

# LESSONS LEARNED FROM SUSTAINABLE DEVELOPMENT PERSPECTIVE ON PERFORMANCE AUDIT OF MARINE MANAGEMENT IN INDONESIA

**SAI Indonesia**

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## Abstract

The objective of this study is to investigate the impact of sustainable development perspective on the audit approach of the Audit Board of the Republic of Indonesia (BPK). This study employs stakeholders and institutional theories to explain the impact of the consideration of sustainable perspective on BPK's audit approach and audit conclusion, using qualitative content analysis. The sample consists of performance audit reports conducted using sustainable development perspective and performance audit conducted with economic perspective without sustainability perspective. Both audit reports are related to marine resources. The analysis shows that sustainable development perspective influences the audit approach and audit conclusion. Audit findings at the performance audit that use sustainability perspective are more comprehensive than audit findings that only use economic perspectives. Audit conclusion at performance audit with focus on economic benefit

is more favorable to business owners than to marine sustainability. In contrast, the audit conclusion with sustainability perspective is more favorable to marine sustainability than to business owners.

**Keywords:** sustainable development; institutional theory; stakeholder's theory; performance audit.

## Introduction

The concept of sustainable development is not novel for BPK since it already conducts several environmental audits. However, sustainable development issues are not always considered at every BPK's audits. Performance Audit Report on the Effectiveness Marine Development to Support Sustainable Development is considered as one of the performance audit that employs sustainable development perspective, with the objective to assess the effectiveness of marine development conducted by East Nusa Tenggara Provincial Government to support sustainable development goals (SDGs). The scope of this audit includes the institutional arrangement and management of marine ecosystem, marine conservation, and public services to support public welfare.

As the world's largest archipelagic country, the fisheries sector has an important contribution

to employment in Indonesia. It has been estimated that wild capture fisheries employs approximately 2.7 million workers and majority are small-scale fishers. Unfortunately, Indonesian fisheries sector is threatened by unsustainable extraction of marine resources (overfishing, illegal, unreported and unregulated (IUU) fishing and destructive fishing practices), coastal development and destruction of marine habitat, climate change, and pollution (California Environmental Associates, 2018).

There is an argument that the existing fishing practices in Indonesia is unsustainable and tend to 'get rich quickly' from the sea without considering sustainability. Many fishers use unsustainable fishing equipment such as trawls and seine nets. It is estimated that the number of trawls is more than 14,357 units in 2017 and this figure increases continuously (finance.detik.com, 2017). Trawls and seine nets catch small fish before they reproduce and destroy coral reefs and the seabed ecosystem. If fishers use unsustainable fishing practices continuously, the stock of fish will be depleted and the future generations may not get benefit from marine resources.

There are two objectives for this study. Firstly, to investigate the impact on performance audit when auditors consider environmental and sustainability



Sea profile of East Nusa Tenggara Province (source: Performance Audit Team)

issues by interviewing senior auditors involved in these performance audits. Secondly, this study also tries to investigate the factors that influence auditors to consider environmental and sustainability issues in performance audit. The first objective will be conducted by comparing two of BPK's performance audit reports related with marine resources management that use different audit perspectives. The first performance audit only uses economic approach while the second performance audits also consider environmental issues and sustainability perspective. Finally, the second objective will be done by interviewing and checking the background of the auditors conducting the performance audit.

Considering that BPK carries out an audit of SDGs preparedness since 2019 and will continue with the audit of SDGs implementation in 2021, this paper does not intend to describe the strategy for examining SDGs nationally. However, this paper is more of a lesson learned from the audit using the perspective of SDGs carried out in one of the provincial governments in Indonesia compared with another performance audit of non-SDGs perspective in national government level. This is done by paying attention to the principles of the whole of government, multi-stakeholders approach, leave no one behind, adjusted to the INTOSAI KSC and UN (2018) guidance for SAI on Auditing Preparedness for Implementation of Sustainable Development Goals. In this sense, SDGs implementation audit is an audit of a series of policies that contribute to the achievement of nationally agreed targets related to one or more SDGs targets.

## Theoretical Framework

### *Institutional Theory*

This study uses an institutional theory to explain the change of audit approach in BPK. It is possible that mimetic and normative isomorphism may occur and change the selection of audit approaches and audit themes by BPK. As a member of INTOSAI, BPK actively communicates with others member of INTOSAI and this communication spreads best practices on audit approaches and audit topics among the members of INTOSAI.

### *Stakeholders Theory*

A number of authors argue that stakeholders analysis is important in program planning, problem solving, decision-making, and policy analysis (Bryson, Patton, & Bowman, 2011). Stakeholders' analysis is needed to investigate the attitude of stakeholders to a program or policy. The attitude of stakeholders (resistant, supportive, or neutral) usually depends on the impacts of a policy or a program to them and to society.

The Stanford Research Institute (1963) defined stakeholders as all parties that can influence the sustainability of an organization (Wang, Liu, & Mingers, 2015). Stakeholders can also be defined as all parties that can affect the sustainability of an organization and those that are affected by the activities, behaviors, and policy of an organization (Freeman, 1984; Freeman & Reed, 1983). This definition is more inclusive than the definition of stakeholders proposed by the Stanford Research Institute (1963). Based on the inclusive definition of stakeholders, an organization should consider the impacts of its actions to every constituent without considering the ability of a constituent to influence the survival of an organization (Bryson, 2004; Dhanani & Connolly, 2012).

An organization has various and diverse stakeholders such as resource providers, employees, regulators, beneficiaries or consumers, communities, future generations, and non-human life (Starik, 1995). Nature and non-human life cannot voice their interests, therefore intermediaries is needed (Hörisch et al., 2014); thus NGOs, academics, and civil society usually act on behalf of nature and non-human life.

For analyzing the impacts of government policies, we need to broaden the definition of stakeholders in every audited subject matter. There are two issues related to the impact of government policies and the interest of stakeholders. First, government programs or policies usually affect a broad range of stakeholders and the impacts are not always positive for every stakeholder. A few stakeholders may be aggrieved by a policy issued by government. Secondly, every stakeholder has different expectation and interest

and may conflict and cannot be reconciled (Chen & Roberts, 2010).

There are many marine stakeholders and these stakeholders have different interests. The interests of stakeholders can be divided into two main categories, namely those who prioritize on short-term economic welfare and those who prioritize on long-term welfare and sustainability. The role of government is to balance between the short-term economic benefit and long-term economic benefit.

## Research Methods

This study employs content analysis of document and semi-structured interview data. Two audit reports focused on marine resources management are analyzed. The first audit report is Performance Audit Report on Fishing Boat and Fishing Equipment License published on 10 January 2018 (Audit Report 1) while the second audit report is Performance Audit Report on the Effectiveness of Marine Development to Support Sustainable Development published on 12 February 2019 (Audit Report 2). Interviews are

conducted with staff and senior management of BPK involved in both audits. Interviewees are selected on the basis of seniority, experience and knowledge.

Content analysis is a general term for several research methodologies that use coding to systematically classify, analyze, and interpret qualitative data such as verbal, visual, or written document in order to make an inference about a scientific phenomenon (Downe-Wamboldt, 2009) follows Weber Protocol (Weber, 1990) for content analysis, including coding performance audit reports systematically into several themes such as short-term economic focus, long-term economic focus, marine sustainability focus, or neutral (does not or have limited impact on economic welfare and marine sustainability). Moreover, it also compares themes from performance audit reports without SDGs perspectives and performance audit reports with SDGs perspectives to analyze the impact of SDGs perspective on audit approaches and audit findings. To achieve text interpretation consistency and themes count accuracy, coding is conducted by two persons. The coding results are then compared and



Sea conservation area (source: Performance Audit Team)



any discrepancies are discussed to reach “negotiated agreement” (Campbell, Quincy, Osseman, & Pedersen, 2013). The modification of predetermined code template and results is not required because consensus between coders is achieved.

## Results and Discussion

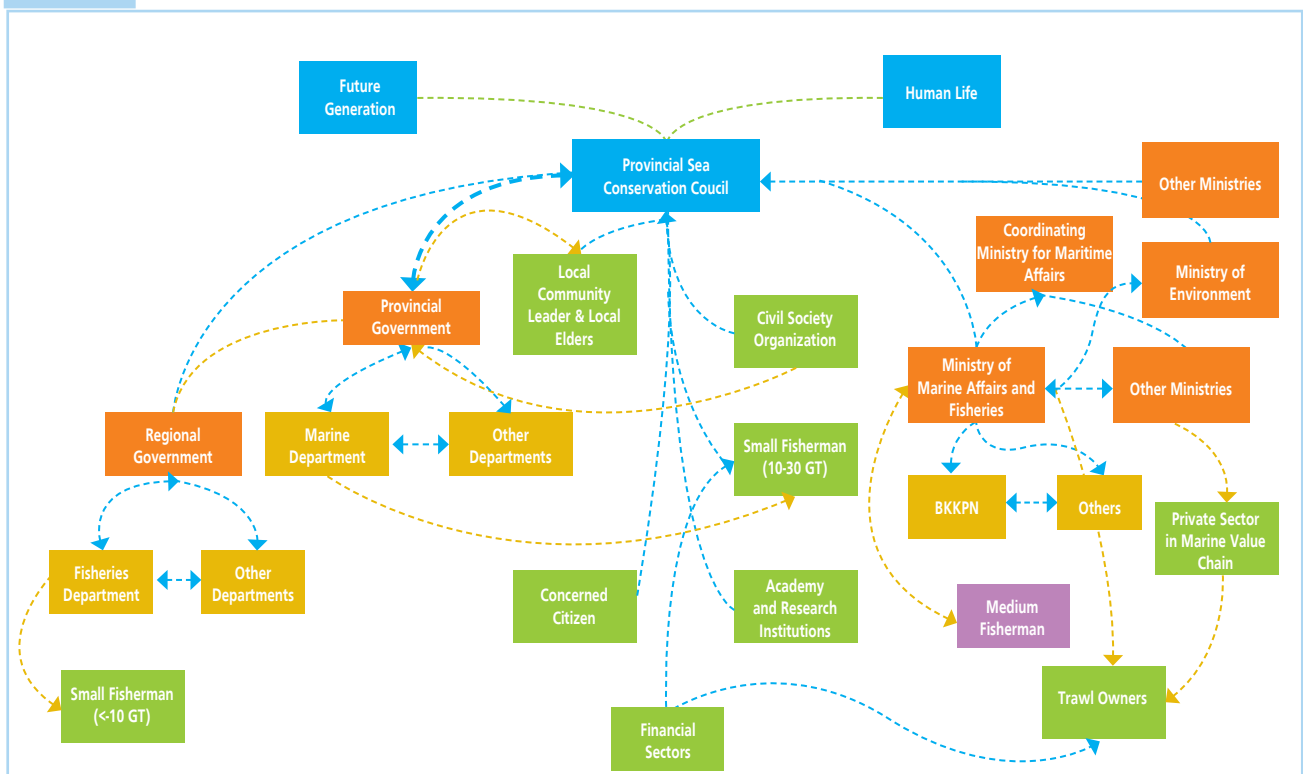
On 8 January 2015, the Ministry of Maritime Affairs and Fisheries issued Ministerial Regulation No. 2/2015 banning all types of fishing trawls and seine nets (Jakarta Post, 2017). Because many Indonesian fishers use trawls and seine nets, this new regulation aggrieves local fishers and local fishing industries (The Epoch Times, 2015). On the other hand, small fishers support this regulation because trawls and seine nets reduce fish stock and make them difficult to catch fish (maritimnews.id, 2017). Therefore, this regulation has been the subject of debate and controversy.

Figure 1 provides the possible stakeholders of marine resources.

Based on interviews with auditors conducting performance audit on the effectiveness of marine development to support sustainable development, the stakeholders of marine resources and their interests related with short-term economic benefit and sustainability are identified.

Summarizing the possible stakeholders of marine resources and their power, interests, and inclination towards sustainable marine resources management, various stakeholders of marine resources can be classified into policy maker, implementer, beneficiary, and accelerator. Policy makers consist of Coordinating Ministry for Maritime Affairs, Ministry of Maritime Affairs and Fisheries, Provincial Government, and Local Government. There are also stakeholders that can accelerate the implementation such as non-governmental organisations, academics and research institutions, coastal community leaders, local elders, and local people having interests in marine resources. Several academics and research institutes did not

Figure 1



support the prohibition of trawls and seine nets (Marwati, 2018). Business owners have great interests on government policy. Their individual power is low but if they act as a union, their power will increase.

### **Audit Report 1: Performance Audit on Fishing Boat and Fishing Equipment License**

The objective of the Performance Audit on Fishing Boat and Fishing Equipment License is to assess the effectiveness of fishing boat and fishing equipment license regulation. The auditors conclude that the prohibition of trawls and sein nets is not effective since this policy is not supported by a good governance arrangement and this policy has negative impact on local economy, especially trawls owners and related industries.

The findings of this audit can be classified into governance and economic aspects.

- The first classification of findings is related to governance. The auditors find that governance aspect is not adequate. For example, several government regulations controlling fishing equipment are not adequately prepared, government does not have adequate resources to enforce the regulation, and database of small fishers us trawls are not adequate.
- The second classification of findings is related to the economic impact of trawls and seine nets banning. The auditors state that trawls and seine nets banning aggrieves local fishers and estimate that potential loss experienced by fishers is around Rp37.78 billion (USD 2.5 million) in West Java Province and Rp28.88 billion (USD 1.9 million) in Central Java Province. The auditors also highlight that government's programs to replace trawls and seine nets banning with sustainable fishing equipment are not effective. Thus, the auditors consider that trawls and seine nets banning is not favourable to fishers and local economy.

To support audit findings and audit conclusion, the auditors conduct several interviews with several marine stakeholders such as trawls and seine nets

owners and local industries. However, most of these respondents oppose the prohibition of trawls and seine nets.

These findings indicate that the auditors only use short-term economic benefit perspectives on the audit of the prohibition of unsustainable fishing equipment. As a consequence of using economic benefit perspective, the auditors do not consider a broad range of stakeholders in their analysis and only focus on the impact of government policy on trawls owners and related local fishing industry. Auditors also do not report on the impacts of trawls and seine nets prohibition on marine ecosystem and small fishers who may benefit from this policy.

### **Audit Report 2: Performance Audit Report on the Effectiveness of Marine Development to Support Sustainable Development**

The objective of this audit is to assess the effectiveness of East Nusa Tenggara (NTT) Provincial Government's effort to support the sustainability of marine development. The auditors conclude that the effort of NTT provincial government to support the sustainability of marine development is not effective. This conclusion is taken based on several audit findings. These audit findings can be classified into governance, environment, economic, and stakeholders' involvement.

- The first classification of audit finding relates to the governance of marine resources. The audit team finds that the governance of marine resources does not support environmental sustainability. For example, there is lack of commitment from provincial government leaders to support sustainable development in marine sectors and provincial development plan does not support sustainable development.
- The second audit finding relates directly to environmental matters. The audit team reports that provincial government is not adequately protecting marine resources and rehabilitating damaged marine ecosystem.
- The third classification relates to economic

development. The audit team finds that provincial government does not support the economic development of local fishers and coastal communities. For example, provincial government does not provide technology and financing to help local fishers.

- Lastly, provincial government does not involve all stakeholders in the management of marine resources. For example, the provincial government does not educate local people residing in coastal areas to participate in marine and coastal conservation.

To support audit findings and audit conclusion, the auditors conduct interviews with a broad range of marine stakeholders. These stakeholders include provincial and local government officials, local fishers, academics, non-governmental organizations, local elders and community leaders. Therefore, the voices of those in support of short-term economic benefits and those in support of sustainability are heard.

These findings indicate that auditors who use sustainable development as audit perspective will consider a broader range of stakeholders in their audit.

These auditors consider not only short-term economic interests, but also long-term economic interests and sustainability.

When asked why the auditors consider environmental issues and sustainability perspective in their audit, the auditor in charge for Audit Report 2 explains that marine management are environmentally risky and marine resources can produce economic benefits for local people. The auditor in charge acknowledges that employing environmental issues on marine management audit can be very complex. Therefore, he creates an audit team which consists of individuals having the experience in conducting environmental audit under INTOSAI Working Group on Environmental Auditing (WGEA) projects. The auditor in charge states that the idea of using environmental matters in performance audit originated from his knowledge gained from WGEA training and his experience in environmental audit project conducted by WGEA. This statement indicates the existence of normative and mimetic influence on the application of environmental audit and sustainability perspective on audit.



Performance Audit Team of the Effectiveness of Marine Development to Support Sustainable Development in East Nusa Tenggara Province.(source: Performance Audit Team)

## **Conclusion:**

The current study is sought to investigate the impact of environmental and sustainability assessment in performance audit on audit conclusion and audit findings. The analysis of audit findings indicates that performance audit which does not consider environmental impact of government policy tends to focus on the governance of government policy and on the impact of government policy on short-term economic benefits. On the contrary, the findings of performance audit that consider environmental matters and sustainability are more comprehensive because they also consider governance, short-term and long-term economic benefits, as well as sustainability. This finding supports the argument proposed by the Auditor General of Canada that adapting a sustainable development approach should involve a wider perspective in order for the results of performance audits to not be considered impractical and one-sided (Auditor General of Canada, 2014).

The interview findings confirm that the adoption of environmental and sustainability perspective on BPK's performance audit is influenced by mimetic and normative pressure. The interview evidence indicates that BPK's audit approach using environmental perspective on performance audit is influenced by and follows what had been done by INTOSAI WGEA. BPK is a former Chair and an active member of INTOSAI WGEA. Therefore, the practices of environmental audits at WGEA influence the consideration of environmental issues on BPK's performance audits.

The finding of this study also has implications for audit practice. Performance audit that considers a wide range of stakeholders and environmental matters is more comprehensive than performance audit that only considers the salient stakeholders and does not consider environmental and sustainability matters. It should be noted that this study is only based on the analysis of two performance audit reports and interviews with the auditors involved in these two audit projects. Therefore, generalizing the findings of this study to other setting should be done cautiously. Future research may be conducted to examine the impact of consideration of environmental matters on financial audits and compliance audits.