

DEVELOPMENTAL AUDIT: TOWARD A NEW ROLE OF PUBLIC SECTOR AUDITING IN DEVELOPMENT

Andi Wibowo

School of Social, Development and Environmental Studies,
Faculty of Social Science and Humanities,
Universiti Kebangsaan Malaysia, 43600 Bangi, Malaysia
Email: andiwbw@yahoo.com, Tel: +6281389895582

Hamzah Jusoh

School of Social, Development and Environmental Studies,
Faculty of Social Science and Humanities,
Universiti Kebangsaan Malaysia, 43600 Bangi, Malaysia
Email: hj@ukm.edu.my, Tel: 0183131398; 0389213650

Habibah Ahmad

School of Social, Development and Environmental Studies,
Faculty of Social Science and Humanities,
Universiti Kebangsaan Malaysia, 43600 Bangi, Malaysia
Email: ha@ukm.edu.my, Tel: 0389213603; 0173009598

Jalaluddin Bin Abdul Malek

School of Social, Development and Environmental Studies,
Faculty of Social Science and Humanities,
Universiti Kebangsaan Malaysia, 43600 Bangi, Malaysia
Email: jbam@ukm.edu.my, Tel: 0123865514

ABSTRACT

The main objective of development is to improve the well-being of citizen. To reach the objective, government, as an agent, receives mandates from citizens, as principals, to manage nation's resources in the best interest of citizens. To deal with agency problem between both parties, an independent audit institution that conducts public sector auditing is established to promote transparency and accountability of government. While the role of government and parliament in development is well understood, the role of public sector auditing in development is rarely mentioned. This stems from the tendency of current public sector audit to use post audit approach. The audit comes to evaluate financial and operational aspects of certain government program after it is completed. Information provided by the audit is important, but when certain audited program is already finished and found to be ineffective, the audit does not change the condition that the program does not create value for public. This emphasizes the importance of a developmental audit, a new type of public sector audit, which is intended not only to evaluate but also to make sure that development programs meet their objectives. Therefore, the objective of this study is to develop a new audit concept that will be able to promote development program effectiveness. In-depth interviews were conducted to ten senior government officials both in government institutions and Supreme Audit Institution of Indonesia. Senior government officials were selected based on their knowledge on audit concept and practice as well as their experience in public sector management. This study uses qualitative method by identifying factors to improve current audit practice that emerge during interview. This study proposes a new public sector audit concept that will change the way audit institution and government interact. Through developmental audit, an audit institution may and shall play a greater role in development to make sure that development programs are in compliance with rule and regulations, economical, efficient, effective and equitable.

Keywords: accountability, audit, development, effectiveness, transparency

Introduction

Objective of development is to improve the quality of life of people. Without an increase in quality of life across society, development is not effective although spending, output and other indicators are realized as intended (Soubbotina 2004, UN 2008, Peet and Hartwick 2009). For most people, development means availability and affordability of basic needs such as foods, health, education, safety, public services and equal treatment before law and powers. Because development focuses on the people, development necessitates that those items are available and accessible for people. Focus on the people underlines the importance of development concept that development should go beyond physical outputs such as roads, bridges and buildings, and that it concerns about not only economic, but also social, cultural and moral aspects of life. Thus, development is improvement in those interlinked aspects. It suggests that accomplishing certain growth rate by ruining environment and workers' life, or attaining certain economic indicator but the control and wealth are concentrated on the hands of few are not development. Means (average) data such as GDP per capita, growth rate or people per public facility(ies), such as hospital or number of physician, should also not be considered as sole indicators of development because the data hide unpleasant

phenomena such as inequality among groups of people, gender and location (rural vs urban) (Soubbotina 2004, Peet and Hartwick 2009, Sachs 2012).

Role of government in the development is of paramount importance as it receives mandate from people to manage resources for development. To achieve development objective, government breaks down the overarching objective into some goals based on national priority. Government sets various development programs to achieve each goal so that in the end, its overall goal to improve citizen's well-being is accomplished. Government also sets up mechanism and internal control system to ensure that the goals are achieved. Public and civil societies also play important roles in supporting development effectiveness either in controlling and monitoring government program as well as participating in the implementation development program. While parliament plays its role through its budget, legislative and monitoring function (Krishna, Wiesen et al. 2000). There seems to be proper check and balance between government and citizens either directly or indirectly, through their representatives. However, there is another party that may contribute to development effectiveness whose role has not been properly mentioned. It is supreme audit institution (SAI), a government's external auditor, which has authority to audit to all government institutions and organizations managing state fund. The audit conducted by SAI is known as public sector audit because it is conducted to public institutions and uses public sector audit standards.

Public sector auditing has been known to have a prominent role in development. It promotes transparency and accountability (Intosai 2013a, Intosai 2013b), two important aspects of good governance which is a prerequisite for an effective development (Sachs 2012). Garcia-Sanchez, Cuadrado-Ballesteros et al. (2013) adds that good governance promotes government accountability by creating good development outcomes. Public sector audit also plays significant roles in the development by ensuring that public money is spent appropriately (OECD 2011). However, we observe that currently there are some government programs that are not effective, either because they are wrongly planned or wrongly implemented, reach wrong target or produce unexpected result. In infrastructure projects there are also projects that are collapsed during construction, abandoned before completion or deserted after completion. The failed projects may have sophisticated design, use state of the art technology and implement tight control and evaluation. Yet, despite tons of regulations and tremendous efforts by government, failed programs occur repeatedly. Once certain program does not work properly, public sector auditors may present to identify weaknesses of the program in its planning, execution and monitoring, the cause of the problems including who to be held accountable, effect of the problem, and to provide recommendation for government so that the same problems do not recur in the future. Auditors may also uncover frauds and irregularities related to the project, if any, and report them to law enforcement officials. In this situation, audit report on the failed program provides information to people about nature of the program including what goes wrong with it. The report also portrays level of accountability of government officials related to the program. However, the report does not change the condition of the already failed program.

Hambalang case in Indonesia which causes state loss amounted to more than 2 trillion rupiahs can be a good example. There are some irregularities related to the incomplete and abandoned facilities from forged land deeds, manipulation of documents to bypass environmental regulations, a rigged bidding process and faulty construction process. Currently government of Indonesia tries to make use of the abandoned facilities because technical information also states that the land at which the facilities were built are unstable, making it not suitable for high stories building (The Jakarta Post 2016). Thus, careful examination should be paid to avoid further unnecessary losses. SAI of Indonesia has audited the project and successfully uncovered violations to regulations and frauds related to the project, yet, it does not change the fact that trillion rupiahs have been wasted for the facilities. SAI may receive credit for the audit, but for people, the audit does not change anything. The already failed project does not create any value for them whether or not the audit is conducted. For citizen, the whole money spent for the failed project is a loss because it could be spent somewhere else or in other projects that can generate value for them.

Another example on the SAI's inability to improve the value of development is on its financial audit activities. Every year government provides financial statements consisting of statement of income and expenditure, balance sheet, statement of cash flow, and note to financial statements, to be audited by SAI before the statements are provided to parliament as a form of accountability. The statements portray activities that have been conducted by government in financial terms. Because the statements describe what have been done, it is a perfect accountability about output of government activities. The statements depict how much have been earned from what source, how much have been spent for what activities, how much receivables and liabilities are incurred and so on. This information may be useful to make strategic decision by parliament and government for national development. However, for people, all the activities recorded in the financial statements have already taken place. SAI conducts financial audit and provides audit opinions for the statements. Regardless the audit opinion given by SAI, the opinion will not change the condition of people or defective projects built for the people. When the road has already broken although it is just completed, or when certain subsidy program goes to the wrong targets, any audit opinion on government's financial statements will not alleviate the problems.

When government programs do not meet their intended objectives, it is very convenient to point a finger to government about the failure. However, how about the other stakeholders? Have they played their roles properly? This research focuses on the role of SAI in development as it has authority to conduct public sector audit and to provide recommendation to government. Moreover, since its audit reports should be publicly available, SAI reports may provide better information about government development programs that can be used by other stakeholders to monitor development. With its authority SAI is said to improve government transparency and accountability. However, in the case of underperformed development programs, what has it contributed to the programs? This raises questions about the role of public sector auditing in development.

As demand and expectation for public sector audits are growing and the environment at which audit institution operates is in constant change, audit institution needs to manage itself to sustain the challenges and meet public expectation (Intosai 2007, OECD 2011). This requires audit institution to constantly evaluate its operations to make sure that they meet standards and

public expectation and remain relevant to its stakeholders (Intosai 2007, Intosai 2013a). To improve the role of public sector auditing in public transparency and accountability, there need to be an audit that promotes development programs' effectiveness.

Therefore, objective of this study is to develop an audit approach that is intended to promote development effectiveness. This approach will strengthen the role of current public sector audit in development because currently it focuses more on finding and curing instead of preventing and promoting. This audit will minimize the gap between transparent and accountable government, two aspects that public sector audit try to enhance, with development effectiveness. When the audit is directed toward promoting program's effectiveness, public will get more benefit from the audit because it improves the benefit that they acquire from the proper program delivery.

Literature Review

Agency Theory

The role of audit in development through examining and promoting the quality of government's information and accountability can be explained using agency theory. Ittonen (2010) describes four theories highlighting the need of audit in principal-agent relationship, namely policeman theory, lending credibility theory, theory of inspired confidence and agency theory. Of the theories, agency theory is the most prominent and widely used theory (Ittonen 2010) because it is used not only in accountability area, but also in areas such as accounting, finance, marketing, political science, government studies, organizational behavior, and sociology (Shapiro 2005, Attila 2012). In audit field, the theory is also useful to explain the development of audit (ICAEW 2005).

Agency theory outlays the relationship between independent auditor, government and citizens. It addresses and solves agency problems stemming from information asymmetry and lack of trust problems that exist when principal (owner) entrusted his/her resources to agent (management). Although it is commonly used to explain and solve agency problems in private sector, it can also be used to deal with agency problem in public sector (ICAEW 2005, Kivisto 2007, ittonen 2010, Monteiro and Coêlho2015). Thus, agency theory is an important theory in both public and private sector (Schelker 2008).

Relationship between government and parliament can be seen as principal-agent relationship where parliament, as representation of people, acts as a principal, and government that uses and manages resources acts as agent. As a consequence, government needs to account to public for their management of public resources and attainment of public objective (IIA 2012). Principal agent relationship carries an inherent risk that is called agency problem where agent does not act for the best interest of principal because of moral hazard and adverse selection. Two protuberant means to mitigate the risk are through compensation and monitoring that can be conducted by internal and external units (Shapiro 2005, Kivisto 2007, Leruth and Paul 2007, Attila 2012).

Monitoring by internal unit is important to alleviate agency problems within organization, such as between superior and subordinates, but it is not sufficient to convince external stakeholders about the quality of information produced by an agent because internal audit unit carries risk of not being objective and independent in discharging its responsibilities. This signifies the need of independent audit to verify agent's work and information (ICAEW 2005) because effective audit will reduce the risk of agency problems (IIA 2012). Independent audit is also important to enhance confidence and strengthen trust in information provided by agent, and in public sector, audit shall provide objective and independent assessment to government's performance (Matendera 2013).

Independent audit is a mechanism to resolve information asymmetry and lack of trust issues (ICAEW 2005). An independent party is needed to examine the credibility of agent's report, compliance and performance because several factors that present in the principal agent relationship such as conflict of interest, remoteness, complexity and consequence of error (IIA 2012). From the principal perspective, auditor presents to reinforce the trust, and ensure that agent acts in line with principal's interest, and from agent's perspective, auditor is important to convince principal about the correctness of reports and prepared by agent and agent's performance (Monteiro and Coêlho 2015). To serve the purpose, public accounting firm acts as external audit institution in private sector while in public sector, supreme audit institution is unit set up to act as external audit unit for government. Although SAI's position and function vary among countries, depending on each country's regulation, SAI serves mainly to examine and improve government's transparency and accountability and provides its report to public and parliament (Shah 2007).

In addition to becoming government's external auditor, because it is part of regulatory system (Intosai 1977) where it has a mandate to perform certain state function, SAI also provides service for both agent and principal by providing credible and useful information for them (Badamdorj 2010). This means that SAI audit should benefit for both government and citizens (Intosai 2013a) because as a public entity, SAI also needs to act to the best interest of citizens at all times (IFAC and CIPFA 2014). For government, SAI audits should present not only to evaluate their performance and compliance, but also to help them carrying out their tasks properly, while for citizens, SAI audits should provide some assurances that government acts for their interest. For the SAI to do audit that serves the interest of stakeholders, SAI needs to regularly confirm to its stakeholders extent to which its audits fulfill their expectation. Active and open communication with stakeholders is also a method to ensure that SAI and its works remain relevant to its stakeholders (Nagy 2015).

From agency theory point of view, SAI has unique position because in one side it is an independent auditor to government, but on the other side it is also part of the owner of nation's resources. Badamdorj (2010) points out that "Since the SAI represents the principal; it is required to act as a principal and from the principal's position towards custodian, utilization and management of public resources". Thus, it acts as auditor and in the same time also represents principal to monitor the government because it also has interest in the effectiveness of development program.

Agency theory assumes that agent is not trustworthy and will try to maximize its own interest although at the expense of principal (ICAEW 2005, Monteiro and Coêlho 2015). Because some agents may have high level of integrity, extent of monitoring or audit should be adjusted according to level of risks of agency problem's occurrence in the principal-agent relationship. Following SAI maturity triangle, when risk of non-compliance in government institution is high, external auditor should focus on lower level of triangle, which is to combat corruption. When the risk of non-compliance gets lower, SAI may shift its attention toward improving government's performance or move up even higher such as to provide insight and oversight to government (GAO 2007).

Although SAI presents to reduce agency problem, in performing its duties, SAI also acts as an agent while, in an audit assignment, parliament or citizens become principal. This creates principal agent relationship at which risk of agency problem may also appear. In this case, question about who audits the auditors will also come in to surface (Shapiro 2005). However, to mitigate this problem SAI has had internal and external mechanism to make sure that its works are objective and of high quality, because otherwise it will lose its credibility.

Public Sector Auditing

Auditing is a process of comparing what is with what should be. Intosai (2013b) provides specific definition for public-sector auditing as: "a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria."

The main purpose of public sector auditing is to ensure transparency and accountability of government (Intosai 2013a). There are three types of public sector audits, namely financial audit, performance audit and compliance audit (Intosai 1977, Intosai 2013b). Although the names in each country may vary, the classification embraces type of audits that are conducted in all SAIs. Lima Declaration (Intosai 1977) states that those audits are equally important and each SAI may determine its priority based on each country's condition.

There are three types of audits that are mentioned in International Standards of Supreme Audit Institutions (ISSAI), namely financial audit, performance audit and compliance audit. Although the names in each country may vary, the classification embraces type of audits that are conducted in all SAIs. Financial and compliance audits are intended to provide opinion or conclusion on financial statements and government programs, so they are not creating new information. Performance audit has unique characteristics as it is not only to conclude about the degree of performance, but also to improve the performance of audited entities. Performance audit sometimes deals with creating new information for parliament since ordinary reporting mechanism does not provide sufficient information to answer public or parliament's needs who want more information about government stewardship (Raaum and Morgan 2009).

Compare with other types of audit, performance audit has specific feature as it provides recommendation (Intosai 2013c). Audit recommendation is not required for financial and compliance audits, while for performance audit, recommendation is required as it is intended not only to uncover the weakness and evaluate performance of government spending; but also to fix any deficiency and to improve performance. Sometimes it is also called value for money audit, operational audit or management audit (Schultz and Brown 2003). Thus, performance audit improves government performance through its recommendation and insight as it tells management how government program should be designed and run to create maximum benefit for public. This will guide government to design and or run upcoming program and activities more efficiently and effectively (Ling and Dijk 2009).

Public sector audits in Indonesia consist of three types of audits which are financial, performance and special purpose audits. While financial and performance audits in Indonesian SAI (BPK) are similar to that in Intosai definition, special purpose audit in BPK is wider than Intosai's compliance audit because special purpose audits embrace any other audits other than financial and performance audits. Hence, compliance audit is included within the definition of special purpose audit (GOI 2004, GOI 2006). However, in this study, compliance audit and special purpose audit are used interchangeably.

Previous Research On Public Sector Auditing

Despite the lack of research related to SAI and its audits (Nagy 2015), available research in public sector audit tends to focus on measuring existing public sector audit's effectiveness in combating corruption, the quality of information produced by SAI audit reports, the effectiveness of current public sector audit and the role of auditor in certain audit engagement.

Some studies try to identify factors that hamper SAI performance in properly discharging its function. Matendera (2013) found that lack of resources, training, capacity building and knowledge on issues such as governance, professionalism and integrity become considerable factors that hamper SAI performance. In addition, low staff motivation, political interference, communication and leadership are also problems faced by auditor in the SAI of Kenya. Mamidu, Balogun et al (2015) conducted study in Nigeria and they found that corruption, non-independence of SAI and poor human capacity in the SAI are the most prevalent factors that contribute to the weaknesses of SAI of Nigeria in promoting public financial management and accountability in the country. Ijeoma and Nwufu (2015) who also conducted their study on the SAI of Nigeria agreed with (Mamidu, Balogun et al 2015) and they added that several factors pertaining to SAI organization such as constitutional limitation to SAI, light punitive sanctions, dependence on executive, late presentation of reports and lack of prosecuting authority found to significantly affect SAI performance. They also mentioned that lack of stakeholder support such as government's inaction to audit queries and non-functional public account committee also contribute to SAI's low performance. Masood and Lodhi (2015) who conducted study on SAI of Pakistan found that in addition to those mentioned by previous researchers, factors such as massive corruption, conservative auditing methods, low morale of auditors, lack of financial, technological and human resources, lack of qualified trainers and ineffective training institutes also contribute to ineffective audit. Those researches underline the fact that organizational factors and auditors' professionalism are prevalent problems that hinder SAI in properly discharging its function. Gustavson (2015) who conducted cross national evaluation demonstrated that if public sector audits are conducted

according to good government auditing principles, which are the independence of SAI to executive, auditors at SAI possess appropriate education and qualification and that SAI reports are communicated regularly to public, they will improve performance of government that is measured using several characteristics such as equity, non-patronage, non-nepotism and anti-corruption.

Organization and resources are factors that need to be improved. Stakeholders support also important without which audit would not produce intended effect. However, less attention has been given on audit approach, ignoring the fact that the failure to provide intended effect may also be caused by lack of existing audit methodology because appropriate methodology may also encourage stakeholder such as citizens and to actively participate in audit and in state financial management (Baimyrzaeva and Kose 2014, EIP 2014, IFAC and CIPFA 2014). With appropriate methodology, some of problems mentioned above can be alleviated. Less attention has been paid to the understanding whether current public sector audit practice is adequate to meet stakeholders' expectation.

Some studies also highlight the importance of types of audit to address certain objective. For example, Othman, aris, et.al. (2015) state that operational audit is appropriate to detect and prevent corruption, while Agbo and Aruomoaghe (2014) and Odi (2014) state that performance audit is significantly correlated with reduction in corruption and improvement in government's Performance. However the studies tend to measure the importance of existing public sector audit to serve certain purpose.

Nagy (2015) points out an important point when discussing about value creation that SAI should strive to provide meaningful information for stakeholders' decision making purpose. He adds that to create the value, SAI needs to remain relevant to stakeholders' needs and for that, SAI should do more intense communication with stakeholders, be innovative in terms of new audit methods, conduct capacity building and refocus the audit to audit objects that deal with social welfare (Intosai 2013a, Nagy 2015). In line with this view, Gustavson (2015) mentions that one of characteristics of good government auditing is to recognize people as the principal who delegate authority to government. This requires public auditing agency to act in the interest of people and meet their expectations. When people expect that SAI should participate more in development, SAI should strive to meet the need. However, there have not been many studies criticizing the role of current public sector audit practice in development. This study will complement scant literature on the role of public sector audit in development.

Methodology

This study is descriptive and uses qualitative methodology (Gray 2013). Developmental audit framework is developed using ISSAI frameworks to guide in-depth interview. Interviews were conducted with 10 senior officials of SAI of Indonesia and government entities. SAI officials selected for interviews were from research and development unit and senior auditors. Research and development officials were selected because they are familiar with auditing standards, both BPK's and international's, and best practices in public sector auditing as well as their expertise in the development of auditing standards and manuals. Senior auditors were selected because they deal with day to day audit activities from planning to reporting, interact with officials of audited entities, communicate with public to get information about audited object and evaluate entities' internal control system. Their knowledge about audit and how it affects and benefits development program is important to suggest improvement to current public sector audit approach. Senior officials of government entities were selected because they know development programs in their entities quite well. They are also involved in various audit, control, monitoring and evaluation related to their programs. Therefore, they have sufficient knowledge about the current state of control mechanism, what its inadequacy is and how to improve it.

In the interview, questions about role of current public sector audit and how it can be improved to promote development program effectiveness were delivered. Public sector audit framework developed by Intosai is used to guide the interviews. Interviews were tape recorded and transcribed. Each interviewee is then identified with R (respondent) 1 to R 10. From the interviews, some important characteristics that may improve current audit practice were then identified. Although framework used in this study is commonly used in external audit, interviewees were free to criticize it because questions about who should conduct the developmental audit were delivered as well.

Developmental audit framework

Intosai developed public sector auditing framework that guides the development of framework for financial, performance and compliance audit approaches (Intosai 2013b, 2013c). Because the framework is comprehensive, it is used as a base to develop a developmental audit approach. Characteristics in the framework are categorized into four categories: conceptual components to accommodate the specific characteristics of developmental audit and auditors' qualification to conduct the audit, operational components to describe the stages of developmental audit process, organizational components to elaborate the conditions that need to be met by audit institutions to enable developmental audit to succeed and external components to accommodate audit institutions' relationship with its stakeholders to gauge the effect of the audit to development.

Framework for developmental audit can be elaborated below:

1. Conceptual Components:

Developmental audit concept

- a. Definition
- b. Objectives
- c. Common Concepts
- d. Subject matter
- e. Criteria
- f. Audit approach
- g. Audit time

Auditor qualification

- h. Communication
- i. Skills
- j. Professional judgment and due professional care

2. Operational Components:

- a. Planning
- b. Conducting
- c. Reporting
- d. Follow up

3. Organizational components

- a. Independence
- b. Ethics
- c. Quality control
- d. Transparency and accountability

4. External components

- a. Relationship with parliament,
- b. Relationship with law enforcement officers
- c. Relationship with other stakeholders

Discussion

All respondents agreed that the framework developed by Intosai is appropriate to develop a developmental audit approach. In addition, some interviewees such as R2, R 4 and R5 suggested that existing compliance and performance audit concepts could be used as a base for developmental audit. This means, and all interviewees agreed, that external audit institution or SAI is the most appropriate institution to conduct Developmental Audit because external components in the framework can only be done by external auditor. However, concerns about independence, conflict of interest, and interference to government operation require serious consideration so that SAI's independence is not jeopardized by its closer relationship with development program as addressed by R 5 and R 7.

Developmental Audit shares some similar characteristics to existing public sector audit concept. However, there are some aspects below that distinguish it with existing public sector audit concept.

1. Developmental audit appears in various critical stages of development program.

Developmental Audit can be conducted before certain program is started (ex-ante), during its execution (midterm) and after it is completed (ex-post). This implies that the audit is not only conducted after certain development program is completed. This may be against the view of post audit proponents stating that public sector audit should be done only after one fiscal year has been passed or after certain development program has been completed.

R 1 stated that:

“There is a general understanding that BPK can only audit after output of certain program has been produced, and that is what is called a post audit approach. However it is not quite true because post audit can also mean that audit is conducted after certain subject matter has been completed. For example, when we evaluate planning, we start from planning document, and then we review the document and the planning process. BPK can decide the timing of audit, whether ex ante, midterm or ex post, and it is protected by law”

R 1's statement strengthens the opportunity for BPK to get involved in development from the very beginning of the project, because in opposite to commonly held view that BPK can only come after all have been completed, R 1 believes that BPK can present in any stages of development program. This requires that auditor identifies the most critical stage of the program where an audit may provide the highest value to audited program. Importance of determining critical stage of the project is also stated by R 3. R 3 further suggested that because of resource limitation, one audit is sufficient for each program as long as the audit is conducted in the most critical stage of the program. However, presence in any stage of development program, if only once, may not be sufficient because there is a risk for the audit to come too late or too early. If auditor chooses to come after the program is completed, this certainly will be too late, because it will be just like an ordinary audit that only evaluate, measure, judge, and prove. Similarly, when audit is conducted too early, it will give less value for the audited program.

R 9 addressed this concern, by stating that

“it seems that BPK deliberately comes after the project is completed only to find mistakes and apprehend corrupt officials. BPK should come earlier so that any frauds, mistakes and problems that potentially hamper the project efficacy can be detected and solved earlier to minimize loss to society.”

R 6 exemplified the case where BPK audit should be conducted before a flawed project is completed. Thus, R 6 highlighted the importance of preventive audit by BPK. He said that there was a corruption case related to the procurement of Uninterruptable Power Supply for public schools in Jakarta. The purchase was not only too expensive but also considered not proper because there are some more urgent needs for public schools in Jakarta. He mentioned that the money would be better disbursed for other purposes such as class room addition and improvement. When BPK conducted an audit on the procurement, BPK uncovered the

fraud, detected the mark up and many other violations related to the case. However, for public, the findings did not bring any value for them. It would be better if BPK could present earlier to prevent the case from happening. R 6 mentioned that this case also indicated that government internal control system did not work properly so that external party was needed to mitigate the problem.

About SAI's tendency to present on a completed project, R10 shared this concern by emphasizing that auditor seemed to select failed project because that was where they could find many audit findings. He further questioned whether number of findings was an indicator of good audit because it seemed to be the main driver for auditor to do the audit. He realized that Government auditing standard has stated that the value of audit is not on number of findings but on how the audit may improve the quality of public fund management, however, during the audit, efforts seemed to be focused on finding mistakes.

R 2 provided different opinion by stating that audit should present at various stages of development program, by stating that:

“for audit to promote effectiveness, it should follow the program from very beginning. However, to maintain independence, auditor should determine subject matter carefully and conduct an audit after it is completed, because otherwise it will be involved in the program management which will hamper SAI's independence.”

This view becomes one of important characteristics of Developmental Audit because various presences throughout development program cycles are important, not only to monitor follow up actions by government, but also to evaluate relevance of program's progress toward objective attainment. Thus, information provided in audit report can be used to make strategic decision about the program during the course of the program and before it is too late.

Various presences during program cycle is important, however it also requires a good audit plan. This necessitates an auditor to get a thorough understanding of development program being audited in order to properly plan the audit so that when, where and at what stages audit should be conducted shall be identified earlier. It is also important for SAI to open itself to public opinion so that its audit priority is relevant to people's expectation. SAI shall be open to discuss its audit plan with expert in the field and communicate the plan with stakeholders, including government, so that every stakeholders of the program can work together to help the program achieve its objective. Because the purpose of Developmental Audit is to promote development effectiveness, early communication with government and other stakeholders about developmental audit plan will motivate and encourage government to work properly at least in the program being audited.

There are some concerns about the various presence approach. First is about burden born by audited entities. If audit presents couple of times in certain program, resources spent to facilitate the audit will be enormous and this will, to some extent, affect the program delivery. However this may not be the case because scope and extent of audit should be adjusted with risk of the program. When everything is in place and carried out properly, the risk of failure of the program will be low and therefore number of sample and depth of examination should be less. The opposite is true, when the program is not planned and implemented properly, extent and depth of examination of audit will be more and audited entities will spend more resources for the audit. In this case, everybody involved in the program should work harder, not to serve the auditor, but to make sure that the program achieve its objectives.

Another concern about this approach is about maintaining distance to the audit object so that SAI is not considered part of government entities. To deal with this issue, R 2 addressed a strategy about clear cut off of the project stages. R 2 stated that once certain stage is completed, SAI can conduct an audit on the stage. This means that auditor did not involve in carrying out the stage, instead, he should conduct audit on completed stages or after the stage has been completed. This requires good communication with stakeholders by SAI so that every party related to the program understands the intention of audit and also the right and obligation of each party.

2. Developmental audit covers both process and result aspects of development program

Developmental audit should evaluate both process and result of certain stage of development program being audited. While process implies compliance, result implies performance. Both aspects are necessary for the program to be successful. Although current public sector audits to some extent cover both aspects, they tend to focus on one over another. For example, financial audit tends to focus on output, compliance audit on process, while performance audit can focus on either one based on the approach chosen.

Developmental Audit focuses on both process and result as both are important aspects of good management process. R 4 stated that both aspects should be evaluated for the audit to provide thorough picture about program being audited. He emphasized that focusing on compliance and performance aspects is important because focusing on one over the other may provide misleading picture. For example, R 4 continued, there was a successful project; however, during its implementation, the project manager took some initiatives beyond existing procedures to deal with encountered problems. In this case, if an audit was focused on process, he or she would tend to highlight the condition that the manager deviated from written procedures. Another example was about an unused facility that was built exactly according to procedures. If an audit was focused on compliance, it will highlight managers' compliance toward procedures, ignoring the fact that the project, although producing correct output, did not produce intended outcome and impact. If the audit was focused on result only, it might also provide distorted picture about certain program, because program success or failure may also be affected by external factors. Therefore, if an audit considers both aspects simultaneously, it will be able to provide better picture about the program, to what extent government officials comply with the rules, to what extent output and outcome are achieved and how external factors interfere with objective attainment.

While agreeing on the importance of both aspects, R 3 offered different perspective by stating that compliance was like a prerequisite for the program to be successful because if compliance was still an issue, no matter how good the design and how

strict the regulation were, there would be a tendency for government officials to deviate from the plan or the regulation, thus the risk of program failure was high. Therefore if government tended not to comply with regulation, there was also high tendency that audit recommendation would not be followed up properly. In this situation, audit should be focused on compliance aspect instead of on performance. R 8 added that compliance was important because rules and regulation were set up to guide program to be successful, when those rules were not complied; there would be a chance that the program will be failed.

Both views underline the necessity for Developmental Audit to cover both process and result in certain important stages of development program being audited so that the program goes as planned, compliance aspects are adhered throughout the program and audit recommendations are followed up properly. There is, however, an important view about the need to focus the audit depending upon the condition of audited entity. Developmental Audit accommodates the difference as it selects audit object and focus based on risk. When the risk of non-compliance is high, more emphasis will be given to compliance aspect that significantly affect program effectiveness without ignoring the output produced in respective stage. The output in certain stage is important to be evaluated because it will be an input for the next stage, thus it will affect the output of overall program. When risk of non-compliance is low, efforts will be directed toward helping entity improve its performance. Developmental Audit provides assurance that when project is completed, compliance is no longer an issue because any non-compliance should be detected and solved earlier. When compliance is still a big problem, it is difficult to evaluate the soundness of the design because if officials tend to corrupt, no matter how good the design is they will find a way to take advantage of the program for their own benefits.

Because result becomes a focus of Developmental Audit, when program is completed, auditor also needs to ensure that development program reaches intended recipient, in the right amount and time and thus producing intended outcome and impact. Thus, in the very end of development cycle, Developmental Audit also needs to measure impact of program. This is an important effort to measure the 'revenue' of development without which we will rely on government's claim on the successfulness of certain development program. However, R 8 adds that when evaluating impact is too complicated, auditor should not stop at evaluating output but should go beyond it, at least assessing whether the output is properly used according to program design. R 8 also suggests that equity aspect should be included in the ex post audit because in providing service to citizen, there should not be any discrimination against race, religion, color or political affiliation. In addition to providing feedback for government, an ex-post audit is also important to evaluate the role of developmental audit in promoting program effectiveness.

3. Developmental Audit encourages public engagement in audit

The problem in conducting developmental audit lies in the limited number auditor compared with number of programs that need to be audited. In this case there should be criteria for a development program to be audited. Programs that deal with public service and people's welfare and that have significant budget should be prioritized. Although prioritization may reduce number of programs eligible to be audited, relying on internal capacity will significantly limit the scope of programs that can be handled. In addition, some programs although meet those criteria are dispersed in many locations so that acquiring representative samples will exhaust available resources. This is where SAI may find a problem. Encouraging public engagement in developmental audit is a strategy that can be achieved to overcome resources shortage issue. Current public sector audit involves public, experts or NGO as sources of information for the planning and conducting stages of audit. However, the involvement of public in the audit is limited as a source of information as mentioned by R 3 who stated that auditor might requests public to monitor the program. This role puts public as source of information that will provide periodic update to the auditor. Although in this role public may not act on behalf of BPK, they have much more information than auditor that may not be able to frequently visit the site.

R 1 stated that BPK might utilize external source to assist its audit as what currently has been implemented. R 1 mentioned:

"If currently it uses experts to deal with specific issues during the audit and public accounting firm to conduct financial audit for and on behalf of BPK, I think it is possible that in certain circumstances we can use NGO or experts to conduct developmental audit."

Developmental Audit tries to push public involvement further by involving them in the audit. This means that public, with certain requirements and after receives sufficient training, can be involved in the data collection process. Public involvement has two advantages, for SAI and for public. For SAI, this will help reduce resources required for audit. This is useful especially for programs implemented in remote areas where sending auditors to the areas costs a lot of resources. Involving them in the audit has distinctive advantage because they live in the area and know the daily progress of the program although systematic supervision, adequate quality control and quality assurance are also essential to prevent abuse of authority and to ensure high quality of audit report. For public, involvement in audit is part of their engagement in development program. Because in the end of the day they will be program beneficiaries, this involvement can be seen as their roles to maximize the value that they will get from the program. R 8 also emphasized importance of public, especially program beneficiaries, in providing information about the benefit of program to them during impact evaluation.

4. Developmental Audit requires external audit institution to have a closer cooperation with internal control system.

For the developmental audit to be efficient and effective, external auditor should have a close cooperation with internal auditor. The cooperation is conducted to ensure that audit activities by those institutions can reach more programs, synergetic and do not overlap to each other. This is also done to give additional emphasis to internal audit's works so that problems they found are not only noticed but also solved because they may be further analyzed by SAI and included in its reports.

Close cooperation between SAI and internal auditor will make monitoring and evaluation activities more efficient and effective because they will reduce redundancy and improve capacity through experience and knowledge sharing. This can only be done if the work of internal auditor is coordinated with external auditor. Thus, external auditor shall receive the works of internal auditor and use their reports as a source of information for its audit. The limitation of works done by internal auditor is that the work is

kept inside the ministry or local government. Developmental audit facilitates the mechanism to externalize internal audit report to reach external stakeholders, because external stakeholders such as public and parliament also need the report to monitor government.

R 1 stated that SAI should empower internal auditor so that there will be synergy between the two institutions. To get to productive cooperation, improvement in internal audit capacity is necessary because otherwise internal audit reports will not be valuable. To accomplish this, BPK may provide training to internal auditor about how to conduct Developmental Audit. SAI may use internal audit reports to determine risk, critical area and scope of audit. SAI may even involve internal audit to assist its audit, either to share the resources or part of strategy to improve internal auditors' competence. When internal audit has a good capacity, internal audit and external audit may divide programs based on certain criteria, such as size and budget of program as R 8 suggested.

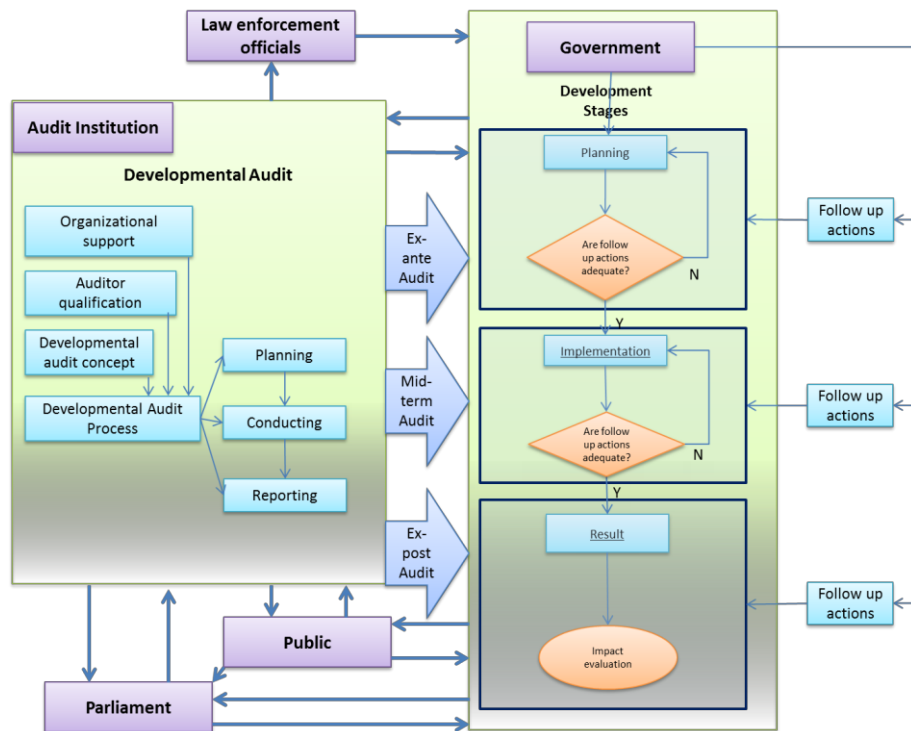
5. Developmental Audit requires prompt and proper follow up actions on audit recommendations

During the audit, Developmental Audit may find some findings that can be categorized as critical and non-critical. Critical findings can be defined as findings that significantly affect the program effectiveness such as findings about inadequate planning, wrong location selection, unqualified contractor and wrong methodology. For critical findings, auditor should provide recommendation that has to be followed up by government before certain program can proceed to the next stage. Thus, mistakes like wrong location and wrong design will not happen in the program. Requirement to follow up recommendation before the program can proceed may slow down the project but it is an important step for project effectiveness. R 2 stated that

“follow up to the recommendation in one stage should be conducted before the project can proceed to the next stage because otherwise the program may deviate even further from its objective”. To avoid project delay, management and other stakeholders should commit to follow up the recommendation because it is necessary for the project to succeed. R 5 added that sometimes follow up actions could not be done quickly since they require involvement of other entities. Since SAI audit reports reach many stakeholders, the report can become a tool of communication among stakeholders about the problems so that better and faster solutions can be reached. Non critical findings are findings that do not significantly affect program effectiveness and thus follow up actions on audit recommendations can be done along the course of the program.

Graphically, the Developmental Audit framework can be portrayed in figure 1. The figure portrays that there is always two-ways communication between SAI and stakeholders, except for law enforcement officials when corruption case occurred.

Figure 1. Developmental audit mechanism



Because Developmental audit is conducted in some important stages of development program and its reports are made available to public, it enables and facilitates more active interaction and coordination among development stakeholders in development. Thus, auditor, government institution, internal auditor, public, parliament and law enforcement official can actively participate to promote program effectiveness according to their functions, not only to strengthen monitoring function, but also to find the best solution for encountered problems. More engagement by various stakeholders in development should not be interpreted as public distrust to government; instead, it represents public concern to development to help government achieving its development objectives. Therefore, if developmental audit is conducted properly, it will improve SAI's role in development to make sure that

development programs achieve their objective economically, efficiently and equitably. Although it is based on Indonesian condition, the result can also be used in any SAI, given mandate allows the SAI to do so.

Conclusion

Public sector audits, consisting of financial, performance and compliance audits, have important roles in promoting transparency and accountability. Although transparency and accountability are important components for government effectiveness, the role of public sector auditing is rarely acknowledged in improving citizens' well-being, the main objective of development. In Indonesia, public sector audits are conducted by supreme audit institution, an institution that has similar position to government and parliament before Indonesian constitution. Notably known for its post audit approach, SAI often comes when development programs are already completed. Audits on unused facilities, ineffective programs and defective projects may provide thorough analysis and information about the weaknesses on programs' planning, execution and delivery, and the causes and effects of the problems. However results of the audits do not change the fact that the programs did not create value to public.

To improve the role of SAI in development and to maintain its relevance to the people, SAI should enhance its current public sector audit practice by conducting a developmental audit. The audit is intended not only to evaluate but also to promote development effectiveness. Sharing some characteristics with existing public sector audit, it has some distinctive characteristics. First, it is conducted in various critical stages of development programs. This approach is necessary to assure that audited program runs according to plan in terms of budget, technical specification and progress, and that audit recommendation are followed up properly. Although developmental audit presents in various stages of development program, SAI should understand that it is an independent institution so that appropriate distance should be maintained from the audited program. Second, developmental audit pays attention to process and result of audited development program stage. This approach will provide stakeholders with thorough information about audited program. Third, developmental audit encourages public participation in the audit. Public participation in an audit is currently limited to as a source of information. Developmental Audit aspires to push public participation further by involving them in the audit. Fourth, SAI needs to work closely with government internal control system so that developmental audit can be carried out efficiently and effectively. Fifth, follow up mechanism should be improved because regardless how well any audit is conducted, it will really create add value to audited program when it provides useful recommendations and that audited entities follow the recommendations up promptly and appropriately.

Developmental Audit enables and facilitates more active interaction and coordination among development stakeholders, so that they can engage more in development. For government, stakeholders' involvement should not be considered a form of public distrust, instead, they should be considered as public concern to support development. With the developmental audit, any problems inhibiting program effectiveness should be detected earlier and solutions to the problem can be solved early and promptly. Through developmental audit, SAI can improve its accountability to public and demonstrate its relevance to people and development.

Developmental audit can only achieve its fullest potential if all stakeholders are willing to participate in the audit and utilize audit result properly. Thus SAI should work closely with government institutions including government's internal auditor to conduct audit efficiently and effectively. Close cooperation with government is also needed to make sure that government implements follow up actions to SAI recommendations quickly and appropriately. When project obstacles are beyond government's reach, for example due to budget constraints or lack of legislations that need involvement of parliament, SAI should also work with government and parliament to make sure that fast and legitimate solution can be reached quickly and properly.

Developmental audit requires auditors to possess strong understanding about research methodology, topics related to development in general and audited programs in particular, in addition to understanding in auditing and accounting. There should be also a shift in paradigm from finding mistakes to seeking solution, from segmented perspective to holistic perspective and from short term orientation to long term orientation because all findings should be related to how they affect projects' objective attainment. This requires intensive training and practice, preferably by involving experts in program evaluation during the assignments. However, because of limited resources, conducting more audits imply that SAI needs to shift its attention from financial audit by allocating more resources to conduct more developmental audits. Eventually, for the DA to be implemented properly, SAI needs to prepare and adjust existing legislation and standards.

This study is intended to identify a new type of public sector audit approach that will enhance its role in development. Further research needs to be done to assess the concept's viability and applicability so that the audit can produce intended impact.

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