

# The Role Of Sai In Strengthening National Institutions Towards Sdgs Realization: Case Study Of Bpk

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## **ABSTRACT**

Sustainable Development Goals (SDGs) 2030 aims to build a sustainable future through equalization and improvement of countries' qualities, particularly the least developing countries. Due to a lack of law enforcement, institutions in developing countries are prone to fraud and misappropriation of funds which results in hampered progress and decreasing trust from investors. Thus strengthening institutions are essential to ensure the success rate of SDGs implementation as well to fulfill Goal 16: Peace, Justice, and Strong Institutions, particularly Target 16.4, Target 16.5, and Target 16.6. This paper's objectives are to describe and analyze the role of Badan Pemeriksa Keuangan in strengthening national institutions towards the realization of SDGs. This paper uses secondary data from BPK's reports and other related information, such as SAIs from Philippine and Thailand, Extractive Industries Transparency Initiative (EITI), Corruption Perception Index (CPI), and Public Expenditure and Financial Accountability (PEFA) used as basic criteria to assess the implementation of the targets. The result of this paper shows that from Indonesia's experience, we found many homework to be done within the attainment of Goal 16, especially Target 16.4, Target 16.5, and Target 16.6. In order to attain those targets, BPK has done financial audit and investigative audit, regarding extractive sectors, corruption, and public performance management, and also has planned to strategically conduct their audit, including the thematic audit in the performance audit. As for realizing this strategic plan, it is recommended to strengthen the synergy within working units and other organizations such as parliament, government, and other stakeholders.

**Keywords:** Supreme Audit Institution; Strengthening National Institutions; Illicit Financial Flow; Corruption; Public Financial Management; Sustainable Development Goals Realization.

## **INTRODUCTION**

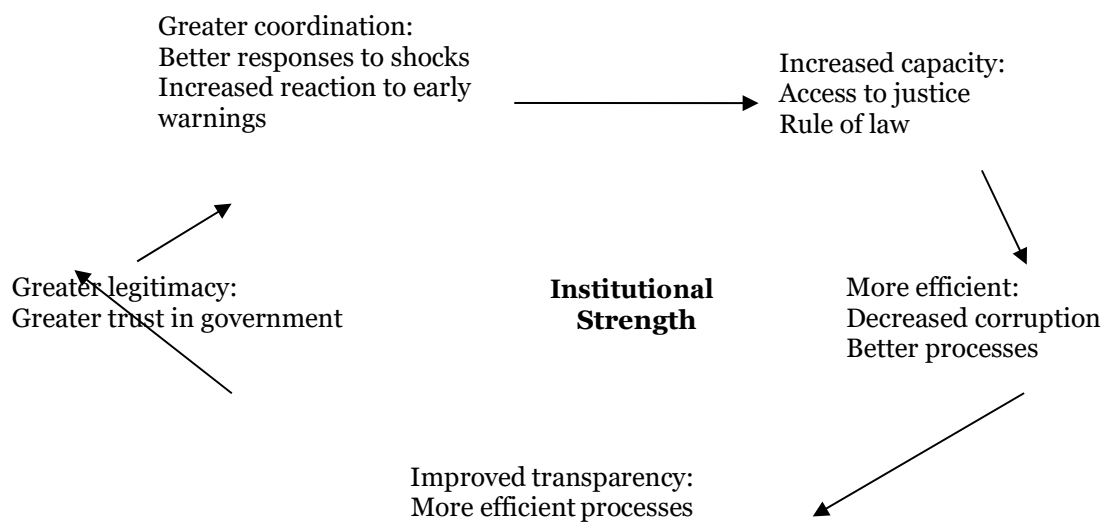
Sustainable Development Goals (SDGs) 2030, currently progressing as the continuation of Millenium Development Goals (MDGs), aims to build a sustainable future through equalization and improvement of countries' qualities, particularly the least developing countries, by the attainment of 17 Goals. Defined by the motto "Leaving No One Behind", Agenda 2030 focuses on the needs of the poorest and most vulnerable: the developing countries. Concerns may arise

whether affected countries are prepared enough in integrating the required elements and maintaining the progress. According to Bertelsmann Stiftung (2018), the top 20 countries to perform well in SDGs are all OECD countries; on the contrary, the lower-income countries tend to have lower scores due to the nature of SDGs which focus on ending extreme poverty and providing access to basic services and infrastructure (SDG 1-8). Poorer countries tend to lack adequate infrastructure and mechanisms to

manage key environmental issues of SDGs (Bertelsmann Stiftung, 2018).

Agenda 2030 emphasizes the importance of a strengthened institutional framework for sustainable development at the national and regional levels. Strong institutional and coordination frameworks are critical support in MDGs achievement (UNDP, 2017), which consequently require the SDGs to be further supported. The United Nations (UN, 2015), the International Organization of Supreme Audit Institutions (INTOSAI, 2017), and even President of Indonesia, Joko Widodo (Secretary

Cabinet, 2016), highlight the key role of SAIs in preparing institutions for SDGs 2030. President Joko Widodo expects the Indonesian SAI, BPK (Badan Pemeriksa Keuangan), to improve the participation, transparency, and accountability of the stakeholders in implementing SDGs (Secretary Cabinet, 2016). Strengthening the institutions will not only underlay the foundations for SDGs, but might as well improve the progress of Goal 16: Peace, Justice, and Strong Institutions. Institute for Economics & Peace (IEP) constructs the elements of institutional strength as a virtuous cycle below.



**Figure 1. Framework for Strengthening Institutions**

**Source:** Institute for Economics & Peace, 2019

This paper aims to examine the role of BPK in achieving Goal 16, particularly Target 16.4: reduce illicit financial and arms flows; Target 16.5: reduce corruption and bribery; and Target 16.6: develop effective, accountable and transparent institutions. BPK plans to contribute towards SDGs 2030 through assessment and support in the implementation of Goal 16 (ASOSAI Journal, 2019). Three targets of Goal 16 are within the authority scopes of SAIs, which are Target 16.4, Target 16.5, and Target 16.6. All of these targets, along with Target 16.10 are especially relevant to the governance and anti-corruption agenda at the global, national and sub-national levels (Transparency International, 2017).

#### Sustainable Development Goals 2030

SDGs 2030 is a global agenda consisting of 17 Goals to attain until 2030. Sachs (2012) and Biermann et al. (2017) emphasizes the need for good governance for the successful realization of SDGs. The British and Irish Ombudsman Association (BIOA) defines good governance as a way to direct and control the organizations to achieve their objectives. Biermann et al. (2017) breaks down the governance nature within SDGs into four distinct unique characteristics: (1) the adoption of SDGs is not legally binding, (2) governance with bottom-up, non-confrontational, country-driven, and stakeholder-oriented approaches which ensure the success rate of the



implementation, (3) inclusive collaboration among countries, and (4) high degree of freedom for governments in interpreting and implementing the goals.

#### Goal 16: Peace, Justice, and Strong Institutions

Goal 16 of SDGs aims to foster peace, justice, and a strong institution. Goal 16 is considered as both the outcome and the enabler of sustainable development—without peace, justice, and inclusion, achieving other goals such as ending poverty, promoting education and economic growth can be difficult or impossible (UN, 2019). Sustainable development is impossible without peace and security (UN, 2015). Given the importance of Goal 16, current progress in Goal 16 has yet to give a satisfactory result. According to the UN (2017), progress on Goal 16 remains uneven within regions. Fulfilling Goal 16 is still a major challenge in Sub-Saharan Africa, Latin America, and the Caribbean, whereas, in East and South Asia, there is a significant shortfall in progress (Bertelsmann Stiftung, 2018). According to the Global Peace Index 2019 (Institute for Economics & Peace, 2019), the average of global peacefulness has been deteriorated by 3.78 percent since 2008 with the gap between the least and most peaceful countries continue to grow.

#### Target 16.4: By 2030, Significantly Reduce Illicit Financial and Arms Flows, Strengthen the Recovery and Return of Stolen Assets and Combat All Forms of Organized Crime

Target 16.4 aims to protect national assets by reducing illicit financial practices and arms flows, strengthening recovery and return of stolen assets, and combating all forms of organized crime. Illicit financial flow is illegally raised, transferred, and used a fund that crosses borders (World Bank, 2017). Illicit financial flows can undermine the governance, development, and financial systems, distort the economy, cause reinvestment into other forms of crime, and develop illegal symbiotic relationships within developing and/or developed countries (Rao, 2013).

Weak governance (Rao, 2013) and lack of transparency drives illicit financial flows from developing countries and encourages the use of tax havens, secrecy jurisdictions, anonymous trusts, and shell companies to hide and launder the funds (Global Financial Integrity, 2019). Illicit practices are carried by corporations prominently in the extractive industry (Oley and Adi, 2018). Illicit financial flows (IFFs) from extractive industries primarily originates from corruption, illegal resource exploitation, and tax evasion through smuggling and transfer mispricing (Le Billon, 2011). Extractive industries are prone to corruption due to the non-transparent process (particularly in the petroleum and mining sector) that becomes a loophole for the rent-seeker (Oley and Adi, 2018). Rent-seekers are government, politicians, and businessmen that secure profits through a political process, rather than market-based, in which along with dynamic commodity prices are the driver of IFF in extractive industries. Williams (2011) finds that resource-rich countries are less transparent and the poor economic growth they tend to have is the result of the lack of transparency itself. Indonesia is among the top countries with a significant amount of IFF, which counts up to \$9.6 billion of illicit outflows (GFI, 2019).

Derived from Dohlman and Neylan, reduction of illicit financial flows can be obtained through abating crime, corruption, or tax evasion, developing strong, capable, and well-respected government institutions, preventive measures implemented by larger and longer-established financial sectors, and enhancing transparency.

#### Target 16.5: Substantially Reduce Corruption and Bribery In All Their Forms

Corruption has been a profound problematic issue both in developed and developing countries, where the judiciary and police are the most affected institutions according to the UN. Transparency International defines corruption as grand, petty, and political schemes resulting from power abuse in order to gain money for private benefit. Transparency International also describes bribery as the illegal offering or

accepting gifts, rewards, or other advantages, as an inducement for certain actions. Corruption Perception Index (CPI) is a well-known index for monitoring corruption. The highest-scoring region is Western Europe and the European Union, and the lowest one is Sub-Saharan Africa (Transparency International, 2018). The corruption flourishes in the Sub-Saharan Africa region as a result of ineffective institutions and weak democratic values. Combating corruption is backed with the system to deter, detect, and sanction corruption like that of Denmark, which secured rank 1 of CPI 2018 (Transparency International, 2018). Countries with transparency and accountability mechanisms, high GDP per capita, low inequality rates, high literacy rates, and human rights issues as priorities are correlated with low corruption rates (Chêne, 2011).

Corruption can reduce economic performance by slowing down the pace of business and trade due to inefficiencies and undermining the allocative efficiency in both private and public sectors, undermining human development and economic growth through the deterioration of the quality of public health and education programmes, and increasing income inequality and poverty due to high and rising corruption (Montes and Paschoal, 2016). Countries with rampant corruption practices are rarely having good democracy quality (CPI, 2019). The UN estimates around USD 1.26 trillion loss in developing countries resulted from corruption, bribery, theft and tax evasion could be used to lift those who are living on less than \$1.25 a day above \$1.25 for at least six years.

Montes and Paschoal (2016) find an increase in the rule of law represents a good strategy to improve government effectiveness to combat corruption. Uberti (2015) states that institutional reform alone will not suffice in substantially reducing corruption in developing countries, with corruption being embedded within the social system. Hence, assessing the characteristics of corruption and socio-cultural norms undergirding it beforehand is essential to develop a proper corruption abatement strategy.

#### Target 16.6: Develop Effective, Accountable and Transparent Institutions at All Levels

A well-performing Public Financial Management (PFM) system would act as a safeguard for an upcoming crisis, particularly when developing countries' fiscal deteriorate (UNDP, 2011). Three crucial actions to build a strong institution are: making the institution inclusive and citizen-engaged (effective), raising integrity along with actions to combat corruption (accountable), and upholding transparency and accessibility of information (transparent) (OECD, 2015). The underlying principle to develop integrity is accountability that intertwined with transparency and the rule of law (UNESCAP, 2009). The World Bank describes an accountable institution would ensure the public official's actions and decisions in meeting the government objectives and responding to society's needs, thereby they contribute to better governance and poverty reduction.

An effective institution is indicated by having robust legal frameworks, representative parliaments with oversight capability, adept civil services, timely and quality delivery of public services, efficient judiciaries that uphold the rule of law, actively engaged civil society, and free and independent media (OECD, 2015).

A transparent institution is an institution that manages to disseminate and gives access to internal and external actors to information relevant for evaluating the institution (Bauhr and Grimes, 2012). Transparent institutions can be achieved by increasing government openness, whistleblower protection, and publicity (Bauhr and Grimes, 2012). Regular review and clear whistle-blowing policy would ensure the institution, public or private, to be accountable and responsible for their actions and decision making towards all stakeholders (BIOA, 2009).

#### The Role of Supreme Audit Institutions

The UN acknowledges SAI's function in maintaining and promoting efficient, effective, accountable, and transparent public administration through Resolution

A/RES/69/228. The International Organization of Supreme Audit (INTOSAI) declared its support for SDGs 2030 through Abu Dhabi Declaration, and Strategic Plan 2017-2022, one of the contributions is by giving follow up and review of the SDGs progress within a nation. The previous INTOSAI's Beijing Declaration in 2013, which was signed before the SDGs 2030, promotes the Good Governance principles to be implemented among global SAIs that fortuitously consistent with INTOSAI's effort in assisting the government in fulfilling SDGs. The declaration enables SAIs to help their respective governments improve performance, enhance transparency, ensure accountability, maintain credibility, fight corruption, promote public trust, and protect the interests of their citizens. From the literature review, the general states of Goal 16 particularly Target 16.4, Target 16.5, and Target 16.6 are still limited. This context raises questions to the current states in Indonesia as well as the contribution of Indonesia SAI, BPK, in aiding the implementation of SDGs 2030. This research also aims to see whether the role of BPK able to contribute towards the fulfillment of Goal 16, especially Target 16.4, Target 16.5, and Target 16.6.

## RESEARCH METHOD

Data for this research uses secondary data from BPK and reports from various sources, EITI, Transparency International, and PEFA. Data from BPK uses data from 2015, marking the start of SDGs 2030. The method applied for this research is descriptive analysis through a literature review on Target 16.4: reduce illicit financial and arms flows; Target 16.5: reduce corruption and bribery; and Target 16.6: develop effective, accountable and transparent institutions; and BPK contributions.

## RESULT AND DISCUSSION

Target 16.4: By 2030, Significantly Reduce Illicit Financial and Arms Flows, Strengthen the

### Recovery and Return of Stolen Assets and Combat All Forms of Organized Crime

One of Indonesia's efforts to combat IFFs is by implementing Extractive Industries Transparency Initiatives (EITI) standards. Joining EITI since 2010, implementations of EITI have contributed to raising transparency efforts. Although specific progress has been made, EITI implementation in Indonesia has yet to present satisfactory results. EITI Indonesia Annual Progress Report 2017 states a few weaknesses with transparency being the concerning issue. There are still many regulations that limited information disclosure, particularly public information, relates to state confidentially. Also, the transparency issue is not a priority for the government compared to the economy and fiscal issues.

BPK's roles in the extractive industry can be seen in the summary of audit results in the 1st semester 2019, which revealed 12 findings that contained 18 problems of PNBPN management and licensing in Minerba. These problems consist of 8 problems that related to the lack of internal control and ten issues of non-compliance with regulations legislation amounting to Rp223.46 billion and the USD 20.81 million.

### Target 16.5: Substantially Reduce Corruption and Bribery In All Their Forms

As for Target 16.5, there have been increasing efforts in eradicating corruption as well as increasing public awareness of the issue. A preventive measure such as e-procurement is established to ensure all transactions are factual. Nevertheless, the efforts are highly insufficient. Indonesia is ranked 89 out of 180 countries in CPI 2018, with a score of 38 (Transparency International, 2019). However, the score has improved since 2012 from 32 points. The Indonesian Anti-Corruption Commission (KPK) has made impressive progress in reducing the number of corruption. Transparency International's 2017 Global Corruption Barometer (GCB) suggests that 64% of respondents shown a positive view against government efforts in handling corruption.

Transparency International's Indonesia Overview of Corruption and Anti-Corruption report (2018) notes that decentralization has shifted corruption to the local level which makes it more problematic, and anti-corruption measures are needed in the judiciary, police, and bureaucracy level.

BPK's role in combating corruption can also be seen in the summary of audit results in the 1st semester 2019, which stated that BPK has completed and issued 10 reports on the results of the Calculation of State Losses (PKN) to regional governments and BUMD based on the request of the authorized agency in the framework handling corruption cases with state losses of Rp.265.43 billion.

**Target 16.6: Develop Effective, Accountable and Transparent Institutions at All Levels**

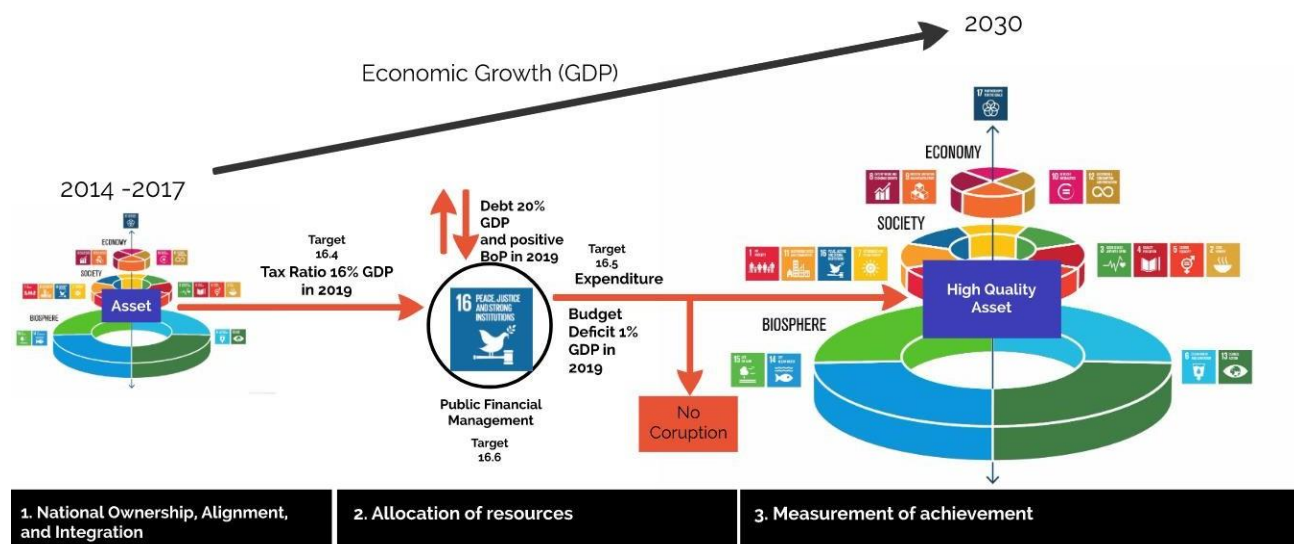
Target 16.6 can be measured through Public Financial Management (PFM) performance assessment by Public Expenditure and Financial Accountability (PEFA) developed by the World Bank (2018). The assessment found that Indonesia has weaknesses in budgetary execution, including budget credibility, management of assets and liabilities, budget outturn, controlling, and auditing. However, Indonesia has made some improvements in establishing a robust legal and regulatory framework that aligns with the international standard of PFM, along with the strengthening of PFM.

Currently, BPK has just started a performance audit of PFM. The performance audit of PFM uses the PEFA framework to assess the quality of public expenditure and financing schemes at the regional government level. By doing this audit, BPK will have a baseline of the PEFA score that can be used as the linkages between financial audit report opinion with the effectiveness of the government program at all layers.

**The Role of BPK in Achieving Goal 16**

The Supreme Audit Institution (Badan Pemeriksa Keuangan RI - BPK RI) that was established on 1 January 1947 has empowerment in function after the reformation era. By the third amendment of the 1945 Constitution of the Republic of Indonesia in the Chapter, VIII-A, Supreme Audit Board in the Article 23E (1) stated that "to examine the management and accountability of state finances of the State Audit Board constituted freely and independently" BPK has function and authority revitalization. By the Law Number 15 of 2004 about the Management Audit and State Financial Responsibility and the Law Number 15 of 2006 about Supreme Audit Board, BPK RI becomes stronger audit institution, especially because of BPK's position as one of the high state bodies. Thus, BPK has the opportunity to contribute more to the success of SDGs implementation, no exception in Goal 16: Peace, Justice, and Strong Institution. BPK changes the opportunity into reality, starting with the performance audit of the Preparedness of SDGs.

BPK-RI has committed to aid the Indonesia government in attaining SDGs 2030. International communities, particularly INTOSAI, has acknowledged BPK RI efforts in supporting SDGs (BPK RI, 2018). According to the literature review, BPK can contribute to the improvement of transparency, institutions' effectiveness and efficiency, and disclosure of corruption and illicit practices. BPK has a major role in calculating state loss from corruption and fraudulent acts (Supreme Audit Office of Poland, 2019). Regularly, BPK also publishes the audit rectification rates. Rini and Damiati (2016) find the audit rectification could abate the corruption level. BPK has developed the audit framework for SDGs Preparedness Review and given recommendations from the audit result. BPK has established a roadmap for attaining SDGs through Goal 16, particularly Target 16.4, Target 16.5, and Target 16.6, and the framework can be seen in the figure below.



**Figure 2. Framework for SDGs**

Source: BPK

BPK contributes to promoting the effectiveness, accountability, and transparency in the Indonesia government through regular audits that being communicated through publication of IHPS (Ikhtisar Hasil Pemeriksaan Semester). From these reports, BPK gives audit opinion as an effort to raise transparency and accountability of related departments or institutions’ work performances. The investigative audit is also a form to combat corruption, and with the thematic audit, to raise the effectiveness of resources management in achieving government objectives. The effectivity rates from an investigative audit depend on the follow-up recommendations done by related entities. BPK still needs to improve the follow up of the findings (Supreme Audit Office of Poland, 2019). Target 16.4, Target 16.5, and

Target 16.6 will only be fulfilled if the findings from the audits are followed up, and this will require the utmost collaboration and cooperation within related stakeholders, the parliament, government, law enforcement institutions, and other stakeholders.

From the Indonesia experiences above, we found many homework to be done within EITI, CPI, and PEFA standard implementation. BPK contributes to the attainment of Goal 16 by strategically planning their audit with audit challenge and advantage in consideration. Specifically, BPK’s contribution is by doing a thematic performance audit. Thematic performance audit for each target is as follows:

**Table 1. Thematic Audit Opportunity**

SDGs Target	Main Issue	BPK’s contribution
16.4 Significantly Reduce Illicit Financial and Arms Flows, Strengthen the Recovery and Return of Stolen Assets and Combat All Forms of Organized Crime	There are still many regulations that limited information disclosure, particularly public information, relates to the state confidentially.	Thematic performance audit regarding “de-bureaucratization”, by concerning in the information disclosure for the benefit of the public.
16.5 Substantially Reduce Corruption and Bribery In All Their Forms	Decentralization has shifted corruption to the local level, which makes it more problematic, and anti-	Thematic performance audit regarding the prevention of corruption, by considering the legal context in decentralization.



	corruption measures are needed in the judiciary, police, and bureaucracy level.	
16.6 Develop Effective, Accountable and Transparent Institutions at All Levels	Indonesia has weaknesses in budgetary execution, including budget credibility, management of assets and liabilities, budget outturn, controlling, and auditing.	Thematic performance audit regarding budgetary execution by choosing the prioritize key area (considering the Risk-Impact-Auditability-Significance aspects)

**Source:** Authors

From the table above, thematic performance audits is another solution for BPK to contribute to the achievement of SDGs Goal 16. The solution is in line with Wibisono et al. (2018) that stated: "SAI's performance audit can be regarded as a good baseline in the evaluation of policy implementation by surpassing the precondition maturity model of SAI". The situation means that if BPK eager to be a success in implementing the thematic performance audit regarding SDGs Goal 16, BPK must first finalize its role in oversight function. Furthermore, Wibisono et al. (2018) pointed out the importance of aligning SAI's

audit planning with government planning, which at least shows the existence of democratic governance in terms of stakeholder's input that is adapted by SAI.

However, BPK must still learn and consider to adapt from the experience of the SAI's neighboring countries that have a similar context in SDGs implementation. The SAIs are the State Audit Office (SAO) of Thailand and the Commission on Audit (COA) of the Philippine. The lessons learned are as follows:

**Table 2.** Comparative Study of BPK

No	SAI	Lesson Learnt
1	COA of the Philippine (ASEANSAI, 2018)	<ul style="list-style-type: none"> <li>Priority programs and projects were carefully selected based on a factor such as responsiveness to the Philippine Development Plan and the socio-economic agenda of the Administration; implementation of the responsible agencies, and similar projects already included in prioritization.</li> </ul>
2	SAO of Thailand (INTOSAI, 2018)	<ul style="list-style-type: none"> <li>Developing environmental performance audits to prepare for auditing SSGs is crucial and at the forefront of the SAO's mission.</li> <li>SAO is using the trajectory of performance audit from developing existing research, strengthening environmental performance audits, and establishing the environmental audit office.</li> </ul>

**Source:** ASEANSAI (2018) and INTOSAI (2018).

From the table above, known that COA of the Philippines has the same orientation to conduct a performance audit of SDGs are aligning with government priority, and make prioritization. COA also demonstrates that synergy between SAIs and government agencies is important. Hence, known that SAO of Thailand opens the

possible trajectory in developing performance audits.

SAI Indonesia noted the issue of Presidential Regulation No. 59/2017, specifying the 17 goals and 94 national targets which will be achieved by 2030 (INTOSAI, 2019). Indonesia's national targets are used as guidance by

ministries/agencies and local governments in planning, implementing, monitoring, and evaluating the national/sub-national action plans (INTOSAI, 2019). Sabandi Sardjoko (Deputy Minister of Ministry of National Development Planning, Indonesia) gives a critical statement about “the government needs the presence of SAI in ensuring the implementation of SDGs, and SAI could provide insight on how Government is mainstreaming the 2030 Agenda in achieving the targets of SDGs” (INTOSAI, 2019). The statement of Indonesia’s Deputy Minister confirms that the government needs BPK contribution in ensuring the implementation of the SDGs that includes Goal 16. One of the key messages of SAI Insights and Recommendations of SDGs Preparedness is “the degree of alignment needs to be responsive to the directions and national priorities set by national governments.” (INTOSAI, 2019).

The lesson learned from the COA of the Philippine and SAO of Thailand gives insight for the BPK in the future. The proposed lesson learned to follow from the COA and SAO that have similar context with BPK is also in line with Wibisono et al. (2017) paper that shows about regional context-awareness in performance audit development. Then, BPK must be prepared for the possibility to set up one multi-disciplinary SDGs audit team as the main resource to elaborate the result of regular audits. This arrangement is followed by the coordinating mechanism that involves both the national and sub-national audit teams to support the main findings. The arrangement is a modification and amplification of SAO of Thailand which adopts special unit of SDGs audit task from their environmental audit office. As we understand that SDGs covers three dimensions as indivisible, the arrangement of the future audit team should be cross-section and cross-function in behavior to complete their task in ensuring the implementation of SDGs. Hence, the thematic issues that will become an audit object should be derived from selection factors to be aligned with government priorities as said in SAI Insight and Recommendations of SDGs Preparedness.

## CONCLUSION

From the results above, it concludes BPK contribution to the achievement of SDGs by establishing a framework for SDGs and doing a preparedness audit of SDGs. Specifically for the attainment of Target 16.4, Target 16.5, and Target 16.6, regular and investigative audit, and thematic audit in performance audit by following the government priorities are done by BPK. Improvement of follow up audit findings need synergies within working units in the organization and synergies with other stakeholders. The possible stakeholders are the parliament, government, and internal audit with their specific function. As the result from comparative study, BPK may consider in arranging a multi-disciplinary task unit specialized in SDGs. Considering the limitation of the paper, the authors propose to expand the research by adding more SAIs that serves as a comparison context, showing how similar other SAIs with BPK, and monitoring the SDGs implementation audit in BPK and compare it with other similar SAIs.

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