

Supreme Audit Institution of Indonesia: Interference in it's Independence

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ARTICLE INFORMATION

Article History:

Received August 02, 2020

Revised October 08, 2020

Accepted December 4, 2021

DOI:

10.21532/apfjournal.v6i2.213

ABSTRACT

Badan Pemeriksa Keuangan (BPK) is the Supreme Audit Institution of Indonesia. As a full member of International Organization of Supreme Audit Institutions (INTOSAI), BPK is expected to abide by INTOSAI Framework of Professional Pronouncements (IFPP). IFPP contains three categories of professional pronouncements which are principle, standard and guidance. All of them serve as a formal and authoritative announcement of the INTOSAI members. One of the most important and fundamental IFPP's principle is the independence of SAI. SAI can only accomplish their tasks effectively and objectively if they are independent of the audited entity and are protected against any interference. This study discusses the implementation of IFPP's principle of the independence of SAI by BPK, particularly on the aspect of independence to manage its own resources. The results of the study found that BPK has not yet fully independent to manage its own budget and audit staff.

Keyword: BPK, Independence, Audit, State Finance, Fraud Prevention

1. INTRODUCTION

Supreme Audit Institution (SAI) is an institution that has the task and authority to audit the government of a country. In general, there are three types of SAI, namely Court of Audit, Auditor General and Board of Audit. The tasks of SAI including financial audit, performance audit, and other type of audit. The task implementation can vary according to SAI model and system adopted by a particular country.

SAI around the world are gathered here under one global association called The International Organization of Supreme Audit Institutions (INTOSAI). By 2020, INTOSAI already has 195 SAI members from all continents. As an active organization, INTOSAI has developed the INTOSAI Framework of Professional Pronouncements (IFPP) on the collective

professional expertise of its members. IFPP consists of principle, standard and guidance for SAI in carrying out their tasks and roles.

The topmost in the IFPP is INTOSAI Principle-1 and INTOSAI Principle-10. These two principles provide the founding and core principle of SAI, which is independence. This study examines the independence of SAI of Indonesia, or known locally as Badan Pemeriksa Keuangan (BPK), by referring it to the INTOSAI Principle-1 and INTOSAI Principle-10 of IFPP.

2. LITERATURE REVIEW AND HYPOTHESIS

There is a growing global recognition and encouragement to strengthen the independence of SAI. In many countries, entities that are declared independent

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from the executive, such as SAI, are given freedom in determining their own resources. The executive does not interfere and modify the budget proposed by the SAI, except with the approval from the Parliament. The independence of the head of the SAI also be ensured, including tenure security and impunity in carrying out their duties. In addition, SAI also have independence to manage its own organization. And SAI is free from directives or interference from the legislative or the executive in carrying out its duties, including obtaining information and reporting on its work (SAO Poland, 2019).

The most fundamental and core to the existence of SAI is its independence. Various international body and organization have also acknowledged the central roles of an independent SAI in promoting good governance and accountability. One of the highlight recognitions coming from the United Nations in the 22 December 2011 General Assembly. During its plenary meeting, the General Assembly has passed a resolution for "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions". The resolution explicitly recognizes that supreme audit institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence (United Nations, 2012). And once again, during the plenary meeting of 19 December 2014 General Assembly, another resolution that emphasized the independence of SAI has been passed by the General Assembly (United Nations, 2015).

In their professional careers, SAI auditor must not be influenced by the audited organizations and must not be dependent on such organizations. SAI shall be provided with the financial means to enable them to accomplish their tasks. SAI shall be entitled to apply directly for the necessary financial means to the public body deciding on the national

budget (INTOSAI, 2020). Unfortunately, there are still a lot of countries that has not fully acknowledged and enforced the independence of their SAI. INTOSAI Development Initiative (IDI) Report published in 2017 found that 48% of SAI does not have a legal framework in place that fully protects their independence. There are 54% of SAI that have its budget process is overseen by the SAI's auditees and not by legislature. And 64% of SAI still intervened by the executive in their budget process (IDI, 2017).

As an umbrella association of SAI around the world, INTOSAI has pronounced a framework for the well-functioning of the SAI, known as IFPP. IFPP is a formal and authoritative announcement of the INTOSAI members. One of the most important and fundamental IFPP's principle is the independence of SAI. Aspects of SAI independence has been specified in INTOSAI Principle-1 and INTOSAI Principle-10, as follows:

- a. INTOSAI Principle-1 section 7 states that:
 - "Supreme Audit Institutions shall be provided with the financial means to enable them to accomplish their tasks";
 - "If required, Supreme Audit Institutions shall be entitled to apply directly for the necessary financial means to the public body deciding on the national budget"; and
 - "Supreme Audit Institutions shall be entitled to use the funds allotted to them under a separate budget heading as they see fit".
- b. INTOSAI Principle-10 section 8 states that:
 - "SAIs should have available necessary and reasonable human, material, and monetary resources - the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it appropriately";
 - "The Legislature or one of its commissions is responsible for

ensuring that SAIs have the proper resources to fulfil their mandate”; and

- “SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfil their mandate”.

3. RESULT AND DISCUSSION

SAI of Indonesia

SAI of Indonesia or better known as BPK is one of eight high-state-institutions of Indonesia. There are three legislative institutions (People’s Consultative Assembly, People’s Representative Council, and Regional Representative Council), one executive (presidential) institution, three judiciary institutions (Supreme Court, Constitutional Court, and Judicial Commission), and BPK as the supreme audit institution. In general, audits conducted by BPK can be divided into two types of audit, mandatory and non-mandatory audit. Mandatory audit is the audit of central and regional government’s financial statement. Mandatory audit must be carried out regularly and on-timely by BPK. While non-mandatory audit is the audit that is not conducted regularly, and it is based on BPK’s considerations and needs.

In line with the INTOSAI principle of the independence of SAI, the Constitution of the Republic of Indonesia of 1945 as amended for the fourth time in 2002,

has explicitly stated that BPK is a free and independent state institution. Specifically, BPK’s regulation is enacted in the Constitution articles 23E, 23F, and 23G. The declaration of BPK’s need to be independence in the constitution, has strengthen BPK’s position. So that, BPK’s independence can only be challenged through amendment of the constitution.

To implement the constitutional mandate, a Law No. 15 of 2006 about Badan Pemeriksa Keuangan has been issued. In article No. 2 of the Law, it is stated that BPK is a free and independent state institution in examining the management and responsibilities of state finances. The regulation elaborated in the Law has given BPK the freedom to carry out its mandate without worries of any kind of external pressure and influence. Because no entities are permitted by law to intervene in audit works conducted by BPK.

Government’s Budget

As a public institution, BPK is financed by public funding. In accordance with law on state finances, the power of the state financial management is held by the Minister of Finance. So that, the allocation and approval of budget for all public institutions in Indonesia, including the decentralization funds to regional governments, is fully under the authority of the Minister of Finance.

Table 1. Government’s Budget for Fiscal Year 2011-2019

Year	Total Budget	Budget for Provinces/ Regencies/cities	Budget for Central Government (Exclude Decentralization Funds)
2011	1.420.461.807.034.840	512.218.384.347.042	908.243.422.687.800
2012	1.685.943.472.947.000	616.409.028.000.000	1.069.534.444.947.000
2013	1.937.704.036.290.000	740.875.658.000.000	1.196.828.378.290.000
2014	2.013.257.685.584.630	732.889.111.283.629	1.280.368.574.301.000
2015	2.044.633.020.844.260	725.084.047.154.265	1.319.548.973.690.000
2016	2.422.444.718.306.580	1.115.748.736.193.580	1.306.695.982.113.000
2017	2.477.959.360.665.280	1.111.002.788.353.280	1.366.956.572.312.000
2018	2.606.200.244.403.270	1.151.705.854.383.270	1.454.494.390.020.000
2019	2.880.000.625.684.770	1.245.661.106.735.770	1.634.339.518.949.000

Source: Government’s Financial Statements by Ministry of Finance

BPK has the duty and authority to conduct audits on the management and responsibilities of state finances, which is the central government’s finances (APBN) and regional government’s finances (APBD). Based on data from the Ministry of Finance, for fiscal year of 2011-2019, the number of public budgets managed by the central and regional governments has experienced a significant increase of 102,75%. Regional government budget has increased by 143,19% and central government budget has increased by 79,95% (see Table 1). This huge amount was spent on various sectors of government’s programs and projects, as well as administrative supports that spread over 84 government ministries/agencies, 34 provincial governments and 508 regency/cities governments. Whereas, the increase in government budget is not always on par with the increase in BPK’s budget. The increase in BPK’s budget in the same period was only 34,72%.

Figure 1, shows the regional government’s budget is increasing. The amount of the regional government’s budget is seen getting closer to the amount of the central government’s budget. The increase in regional government’s budget is largely coming from decentralization funds transferred by the central government, as part of regional autonomy policy that has been implemented in Indonesia since 2000.

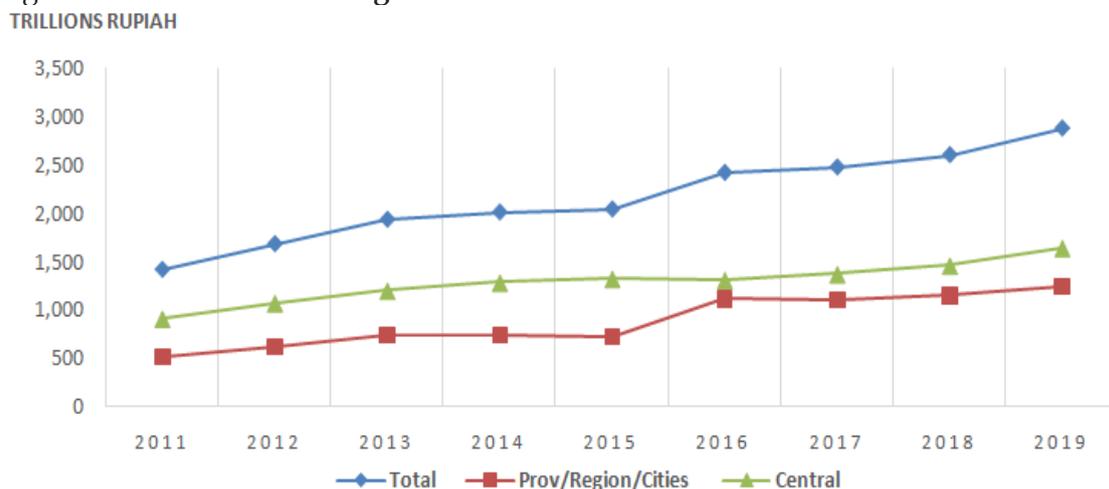
During the period of 2011-2019, the government had cut off the budget of ministries/agencies several times, including BPK’s budget. This budget revision is meant to finance other programs and projects which, according to the government, has more benefit for the public.

Independence of BPK

The establishment of BPK and the necessary degree of its independence has been laid down in the Constitution of Indonesia. And the implementation has been detailed in its derivative laws, on par with the INTOSAI Principle-1 and INTOSAI Principle-10 of IFPP. Meaning adequate legal protection against any interference with BPK’s independence and audit mandate has been guaranteed.

Law No. 15 of 2006 about Badan Pemeriksa Keuangan article 35 has stated that BPK’s budget is placed to a separate budget section in the state budget. BPK’s budget is submitted by BPK to DPR (People’s Representative Council) to be discussed in the preliminary discussions of the draft of state budget. The law seems in line and endorses BPK’s independence. But, in practice whenever BPK submits the budget proposal to DPR, BPK must refer to the budget policies and ceilings set out by the Ministry of Finance. Because Law No. 17 of 2003 about State Finance article 13

Figure 1. Government’s Budget for Fiscal Year 2011-2019



Source: Government’s Financial Statements by Ministry of Finance

states that “based on the macroeconomic framework and the principles of fiscal policy, the central government together with DPR discuss general policies and budget priorities to be used as a reference for each ministry or agencies in preparing its budget’s proposal”. Therefore, there is no guarantee that BPK will always receive budget allocation as proposed. In addition, like other ministries and agencies, BPK is given restrictions in making budget revisions and also subject to budget cut.

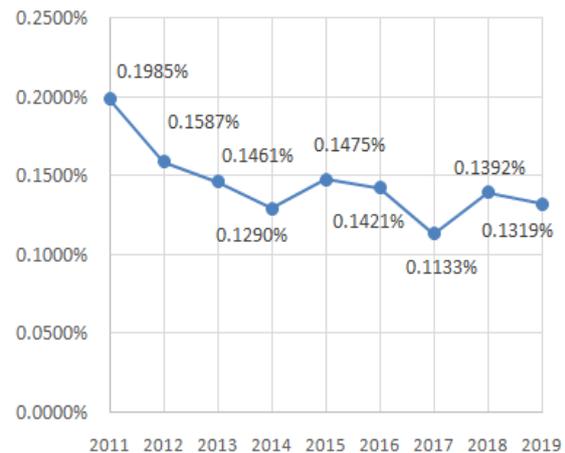
While the roles and responsibilities of BPK to audit government’s budget has not changed over the years. The ratio of the budget allocated to BPK compared to the government’s budget, experiences ups and downs (see Table 2).

There is still no empirical evidence that shows budgetary restrictions have an impact on the quality of audits conducted by BPK. But, regarding the non-mandatory audit, it can be seen that the ratio of the budget allocated by the government to BPK (see Chart 2) has affected the number of non-mandatory audit report published (see Chart 3).

By comparing of chart 2 and chart 3, it can be seen that the number of non-mandatory audit report was published the most in 2011, when the ratio of BPK’s budget at its peak (for the years being observed). Vice versa, the number of non-mandatory audit report was published the least in 2017, when the ratio of BPK’s budget at its least (for the years being

observed). Non-mandatory audit report is used as a comparison in this study, because the independence and freedom of BPK in determining the object and scope of its audit is reflected upon the number of non-mandatory audit report being published.

Figure 2. Ratio of BPK’s Budget to Government’s Budget for Fiscal Year 2011-2019



Source: BPK’s Financial Statements and Government’s Financial Statement

Increased government budget means more money needs to be audit by BPK. However, limited resources have prevented BPK from conducted all necessary audit. Budget and auditor’s limitations have an impact on the number of audits that can be performed by BPK. This can be seen from the number of non-mandatory audit reports published by BPK annually. These non-mandatory audits depict the independence of BPK, whether BPK can

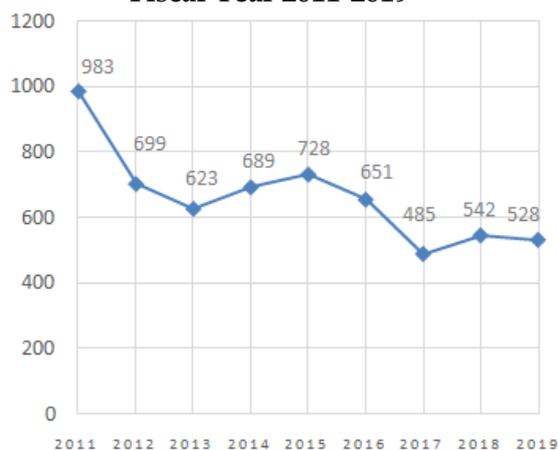
Table 2. Ratio of BPK’s Budget to Government’s Budget for Fiscal Year 2011-2019

Year	BPK’s Budget	Government’s Budget	Ratio
2011	2,820,097,896,000	1,420,461,807,034,840	0.1985%
2012	2,674,785,807,000	1,685,943,472,947,000	0.1587%
2013	2,831,594,415,000	1,937,704,036,290,000	0.1461%
2014	2,596,280,038,000	2,013,257,685,584,630	0.1290%
2015	3,015,523,798,000	2,044,633,020,844,260	0.1475%
2016	3,441,768,776,000	2,422,444,718,306,580	0.1421%
2017	2,806,880,353,000	2,477,959,360,665,280	0.1133%
2018	3,627,420,844,000	2,606,200,244,403,270	0.1392%
2019	3,799,181,325,000	2,880,000,625,684,770	0.1319%

Source: BPK’s Financial Statements, Government’s Financial Statement

carry out the audit in accordance with its considerations and needs. By referring to chart 2 and chart 3, the number of non-mandatory audit reports published are seen to depict the amount of budget allocated by the government for BPK.

Figure 3. Number of Non-Mandatory Audit Report Published for Fiscal Year 2011-2019



Source: BPK's Biannual Reports to DPR

Meanwhile, for conducting its duties and authorities, BPK hires auditors to carry out audits in the field. But these auditors cannot independently manage by BPK. As government employees, these auditors must comply to the provisions specified by the Ministry of Administrative and Bureaucratic Reform (PAN-RB) as regulated by Law No. 5 of 2014 about State Civil Apparatus (ASN). Like other ministries and agencies, the management of BPK's auditors is fully under the authority of the Ministry of PAN-RB and its agencies (Badan Kepegawaian Negara and Lembaga Administrasi Negara), while BPK only given the authority to handle day-to-day management of its employee. BPK requires the approval of the Minister of PAN-RB to recruit new auditor. The recruitment process including specification of candidate, procedures and stages of recruitment are also determined by the Ministry of PAN-RB. The number of auditor and positions that can be filled by new recruits, are also subject to approval from the Ministry of PAN-RB.

Ministry of PAN-RB has full authority to approve or reject the proposal of new recruitment from BPK. In addition, BPK must also comply with the regulations related to career path, promotion, filling up high ranking position, basic salaries, performance allowances, code of ethics and discipline of government employees as a consequence of enactment of Law No. 5 of 2014 about ASN.

The availability of the budget for employee expenditure is one of the main considerations of the government in recruiting new employees. In the past 10 years, the government has imposed moratorium on hiring new government's employee twice, that is in 2011-2012 and 2015-2017. During that period, no ministries nor agencies allowed to recruit new employees, including BPK. Throughout the moratorium, 1 new province and 11 new regencies/cities were formed. Although no additional auditors are allowed to be recruited, the newly-formed regional government must not be excluded from BPK's audit. Specifically, the audit of its financial statement, as Law No. 17 of 2003 about State Finance article 31 states that BPK must conduct an audit of the regional governments' financial statements. That makes the number of regional government's financial statements that must be audited annually by BPK raised to 542 provinces/regencies/cities. The work load had increased while the number of available resources still the same.

4. CONCLUSION

BPK can accomplish its tasks objectively and effectively if they can manage to be independent of the audited entity and are protected against outside influence and pressure. However, the reality does not fully reflect freedom and independence as it was intended. BPK has not yet fully obtained its rights and authority as mandated by the constitution. There are several aspects that do not fully materialize the independence and freedom for BPK, as it was supposed to. These aspects have

the potential to disrupt the independence of BPK as the supreme audit institution of Indonesia.

Although the constitutional amendments that determine the independence of BPK have been going on since 2002, its implementation is not yet fully followed-through. The increase of the government budget every year is not always followed by the increase of BPK budget and the number of auditors proportionally. BPK is also subject to budget cuts by the government. If one day for some reason (i.e. political, economy, social reasons, etc.) the government decided to save or to cut spending on all ministries and agencies, then it is highly likely BPK will not be excluded. This condition clearly does not meet the principle of independence of SAI as stated in the INTOSAI Principle-1 and INTOSAI Principle-10 of IFPP.

A proportionate budget and number of auditors is needed to ensure the audit coverage remains adequate and complies with guidelines and standards, and more importantly complies with the constitution and law. With the availability of sufficient budget and the number of auditors, hopefully BPK will be able to carry out all non-mandatory audits, which including performance and compliance audit, with broader scope, sectors, and areas of audit. So that, the audit result is expected to be better in quantity and quality.

However, there is no single blueprint for a successful SAI because of different model and context of SAI in each country. Because of the same reason, INTOSAI does not have a fixed formula to determine how much budget and number of auditors are appropriate for SAI. In Indonesia, the budget is believed to be sufficient if BPK can carry out all mandatory audits, and also can carry out all non-mandatory audits which according to BPK's considerations are needed and are strategic in improving management and accountability of state finances.

Limited authority of BPK in allocating the necessary budget and recruiting the required number of auditors has

interfered with BPK's independence. This limited authority makes BPK have no full and complete freedom to determine the object of audit, as mandated by the constitution and law. That is why necessary action must be taken by the government to put together the steps for BPK getting its full freedom in managing its own resources, in accordance with the constitution, applicable law and current international standards.

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