

IMPACT OF TECHNOLOGY DEVELOPMENT

IN STRENGTHENING PUBLIC ACCOUNTABILITY AND TRANSPARENCY:

THE AUDIT BOARD OF THE REPUBLIC OF INDONESIA'S EXPERIENCE

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Sub-Theme 2 : The Challenges for Ensuring Transparency and Accountability in Specific Areas of Public Financial Management

The Audit Board of the Republic of Indonesia

ABSTRACT

As a supreme audit institution, the Audit Board of the Republic of Indonesia (the Audit Board) has been challenged to promote public transparency and accountability for more than ten years. Public demand for better transparency and accountability began in 1999 when reform movement occurred in Indonesia, which was in line with changes in more democratic political system.

The changes in Indonesian political system affected the Audit Board's mandate and functions. The Audit Board has had much clearer mandate, broader audit scope, and larger number of audited entities, which resulted in institutional changes. In terms of the mandate and audit scope, the Audit Board conducts audits on all state-finance managed by central, provincial, and local governments, state-owned enterprises, central bank, public service organization, and other parties who manage state-finance. The number of audited entities is more than two thousands.

As mentioned on the Amended Constitution (2001-2003), the Audit Board has to establish its regional offices in each province in Indonesia. Before the amendment, the Audit Board had only 7 regional offices. Consequently, the Audit Board has been developing its capacities in terms of human resources, budget, and infrastructures.

Another challenge of the Audit Board in promoting transparency and accountability is the current quality of transparency and accountability. There have been cases on unclear and misstatement financial statements, weak law enforcement, , fraud, corruption, smuggling, illegal logging, and abuse of power.

In 2009, the Audit Board introduced an e-audit strategy in order to have better and sounder monitoring system by using technology development. By this strategy the Audit Board built data link and match system produced by entity information system. The Audit Board uses interface to access audited entity's data and provide a portal, command center, and smart engine, which processes data automatically by conducting some procedures such as comparing.

The e-audit strategy is supported by audit law (2004) and the Audit Board Law (2006) mentioning that all audited entities have to provide data requested by the Audit Board. Although there are strong mandate and authority, the Audit Board invited audited entities to sign memorandum of understanding (MoU) for data access. Currently, the Audit Board has signed more than a thousand MoU with audited entities, and implemented pilot projects for e-audit in some audited entities representing central and local governments and state-owned enterprises.

By e-audit, there are some advantages. In terms of audits, efficiency and effectiveness can be increased. First, audit scope can be broadened. Second, audit fieldwork can be focused on some risk areas based on e-audit analyses. Third, audit quality can be improved. In terms of good governance, e-audit promotes transparency and accountability. E-audit can also be used as early warning system in state finance management and accountability.

1. BACKGROUND

The Audit Board of the Republic of Indonesia was established on January 1st, 1947, one and half years after the Independence of the Republic of Indonesia, August 17, 1945. One day after Independence, the Indonesian Constitution was launched. The 1945 Constitution mentioned the existence and mandate of the Audit Board of the Republic of Indonesia.

After the establishment, the Audit Board had played its roles based on the mandate. Laws and regulations, and economic, social, and political system influenced the Audit Board roles especially during a revolution era post independence (1945 – 1965) and new order government (1966 – 1998). Changes to more democratic system in 1999, known as a reform era, affected significantly public sector auditing in Indonesia due to a public demand on improving transparency, accountability, and free of nepotism, collusion, and corruption.

The initial change came in 2001 when the 1945 Constitution was amended. Based on the third amendment of the 1945 Constitution, the Audit Board of the Republic of Indonesia has much clearer and more detailed arrangements. The Amended Constitution mentions the mandate, audit report submission, structure, and general organization of the Audit Board on three articles and seven verses, while the 1945 Constitution only mentions the existence and general mandate on one verse, a part of finance matter chapter. The Amended Constitution also requires the Audit Board to establish its regional offices in every province in Indonesia.

The second change occurred in 2003-2004, when three laws on state finance, state treasury, and audit of state finance management and accountability were launched. Based on those laws, audit scope of the Audit Board is much clearer. The independence of the Audit Board is also much more secured. The Audit Board has right to audit all entities or parties who manage “state-finance”.

The third change was revision of the Audit Board Law, as a consequence of above changes. The new Law on the Audit Board (2006) introduces more collegial leadership and secured authority, and promote transparency and accountability of the Audit Board.

Those changes have affected the Audit Board in terms of institutions and audit performance. Institutional changes contain introduction of new collegial leadership, increase numbers of regional offices, human resources, infrastructures, budget, and changes in organizational system including guidelines.

Regarding audit performance, the Audit Board has to perform financial audits for at least 602 central and local government entities, performance and special purposed audits, including requested audits by parliament. With more than 2,000 audit entities across nation and submission over 1,000 audit reports to the House of Representatives, the Regional Representative Council, and governments twice a year, BPK is encountering the increasing

stakeholder's expectation due to the needs of promoting good governance and combating corruption, as well as strengthening public accountability and transparency.

On the other hand, the Audit Board has major constraints such as the number of auditors and time of audit. The Audit Board has currently had at least 2.700 auditors working at the Headquarter and 33 regional offices. Regarding time constraint, the Audit Board has to submit audit reports of the financial statements not later than two months after receiving un-audited financial statements from the government, regardless the size of governments. In addition, the parliament in some cases expected the Audit Board to submit the audit report based on their request in a certain-short time.

Dealing with those conditions above, currently the Audit Board has been developing an initiative, called by the Audit Board synergy, through optimizing information technology. This paper is intended to share the current initiative and to obtain views, comments and suggestions in order to improve the initiative in the future.

2. THE INITIATIVE: THE AUDIT BOARD'S SYNERGY AND E-AUDIT

Basic Consideration and Understanding

The Audit Board synergy is developed in order to build a data center by introducing and implementing data linking and matching with audited entities. The objective of the synergy is to improve monitoring over state-finance management and accountability in Indonesia.

This strategy is introduced because the Audit Board is aware that there is a huge gap between the number of audited entities, audit objects, expectation of stakeholders, and the limited resources. By developing this strategy through utilization of information technology, the Audit Board expects to close the gap .

In the late 2009, the Audit Board introduced an electronic audit (e-audit) concept as a realization of the Audit Board Synergy. The e-audit is a system that enables data communication, linking, and matching between the Audit Board data and audited entities, creates audit data center, and provides a better monitoring of state-finance management and accountability.

Legal Basis

In developing and performing the e-audit, the Audit Board has authority to obtain all data needed for audit purposes. This is mentioned on the Audit of State-Finance Management and Accountability (Law Number 15 Year 2004) and on the Audit Board Law (Law Number 15 year 2006). Those Laws requires all audited entities and/or other parties managing state-finance to provide data requested by the Audit Board.

Objective

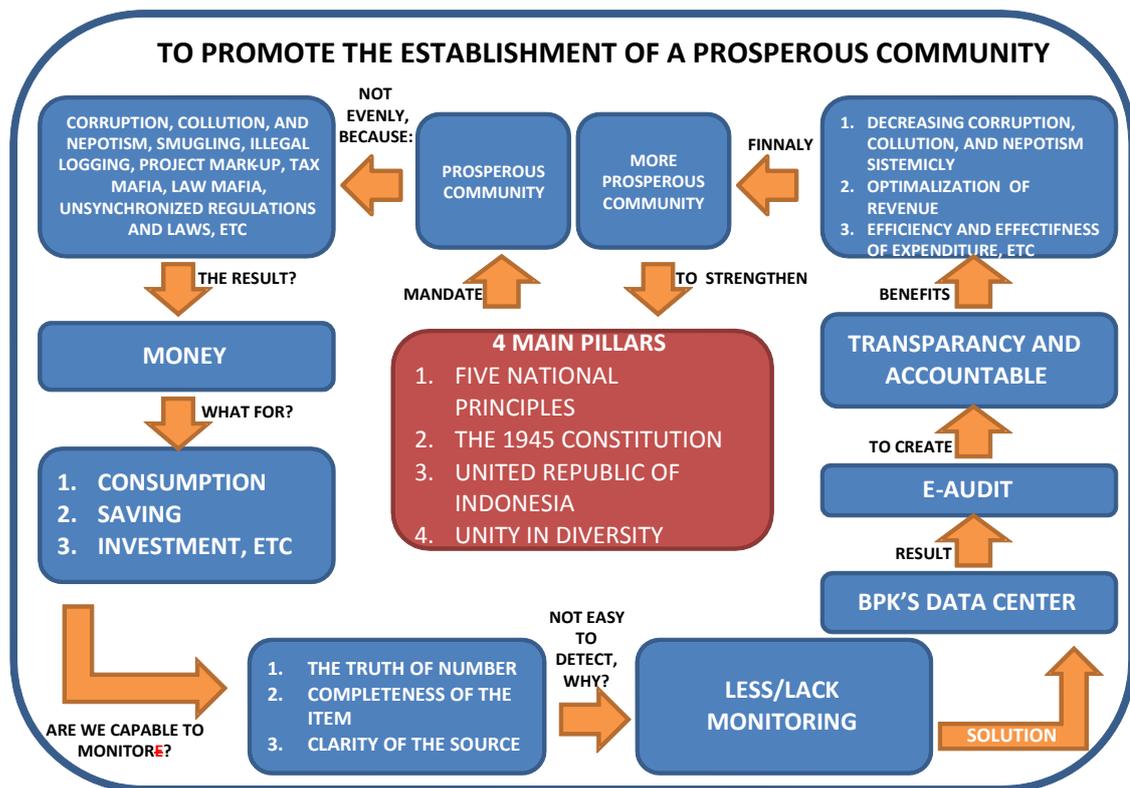
By the synergy and e-audit, the Audit Board would like to shift a perspective of the audit as a burden into as a need. The Audit Board asks all audited entities join this data link-match project in order to promote transparency, accountability, efficiency, and effectiveness of state-finance, reduce corruption, collusion, and nepotism systematically, and optimizes national income and expenditures for people welfare.

In audit objective, the e-audit is introduced and implemented in order to enhance audit efficiency and effectiveness. Auditors monitor auditee and other relevant data at their offices, and they will go for site visit whenever it is necessary. If they find inconsistent or un-match and abnormal data or information, they will clarify them to auditees by e-mail, phone, or mail correspondence. If there is a need to check physically, they will have a site visit program. Therefore, the contact with auditees will be minimized, and the cost of field visit will be more efficient and effective.

Conceptual Design

The conceptual design of the e-audit is founded on the objective to maintain four national pillars: (1) Five National Principles; (2) United Republic of Indonesia; (3) the Constitution; and (4) Unity in Diversity. These pillars have to be established in Indonesia which has diversity in terms of tribes, ethnics, languages, and economic and social welfare. The later diversity, regarding people welfare, has challenged Indonesia due to social injustice and inequality. Indonesia has currently been struggling with smuggling, corruption, illegal logging, weak law enforcement, taxation problems, and also disharmonized laws and regulations. These problems have affected Indonesian economy (distribution of money), which can be used for consumption, savings, and investments. These problems are not easy to be assessed in terms of the accurate amount, complete items, and clear sources, because the monitoring system is weak. This means that there is no systemic monitoring system that can check and compare all relevant data automatically such as social security number system or multi-media supercorridor with a smart card.

The Audit Board Synergy and e-audit are developed to have a strong and sound monitoring system. All relevant data will be managed in the data center, which has a smart engine operating automatic checking procedures. Therefore, this synergy and e-audit are expected to promote better transparency and accountability, which are essential to reduce corruption systematically and increase effectiveness of national income and expenditures for people welfare, which is very important to maintain the four national pillars.

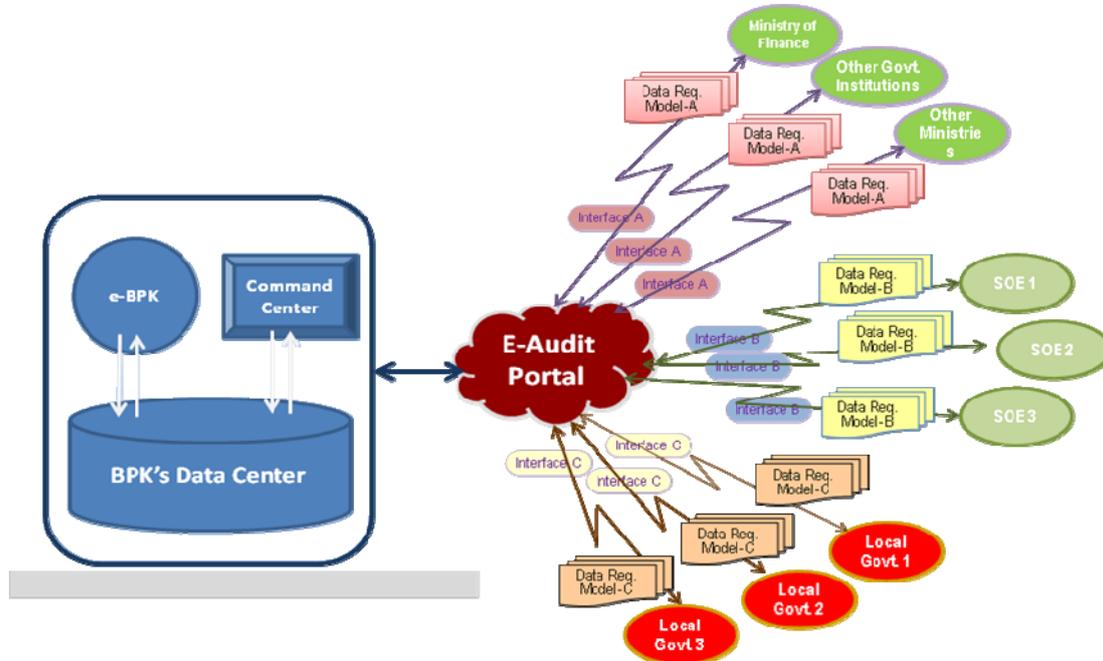


3. LINK AND MATCH

The Audit Board and e-audit have a link and match mechanism and the operation of the Audit Board (BPK) data center. The Audit Board obtains all data or information from all resources. The data and information flow into the BPK data center electronically. In the BPK data center, there is a smart engine, which perform some structural audit procedures automatically such as comparing all relevant data. If there are inconsistent or unmatch data, there will be detected by the smart engine, and the Audit Board will identify and confirm them to relevant audited entities. In addition, the Audit Board uses information from the data center for checking or reviewing the auditee reports. If there are some different data or information, the Audit Board will confirm to the relevant auditee by correspondence or if necessary by conducting field visit.

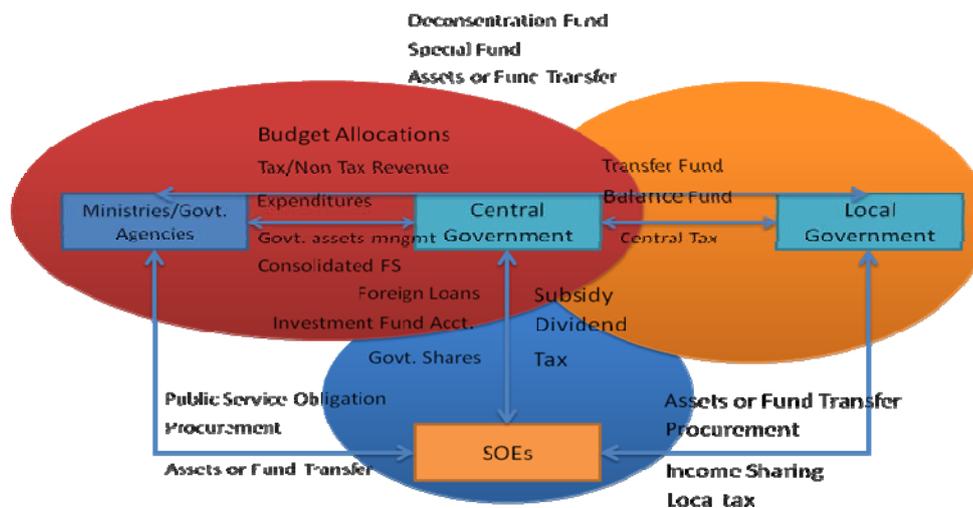
The implementation of e-audit will mainly rely on seven components which are BPK's information system (E-BPK), BPK's Data Center, BPK's Command Center, and BPK's E-Audit Portal, Interface, Data Requirement, and Auditee Data Warehouse. Initial step of e-audit is clustering data, auditee data profiles are clusterized in order to make same data requirement and its interface. In this matter, the Audit Board also performs general assessment on auditee IT system and maturity. The next step, after data requirement and interface are developed, data can be transmitted into the e-audit portal as a temporary or data recipatory. The data will be sent to BPK data center through command center. In the data center, there is a smart engine. Data on the data center can be used for e-audit.

E-Audit Infrastructure and Data Linking



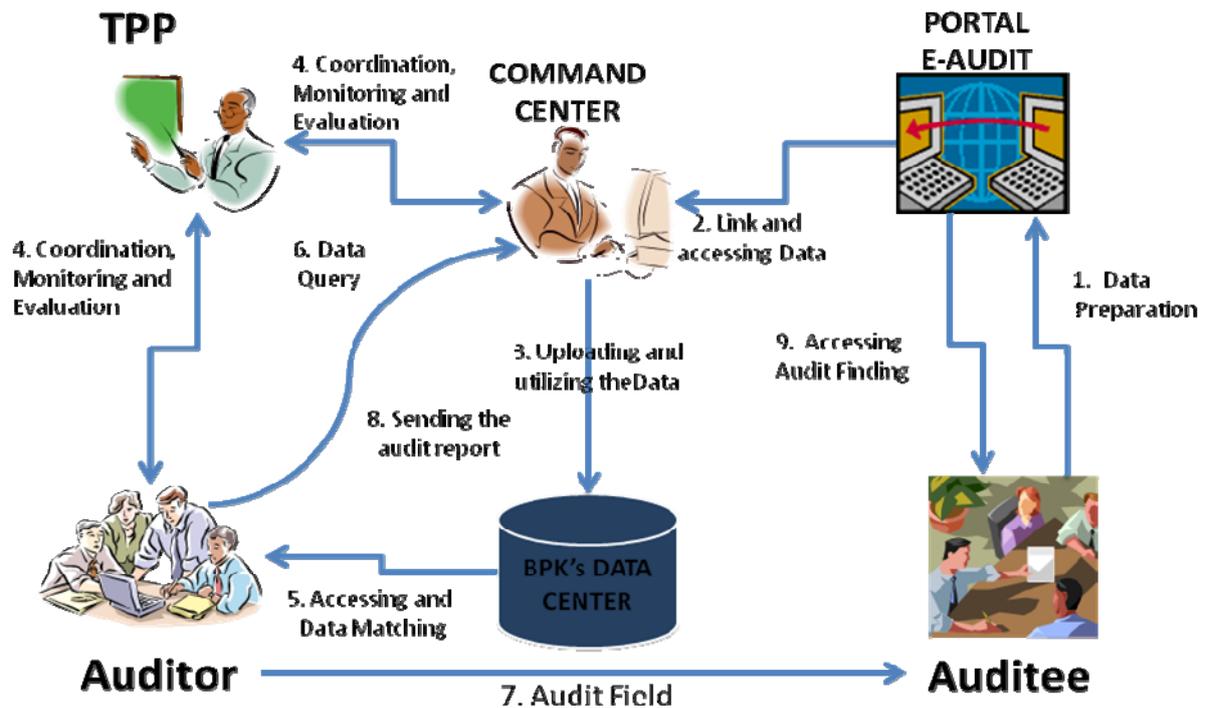
The success of the implementation of e-audit requires the participation and involvement from all units, mainly through the utilization of the audit assignments. The illustration below depicts the relation of data among entities that can be utilized by using e-audit (data matching).

Data Matching Among Entities



Auditors are able to use e-audit by using a web portal that facilitating auditors as well as audited entities to creating data communication. The scenario of e-audit implementation is elucidated below:

E-Audit Implementation



The utilization of e-audit does not change the audit methodology. Nevertheless, it eases auditors in gathering data related their audit assignments in timely manner and facilitating them in performing a sound analysis over related data. A steady E-Audit System can increase an economic, effective and efficient audit engagement particularly when auditors are pursued to gather information from third parties or from remote data sources.

A steady plan of E-Audit System does not mean that the project will not be facing some problems and obstacles. Some identified problems and obstacles are: lack of human resources in government entities, both in quality and quantity; miscellaneous form of financial management among government entities; and a massive budget for IT infrastructure development both in BPK and government entities.

As an effort to anticipate the situation, BPK has established some significant actions such as: Strengthening BPK's capacity building particularly in human resources; establishing communication with government entities.

4. CHALLENGES

In developing and implementing e-audit, there have been challenges:

- a) First, it is not easy to change mindset and culture in using technology. This challenge occurred not only in audited entities but also in internal Audit Board management.**

The Audit Board's auditors and its entities used to practice conventional audit, in this process the auditors have to visit the audited entities for entry briefing, interviewing and collecting data. By using e-audit, the auditors and entities do not need to meet for collecting data, the auditors can access data from the data center. This is not easy since both auditors and entities will feel awkward during the audit process. To change their mindset, BPK should intensively campaign this system to the auditors and auditee.

- b) Second, technology level varies among audited entities.**

Technology, especially information technology, has been developing very fast. BPK's entities have different level in technology competency. The entities which are located in Jakarta or capitals of province will update the new technology faster than those which are located in rural area. This case causes gap or problem in communicating the access of data.

- c) Third, data validity and security have been concerns of the Audit Board and audited entities.**

Data is very important in audit process, so the validity and security should be kept.

5. LESSON LEARNED

Although there are strong mandate and authority as stipulated in the audit laws, the Audit Board and its entities sign memorandum of understanding (MoU) for data access. This MoU will strengthen commitment to implement BPK synergy.

The implementation of e-audit will give benefits for BPK's stakeholders namely supporting the improvement of system, procedure and managing transparent and accountable state finance. E-audit will give benefits to both BPK and audited entities. The advantages for BPK are that the audit will be more effective, the scope of audit will be broader, the cost of audit will be more economical, the completion of audit process will be faster.

The advantages for the entities include saving time to provide document needed by the auditors, the deviation of management and accountability of state finance will be detected and corrected faster by effective audit.