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New development: 'Auditor opinions for sale'—when privatization meets the cultural ecology of corruption

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IMPACT

The article provides empirical insights into how the cultural ecology of corruption in Indonesia shaped the role of audit practices in the public sector to facilitate a new form of corruption. This has undermined public confidence in the role of accounting and auditing information in the fight against corruption in the Indonesian public sector. Consequently, there is an urgent need for the Indonesian government to design a more robust and effective strategy for the state audit office to counteract corruption and restore integrity. This includes the necessity of improving salaries and benefits for state auditors and government officials. This strategy has been effective in reducing public sector corruption in Hong Kong and Singapore and should be considered by Indonesia and other countries facing similar social and economic challenges.

ABSTRACT

This article considers the failure of the Indonesian government to eradicate corruption by reflecting on reports from media, anti-corruption agencies, scholarly work and government institutions. Despite significant attention focusing on reducing public sector corruption, there has been a marked increase in reports of corruption. The article illustrates the rise of a new form of public sector corruption through the manipulation of audit opinions. This study contributes to the international debate around the ineffectiveness of large-scale auditing reforms in the public sector.

KEYWORDS

Audit fraud; corruption; emerging economies; Indonesia; private-style audit opinions

Introduction

This article sheds lights on recent cases of audit fraud in the Indonesian public sector. These cases constitute a series of empirical scandals involving auditors in the Indonesian state audit office (*Badan Pemeriksa Keuangan*) and senior government officials. Auditors have been found guilty of, or accused of, orchestrating and accepting bribes from senior government officials with the aim of obtaining unqualified opinions from the state audit office (Kompas, 2022; Indonesian Corruption Watch, 2024). These cases fundamentally contradict the objectives of accounting and auditing reform in the Indonesian public sector, which are aimed at eradicating corruption, improving the accountability of government organizations and strengthening the quality of democracy (Turner et al., 2019).

Our study contributes to the debate around the ineffectiveness of large-scale public sector accounting reforms, particularly in emerging economies. Neu et al. (2015) notes that the failure to account for the social and cultural particularities of an emerging economy contributes to the ineffectual implementation and poor policy-making with respect to accounting and auditing reforms. In a similar vein, Hopper (2017) contends that the failure of such reforms in developing countries is due in part to a patrimonial rational bureaucratic system held together by the distribution of resources in such a way that it reinforces patronage, corruption and nepotism. This cultural foundation limits the effectiveness of accounting reforms in countries such as Indonesia. It is suggested that the successful implementation of NPM requires the existence of

societal and cultural norms that complement and reinforce the new institutions of public governance. Thus, a country that has a cultural ecology shaped by patrimonialism, nepotism and material exchanges undermines NPM reforms including efforts to combat corruption (Pillay, 2008). Therefore, we used cultural ecology as a theoretical frame in explaining the emergence of public audit frauds in the Indonesian public sector.

The article proceeds as follows. We start by outlining the extent of economic and political transformations undertaken in Indonesia following the fall of President Suharto in 1998. We then account for President Jokowi Widodo's rise as a reformist president elected in 2014, with a platform that included corruption eradication. Our third section includes a cultural and institutional analysis that interrogates why and how corruption in the Indonesian public sector manifested during the Jokowi administration, with specific examples. We then conclude by highlighting the lessons that can be learnt from the wholesale adoption of a public sector accounting reform with little regard for the underlying social and cultural conditions.

Economic and political context of public sector reforms in Indonesia

Indonesia, as an emerging democracy, has been carrying out significant political, economic and public sector reforms over the last two decades (Wahid, 2001). Democratic reforms include both political and legal institutional changes with political parties, a democratic presidential system and the

establishment of a constitutional court. Supported by international financial authorities, such as the IMF and Asian Development Bank, Indonesia introduced a private sector accounting model in the public sector and increased the powers of the state audit office (Harun et al., 2015; Sumiyana et al., 2023). As a result, the state audit office now has independence in:

- Determining the scope and object of an audit.
- Defining the content of audits.
- Reporting findings related to corruption or fraud to law enforcement agencies (Sumiyana et al., 2023).

Table 1 highlights the evolving role and audit reports of the state audit office from the Suharto era to the post-reform period (Harun et al., 2015; Sumiyana et al., 2023). Advocates of the neoliberal reform agenda contend that these reforms have driven an average annual economic growth of 5% over the past two decades (Indonesian Bureau of Statistics, 2023).

Despite economic and social progress, corruption is a challenge in the Indonesian public sector. The Widodo government has been criticised for its failure to combat corruption. Eradicating corruption was one of the pillars of Widodo's election manifesto in 2014, and there are concerns that, contrary to public expectations, under his administration, the scale, variety and extent of corruption is worse than when the president took office (*Jakarta Post*, 2023). For example, reforms to the law governing the Corruption Eradication Commission actually weakened the commission. Indicators in the second term of Widodo's administration concerning corruption are worrying, with the uncovering of thousands of corruption cases (Indonesia Corruption Watch, 2024), alongside a worsening trend position on Transparency International's corruption perception index. Further still, there are increasing economic disparities between the wealthy and poorer members of Indonesian society (The Indonesian Statistics Bureau, 2023). Increasing instances of nepotism, the abuse of power by government officials and suggestions that the president has contributed to such problems have been reported in the media (SCMP, 2023).

Table 1. Role of the state audit office before and after reform.

Era	Pre-reform (Suharto era: 1967-1998)	After reform (after 2000)
Independency	<ul style="list-style-type: none"> • Under the control of President Suharto 	<ul style="list-style-type: none"> • Independent
Scope of audit	<ul style="list-style-type: none"> • Limited to central and local government agencies approved by the president 	<ul style="list-style-type: none"> • All government reporting entities (central and local levels) • State-owned companies • Special audits (upon the request of law enforcement agencies)
Type of annual audit opinions	<ul style="list-style-type: none"> • Unclear, unavailable to the public 	<ul style="list-style-type: none"> • Unqualified, qualified, adverse, and disclaimer of opinion (publicly available)
Roles of state audit office to follow up financial frauds	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • The state audit office is required to report fraud to law enforcement agencies and inform the actions undertaken by these agencies to the Parliament.

The Widodo government: Reviving hope, and a worrying end

Indonesia's history of corruption, combined with the Asian economic crisis, was a major factor in the downfall of Suharto's dictatorship in 1998 (Umam, 2021). In response, and with support from international financial institutions, the country embarked on economic, political, and financial reforms following the end of Suharto's government. These reforms were aimed at both improving transparency and eradicating corruption (Turner et al., 2019). The reforms continued during successive governments, including President Baharuddin Habibie (1998–1999), Abdurahman Wahid (1999–2001), President Megawati Sukarnoputri (2001–2004) and President Susilo Bambang Yudhoyono (2004–2014). President Joko Widodo was elected in 2014 and re-elected in 2019; corruption eradication and reform revitalization were considered central pillars of Widodo's election campaign in 2014 (Umam, 2021).

Time Magazine (2014) described Widodo's election as a *revival of hope* for better, democratic government, especially with respect to eradicating corruption. However, despite some initial improvements, peaking in 2019, corruption perception has worsened in recent years. According to Transparency International's Corruption Perception Index (CPI), Indonesia holds the sixth position among ASEAN countries in Transparency International's Corruption Perception Index (CPI) for 2023 (ICW, 2023). Despite Indonesia's CPI had slightly improved from 2014 to 2021, the index worsened from 2019 to 2023, highlighting the failure of Widodo's commitment to eradicate corruption during his second term. In 2019, Indonesia's CPI scored 40, but it sharply declined to 34 in 2022 and remained unchanged in 2023. Table 2 illustrates the rising trend in corruption cases in the country over recent years. For instance, the number of reported cases increased from 771 in 2019 to 927 in 2023, with projections forecasting it will reach 1,200 cases in 2024 (ICW, 2024; Kompas, 2024).

Media and legal enforcement agencies continue to report on corruption during Widodo's administration, including significant fraud cases involving government departments and state-owned enterprises. Two notable examples of corruption cases include the fraud committed by the leadership of Asuransi Jiwasraya Ltd, a state-controlled insurance company, which resulted in losses of IDR 37 trillion (approximately US\$2.3 billion) (State Audit Office, 2020), and a fraud case involving the management of Asabri Ltd, another state-controlled insurer, with losses exceeding IDR 22.7 trillion (around US\$1.4 billion) (CNN Indonesia, 2022). In terms of corruption, the largest case reported up to 2023 was a land grab in Indragiri Hulu, Riau Province, with total financial losses exceeding IDR 78 trillion (about US\$4.8 billion). This figure represents losses solely from land grabbing and does not include potential losses from mining permits and fishing theft, which could reach up to US\$15.5 billion annually in the region (Kompas, 2024).

'The sale' of audit opinions: how and why

In addition, a series of corruption cases has emerged involving the sale and purchase of audit opinions. While the value of these audit frauds, as Table 3, shows may result in smaller financial losses than other reported forms of

Table 2. Reported public sector cases of corruption in Indonesia.

Year	Number of cases	Number of suspects	Total losses (in US\$)
2019	271	580	525 million
2020	444	875	1.36 billion
2021	533	1,173	1.81 billion
2022	573	1,396	2.66 billion
2023	791	1,695	2.77 billion
2024*	>1200	2,000	2.50 billion

*Prediction

Sources: ICW (2024), Kompas (2024).

bureaucratic corruption, these cases point to the potential failure of private sector-style audit reforms in Indonesia in the fight against corruption (Kompas, 2022; CNN Indonesia, 2024).

What is concerning in these emergent cases around purchasing favourable audit opinions is that the cases directly impact upon the legitimacy of the state audit office and attempts at both transparency and eradicating corruption. This erodes the basis for better reporting and the management of government resources and expands the opportunities and magnitude of corruption committed by government officials responsible for accounting and audit functions in the country's public sector. Why and how has this been allowed to happen? Pillay (2008) suggests that a deeper understanding of a country's cultural ecology that shaped the system of bureaucracy is essential in evaluating why and how accounting reforms fail or succeed to combat corruption:

Generally speaking, managers and leaders, as well as the people they work with, are part of a national society. In understanding their behaviour, one has to understand the society they live and function in. This includes understanding how the government and political system affects the lives of citizens and what historical events the generations have experienced. This is relevant to understanding a country's public management. In understanding culture, there certainly is no 'quick fix'. It is through conceptual reasoning and reflection that one identifies what problems or issues exist within a society.

Pillay (2008) contends that the impact of cultural differences across countries can significantly influence the effectiveness of NPM reforms. This perspective aligns with the view that, for NPM reforms to succeed, there must be a synergy between the adopted reform strategies and the

cultural traits of the implementing country (Turner, 2002; Simpser, 2020). Consequently, in nations with deep-rooted traditions conducive to corruption, NPM reforms—including those aimed at combating corruption—are likely to fail (Turner, 2002).

Viewed from a cultural perspective, the resurgence of corruption during Widodo's administration illustrates that entrenched oligarchical and predatory politics—characterized by nepotism and kinship—continue to influence the nation's bureaucracy. This persists despite the country's efforts in implementing legal and institutional reforms aimed at eradicating corruption. In Indonesian context, Pillay's proposition has been recently emphasized by Baker (2023) that the collation of political élites, conglomerates, tech entrepreneurs, technocrats and the upper middle class accelerated how ruling élites use state institutions in favour of their political interests. Muhtadi (2015) warned that the failure of Widodo's government to deliver on the promised reforms was caused by both the president's political interests and the oligarchies that dominate Indonesian politics. Failures of the Widodo government to eradicate corruption reflect Hopper's (2017) proposition that a combination of traditional and rational-legal bureaucratic structures will produce 'a system' that supports the distribution of material resources by reinforcing patronage, corruption and nepotism. Thus, the rising cases of corruption during the Widodo administration reflect a coalition of political élites and business organizations exploiting legal loopholes, changing laws or creating new regulations to 'facilitate' new forms of corruption. The Coalition for International Human Rights Advocacy (2024) lists several strategies institutionalized by Widodo that support the ecology of this new form of corruption:

- A new Job Creation Law granted permits for investors that reduced environmental requirements for investments that could damage human, indigenous people, plant and animal environments.
- Revisions to the Mineral and Coal Law provided extra incentives for mining companies.

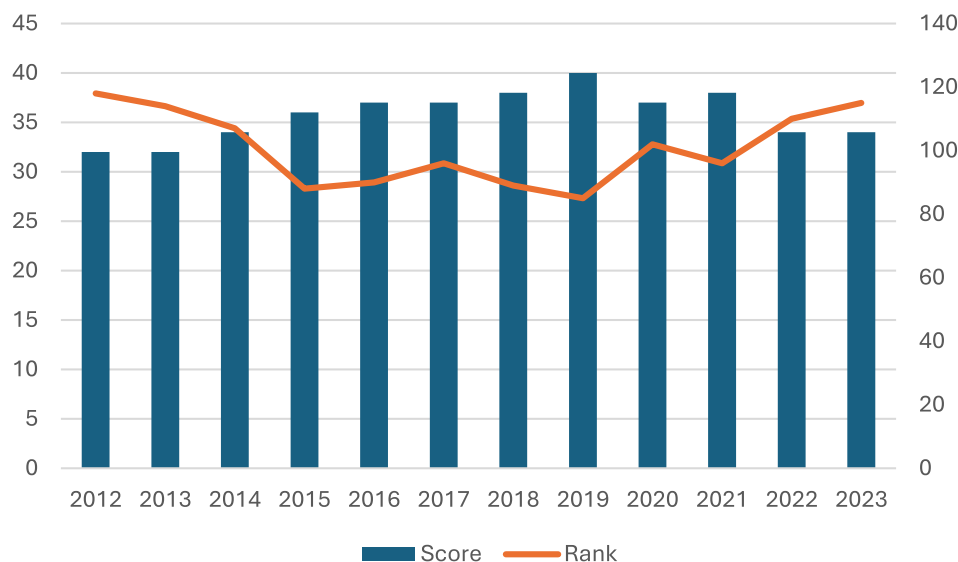
**Figure 1.** Corruption perception index: score and rank (Indonesia). Sources: ICW (2023, 2024), Kompas (2024).

Table 3. Cases of audit frauds.

Case	Actors involved	Sentence	Date
1. Bogor Regency	<ul style="list-style-type: none"> Ade Munawaroh Yasin (head of Bogor regency) 4 state auditors 	6 years' incarceration and a total fine of IDR 550 million (US\$34,000)	2017
2. South Sulawesi Province	Gilang Gumilar (state auditor)	5 years' incarceration and a total fine of IDR 2.9 billion (US\$ 1,812,500)	2023
3. Ministry of Communication	Achsanul Qosasi (state auditor)	2.5 years' incarceration and a fine of IDR 500 million (US\$31,000).	2023

Sources: Kompas (2022), Detik (2023), CNN Indonesia (2024).

- The establishment of National Strategic Projects (NSP) awarded a conglomerate a contract to develop toll roads, buildings and large real estate facilities that accelerated environmental damage to rivers and forests.
- Reduced independence of the Corruption Eradication Commission (KPK) with the president being allowed to oversee the commission.

Some observers have suggested that these strategies undermined Widodo's promise of a better government and the eradication of corruption (Jakarta Post, 2023). We suggest that these changes have permitted the new form of corruption through audit frauds to emerge. As audit is a human process, those operating within the audit system are products of the extant cultural ecology. Without fundamental shifts in the underlying cultural ecology, this highlights how the use of private sector style audit opinions can be very quickly hijacked for personal gain by public sector auditors and elected officials (Kompas, 2022). Government officials are incentivized to take advantage of opportunities for corruption, as an abuse of power, to obtain better audit opinions. For state auditors, although expected to be independent, the combination of pressure from political élites desperate for 'good' audit opinions, financial incentives, the underlying cultural ecology and other pressures suggest opportunities for them to take advantage of government officials' desperate need for a good audit opinion.

Viewed from a cultural ecology perspective, this new form of corruption represents a hybrid combination of traditional, patrimonial and modern rational-legal bureaucratic accounting and auditing systems. The failure to tailor structural adjustment processes to the cultural ecology of Indonesia or work to change the underlying cultural practices in the public service has resulted in the blurring of the distinction between private and public spheres and the fraudulent use of the narratives of accountability, honesty and credibility (as narratives of modern business languages) behind a façade of rational state bureaucracy.

More broadly, Widodo's government evolved from a government promising reform to a government where the traditional cultural ecology of the public sector has manifested in opportunities for new corrupt behaviours and a general increase in corruption. Consequently, the emergence of audit fraud is not surprising, considering cultural ecology shapes and structures accounting and auditing technologies (Hopper, 2017; Pillay, 2008). The impact is that the Indonesian public service is now replicating major accounting and audit frauds (such as Enron in 2001, the Lehman Brothers in 2008 and Toshiba in 2015), but with the added harm of undermining democracy.

Conclusion and recommendations

In the is article we have highlighted the rise of public sector audit frauds in Indonesia, as a new form of corruption. We draw several conclusions. First, despite a period of significant political, economic and financial reform post the Suharto government, there remain questions about the success of these reform projects, especially when 'best practice' democratic and neo-liberal reforms fail to consider traditional cultural traits within the local public service. With claims to reform progress, President Jokowi Widodo's election in 2014 crystallized a new 'hope' around continuing the reform process. However, during President Widodo's second term corruption has resurfaced—evidenced by numerous reports from both national and international media outlets highlighting significant public sector corruption scandals.

Second, we contribute to contemporary debates concerning public sector accounting and auditing reform. We trace how audit frauds that traditionally occurred in the private sector are now being operationalized in the public sector, with bribery or kickbacks to lead to the manipulation of audit opinions.

Third, we show that there is a need, in accounting reforms, for policy-makers and practitioners to understand the cultural ecology of the public sector prior to the wholesale adoption of 'best practice' reforms—failure to do so may create incentives for new forms of corruption. The cultural ecology of the public sector will always shape the nature and effectiveness of accounting and auditing reforms.

Finally, it is imperative for the Indonesian government to craft a more dynamic and comprehensive strategy for the state audit office to effectively tackle corruption and reinstate public confidence. It includes the necessity to improve the salaries and benefits for state auditors and government officials, as their current compensation is significantly lower than that of their counterparts in the private sector in Indonesia. Improving the salaries of government auditors to be more competitive with the private sector can help bolster efforts to reduce public sector corruption, as seen in the successful strategies implemented in Hong Kong and Singapore (Demirgüç-Kunt et al., 2023). Our recommendations apply to Indonesia and other emerging economies facing similar social and economic challenges.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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