formula is described in Appendix 2.

In this study, capital expenditure for basic services refers to the proportion of local governments realizing capital expenditure for basic service functions in one fiscal year compared to total expenditure. In this study, capital expenditure for basic services was measured using the ratio of capital expenditure for basic services to total local government spending. García and García-García (2010) measured capital expenditure by the ratio of overall capital expenditure to total expenditure. By referring to this method,

this study adapts it to the variables used by only entering the type of basic service expenditures. Meanwhile, local government financial statements provide information on the types of expenditures by function with the classification naming according to the Indonesian Government Accounting Standards. Thus, according to the standards classification in PP Number 2 of 2018 concerning Minimum Service Standards, capital expenditure calculation for basic services is converted into capital expenditures by function. The proxy of capital expenditures for basic services is measured using the equation described in Appendix 2.

PP Number 63 of 2019 concerning Government Investment state that local government investment refers to financing activities by local governments in securities or direct investment through capital participation. Previous studies related to government investment used various calculation methods. Cuadrado-Ballesteros, Garcia-Sanchez, and Martinez Ferrero (2016) also Garrido-Rodríguez et al. (2019) calculated the number of public bodies owned by each local government. In another study, government investment is seen from the recipient's perspective, namely local government-owned enterprises, measured by the ratio of equity to assets (Kelbulan & Kurniawan, 2015). In this study, as stated in PP Number 71 of 2010, the government investment in question is how much the realization of local gov-

**Table 2. Summary of Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
TLLG	349	0.1385	0.1576	0.0000	0.7333
FA	349	0.0590	0.0651	$2.2 \times 10^{-6}$	0.3670
CEBS	349	0.1743	0.0692	0.0004	0.4471
LGI	349	0.5280	0.3430	0.0039	0.9981
LGFH	349	0.4751	0.0929	0.0000	1.0000
LGFRQ	349	0.8395	0.3676	0.0000	1.0000
Size	349	28.5993	0.5673	27.1278	31.0336

ernment investment is part of local government financing expenditures. Therefore, this study uses a local government investment formulation relevant to Government Accounting Standards, namely government investment, as part of regional financing expenditures. The following formula measures government investment described in Appendix 2.

Furthermore, this study employs financial health as a moderating variable. *Financial health* is an indicator related to the ability of local governments to fulfill their obligations. In this study, financial health follows the method (Ritonga, 2014). Ritonga (2014) included this ratio as a component of financial flexibility in calculating the local government financial condition index. The formula to calculate financial health is described in Appendix 2.

This study employs two control variables, local government financial reporting quality, and local government size. The quality of regional financial reports is measured by the

audit opinion of the state audit board of the regional government financial reports every year. It is a dummy variable following Adiputra et al. (2018) also Nainggolan and Purwanti (2016).

Local governments with an unqualified opinion on financial statements get a score of 1, while the opinion obtained above the unqualified opinion obtains 0. The local government's size refers to how many resources the local government owns. The local government size is measured by the natural logarithm of the total assets of the local government on 31 December every year. Adiputra et al. (2018) and Nuryani and Firmansyah (2020) also used this calculation method. The proxy of the size of the local government is described in Appendix 2. The hypothesis test in this study employs multiple regression analysis. Model 1 is employed to test hypotheses 1 to 3. Meanwhile, model 2 is employed to test hypotheses 4 to 6. The hypothesis tests Model 1 and Model 2 are described in Appendix 3.

**Table 3.** Summary of Hypothesis Testing

Variable	Sign	Model 1			Model 2		
		Coef.	t-Stat	P> t	Coef.	t-Stat	P> t
OF	+	0.528	3.46	0.001***	2.1395	1.94	0.027**
BMPD	+	-0.490	-4.98	0.000***	-0.739	-0.70	0.242
IP	+	0.006	0.28	0.389	-0.763	-1.93	0.027**
KK	+				-1.431	-1.36	0.088*
OF×KK	+				-3.423	-1.48	0.070*
BMPD×K	+				0.5455	0.24	0.405
IP×KK	+				1.6837	1.93	0.028**
KLK	+	0.081	5.68	0.000***	0.0790	5.42	0.000***
Size	+	0.037	2.21	0.014**	0.0417	2.43	0.008***
Cons.	?	-0.938	-1.97	0.025	-0.422	-0.65	0.259
R <sup>2</sup>			0.233			0.262	
Adj. R <sup>2</sup>			0.222			0.242	
Prob>F			0.000			0.000	

## RESULT AND DISCUSSION

Table 2 shows descriptive statistics for all variables. The results of the descriptive statistical test show that the average transparency level of local government is 0.1385. This figure shows that local governments generally still have a relatively low level of transparency. The lowest local government transparency level value is 0.0000, so there are still very non-transparent local governments. Meanwhile, the highest value of transparency level is 0.7333. This figure shows that there is already a relatively transparent local government. The fiscal autonomy of local governments in Indonesia has an average of 0.0590. This figure means that, in general, local taxes and levies only contribute 5.90% to all local government revenues. The average capital expenditure for basic services of the local government is 0.1743, with a standard deviation of 0.0692. Therefore, local governments in Indonesia have generally realized basic service capital expenditures of  $17.43\% \pm 6.92\%$  of all regional expenditures. Local government investment has a mean of 0.5280 with a standard deviation of 0.3430. This figure shows that the sample local governments made government investments of 52.80% of the total financing expenditures. The hypothesis testing results are in Table 3.

### **The Association Between Fiscal Autonomy on the Transparency Level of Local Government**

According to the results of hypothesis testing, fiscal autonomy is positively associated with local government transparency. It indicates that local governments that receive greater tax and levy revenues will provide complete budget management information on their official website. The test result confirms the finding

of Muhtar et al. (2018) and Ortiz-Rodríguez et al. (2018) for proving the positive association between fiscal autonomy or the degree of fiscal decentralization and the level of transparency of local government. However, this result differs from Fawziah and Arza (2020) also Galli et al. (2020). Fawziah and Arza (2020) employed all components of local revenues in the calculation, while Galli et al. (2020) employed a sample of Italy's local governments with a relatively high average fiscal autonomy. It may be the condition of the Italian economy, which is more advanced, and its taxation system is more equitable vertically.

Based on descriptive statistical tests, fiscal autonomy has increased from 2016 to 2019. Although the increase is insignificant, local governments have tried to optimize their tax revenues to reduce dependence on the central government. The upward trend also indicates that the problem of fiscal illusion is decreasing. This finding contradicts the opinion that the local government has not made any efforts to increase its income. How big the source of local government revenues, including taxes and levies, represents the ability of local governments to manage resources in their area (Muhtar et al., 2018). Local governments that can optimize their resources will receive more taxes and levies so that the level of fiscal autonomy will be greater. To support this, the government must maintain public trust by continuing to disclose information on government financial management (Ortiz-Rodríguez et al., 2018). Public trust is needed in tax collection because it affects taxpayer compliance. Thus, a higher degree of fiscal autonomy allows local governments to be more transparent.

The success of local governments in collecting regional taxes and levies is very dependent on good administration (Broto,

2017). With proper administration, people will not find it challenging to deal with tax issues, so the level of compliance will increase. Administrative arrangements are also related to the tax information system connected to the regional financial information system. The better the tax information system, the easier it is to achieve transparency. In Indonesia, Java-Bali is an area with a relatively more complete and equitable infrastructure availability than other regions (Putra, 2020). With the availability of infrastructure supporting local government administration in Java-Bali, local tax revenue can be optimized. This finding is consistent with the results of descriptive statistical tests, which show that Java-Bali has a relatively higher level of fiscal autonomy than other regions.

The descriptive statistical analysis results show that, in general, local governments in Indonesia still have a low level of fiscal autonomy. Still, this test illustrates that fiscal autonomy can encourage local governments to increase transparency. Another descriptive statistical analysis finding is that the Java and Bali regions have more fiscal autonomy than others. The test results for the sample of local governments in Java and Bali show that fiscal autonomy affects local governments' transparency level. In contrast, testing with samples of local governments in other regions does not show any effect. These findings indicate that local governments in Java and Bali tend to have better financial management capabilities and thus obtain higher tax and levy revenues. On the other hand, Java-Bali already has adequate infrastructure to encourage the creation of various business fields and higher tax and levy revenues.

The government will be increasingly compelled to provide complete information with good performance to gain legitimacy from the community (Licht, Naurin, Esaiasson, &

Gilljam, 2014). High local government taxes and levies revenues indicate that local governments have managed to optimize regional revenue sources from their regions. The limited regional tax potential makes a high level of fiscal autonomy an achievement or good performance that needs to be disclosed (Ortiz-Rodríguez et al., 2018). As a result, when the revenue from taxes and user fees is higher, the local government's transparency level is higher. This study proves the concept of legitimacy in local government, fiscal autonomy as an indicator of the performance of regional heads is essential information to be published to increase the good view of local government from the community. Local governments dominate local governments with high fiscal autonomy in Java-Bali. The availability of complete infrastructure in Java-Bali makes various businesses more accessible to do so that tax and retribution revenues become larger. In addition, adequate infrastructure also encourages improvements in the regional taxation and financial management system to make local tax collection more efficient.

### **Basic Service Capital Expenditure and the Transparency Level of Local Government**

Capital expenditure for basic services is statistically proven to affect local government transparency negatively. The result of this test is in line with Balaguer-Coll and Brun-Martos (2021) also Pontoh et al. (2018). However, it contradicts the findings of Araujo and Tejedo-Romero (2016), García and García-García (2010), also Jaya and Sisdyani (2014). The tests of Araujo and Tejedo-Romero (2016) also García and García-García (2010) are carried out in Western Europe, which has a system of government with different levels of public literacy. Meanwhile, Jaya and Sisdyani (2014) also employed a different sample, namely the provincial government. Local governments are



incentivized to provide information to the public to maintain their legitimacy (Licht et al., 2014). The urge will be even greater when actions follow the community's expectations.

Meanwhile, the public expects to provide increased quality services (Ingram, 1984). When able to provide better public services, local governments will be encouraged to provide more information to the public as proof of their performance. However, this test proves conditions contrary to the concept of legitimacy. These findings indicate problems related to implementing capital expenditures so that local governments reduce the published financial management information. In this case, public officials and regional heads tend to take action to increase their welfare. The actions taken vary, such as allocating a budget for personal pleasure or even carrying out unethical actions such as embezzlement and bribery (Gould, 1977). Meanwhile, a larger budget could encourage public officials' unethical actions (Balaguer-Coll & Brun-Martos, 2021). If such an action occurs, the local government will reduce the disclosure of information to prevent the public from knowing about the action.

Capital expenditures for basic services negatively affect local governments' level of transparency because the sources of regional expenditures are still dominated by central government transfer revenues (Sofi, 2020). Higher transfer revenues indicate that local governments cannot meet their various needs with their income. Local governments are not compelled to increase transparency in financial management because these conditions could be better. This condition was proven in previous research, which proved that local governments with a higher dependence on central government transfer funds would need to be more transparent (Nuryani & Firmansyah, 2020). Thus, the

higher the provision of public services, while the source of funding comes from central government transfers, the local government will perceive the information as showing poor performance, so the willingness of the local government to provide budget management information will decrease.

The results of this test can also be explained by the tendency that there are still many problems related to implementing capital expenditures in regional governments. There are at least four problems in implementing spending: overspending, misspending, underspending, and fraud (Hesda, 2017). These problems can occur because public officials lack understanding regarding regional financial management, which is done on purpose (Hesda, 2017). These problems have the potential to reduce the quality of local government spending. Therefore, less information is conveyed to maintain a good perception of the local government.

Analysis using descriptive statistics shows that local governments outside Java-Bali make larger basic service capital expenditures than those in Java and Bali. This finding shows that local governments outside Java-Bali tend to carry out more development with a capital expenditure mechanism to fulfill basic service goals to the community. This finding indicates that the allocation of capital expenditures for basic services tends to be larger outside the Java-Bali region. This trend follows the imbalance in the availability of basic service infrastructure in Indonesia. Developing basic infrastructure outside Java-Bali is more necessary (Putra, 2020).

The results of the descriptive statistical test also show that capital expenditures for basic services tend to decline from 2016 to 2019. Capital expenditures for basic services show a downward trend due to several reasons.



The provision of basic public services is the task of the district and city governments and the provincial government, as stated in PP Number 2 of 2018. The division of providing basic services with the provincial government makes the share of district and city governments lower. The mechanism for procuring goods and services has also developed, so capital expenditure is one of many mechanisms for procuring goods and services in Indonesia. The role of the private sector in infrastructure development has also increased along with the development of procurement methods with Government and Business Entity Cooperation (Wibowo, 2017). Methods of providing public goods that are increasingly developing mean that the responsibility for financial management is shared with other parties outside the government so that local government incentives for transparency are reduced. This study needs to prove the theory of legitimacy for several reasons, such as problems in implementing the budget for local governments in Indonesia. These problems affect the quality of spending on public goods, reducing local government incentives to be more transparent. In addition, the dominant funding source for capital expenditures comes from transfer funds rather than local revenue. The development of methods for providing public goods has also led to the division of financial management responsibilities so that the provision of information follows the responsible party.

### **Local Government Investment on the Transparency Level**

Government investment is not proven to affect local government transparency. The test result is inconsistent with Cuadrado-Ballesteros's (2014) finding. Inconsistent test results are suspected due to the use of slightly different concepts. Local government investment in this study conforms to the concept of government financial governance in

Indonesia, mostly conducted by investing in local government-owned enterprises. Meanwhile, the two studies are separate from the amount of investment made by local governments. Still, they are related to how many public companies are owned by local governments as a form of developing methods for providing public services. The types of investment that local governments can make have various forms according to the purpose of the investment. However, the most common form carried out by local governments is equity participation in local government-owned enterprises. Local governments establish enterprises with several objectives, including providing public services, increasing revenue, participating in market competition to create profit, and being a pioneer in business fields that are less attractive to the private sector (Muluk, 2009).

In 2019, local government-owned enterprises, owned by district and city governments, were dominated by companies engaged in basic services such as water supply, waste management, transportation, and gas and electricity procurement (BPS, 2020). However, only a few local government-owned enterprises are widely known by the public, for example, local government-owned enterprises providing drinking water. Apart from being unfamiliar with many local government-owned enterprises by the public, the public needs to understand the financial management of local government-owned enterprises and their relation to regional finances. Therefore, the community does not need information regarding providing funds to local government-owned enterprises as a form of local government investment. Thus, even if the local government makes a significant investment in local government-owned enterprises, the disclosure of information will not be affected.

Based on descriptive statistical analysis, local government investment has a fairly large

portion compared to other local government financing expenditures, around 52.80% of total financing expenditures. However, local government investment shows a downward trend from 2016 to 2019. This phenomenon indicates that local governments have developed their financing expenditure instruments so that financing expenditures become more diverse and make the portion of government investment decline. With reduced local government investment, investment becomes less influential on the willingness of local governments to provide information.

The availability of budget documents related to managing local government-owned enterprises is deficient. Of all the selected samples, the level of disclosure of local government-owned enterprises' transparency documents is only 2.29%. As a separate agency from the local government, local government-owned enterprises have their governance. Local government-owned enterprises' financial reporting is a form of local government-owned enterprises' management accountability to the local government as the owner. Local government-owned enterprises also should provide information disclosure about their finances.

Meanwhile, as the owner, the local government is also not obligated to consolidate like a parent company. Hence, the financial information of local government-owned enterprises is entirely separate from the local government. As a result, the existence of local government-owned enterprises as recipients of government investment is not a factor affecting the level of transparency of local governments (Cuadrado-Ballesteros, 2014). Local government investment is a transaction that is not regular or regularly carried out by the regional government. Capital participation in local government-owned enterprises is only done when there is a need for an injection of funds to establish new lo-

cal government-owned enterprises, enlarge existing local government-owned enterprises, save the financial condition of local government-owned enterprises, or adjust to national investment policies (Ministerial Regulation Number 77 of 2020). Other types of investment are also not carried out by the government regularly, but only in certain situations for a long time.

On the other hand, the government still provides budget management information from time to time. Investment is not a factor that automatically makes local governments increase the availability of information. Thus, government investment does not affect the level of transparency of local government. The achievements of local governments in carrying out their responsibilities to provide public services encourage the complete disclosure of information to gain legitimacy (Garrido-Rodríguez et al., 2019). Investment is a form of productive government spending to support the improvement of public service provision or to encourage greater regional revenue. Therefore, government investment is a policy that local governments see as good and can increase legitimacy. However, this test does not prove that government investment drives local governments to become more transparent. This finding illustrates that local governments do not perceive investment as worthwhile. Investment is an expenditure transaction that occurs now, while the benefits may be obtained several years later. Meanwhile, regional heads tend to maximize their interests during their tenure, so future benefits are considered less important information to disclose (Gould, 1977).

This test is not proven to support the theory of legitimacy because local governments do not respond to investment as a driver of the level of transparency. The main desire of the community is to receive optimal services and not for other purposes, such as the

number of dividends for local governments, so that information about local government investments becomes information that is not widely understood by the public. On the other hand, investment is also a transaction that is not routinely carried out so that the provision of information is not affected.

### **Fiscal Autonomy and the Transparency Level of Local Government: The Moderating Role of Financial Health**

Based on the test result, financial health is proven to weaken fiscal autonomy's effect on local governments' level of transparency. The result of this test supports the finding of Muhtar et al. (2018), who obtained evidence that lower financial health will encourage the desire of local governments to provide information. Therefore, financial health is a factor that hinders the positive influence of fiscal autonomy on local government transparency. Low financial health is a fiscal risk for local governments. By managing these risks, local governments have made efforts to pay attention to aspects of fiscal sustainability. In fiscal sustainability, local governments should make policies that do not require adjustments in the future. The regulation of regional taxes and levies should not make the next generation receive a heavier burden. Therefore, financial management on the revenue side needs to be optimized so that the level of fiscal autonomy of local governments can continue to increase without having to adjust tax rates in the future. With the level of fiscal autonomy that continues to increase, financial health will be maintained to support the creation of fiscal sustainability. When local governments can maintain their financial condition, public trust will be maintained so that the provision of information to the public is no longer needed. Conversely, low financial health indicates that local governments are experiencing fiscal pressure, so local governments feel responsible for providing complete budget in-

formation (Puron-Cid, Reddick, & Ganapati., 2019).

Improved financial health implies local governments have lower debt levels, assuming *ceteris paribus*. If local governments have smaller debt, the sources of funding that may be optimized are taxes and user fees because local governments are continuously encouraged to become less dependent on the central government. Then, people will perceive higher financial health as a sign of tax and levy rates. Meanwhile, people want to receive as much and the best possible service by paying the lowest possible tax (Pérez, del, Bolívar, & Hernández, 2014). As a result, local governments are compelled to reduce information disclosure to maintain their legitimacy so that local governments do not carry out policies that harm the community. Debt is a funding source that, if not managed prudently, will cause intergenerational problems. The intergenerational problem is the gap between current and future beneficiaries and burdens (Sinervo, 2020). Information disclosure is becoming increasingly important to ensure local governments have managed risk well.

The level of debt ownership has a negative effect on financial health because debt repayment becomes the divisor in the calculation of financial health. Therefore, lower debt ownership results in higher financial health and reduces the willingness of local governments to provide information. Fiscal sustainability is needed to prevent intergenerational disparities (Sinervo, 2020). For this reason, local governments must maintain financial soundness to ensure their debts can be repaid. Higher financial health can indirectly encourage local governments to receive more tax revenues because good financial health allows local governments to make various expenditures to encourage economic growth (Hakim & Dewi, 2021). Therefore, financial health should encourage local governments

to be more transparent in financial management. However, the results of this test provide additional evidence. Sustained fiscal policy may encourage local governments to have the lowest possible debt levels to achieve higher financial health. High financial conditions reflect that local governments can allocate their income for purposes other than debt repayment. However, lower debt also indicates that the need for local government funding from taxes will be increased to offset spending needs. These conditions do not support sustainable development because it causes problems for the next generation.

This finding suggests that there is a tendency for local governments to still not able to implement their policies according to the principle of fiscal sustainability because financial health weakens the effect of fiscal autonomy on local government transparency. Local governments tend to perceive higher financial health as information that harms the community. Information is considered poor because of the prediction that tax rates will be higher when financial health is higher. On the other hand, low financial health indicates little debt. Intergenerational problems are less likely to occur, and disclosing the information is no longer needed.

#### **Basic Service Capital Expenditure and the Transparency Level of Local Government: The Moderating Role of Financial Health**

The test results prove that financial health does not succeed in moderating, either strengthening or weakening, the effect of capital expenditure on basic services on local government transparency. The findings of this study were in line with Pérez et al. (2014), which did not obtain empirical evidence of the effect of financial health on the level of transparency of local government. This finding indicates that financial health does not play a role in the effect of capital

expenditure on basic services on the level of transparency of local government. Capital expenditures for basic services are mainly carried out by local governments outside the Java-Bali region, whose financial health is relatively low compared to local governments in Java-Bali. Local governments' efforts to maintain financial health aim to ensure that the availability of funding sources does not disrupt the provision of services to the community (Iqbal et al., 2017). The concept of sustainable governance illustrates that financial health is an indicator that needs to be paid attention to by local governments so as not to cause financial problems, both now and in the future.

For this reason, local governments need to allocate budgets carefully and be able to determine priority needs. The need for basic service infrastructure is one of the needs that should be prioritized by local governments (BPSDM Kemendagri RI, 2021). With the fulfillment of basic community service needs, local governments will be encouraged to be more transparent to maintain their legitimacy. However, this study proves that financial health does not affect basic service capital expenditures on local government transparency.

Capital expenditures for basic services are allocated to provide infrastructure for current and future generations as a form of local government commitment to implementing sustainable fiscal policies. Spending to fulfill basic services is a minimum requirement the government should prioritize even in low financial conditions as stated in PP Number 2 of 2018. Therefore, financial health does not affect how much local governments issue capital expenditure because the nominal capital expenditure for basic services remains in any financial condition. On the other hand, Indonesian people still have a low literacy level (Rintaningrum, 2019). Low literacy

levels indicate that the community is less involved in overseeing financial management by local governments. With low literacy, people have less interest in obtaining complete information and only focus on something easily visible, such as a physical building. As a result, local governments are not compelled to provide more information. They are only concerned with development outcomes utilized by the community even though the government's financial condition is not good.

Debt as a financing instrument is still not widely used by local governments in Indonesia (Halim, 2017). One of the reasons is the ability of local governments to generate their income which is still low. Regional government spending on debt repayment consisting of principal and interest payments will spend more funds from local revenue. The reduction in sources of income results in reduced local government spending to fulfill services to the community. This condition is contrary to people's expectations, so local governments are not compelled to increase published information (Jaya & Sisdyani, 2014). Therefore, local governments are not encouraged to increase the transparency of their budget management.

Fiscal sustainability is a condition that local governments want to achieve, so it needs continuous control (Yoshida, 2020). Control over financial conditions means that local governments must pay attention to sources of funding that do not create gaps between generations. Central government transfer revenues are the funding source to meet basic service capital expenditure needs. Meanwhile, information on financial health tends to be related to debt levels. Therefore, financial health does not influence how local governments allocate capital expenditures for basic services, which has been shown to

affect the level of transparency of local governments.

Financial health, an indicator of local governments' ability to implement sustainable fiscal policies, has not succeeded in strengthening or weakening the effect of basic service capital expenditures on the level of transparency of local governments. Basic services are expenditures that tend to be constant and will continue to be prioritized by local governments under any conditions so that financial health does not affect the number of capital expenditures for basic services. In addition, local government sources of income tend to come from non-income sources. Therefore, the local government's urge to be more transparent to the public is reduced.

### **Local Government Investment and the Transparency Level of Local Government: The moderating role of financial health**

The test provides evidence that financial soundness strengthens local government investment's effect on local government's level of transparency. This finding provides information about the role of financial soundness in strengthening the influence of government investment on local government transparency. Local government investment, which is proven not to affect the level of transparency of local government, becomes influential when there is an interaction from the level of financial health. Healthy financial conditions allow local governments to make diversified and larger expenditures, including investing. Government investment is expected to benefit the current and next generations (Morgan & Trinh, 2017). Therefore, the local government's policy to allocate the budget for investment purposes is a policy that

supports fiscal sustainability. Sustainable local government fiscal conditions must also be supported by implementing good governance and providing adequate information related to budget management (Morgan & Trinh, 2017).

Higher financial health indicates the ability of local governments to be more flexible in allocating budgets because they have been able to fulfill their obligations (Ritonga, 2014). The benefit of local governments having budget flexibility is the ability to encourage productive spending, such as government investment. This study's financial health level is closely related to local government debt ownership. As an instrument to overcome the Local Government Budget (Anggaran Pendapatan Belanja Daerah, APBD) deficit, debt has the consequence of financing expenditures in the future. A government that can make financing expenditures to pay off debts and invest in capital participation in local government-owned enterprises shows adequate capability to manage the budget properly (Diptyana, 2019). This success is information that can encourage local governments to increase their transparency to gain recognition from the community. Therefore, the influence of local government investment on the level of transparency of local government becomes stronger when financial health improves.

Fiscal sustainability requires local government efforts to implement fair fiscal policies for each generation, such as investment (Alesina & Angeletos, 2005). Investment is an expenditure for the current government, while the rewards or benefits obtained from the investment will be obtained in the future. On the other hand, local governments must also make expenditures to pay off debt. Therefore, debt and investment are two interrelated local government budget items. Low debt leads to

a higher level of financial health and a greater ability of local governments to invest. Thus, financial health encourages the greater allocation of local government investment and a higher level of transparency in local government.

This finding also supports the theory of fiscal sustainability and legitimacy because local governments that can maintain financial health will be encouraged to make larger and diversified spending, including investment. This condition can be achieved by maintaining the aspect of information disclosure. On the other hand, financial and investment health shows the ability of local governments to carry out their duties properly so that local governments will provide more information related to budget management.

## CONCLUSION

This study concludes that fiscal autonomy positively affects the level of transparency of local governments in Indonesia. Meanwhile, capital expenditure for basic services negatively affects local governments' level of transparency. The local government investment variable is not proven to affect local government transparency. The test results for financial health as a moderating variable indicate a weakening effect of fiscal autonomy on the level of transparency and a strengthening effect on the effect of local government investment on the level of transparency. Meanwhile, the level of financial soundness is not proven to moderate the effect of capital expenditure on basic services on the level of transparency of local government.

The data sources available to support this study are limited to 2016, while data for the previous year are unavailable. In addition, many local government websites have problems, making it more difficult to measure the level of transparency. The

measurement of government investment variables and the level of financial soundness also requires several transactions not carried out by all local governments every year, so the data that can be used is limited. The results of this study can be used as suggestions for the Ministry of Home Affairs and the Ministry of Finance regarding the formulation of regional taxation policies and regional financing to encourage local governments to be more transparent. Local governments in Indonesia should optimize transparency to encourage the legitimacy of local governments.

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## APPENDICES

### **Appendix 1.** Indicators in Calculation of The Transparency Level Of Local Government Index

#### **Planning Stage**

1. Local Government Work Plan Document (Summary)
2. General Budget Policy
3. Priority and Budget Ceiling Documents (Summary)
4. Documents (Summary) of Work Plans and Budgets of Regional Apparatus Work Units
5. Document (summary) of Work Plan and Budget-Regional Financial Management Officer
6. Document (summary) of the Draft Regional Regulation on Regional Government Budgets and Expenditures
7. Regional Regulations concerning Regional Government Budgets and Expenditures
8. Local Government Head Regulations concerning the elaboration of Regional Government Budgets and Expenditures
9. The Summary of Budget Implementation Documents for Regional Apparatus Work Units.
10. Documents and Budget Implementation from Regional Financial Management Officials

#### **Implementation Stage**

1. Realization of Regional Income for the First Semester
2. Realization of Regional Expenditures in Semester I
3. Realization of Regional Financing for Semester I
4. Document (summary) of the Draft Amendment to Local Government Budgets and Expenditures
5. Local Government Regulations concerning Changes in Regional Government Budgets and Expenditures
6. Local Government Head Decree concerning the elaboration of Changes in Regional Government Budgets and Expenditures
7. Document (Summary) of Work Plan and Budget Changes in Regional Government Budget and Expenditure
8. General Procurement Plan
9. Local Government Head Decree concerning Regional Financial Management Officer

#### **Reporting and Accountability Stage**

1. Statement of Cash Flows
2. Statements of Budget Realization
3. Balance Sheet
4. Notes to Local Government Financial Statements
5. Financial Statements of Regional Owned Enterprises
6. Local Government Annual Performance and Accountability Report
7. Local Government Decree concerning Accountability of Local Budget Implementation
8. Opinions of the Indonesian Supreme Audit Agency
9. Statement on Changes in Budget Balance Over
10. Operational Report
11. Statement of Changes in Equity

*Source: Nuryani & Firmansyah (2020)*

**Appendix 2.** Measurement Formulas

1. Transparency Level of Local Government = 
$$\frac{\sum_{i=1}^{30} \text{The Disclosure of Local Government Financial Management on the Website}}{30}$$
2. Fiscal Autonomy = 
$$\frac{\text{Actual local taxes and levies}}{\text{Actual total local government revenues}}$$
3. Capital expenditures for basic services = 
$$\frac{\text{Actual Capital Expenditure for Basic Services}}{\text{Actual Total Expenditure}}$$
4. Local Government Investment = 
$$\frac{\text{Actual local government investments}}{\text{Actual financing expenditures}}$$
5. Local Government Financial Health = 
$$\frac{\text{Total Revenues} - \text{special allocation funds} - \text{personnel expenditures}}{\text{Loan Principle} + \text{Interest}}$$
6. Local Government Size = 
$$\ln(\text{Local Government Total Assets})$$

**Appendix 3.** The hypothesis test

1. Model 1 (employed to test hypotheses 1 to 3 )

$$TLLG_i = \alpha_0 + \beta_1 FA_i + \beta_2 CEBS_i + \beta_3 LGI_i + \beta_4 LGFRQ_i + \beta_5 Size_i + \varepsilon_i$$

2. Model 2 (employed to test hypotheses 4 to 6 )

$$TLLG_i = \alpha_0 + \beta_1 FA_i + \beta_2 CEBS_i + \beta_3 LGI_i + \beta_4 LGFH_i + \beta_5 FA_i * LGFH_i + \beta_6 CEBS_i * LGFH_i + \beta_7 LGI_i * LGFH_i + \beta_8 LGFRQ_i + \beta_9 Size_i + \varepsilon_i$$

$TLLG_i$  = The transparency level of local government

$FA_i$  = Fiscal autonomy of local government

$CEBS_i$  = Capital expenditure for basic services of local government

$LGI_i$  = Local government investment in local government

$LGFRQ_i$  = Local government financial reporting quality of local government

$Size_i$  = Size of local government

$LGFH_i$  = Local government financial health.

## **The Determination of State Budget Governance of Indonesian Public Higher Education Institutions Post COVID-19 Pandemic**

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### **ABSTRACT**

The communication and information openness era, which has become increasingly massive after the COVID-19 Pandemic, has encouraged open relations between the community and state universities in education programs, especially budget management. This study aims to analyze the determination of state university budget management in terms of budget realization, the role of technology, and public information disclosure. This study raises the dimensions of the variable position of technology, perceptions of budget realization, public information disclosure, principles of general financial management, transparency, and accountability concerning managing state finances in universities. Convenience sampling became the technique chosen for sampling and was further analyzed with the SEM-PLS procedure through the SmartPLS application with 237 respondents. This study found the effect of budget realization and public information disclosure in fulfilling the principles of positive public financial management. However, this study does not support the role of technology in supporting the principles of public financial management. This study also notes the positive influence of public financial management principles on state universities' transparency and accountability. This study highlights the maximum future strengthening of higher education budget management with the organizational commitment of higher education institutions under the strict supervision of the government and the community indirectly. Technology does not support it, but it impacts the public in tracing information on Higher Education budget management according to the mandate of various parties, including the Indonesian Supreme Audit Institution.

### **KEYWORDS:**

State university; state budget; accountability; transparency

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## INTRODUCTION

Underlying issues in the educational sector are not only limited to technical issues but include many complex issues, especially in planning, funding, efficiency, and effectiveness in implementing the education system. Those education quality problems are difficult to solve (Warman, 2021). Achieving quality education requires excellent and professional governance, especially in managing the resources of educational institutions, including public universities (Yudianto, Mulyani, Fahmi, & Winarningsih, 2021). One of the crucial resources that must be managed with prudence and professionalism in higher education is financial problems.

A university's financial budget must support the implementation of the three obligations of a university known as the Tri Dharma. The Tri Dharma principle comprises education, research, and community service (Istambul, 2019). Tri Dharma is the responsibility of all elements in higher education institutions, including students, lecturers, and various academicians involved. Management of the higher education institution in charge of the budget must refer to the vision, mission, and character of tertiary institutions as non-profit-oriented legal entities that do not violate the provisions of budget management according to the applicable law (Haribowo & Mulyani, 2022).

As higher education institutions financed by public funds, state universities must be democratic and transparent in managing their budget as mandated by the Law. The budget used by state universities comes from the state budget, with a total allocation of 20%. Law of The Republic of Indonesia Number 14 of 2008 concerning Public Information Disclosure (Undang-Undang Nomor 14 Tahun 2008 tentang Keterbukaan Informasi Publik, UU KIP) provides a signal and entry point for the public to supervise and perform

checks and balances on public institutions funded by the State Budget, including state universities (Lubis, Kusumasari, & Hakim, 2018). The public can access information deemed necessary for the public to be aware.

Moments after the COVID-19 pandemic, the Ministry of Education and Culture implemented a budget reallocation to finance programs and policies dealing with the pandemic. The reallocation follows Presidential Instruction Number 4 of 2020 concerning Activity Refocusing, Budget Reallocation, and Procurement of Goods and Services in the Context of Accelerating the Handling of COVID-19. The total budget reallocation reached Rp405 billion (Suparman, 2019). Many state universities have faced budget management problems post-COVID-19 pandemic, such as addressing student tuition fees, diverting budgets, and reducing activity budgets (Sumarna & Fatimah, 2021).

Higher education institutions are required not only to survive but also to adapt and develop a technology-based learning system (online) and develop themselves into accountable institutions. In addition, amid the two considerable demands, universities are also expected to be able to succeed in the Government's efforts to mobilize and launch an independent campus and the Work From Home – Study From Home policy, which is an effort to reduce and overcome the spread of COVID-19 on campus (Purwanti, 2021; Sholehuddin & Mitrohardjono, 2021). During the pandemic, universities must rise by making arrangements in learning patterns and higher education governance management to continue to develop and advance.

One of the roles of human resources in state universities is managing finances by prioritizing competence, professionalism, expertise, personality, leadership character, honesty, integrity, and commitment (Grediani, 2020). Perceptions of accountability and

transparency in the management of public higher education budgets must be *prima donna* because, in addition to the value of the university's image, academic ethics is at stake as a scientific institution that upholds decency and moral ethics.

Several previous studies have reviewed higher education's transparency and accountability, including highlighting budget realization and internal control. Mahfud (2019) mentions the role of the community as a controller of the budget performance of educational institutions, especially government universities that receive budget subsidies from the Central Government. Habibi (2021), in his research at the Bone State Islamic Institute, explains the importance of efficient budget realization to realize the function of education for the community. The results of a study by Milad, Wibowo, and Athoillah (2019) state that it is necessary to implement accountability, transparency, and financial efficiency in tertiary institutions through Information and Documentation Management Officer (Pejabat Pengelola Informasi dan Dokumentasi, PPID) to create the concept of Good Governance in the campus environment. Meanwhile, Rahmatulloh and Husen (2017) show that using technology in budget management and reporting promotes transparency and accountability, as implemented by Siliwangi University through the Web-Based Higher Education Budget Management Information System.

However, according to previous research, there has yet to be any public assessment research on the performance of state universities' budget realization, especially after the COVID-19 pandemic, when the budget reallocation policy was implemented. Therefore, this study explores the perceptions of the tertiary community towards budget management in terms of budget realization, the role of technology, and public information disclosure. This study incorporates the principles

of good state financial management in viewing the accountability and transparency of state universities. This study is expected to add to the scientific literature on budget management accountability of state universities which is still limited.

## **Literature Review**

### ***State university budget management***

Hamzah, Yudiawan, Umrah, and Hasbullah (2020) state that the central government has granted broader autonomy to various state universities with the status of public service agencies (Badan Layanan Umum, BLU) or legally incorporated state universities (Perguruan Tinggi Negeri Berbadan Hukum, PTN BH). According to the understanding of university managers, especially those with BLU and PTN BH status, transparency and accountability have been achieved if the formal requirements of the institution - such as establishing an Internal Supervisory Unit (Satuan Pengawas Intern, SPI) - have been met. However, SPI is only effective with external supervision from critical stakeholders as a control mechanism. PTN BH has yet to publish an annual report as it should to the academic community and its primary stakeholders. Various university performance reports are limited and only known by the BPK, Higher Education National Accreditation Board (Badan Akreditasi Nasional Perguruan Tinggi, BAN-PT), or the central government (Logli, 2016).

As involved in the financial management of higher education, university management must have the courage to continue to innovate and rewrite guidelines and rules; therefore, human resources can be relied on as the frontline in improving the welfare of the Indonesian people. Governance should not be understood to comply with regulations or standards, but management should be constantly revised and improved. Managing and

reporting the absorption of higher education budgets is expected to be linked to a system external parties can access according to applicable regulations (Suryadi, 2019).

Before the COVID-19 outbreak, the budget management process had yet to integrate into the system fully. This makes budget oversight poor and creates the potential for corruption or unreasonable flow of funds. Indonesian Corruption Watch has compiled data between 2016 and 2021, which shows that out of 20 corruption cases in universities, the state lost Rp789.9 billion (Fadhil & Sabic-El-Rayess, 2021). Although fewer cases exist, this value is the greatest compared to corruption in education offices or schools. During the COVID-19 Pandemic, there was a significant change in the university's governance. Many universities have begun to rely on information systems to facilitate the preparation, management, and monitoring of budgets in universities (Siregar, Lumbanraja, & Salim, 2016).

### ***Role of technology***

The role of technology in the context of budgeting, according to Carter (2012), is the adoption of technology to increase the effectiveness of the organization's operations by automating the planning, controlling, and reporting of budgeting management activities. Meanwhile, according to Lazhentsev, Chuzhmarova, and Chuzhmarov (2020) that the role of technology in budget management information systems is an effort to digitize the financial system in the form of all company or business financial documentation that is displayed online and can be accessed by anyone who has a need or connection. Usually, the role of technology in the budgeting process is to support transparency and accountability in budgeting as well as part of the Government's efforts in the digitalization program of the e-government section (Khoirunnisak, Arishanti, & Vebrianti,

2017).

Technology is now a strategic choice to strengthen state financial management. The Ministry of Finance of the Republic of Indonesia encourages working units to manage the State Budget, including State Universities, to increase and maintain the productivity of APBN management supported by information technology or digital-based. Digital management economics generally increases accuracy, efficiency, effectiveness, transparency, and productivity (Reddick, Chatfield, & Puron-Cid, 2017). Modernization and simplification of the state budget management will become a "new normal" amid the COVID-19 pandemic. This will continue to be carried out in line with time. This is also a state commitment to realizing an easy and fast budget implementation while prioritizing efficiency, effectiveness, and accountability principles.

Many work units have adopted technology systems and innovations to make the digital budgeting process more efficient and effective, especially in state universities. It shows the decisive role of technology in building the convenience of a faster and more effective budgeting process so that the programs for the community can be realized immediately (Setyawan & Gamayuni, 2020). In addition, the role of technology in the budgeting system makes the disclosure of budget realization information easier to be accessed by the public. Those are a form of accountability of work units to the community and the state and transparency of state budget benefits (Purnama & Juwono, 2021). Harianto, Kennedy, and Zarefar (2021), supported by Lazhentsev (2020), highlight the role of technology in budget accountability, including the ease of filing funds, efficient reporting of budget realization, speed of integrated budget disbursement, digital financial reporting through the PPID.

### ***Perception of budget realization***

Public perception is the perspective of a group of humans who live together in the same environment in providing conclusions about an object based on knowledge, vision, and observations so that people from one another produce different opinions on the same thing (Powers, Pitas, & Mowen, 2022). Perception is a person's view of something based on experience and information about that subject. Public perception of the budget is closely related to public participation in the budget as a process that involves individuals directly in it and has an influence on the preparation of budget goals whose achievements will be assessed and likely to be rewarded based on achieving public budget goals (Magdalena & Said, 2021).

The budget realization is defined by Prasetya (2010) as a result that compares the revenue and expenditure budgets with the realization of the program proclaimed in the budget design that shows compliance with laws and regulations (Jayusman, 2021). Several factors affect budget realization, including budget planning factors, government regulations and policies, human resources, technical coordination, also procurement of goods and services. These factors can be grouped into administrative, organizational, and psychological factors and budget management culture (Rakhman, 2019).

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The state budget is an essential element in efforts to develop the capacity and effectiveness of the Central Government in carrying out development, especially human resources through universities. The state budget in state universities is allocated for activities to develop student organizations, development of achievements, and community service (Haribowo & Mulyani, 2022). Creating a budget that is oriented toward people's welfare requires participatory budgeting. Participatory budgeting is an innovative policymaking process in which the community is directly involved. A series of forums were organized, so the public could allocate resources, make policy priorities, and monitor government spending. The problem in this situation is that the patterns of planning and preparation of the state budget, especially in the universities with bottom-up planning, have not been carried out optimally by state university budget organizers.

### ***Perception of public information disclosure***

According to the Law of the Republic of Indonesia Number 14 of 2008, public information disclosure is a mandate which gives every public organization an obligation to open access for every applicant for general information to obtain public information, except for specific information. Law Number 14 of 2008 defines public information as information entirely related to the administration of the state or other public bodies. Meanwhile, according to Hermalin and Weisbach (2012), good public information management is one of the efforts to develop an information society. Disclosure of general information opens as many opportunities as possible for the public to actively monitor each policy so that it can become a control for the government in implementing the procedure itself. All public bodies must disclose general information, be it executive, legislative, judicial, or other institutions related to

state administration, including state universities (Putra, 2017).

The purpose of public information disclosure in Law Number 14 of 2008 is to improve the performance of public bodies in terms of managing and providing general information, as well as providing public information as requested by the community effectively, efficiently, in an easy way, and at the lowest possible cost (Aprilya & Fadhlain, 2022). To meet the above objectives, the application or implementation of public information disclosure in public bodies must follow the concepts set by the government. Each public organization has a PPID. Disclosure of general information is a way to fulfill the requirements of good governance, namely Accountability, transparency, and public participation in every process of public policy (Butt, 2013; Hayuningtyas, Rifai, & Gumilar, 2021). However, public information disclosure limits the public's access to information due to confidentiality or other factors under the criteria stipulated in the law (Jatmiko, Prawoto, & Astuti, 2018).

The legal foundations that serve as the guidelines for implementing public information disclosure for public bodies, including State Universities, are Law Number 14 of 2008 concerning Public Information Disclosure, Government Regulation (Peraturan Pemerintah, PP) Number 61 of 2010 concerning the Implementation of Law Number 14 of 2008. Meanwhile, more specifically, regulations regarding public information services within the Ministry of Research, Technology, and Higher Education are contained in the Law of Minister of Research, Technology and Higher Education of the Republic of Indonesia Number 75 of 2016 (Ismail, Ernas, Razak, & Wakano, 2022).

UU KIP states that the obligations must be fulfilled by public bodies so that their implementation can achieve the objectives accord-

ing to what has been determined. The duties of public bodies include, first, in addition to information that is excluded, as in the 2018 KIP Act, general information under the authority of public bodies must be available and can be provided and issued to applicants for public information. Second, public information in all media must be completely accurate and unambiguous. Third, public agencies must utilize technology to create and develop information and documentation systems to quickly manage and provide general information that the public can obtain (Afsah, Laplante, & Wheeler, 2019). Based on the 2019 Central Information Commission's Public Information Disclosure Implementation Report, out of 355 public bodies, about 53% fall into the uninformative category. Meanwhile, out of 85 PTNs, 43% are in the uninformative category, containing 37 PTNs. This data shows that many public bodies have not implemented the UU KIP. This makes it difficult for the public to find information about the university (Jannah, Sipahutar, & Prasajo, 2021).

Relevant to this, Fadila, Putera, and Ariany (2022), in their research, state that the readiness of universities to implement the KIP Act has not been optimal due to various challenges such as the accessibility of public information by the academic community and society, and the intellectual culture within the university environment. Istiqorilah's research (2013) regarding the application of Law Number 14 of 2008 at the Syarif Hidayatullah State Islamic University, Jakarta, concluded that the PPID as the manager of public information services has not been optimal in providing general information services as mandated by law. It is caused by leaders who do not know the obligations and urgency of public bodies that must have PPID to manage and provide general information services, incomplete data on the website, and the absence of adequate infrastructure, funding, and human resources (HR) support (Istiqorilah & Lolytasari, 2013).

Meanwhile, Noor (2019) concluded that the implementation of KIP in various public bodies in Indonesia experienced similar problems, including HR issues. Of the 18 studies that became data sources, 10 indicated the need for more HR as a source of issues in implementing KIP in public bodies.

### ***Public financial management principles***

Public financial management is the ideal procedure for regulating, managing, generating, and controlling public financial resources for effective and efficient public services. Financial management in public organizations is critical because it has sentiment and moral responsibility to support it economically. Public services and goods spending accounts for more than a third of the Gross Domestic Product (GDP) in most countries (Abdulai, 2020; Munzhedzi, 2021). The concerns and expectations of public sector services are very significant; therefore, the management of public funds must be able to conduct and maintain careful inspections or observations from all directions (Sumtaky, Chandrarin, & Sanusi, 2018). General financial management is also related to the laws, organizations, systems, and procedures available so that the government can guarantee and use resources effectively, efficiently, and transparently. There are seven principles of public financial management, namely (1) Perception of timeliness of budget realization; (2) Compliance with budget governance law; (3) Budget effectiveness and efficiency; (4) Responsibility and sense of fairness in budget governance; (5) Benefits of budget for society; (6) Enforcement of budget management integrity and ethics; and (7) Existence of a strong, professional, and independent external audit agency.

### ***Transparency and accountability***

According to Florini (2007), transparency is a measure of the availability of information on the performance of public bodies to the general public. It allows them to voice their aspirations, suggestions, or criticisms in decisions and internal arrangement of public bodies. Transparency means that information relating to the organization is easily, freely available, and accessible to those affected by the policies adopted by the organization. Even if there is information that the public should not know, often called "company secret," there must be clear criteria (Sofyani, Pratolo, & Saleh, 2022). Transparency can also mean that sufficient information about the institution's performance is available and presented in a form or media easily understood by the public.

Many parties claim that transparency is closely related to accountability. Some argue that the two are causal relationships, while others place them independently. Some say that transparency and accountability are sufficient in the financial aspect, some argue otherwise, all elements except financial matters, and some say that all aspects, including programs and finances (Adiputra, Utama, & Rossietia, 2018). Meanwhile, disclosure is the keyword that can explain and link accountability and transparency. Disclosure of data and information is a practice of openness on the one hand and, simultaneously, a prerequisite for accountability (Sun, Zeng, Chen, Meng, & Jin, 2019).

The definition of transparency reveals three metaphors: transparency as a public value embraced by society to counter corruption, transparency synonymous with open decision-making by governments and non-profits, and transparency as a complex tool of good governance in programs, policies, organizations, and nations. In the first metaphor, transparency is subtly intertwined with accountability. Second, as transparency encourages openness, it increases concerns

for secrecy and privacy. Third, policymakers create transparency alongside accountability, efficiency, and effectiveness (Heemsbergen, 2021).

The measurement of the transparency of an institution with state budget intake can be seen from the availability of a PPID, access to financial reports and audit results for the public, and there are performance achievements that appear in front of the public and the realization reports (Florini, 2007; Sturges, 2009). Even previous research studies stated that the vital role of budget performance is a form of higher education transparency in managing state financial mandates (Yadnya, 2022).

Accountability is the basis of all governance processes. The effectiveness of this process depends on how those in power explain how they carry out their responsibilities, both constitutionally and legally. Accountability is essential to prevent abuse of power and ensure that energy is directed toward achieving broader national goals with the highest efficiency, effectiveness, honesty, and discretion (Blankenberger & Williams, 2020; Romzek & Dubnick, 2018). Accountability can be a means to account for managing and controlling resources in a public policy entrusted to him to achieve common goals through periodic accountability (Sofyani et al., 2022).

### ***Hypothesis development***

Public perception in the perspective of governance is a response or knowledge of the community environment towards an organization or public institution from a collection of individuals who interact with each other or based on field fact data or the results of searching public institution data (Abden & Onwuegbusi, 2017). This study assesses public perceptions of state budget management as a public institution in the education sector. Good budget governance must include

several things, including good Information Technology (IT) governance (Juiz, Guerrero, & Lera, 2014). The results of research conducted by Osinuga, Gbenga, and Ajao (2020) show that technology is influential in fulfilling public financial management principles for managing university education funds in Nigeria. The research shows that technology is one of the factors in implementing the principles of public budget governance management to strengthen the principles of public financial management further to be more transparent, fair, responsible, and integrity.

H1: The role of technology has a significant influence on public financial management principles

The budget realization that is right on target and according to its designation is a big target that must be achieved according to the principles of public financial management (Rahmatulloh & Husen, 2017). The results of research conducted by Lentner (2019) and Mardiana (2017) stated that budget realization has an important relationship with fulfilling the principles of public financial management.

H2: Budget realization perception has a significant influence on public financial management principles

Budget management must be carried out transparently in the context of accountability to the public and within the framework of the community's control function in every step and policy taken by public agencies, especially the government. The exercise of power in a democratic country must always be accountable to the public (Kristiyanto, 2016). Disclosure of public information is an integral part of the principles of general financial management. The results of research by Setiawan (2021) show that the perception of public information disclosure on local government services in Indonesia affects the principles of general financial management. Disclosure of information, including the

budget realization report, will fulfill the principles of public financial management (Setyawan, 2021). Engkus, Suparman, Trisakti, and Rodhiya (2019) also support the statement that the university's information disclosure policy is part of the principles of public financial management.

H3: Perception of public information disclosure has a significant influence on public financial management principles

The principle of public financial management is to ensure that the control of the state budget fulfills the virtues of transparency, accountability, checks and balances, and accessibility of general budget governance. This principle encourages budget management to be accountable to the public through budget realization reports in the information disclosure program. Research conducted by Ball (2020) revealed that the principles of public financial management encouraged transparency and accountability in the administration of American education budget governance during the COVID-19 Pandemic. Several other research results also state similar results to have a solid hypothetical relationship (Azlim, Darwis, & Bakar, 2012; Edowati, Abubakar, & Said, 2021; Moha, Kalangi, & Warongan, 2017). H4: Public financial management principles have a significant influence on transparency

H5: Public financial management principles have a significant influence on accountability

## RESEARCH METHOD

This study collects primary data through a survey using online questionnaires and a convenience sampling method for the target respondents. The respondents are people who live or have activities around state universities throughout Indonesia and understand the concept of public budgets. Respondents were asked to indicate their perception of state budget governance that promoted

transparency and accountability of public universities using a Likert scale that ranges from 1 (strongly disagree) to 5 (strongly agree). The variable used is the Role of Technology, Perception of Budget Realization, Perception of Public Information Disclosure, Public Financial Management Principles, Transparency, and Accountability. Each variable was assessed using indicators of several previous studies, as described in Appendix 1.

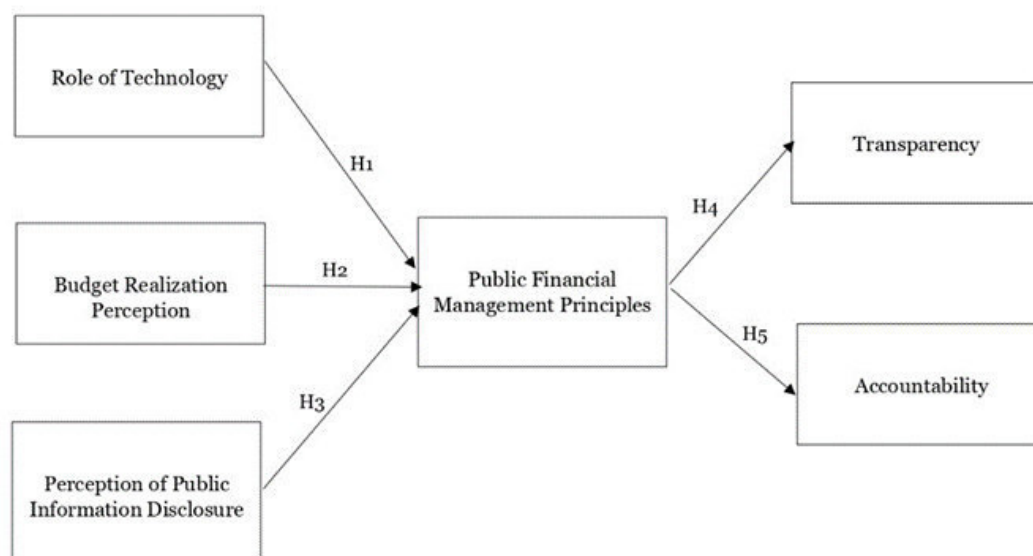
This study assesses the validity of a consistent measurement model using a minimum number of 0.5 as a guide for assessing the outer model (Afthanorhan, Awang, & Aimran, 2020). Meanwhile, for testing the reliability, the measurement used is Variance Inflation Factor (VIF), composite reliability, Cronbach's alpha, and Average Variance Extracted (AVE).

According to Malhotra (2010), the minimum sample calculation is at least four or five times the number of question items, and the appropriate sample size ranges from 100-200 respondents (Hair, Matthews, Matthews, & Sarstedt, 2017). The number of question items in this study is 33, so the minimum number of samples that can be taken is 165. This study uses the partial least square (PLS-SEM) data analysis method. This statistical method combines factor analysis, correlation analysis, and regression to analyze the collected data. The research framework is illustrated in Figure 1.

## RESULT AND DISCUSSION

The total questionnaire that can be processed comes from 237 respondents. Descriptive statistics on the demographic characteristics of the respondents are presented in Appendix 2. The result of the measurement model assessment is presented in Appendix 3. The results show that one indica-





**Figure 1.** Research Framework

tor does not meet the external loadings requirements, namely PFMP7, so that it will be eliminated and not included in the next test. In addition, all the outer loadings threshold values have met the requirements. The VIF value is also greater than 5, so there is no multicollinearity problem. The author also conducted the discriminant validity test to determine the differences in the variables, using Fornell and Larcker criteria. Table 1 shows that each construct's AVE's square root exceeds the correlation with other constructs (Leguina, 2015). Thus, the discriminant validity criteria are also met.

Table 2 presents endogenous factors' path coefficient results, t-stats, and r-square values. The significance of the Hypotheses Relationship was assessed through P-Value with a maximum weight of 0.050 (Hair, Holsingworth, Randolph, & Chong, 2017), and

the model strength criteria (R-Square) was categorized as strong if more than 0.67, moderate if more than 0.33 but lower than 0.67, and weak if more than 0.19 but lower than 0.33 (Sarstedt et al., 2020).

Based on the result, this study supports H2, H3, H4, and H5 (Four hypotheses supported), while H1 (one hypothesis) is not supported. The first hypothesis is not supported; the role of technology has not significantly influenced public financial management principles. The challenge in managing public finances, especially public information disclosure, after the COVID-19 pandemic is limited interaction. Limited interaction means that the dissemination of information that is done manually can no longer be done effectively (Yoppy, Mina, & Fality, 2021). State universities can maintain transparency and accountability amid this pandemic by

**Table 1.** Discriminant validity (Fornell-Larcker criterion)

Variables	A	BRP	PPID	PFMP	RT	T
Accountability	0,843					
Budget Realization Perception	0,807	0,844				
Perception of Public Information Disclosure	0,977	0,813	0,854			
Public Financial Management Principles	0,911	0,856	0,936	0,807		
Role of Technology	0,762	0,850	0,778	0,809	0,763	
Transparency	0,785	0,594	0,746	0,759	0,710	0,786

**Table 2.** Results of PLS Path Modelling and Hypotheses Testing

Hyp	Path Coef	t-stats	p-value	R-square	Analysis Result
H1	0,078	1,885	0,060		Not Accepted
H2	0,232	4,981	0,000	0,904	Accepted
H3	0,686	18,594	0,000		Accepted
H4	0,759	38,486	0,000	0,576	Accepted
H5	0,911	68,457	0,000	0,831	Accepted

streamlining technology-based communication channels. However, this must be accompanied by a change in the culture of information disclosure. Otherwise, using any media during this pandemic will not be effective (Aprilya & Fadhlain, 2022).

This result is very different from the research by Osinuga et al. (2020). The results also imply a normal situation that the role of increasingly sophisticated technology does not give public bodies such as state universities full open access to information on the fulfillment of general financial management principles. This is because the culture and paradigm that develops among the apparatus still consider being the owner of the information. Meanwhile, the public, especially students, is not entitled to public documents/information because sometimes it can be misused. In fact, the state universities used physical forms attached to the information board to fulfill the principle even though less effective.

The results indicated that H2 is accepted. The more program launched by state universities in budget planning achieved, the higher education community has complied with the public financial management principles. The budget plays an important role in the operation of state universities. The budget is a financial plan that is systematically prepared to support the implementation of the program activities of state universities, including the procurement of learning facilities and infrastructure, improving the quality of human resources for lecturers and education

staff, improving the quality of the teaching system, coaching activities student organization and achievement improvement, research and community service following the Tri Dharma mandate of state universities (Rosser, 2015).

State universities must continuously improve their performance to be more oriented toward creating good public and good governance. The effectiveness of budget management starts from budget preparation and execution to budget reporting/accountability impact on the accountability of state universities as government work units in providing quality higher education sector services. Budget management must be under and comply with the law and ethics with integrity and benefit the academic community of state universities and the surrounding community. The implementation of performance-based budgeting is a budget reform to improve the budgeting process. State universities also face new demands to pay attention to value for money in their activities. Value for money is economical in the procurement and allocation of resources, efficient in the use of budget resources, meaning that its use is minimized, and the results are maximized (maximizing benefit and minimizing cost), and effective (successful) in the sense of achieving goals and target. Moreover, during the post-COVID-19 pandemic, state universities' budgets were limited, and they had to be used as well as possible to continue to realize important programs designed with several adjustments. The public financial management principles will be achieved by continu-

ally improving the budget management system and improving performance in budget realization. The results of this study align with research conducted by Lentner (2019), stating that budget realization has an important relationship with fulfilling the principles of public financial management (Lentner, 2019).

H3 also accepted the perception that public information disclosure significantly influences public financial management principles. It indicates that the stronger the disclosure of public information in budget management, the higher education has complied with the public financial management principles. The PPID's role is crucial to disclose public information regarding implemented policies, including budget management. This is because budget management is a matter of transparency and accountability and a form of moral responsibility of state universities to the community and the state. The fulfillment of information disclosure can be through submission via the PPID website to observe state university budget management as a joint task to oversee state governance in managing the budget by the public financial management principles. The results of this study align with research conducted by Setyawan (2021) shows that the perception of public information disclosure on local government services in Indonesia influences the principles of general financial management. Disclosure of information, including the budget realization report, will fulfill the principles of public financial management (Setyawan, 2021).

Furthermore, this study supports that public financial management principles significantly influence transparency (H4 accepted). It means that if all the points of the public financial management principles are met, transparency will be achieved. The management of the state budget by universities must meet the elements of the public financial

management principles, where in these principles, there are values of integrity and moral justice for the community. Universities are public bodies required to provide or publish public information as described in UU KIP. The public, including students, expects that state universities can fulfill these provisions so that transparency of higher education is fulfilled. This study also revealed a significant positive relationship between public financial management principles and accountability. Fulfilling the principles of good public budget management is a requirement to achieve accountability for state universities. H4 and H5 are accepted, align with research conducted by Ball (2020), that the principles of public financial management encourage transparency and accountability in the administration of American education budget governance during the COVID-19 pandemic.

The principle of accountability is a legal and moral obligation attached to every individual, group, or institution to explain how funds are used. State universities, as part of government institutions, have to implement transparent and accountable governance to guarantee and improve the quality of the institutions. They must be able to convey how they use the state budget provided to them and for what purposes as part of government institutions. Among others are accountability for using paid annual tuition fees and state revenue from the state budget. Each interested party has the right to know how the funds are used.

## CONCLUSION

This study concludes that budget realization and public information disclosure in budget management of state universities encourage fulfilling the principles of general financial management. That enables universities to achieve the mission of transparency and accountability as part of state institutions in

education. The public highlighted the importance of realizing and disclosing information in promoting openness and responsibility of the state universities' allocation budget. So, it is an obligation to implement transparent and accountable governance to ensure quality and improve the quality of institutions. Budget realization and public information disclosure are the driving lines for the principles of Public Financial Management. Good University Governance must be an orientation in the performance of budget realization, especially in programs to improve the quality of education, educational activities and research, and community service with integrity and benefit the academic community of state universities and the surrounding community.

However, the role of technology does not become the root of the higher education community's perception in assessing affordable budget management that can fulfill the principles of state budget management. If a public university has a closed information culture, it will be difficult to disclose information on budget realization at the university openly. Therefore, this study recommends ratifying UU KIP for educational institutions, especially universities, and changing the culture of closed information. Social media can become a new channel for conveying higher education budget realization, at least with a concise explanation, as evidenced by clear realization outputs. The community, including students, must continue to pay close attention to the policies and governance of state universities so that they always carry out quality higher education programs and have superior moral ethics.

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## APPENDICES

### Appendix 1. Research Variable Indicator

Variable	Indicator	Source
Role of Technology	Ease of Submitting Education Finance	(Lazhentsev et al., 2020; W. Setyawan & Gamayuni, 2020)
	Budget Realization Reporting Efficiency	
	Integrated Budget Disbursement Speed	
	Digital Financial Reports through Information Management and Documentation Officer (PPID)	
	Total Perception of the Role of Technology in State University Budget Management	
Budget Realization Perception	Budget Design Involvement	(Syamsurijal, 2019; Haribowo & Mulyani, 2022b; Jayusman, 2021)
	Procurement of New Facilities and Infrastructure	
	Realization of COVID-19 Reaccollation Activities	
	Realization of Student Organization Activities	
	Realization of Student Achievement Development Activities	
Perception of Public Information Disclosure and Control Environment	Realization of Community Service	
	Enforcement of integrity and ethics in Budget Governance	(Domai & Yuliani, 2015; Hermalin & Weisbach, 2012; Jatmiko et al., 2018)
	Line Managerial Roles on Budget Governance	
	The Role of Higher Education Internal Audit	
	The Role of the Existence of Information Management and Documentation Officer (PPID) as a door for Higher Education Data Information	
	The Role of Digital Media (Social media and Websites) University	
Public Financial Management Principles	Perception of Timeliness of Budget Realization	(Abdulai, 2020; Jovanović & Vašiček, 2021; Munzhedzi, 2021)
	Legal Compliance Budget Governance	
	Budget Effectiveness and Efficiency	
	Responsibility and Sense of Fairness in Budget Governance	
	Benefits of Budget for Society	
	Enforcement of Budget Management Integrity and Ethics	
Transparency	Existence of a Strong, Professional, and Independent External Audit Agency (BPK and Audit Director General of Higher Education)	(Ball, 2009; Florini, 2007; Sturges, 2009)
	Information System Availability	
	Accessibility of Financial Statements	
	Publication of Financial Statements	
	Availability of information related to audit results as a legal responsibility	
	Availability of performance achievement reports as the responsibility for budget realization	
	Perceptions of Transparency of State Universities in State Budget Management	
Accountability	Perception of Higher Education Accountability in State Budget Management	(Blankenberger & Williams, 2020; Rock, 2020; Romzek & Dubnick, 2018)
	Perception of Financial Reporting Accountability	
	Perception of College Performance	
	Timely presentation of financial reports and performance	

**Appendix 2.** Respondents' demographic profile

Demographic Factors	Frequency	Percentage
<b>Gender</b>		
Male	66	27%
Female	171	73%
<b>Age</b>		
20-30	117	49%
31-40	45	19%
41-50	38	16%
>51	37	16%
<b>Level of Education</b>		
Senior High School	25	11%
Undergraduate Program (D3/S1)	181	76%
Graduate Program (S2)	24	11%
Postgraduate Program (S3)	7	3%
<b>State Universities Region</b>		
Java	83	35%
Sumatera	74	31%
Kalimantan	31	13%
Bali Nusa Tenggara	24	10%
Sulawesi	21	9%
Papua	4	2%
<b>Role with State University</b>		
Internal	105	44%
External	132	56%

**Appendix 3.** Measurement model assessment

Construct	Items	O. Loadings	CA	CR	AVE	VIF
Role of Technology	RI1	0.736	0.816	0.873	0.582	1.724
	RI2	0.797				2.390
	RI3	0.744				1.044
	RI4	0.637				1.317
	RI5	0.839				1.986
Budget Realization Perception	BRP1	0.799	0.919	0.928	0.713	2.042
	BRP2	0.751				1.975
	BRP3	0.911				2.712
	BRP4	0.816				1.728
	BRP5	0.902				1.618
	BRP6	0.876				2.417
Perception of Public Information Disclosure	PPID1	0.901	0.903	0.921	0.729	1.728
	PPID2	0.885				2.130
	PPID3	0.663				4.044
	PPID4	0.945				1.120
	PPID5	0.847				1.603
Public Financial Management Principles	PFMP1	0.894	0.895	0.928	0.652	2.992
	PFMP2	0.809				1.496
	PFMP3	0.788				2,005
	PFMP4	0.924				1,895
	PFMP5	0.890				1,704
	PFMP6	0.872				1,822
	PFMP7	0.286				6,733
Transparency	T1	0.547	0.876	0.907	0.617	4,302
	T2	0.818				1,780
	T3	0.879				1,630
	T4	0.840				1,927
	T5	0.834				1,774
	T6	0.750				1,209
Accountability	A1	0.893	0.896	0.914	0.711	1,406
	A2	0.892				1,654
	A3	0.715				2,150
	A4	0.915				1,329
	A5	0.784				2,674



## **An Analysis of Village Governance With Organizational Commitment as a Moderating Variable**

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### **ABSTRACT**

The number of administrative violations and corruption cases at the village level has been in the spotlight recently. Good village governance is one of the steps to overcome it. This study aims to identify the factors that influence village governance and examine the moderating effect of organizational commitment on the relationships between village financial management and apparatus competence in village governance. This study was conducted in the Village Government in Rokan Hilir Regency and employed quantitative data analysis. The data was obtained using a questionnaire, and the respondents were selected using purposive sampling. This study used an analysis method using the structural equation model (SEM). The result shows that the government's internal control system and village financial management can affect village governance in Rokan Hilir Regency. However, apparatus competence cannot influence village governance, and organizational commitment cannot strengthen the performance of the apparatus in implementing village governance. Nevertheless, organizational commitment is needed to enhance the relationship between village financial management and governance in Rokan Hilir.

### **KEYWORDS:**

Village governance; internal control; performance; organizational commitment

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## INTRODUCTION

Governance is quite an exciting topic considering the significant increase in reported fraud cases at the regional and central governments in recent years. Government administration, including the village government, has also been in the spotlight with many violations, both administrative and corruption cases, which require immediate handling. Indonesia Corruption Watch (ICW) says that the village budget is the most vulnerable to misuse and corruption. In the first semester of 2021, data shows that 62 cases of village budget corruption occurred, and this was the most significant corruption case in that period (ICW: 2021 Village Apparatus, 2021). One corrective measure that is believed to be effective is improving village governance. Good governance in the village must be carried out in a structured and systematic manner so that the village cannot only be accountable for all activities carried out but can also increase the competitiveness of the village (Maghviroh, 2020).

Good village governance will enable the village government to use funds effectively. If the village can use its funds and resources optimally, the community's welfare will also increase, ultimately increasing its economic growth (Maghviroh, 2020). It must be connected to managing village finances or budgets accountable and transparently. Allegations of budget misappropriation often arise due to the lack of transparency in the use of village funds, so accountability for the use of these funds is questionable. By demonstrating transparency, financial management and accountability can be accounted for. If accountability has been fulfilled, good governance in village government can be realized. Accountability is a mechanism and rules for financial management, mechanisms in the concept and indicators of budget performance, cost standards, accountability mechanisms, reporting, evaluation, control mech-

anisms, and monitoring also inspection mechanisms (Akbar, 2012). Sitompul (2014) explains that regional financial management includes planning, implementation, reporting, and accountability. Research by Savitri, Andreas, and Diyanto (2019) in Riau Province shows that sound financial management illustrates good accountability and accountability will lead to good village governance. Sirajudin (2019), through his research in a district in South Sumatra Province, concludes that accountability has a significant effect on good governance, accountability has a significant effect on village fund management, and village fund management has a positive but not significant effect on good governance.

Another thing that is closely related to governance and accountability is the government's internal control system. Government Regulation Number 60 of 2008 concerning the Government's Internal Control System has emphasized that in carrying out its activities, a government organization must implement an internal control system at the central and regional governments. The GICS is a necessary process of actions and activities carried out continuously by the leadership and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, as well as compliance with laws and regulations. The government's internal control system adapts the Committee of Sponsoring Organizations of the Treadway Commission (COSO) concept, which includes control environment, risk assessment, control activities, information and communication, also monitoring to strengthen organizational governance (Ariffin, Hanif, Ali, Razak, & Sori, 2016). The internal control system is a guide in testing the effectiveness of organizational activities with several aspects, namely costs and benefits, human resources, clarity of effectiveness

measurement criteria, and technological developments, carried out comprehensively (Romney & Steinbart, 2017).

Amijaya (2019) proves that adequately applying the government's internal control system will produce accountable financial reports, and therefore, good governance can be established in the government. Raiborn, Butler, Martin, and Pizzini (2017) found that an internal audit is designed to increase the organization's value and operations, also help the organization achieve its goals systematically to evaluate and improve risk management, control, and good governance. Sari, Mulyani, and Budiarto (2020) also revealed that the internal control system represented by the internal control unit influences accountability in creating good organizational governance.

In addition to the internal control system and accountable village financial management, another main factor lies in the role of the apparatus as the driving force in running the village government. Law Number 5 of 2014 concerning State Civil Apparatus specifies that the State Civil Apparatus (Aparatur Sipil Negara, ASN) consisting of Civil Servants (Pegawai Negeri Sipil, PNS) and government employees under work agreements must uphold principles in carrying out their duties that prioritize the achievement of results and encourage their performance so that they can be held accountable in the eyes of the public. The competency of the government officer plays an essential role in establishing good governance in the village government.

According to Agusti (2012), the government's performance is a system that aims to assist senior management in assessing the achievement of a strategy through financial and non-financial measuring tools, where performance can be measured by how far the performance ability is in achieving its budg-

eted targets. Ruspina (2013) states that several types of indicators are needed to analyze and describe organizational performance in the organization, namely input, process, output, outcome, benefit, also impact indicators. Safkaur and Sagrim (2019) in their research, find that reliable human resources will lead to success in organizational performance, and skilled human resources will work with improved transparency and accountability, which indirectly describes the implementation of good governance in organizations. Similarly, Arulrajah (2016) research discovered that good human resources would also lead organizations to achieve good organizational governance. While Simon, Mahfud-nurnajamuddin, Mas'ud, and Su'un (2016) provide evidence that the competence of the apparatus and internal control systems significantly affects good governance and the quality of financial reporting information.

The competence of government officials is one of the factors that affect accountability. Edison (2017) stated that a person's self-competence could be seen from knowledge, skills, and attitudes. Makalalag, Nangoi, and Karamoy (2017) find that competence is the main obstacle in efforts to increase accountability for village fund management in the sub-district of South Mobagu City. Competence can also reflect the performance of an apparatus, so it is essential to develop such as providing education and training because reliable human resources will direct the achievement of good governance in the organization (Safkaur & Sagrim, 2019; Arulrajah, 2016).

Good supervision of competent apparatus in managing funds will only create organizational governance if it is supported by organizational commitment. Organizational commitment is an impulse individuals create to undertake measures to increase the organization's success according to the expectations based on prioritizing the organization's



interests compared to individual ones (Arifin, Hanif, Ali, Razak, & Sori, 2019). Organizational commitment encourages individuals to carry out actions to increase the organization's success by the expectations based on the goal of prioritizing the organization's interests compared to individual interests (Arifin et al., 2019). Employees with high commitment to the organization tend to show good quality, perform with passion and totality at work, and the turnover rate for the organization becomes lower (Akbar, 2012). According to Meyer and Allen (1997), organizational commitment has three components: affective commitment, continuance commitment, and normative commitment. Affective commitment occurs when employees understand and feel responsible for achieving organizational goals, also employees with high affective commitment usually show high-performance levels. Continuance commitment occurs when employees are willing to make the best effort for their work only when the rewards are given according to their expectations. In comparison, normative commitment is shown by the existence of individuals in the organization due to the expected standard of behavior or social norms so that employees work only for compliance and formality (Hadi & Tentama, 2020).

The government financial accountability report manifests transparency and accountability in managing state/regional finances. Edlin (2018) states that the quality of local government financial reports is influenced by the capacity of human resources and information technology rather than the government's internal control system. This differs from the research results by Siwambudi, Yasa, and Badera (2016), which state that the quality of local government financial reports is influenced by its internal control system. Hendaris and Romli (2021) researched West Bandung Regency villages. The results showed that the village appa-

ratus performance, internal control, and information technology use affected fund management accountability and the quality of financial reports. There are still many previous studies that examine the factors that influence good governance or the quality of financial reports with different results.

Based on the phenomena and inconsistencies of previous research, this study is deemed essential to be carried out given that there are still many differences in research results. This study examines whether the government's internal control system, regional financial management, and the apparatus's performance can affect village governance. The research questions to be addressed in this study are:

1. How do the government's internal control system, village fund management, and apparatus competence partially affect village government governance?
2. Can organizational commitment moderate the relationship between the government's internal control system, village fund management, and apparatus competence in village government governance?

Based on the background, theoretical basis, previous research, and the research question, the hypotheses developed in this study are: H1: Government Internal Control System (GICS) affects village governance

H2: Village financial management affects village governance

H3: Apparatus competence affects village governance

H4: Organizational commitment to moderate the relationship between GICS and village governance

H5: Organizational commitment to moderate the relationship between village financial management and village governance

H6: Organizational commitment to moderate the relationship between apparatus competence and village governance

## RESEARCH METHOD

This study was conducted in the Village Government in Riau Province, precisely in Rokan Hilir Regency, using data from questionnaires in 2021. The population in this study consisted of 40 Village Governments in Rokan Hilir Regency. The types and sources of data used in this study are primary data. Primary data is obtained directly from respondents in the village government by distributing written and structured questionnaires to the respondents. Each variable is measured based on the indicators that form the basis of the questionnaire questions. Then the questions are given an answer scale using a Likert scale with a scale between 1 to 5. There are 200 questionnaires distributed and returned with the same number.

A quantitative analysis method is used to conduct the data analysis. This study's data analysis and hypothesis testing employs the Structural Equation Model – Partial Least Square (SEM-PLS) model. According to Ghazali (2014), the SEM model consists of two types, namely covariant-based structural equation model (CB-SEM) and partial least square-structural equation model (PLS-

SEM), which can combine two types of analysis, namely path analysis and regression analysis.

## RESULT AND DISCUSSION

### Validity and Reliability Testing

The first method performed is validity testing, carried out with convergent validity and discriminant validity tests. In this test, whether or not an indicator is valid can be seen through the value of the loading factor and AVE. The construct indicator that is said to be valid is if the loading factor value is  $> 0.50$  (Ghozali, 2014). Based on the result in the Appendix, all indicators have met the criteria of convergent validity. In addition to assessing the loading factor, the convergent validity test also uses the AVE value as a reference. The AVE value generated by the construct is said to meet the criteria for convergent validity if it has a value of more than 0.50 (Ghozali, 2014). The results of the convergent validity test by looking at the AVE value for the GICS, Village Financial Management (VFM), Apparatus Competence (APR), Organizational Commitment (OC), and Village Governance (VG) are seen in Ta-

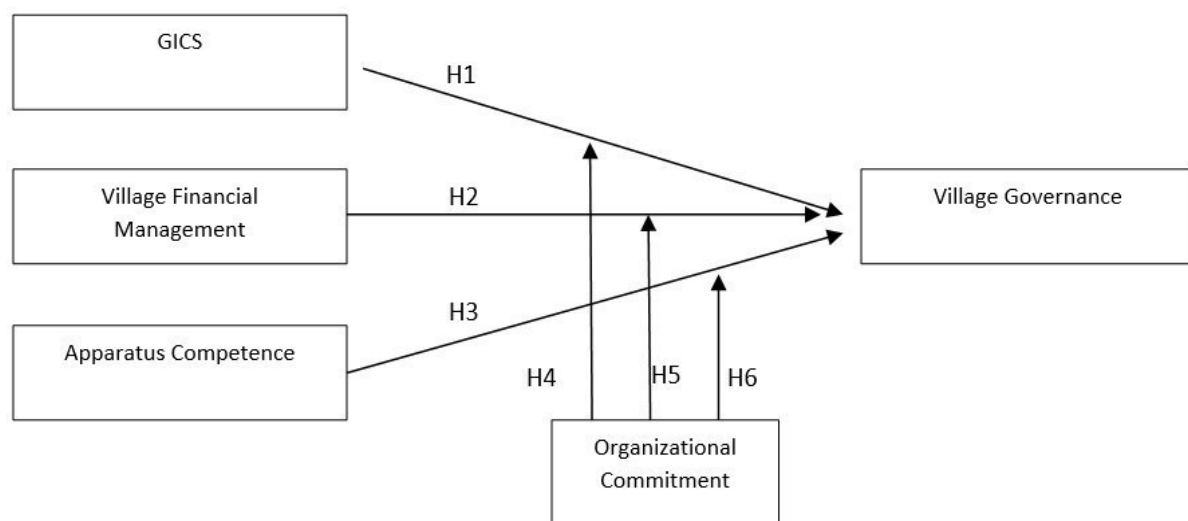


Figure 1. Research Framework

ble 1. It can be seen that all variables have an AVE value above 0.50, so the convergent validity requirements have been met.

**Table 1.** AVE Value

Variable	AVE Value
GICS	0.531
VFM	0.518
APR	0.525
OC	0.500
VG	0.501

The results of the discriminant validity test can also be seen in the Appendix. Based on the Appendix, it can be noted that all construct indicators have a loading value that is greater than the other loading values. This suggests that all construct indicators have met the requirements of discriminant validity.

This study uses the WarpPLS 7.0 program to measure the reliability of a construct with reflexive indicators, which can be done through the value of Cronbach Alpha or composite reliability. According Anggraini, Purnomosidhi and Hariadi (2019), an instrument is declared reliable if its reliability value is lower than 0.7. Meanwhile, Cronbach's Alpha in PLS is said to be reliable if the value is 0.5 (Yamin, 2009). The results of the reliability test in this study can be seen in Table 2. The results show that composite reliability and Cronbach's alpha coefficients from each construct can be concluded that all variables have met the criteria for composite reliability.

### Evaluation of the Structural Model

The next stage is to conduct a structural evaluation (inner model). The Structural or Inner Model describes the relationship between latent variables based on substantive theory (Ghozali, 2014). This test includes a model fit test (model fit), path coefficient, and R<sup>2</sup>. In the model fit test, there are three test indices, namely average path coefficient (APC), average R-squared (ARS), and average variance factor (AVIF), with APC and ARS criteria accepted on the condition that p-value < 0.05 and AVIF are smaller of 5 (Sholihin & Ratmono, 2020). The results for the General SEM of this study are shown in Table 3.

Based on the results shown in Table 3, APC, ARS, and AVIF values have met the criteria. Furthermore, the structural model can be tested by looking at the R-Square value, a goodness fit model test (Ghozali, 2014). Changes in the value of R-Squares can be used to explain the effect of the independent latent variable on the latent dependent variable and whether it has a substantive effect. The R-squares value is 0.75, indicating a robust model, whereas 0.50 and 0.25 can be concluded that the model is moderate and weak. The results of the PLS R-Squares represent the amount of variance from the construct described by the model (Ghozali, 2014). Based on the results, it can be seen that the existence of village governance variables can be explained by the variables of GICS, Village Financial Management, Apparatus Competence, and Organizational Commitment by 36.6%.

**Table 2.** Composite reliability and Crombach alpha test

Coefficient	GICS	VFM	APR	OC	VG
Composite reliability	0.871	0.843	0.897	0.833	0.941
Cronbach's alpha	0.822	0.766	0.868	0.749	0.932

**Table 3.** General SEM's Result

Test Indices	Index	P-Values	Criteria	Note
Average path coefficient (APC)	0.146	P=0.009	P<0.05	Accepted
Average R-squared (ARS)	0.366	P<0.001	P<0.05	Accepted
Average variance factor (AVIF)	2.577		acceptable if $\leq 5$ , ideally $\leq 3.3$	Accepted

## Hypothesis Testing Results

After the structural model evaluation stage, the next stage is hypothesis testing. The criteria used is the p-value; if the p-value is less than 0.05, the hypothesis is accepted. If it is greater than 0.5, therefore the hypothesis is rejected. The result of data processing using WarpPls 7.0 is shown in Table 4.

The first hypothesis (H1) in this study states that the GICS affects village governance. The test results on the path coefficient between the GICS and village governance show a path coefficient value greater than 0.1 and a p-value less than 0.05. Thus the first hypothesis is accepted. These findings align with Amijaya's research (2019), which states that by applying an internal control system correctly, it will be able to produce accountable financial reports. Therefore good governance can be established in government. In conclusion, a good government internal control system can also create good governance.

H2 states that village financial management affects village governance. The test results on the path coefficient between village financial management and village governance show

that the path coefficient value is greater than 0.1, and the p-value is smaller than 0.05. Thus H2 is accepted. These results align with the research by Savitri et al. (2019) conducted in Riau Province, which shows that sound financial management describes good accountability and will lead to good village governance. Sirajudin (2019) also obtained the same results, where managing village funds had a positive but insignificant effect on good governance. In other words, good village financial management is needed to improve village governance. By having good management of village finances to achieve organizational goals, the transparency and accountability of the apparatus in managing village funds will increase.

H3 states that the competencies of the apparatus affect the village governance. The test results on the path coefficient show that the path coefficient value is greater than 0.1, and the p-value is greater than 0.05. Thus H3 is rejected. These results contradict Arulrajah (2016) but align with research conducted by Arifal and Abral (2013), which states that human resources do not affect governance. In other words, the competence of the apparatus plays little role in improving governance. This is probably because village government governance activities are quite simple, not yet requiring high apparatus competence. Even so, there is still a need for routine socialization for officers in carrying out their duties.

H4 states that organizational commitment can moderate the relationship between the government's internal control system and the village government. The moderating var-

**Table 4.** Hypothesis Testing Results

Hypothesis	Path Coefficient	P-value	Result
H1	0.14	<0.001	Accepted
H2	0.28	<0.001	Accepted
H3	0.05	0.23	Rejected
H4	0.14	0.02	Accepted
H5	-0.14	0.02	Accepted
H6	-0.04	0.30	Rejected

iable implies that the causal relationship between the two variables changes as a function of the moderator variable. The path coefficient value is greater than 0.1 and the p-value (0.02) is less than 0.05. Thus hypothesis 4 is accepted. Thus organizational commitment to implementing an internal control system helps village governance. Different results occurred in the study of Siwambudi et al. (2017); the interaction between organizational commitment and the government's internal control system does not affect the quality of the Klungkung Regency Local Government Financial Report (Laporan Keuangan Pemerintah Daerah, LKPD) as one measure of good governance.

H5, which states that organizational commitment can moderate the relationship between village financial management and village governance, is accepted. The test results show that the path coefficient value is less than 0.1, and the p-value is less than 0.05. Organizational commitment will improve financial management and lead to good village governance. Defitri (2018) argues that regional finances must be managed orderly, complying with laws and regulations, effectively and efficiently, economically, transparent, and responsibly by paying attention to the principles of justice, propriety, and benefits for the community. According to Defri (2018), the function of regional financial management is attached to the elements of task implementation, which consist of allocating the potential of regional economic resources, the process of preparing the Local Government Budget, the existence of performance benchmarks and standardization, the budget implementation by accounting principles, the existence of a regional head financial accountability report, and existing function in controlling and supervising regional finances.

Lastly, the results of the H6 test show that the path coefficient value is greater than 0.1

and the p-value is greater than 0.05, so H6 is rejected. Organizational commitment cannot moderate the relationship between competence and village governance apparatus. These findings differ from Edlin's (2018) that organizational commitment can moderate the relationship between apparatus competence on the quality of financial reports. The difficulty of work carried out at the village level is likely a cause of organizational commitment not being able to strengthen the relationship between the competence of officials and village governance. In a different workplace, exemplary organizational commitment is needed to strengthen the relationship between village financial management and governance. In an effort to realize good governance, organizational commitment to improving the quality of human resource competence can be made by organizing education and training. This will also improve the quality and performance of the apparatus in carrying out the work.

Organizational commitment is a picture of a situation mutually agreed upon by all individuals in an organization to achieve common goals in the future (Arifin et al., 2019). The purpose of GICS, which is to oversee the activities of government organizations in order to achieve good governance, can be achieved if all of its apparatus are committed to achieving the same goal (Raiborn et al., 2017). Organizational commitment is also needed to strengthen the influence that accountable village financial management can have on the creation of village governance. Suppose the organization carries out its activities to achieve the goals of the organization without prioritizing personal or group interests. In that case, it can be implied that financial management will run under applicable laws and regulations also be accountable.

## CONCLUSION

This study aims to see the possibility of achieving village government with organizational commitment as a moderating variable in the village government of Rokan Hilir Regency. Based on data processing and analysis results, The Government's Internal Control System and Village Financial Management affect Village Governance, while apparatus competence does not influence village governance. Meanwhile, organizational commitment could not moderate the relationship between the government's internal control system and village governance but also between the apparatus competence and village governance. However, organizational commitment can strengthen the relationship between village financial management and village governance.

The research data was limited to only four representatives of the village apparatus per unit and only those who returned the questionnaire on time in Rokan Hilir Regency, Riau Province. Such limitation was a result of time constraints and restricted research funds. The research data was only obtained from questionnaires and did not use interview techniques to convince respondents' answers. Therefore, it is estimated that some respondents still need help understanding the questions specified in the questionnaire. For further research, we recommend adding other variables as factors that can affect village government governance. In addition to the questionnaires, in obtaining data from respondents, interview techniques are required for researchers to understand the respondents' answers better and enrich their research.

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## APPENDIX

**Appendix 1.** Loading value of latent construct indicators and to other constructs

Indicator	Loading	Criteria	GICS	VFM	APR	OC	VG
X1.2	(0.724)	>		-0.157	0.092	-0.018	-0.064
X1.3	(0.769)	>		-0.063	0.093	-0.062	-0.082
X1.4	(0.752)	>		-0.034	-0.113	0.231	-0.005
X1.6	(0.777)	>		0.048	-0.112	-0.020	-0.006
X1.7	(0.686)	>		-0.017	0.063	-0.069	0.057
X1.8	(0.657)	>		0.247	-0.014	-0.075	0.119
X2.1	(0.659)	>	0.035		-0.145	-0.028	0.195
X2.2	(0.770)	>	-0.066		0.141	-0.184	0.082
X2.3	(0.770)	>	0.108		-0.084	-0.165	-0.017
X2.5	(0.709)	>	-0.102		-0.017	0.343	-0.187
X2.6	(0.682)	>	0.025		0.093	0.064	-0.068
X3.4	(0.645)	>	-0.093	0.153		0.207	-0.042
X3.5	(0.662)	>	-0.006	-0.178		0.120	-0.007
X3.6	(0.650)	>	-0.114	0.136		-0.258	0.098
X3.7	(0.662)	>	-0.012	0.025		-0.231	0.023
X3.8	(0.714)	>	0.101	-0.098		0.121	-0.104
X3.9	(0.768)	>	0.091	-0.056		-0.286	0.049
X3.10	(0.834)	>	-0.002	0.022		0.090	-0.014
X3.11	(0.830)	>	0.008	0.010		0.201	0.002
Z1.2	(0.655)	>	-0.049	0.166	0.070		-0.066
Z1.3	(0.692)	>	-0.337	0.137	0.209		-0.130
Z1.4	(0.766)	>	0.124	-0.137	-0.093		0.000
Z1.6	(0.754)	>	0.091	-0.143	0.014		-0.032
Z1.7	(0.662)	>	0.153	0.014	-0.197		0.238
Y4	(0.726)	>	0.027	-0.124	-0.042	0.162	
Y5	(0.723)	>	0.000	-0.212	-0.021	0.120	
Y8	(0.621)	>	0.068	0.074	-0.012	0.228	
Y9	(0.514)	>	0.046	0.079	-0.046	0.107	
Y10	(0.708)	>	-0.120	0.175	-0.078	0.023	
Y11	(0.779)	>	-0.111	0.196	-0.050	0.020	
Y12	(0.763)	>	0.038	-0.037	-0.115	0.110	
Y14	(0.731)	>	-0.065	-0.106	-0.095	-0.003	
Y15	(0.700)	>	-0.125	0.062	-0.044	-0.026	
Y16	(0.855)	>	0.007	0.077	-0.114	-0.069	
Y17	(0.836)	>	-0.107	0.020	0.049	0.005	
Y18	(0.533)	>	0.193	-0.007	-0.126	-0.266	
Y21	(0.695)	>	-0.015	0.041	0.359	0.176	
Y22	(0.723)	>	0.129	0.231	0.125	-0.146	
Y23	(0.657)	>	0.103	-0.317	0.114	-0.300	
Y24	(0.675)	>	0.034	-0.183	0.101	-0.177	

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- 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.

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- The abstract should concisely inform the reader about the research purpose, its background, methods, findings, and value, or conclusion.
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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:

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#### 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, and the hypothesis (optional). The

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introduction contains previous similar research and the differences with the present research and the contributions given.

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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. The discussion section states 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.

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- 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.
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- Source and information placed below the figure title, left aligned, italic, 9 point Calibri.
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Saidi, M. D. (2011). *Hukum keuangan negara*. Jakarta: Raja Grafindo Persada.

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

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List the first four authors,... and ended the last author with “&”.

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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.

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