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External Auditing and Government Accountability in Indonesia Through Supreme Audit Board

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Abstract

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Government accountability is the central pillar of transparent and responsible public governance. Within the framework of agency theory, the government acts as an agent mandated by the public (principal) to manage public resources on their behalf. This study aims to examine the relationship between government accountability, external auditing, and the role of the Supreme Audit Board as an independent institution ensuring transparency in state financial management. A literature-based approach is employed by reviewing studies published within the past five years that focus on the effectiveness of public auditing and the agency–principal relationship in Indonesia's public sector. The findings indicate that external audits conducted by Supreme Audit Board enhance public trust, reduce information asymmetry, and strengthen control mechanisms against potential moral hazards in public fund management. High-quality audits serve as a crucial instrument for maintaining integrity and improving the performance of governmental institutions. Thus, public accountability can be achieved through effective collaboration between independent auditors and the government as a public agent.

1. Introduction

Government accountability is the main foundation in a transparent and integrity-driven public governance system. In the context of a democratic state, the government has a moral and legal responsibility to account for the management of public resources to the society as the highest sovereign holder. This principle is a crucial element in achieving good governance, where transparency, integrity, and effectiveness of public policy are indicators of its success (Suharyanto et al., 2018). Accountability also reflects a balance between power and responsibility so that the abuse of authority and corruption can be minimized.

From the perspective of agency theory, the government is viewed as an agent mandated by the people (the principal) to manage public funds and policies for the common good. However, this relationship often faces agency problems arising from conflicting interests and information asymmetry between the agent and the principal. Information asymmetry allows the agent to conceal important information related to the management of public funds, thereby creating the risk of moral hazard and a decline in the quality of state financial governance (Narastri, 2022). To mitigate these potential problems, the external audit mechanism becomes an important instrument.

External audit by an independent institution such as the Supreme Audit Institution Supreme Audit Board (*Badan Pemeriksa Keuangan*/BPK) plays a vital role in ensuring that government financial reports are presented fairly, free from material misstatement, and in accordance with accounting principles and statutory regulations. The existence of the BPK strengthens the system of checks and balances between the executive branch and the public. As the Supreme Audit Institution, the

BPK has constitutional authority to assess the effectiveness of state budget utilization, the efficiency of public programs, and compliance with the law (Budiman, 2021).

The audit results conducted by the BPK not only provide an opinion on financial statements but also serve as a basis for improving governance and bureaucratic reform in the public sector. Research by Hadna et al. (2022) asserts that public participation in the public audit process, such as mechanisms for participation and public comments on audit results, can strengthen transparency and broaden vertical accountability between state institutions and citizens. Thus, external audit is not merely an administrative activity but also a means to strengthen participatory democracy.

Furthermore, Naim et al. (2022) highlights the importance of integrity within the auditing institution itself. Auditor integrity is a determining factor in guaranteeing the objectivity and independence of the examination results. If the auditor's integrity declines, the audit results may lose legitimacy in the eyes of the public. Therefore, strengthening professional ethics, internal oversight systems, and auditor training are strategic steps in maintaining the BPK's credibility.

From the perspective of the agency relationship, external audit is an effective oversight mechanism to address the conflict of interest between public officials and the community. Majid et al. (2022) show that the presence of public audits enhances regional fiscal transparency and reduces the potential for budgetary deviations. Similar research by Hasthoro et al. (2022) found that a good audit opinion is positively associated with the central government's financial performance, indicating the importance of audit quality in improving accountability.

Thus, public accountability is not only a moral responsibility but also a measurable institutional system that is independently monitored. The role of the BPK as an external audit institution is inseparable from the concept of agency and good governance. This research aims to examine how external audit strengthens government accountability through the agency theory approach, and how the independence of public auditors contributes to the transparency of state financial management in Indonesia (Nastiti et al., 2021).

2. Literature Review

2.1. Government Accountability in the Context of Agency Theory

Agency theory explains the relationship between the party granting the mandate (the principal) and the party receiving the mandate (the agent). In the context of government, the public acts as the principal who delegates authority to public officials as agents to manage public resources. Problems arise when the agent does not fully act in the principal's interest due to conflicting goals and unbalanced information (information asymmetry). This phenomenon often leads to moral hazard, where public officials use their authority for certain personal or political interests (Narastri, 2022).

Accountability becomes the key mechanism to overcome agency problems in the public sector. The government is required to account for every policy, program, and use of public funds through transparent financial reporting. According to

Suharyanto et al. (2018), effective accountability can strengthen public trust in the government and improve public perception of fiscal transparency. In this context, external public audit functions as a control tool that ensures alignment between the agent's actions and the principal's interests.

Furthermore, agency theory also underscores the importance of an independent institution that can monitor the agent's activities. Without independent oversight, the potential for information manipulation by the government will increase. Therefore, the external audit mechanism carried out by the BPK in Indonesia is a concrete form of applying the agency principle in modern governance (Majid et al., 2022).

2.2. The Role of External Audit in Reducing Information Asymmetry

External audit is an examination process carried out by an independent party to provide an opinion on the fairness of government financial statements. The primary function of external audit is to reduce information asymmetry between the agent (the government) and the principal (the public). Through objective auditing, the public gains assurance that the government's financial statements reflect the actual condition, free from data manipulation or policy violations.

According to Hasthoro et al. (2022), a good audit opinion is positively associated with the financial performance of government institutions. Regional governments or ministries that receive an Unqualified Opinion (*Wajar Tanpa Pengecualian*/WTP) generally have strong internal control systems and accountable financial governance. This shows that external audit is not just an administrative activity but also an instrument of guidance for government entities in increasing efficiency and effectiveness of performance.

In addition, Dewata et al. (2018) indicate that audit results influence the improvement of regional financial reporting quality and serve as a basis for fiscal policy evaluation. External audit also helps prevent corruption by reducing the opportunity for budgetary abuse through an early detection system for irregularities in financial transactions. Hadna et al. (2022) adds that public participation in the audit process can enhance vertical transparency, where the public also oversees the follow-up on examination results.

The openness of audit results also serves as a means of public education in understanding how state funds are managed and allocated. Thus, external audit functions not only as a control mechanism but also as a medium of communication between the government and the community. When audit opinions are openly published, the legitimacy of government institutions increases because the public can objectively assess performance (Furqan et al., 2021).

2.3. Role and Challenges of Supreme Audit Board as an Independent Audit Institution

The BPK is the highest external audit institution in Indonesia, with the constitutional responsibility to examine state financial management. As the Supreme Audit Institution, the BPK plays an important role in ensuring public transparency and accountability. Budiman (2021) affirm that the independence of the BPK is crucial so that the examination results have legal and social credibility. Without independence, audit results are potentially influenced by political pressure or bureaucratic interests. However, in practice, the BPK faces various challenges, such as limitations in human resources, political pressure, and resistance from the audited entities. Naim et al. (2022) found that auditor integrity and ethics are key factors for the success of this institution. The implementation of an internal integrity system, a code of ethics, and internal violation reporting mechanisms can strengthen public trust in the BPK's audit results.

Besides individual integrity, the BPK's success is also determined by its institutional capacity to follow up on audit recommendations. Nastiti et al. (2021) state that the BPK's effectiveness can be enhanced if the audit results are genuinely implemented by the examined entities. Collaboration between the BPK, the legislative body, and the public is needed to ensure that audit recommendations result in real improvements in state financial management. The BPK also plays a strategic role in supporting the principle of good governance. With transparent and professional auditing, the institution is able to increase the government's fiscal credibility and strengthen democracy through the mechanism of public accountability. Therefore, the external audit carried out by the BPK is a key instrument in creating accountable governance free from financial irregularities.

3. Methods

This research utilizes the document study method as the main approach to examine government accountability within the framework of agency theory and the role of the BPK as an external audit institution in Indonesia. The document study approach was chosen because it allows the researcher to conduct an in-depth analysis of various relevant written sources, such as scientific articles, audit reports, public policies, and academic literature published in last five years. This method focuses on the systematic interpretation of text and secondary data to identify patterns, concepts, and relationships between variables related to accountability and public audit (Majid et al., 2022).

The document study stages begin with the process of collecting secondary data sources, consisting of several scientific articles verified through Google Scholar, Research Gate and Elsevier or relevant to the research theme. Source selection was based on criteria including the publication year of the last five years, journal credibility, and suitability with the topics of public accountability, agency theory, and the role of external audit. The data is also complemented by supporting documents such as BPK's examination results reports (LHP) and statutory regulations related to state financial governance. This approach ensures that the analysis has a strong empirical basis and reflects the current conditions of the public sector in Indonesia (Budiman, 2021).

The second stage is data reduction and categorization. All documents were analyzed by identifying main themes, such as the agent-principal relationship, the role of external audit, the independence of the auditing institution, and its implications for public accountability. Every relevant data point was coded using a thematic approach so that it could be compared and synthesized.

The final stage includes interpretative analysis by linking empirical findings from the literature to the concept of agency theory. This analysis is used to understand how the external audit mechanism functions as a control tool in the agency relationship between the government and the community. The validity of the results is strengthened through source triangulation and comparison between academic articles discussing similar issues (Suharyanto et al., 2018). Thus, the document study method provides a systematic analytical framework for explaining the link between external audit, institutional integrity, and the achievement of public accountability in Indonesia.

4. Results

The results of this study indicate that government accountability within the framework of agency theory cannot be separated from the existence of an effective and independent external audit mechanism. Based on the document analysis of ten scientific sources in last five years, it was found that public audit plays a central role in suppressing information asymmetry between the agent (government) and the principal (society). The government as an agent has the responsibility to manage public resources in accordance with the community's mandate, but in practice, there is a potential for deviation due to conflicting interests, political pressure, and limitations of the internal control system. External audit functions to balance this agency relationship by providing objective, credible, and transparent information to the public (Narastri, 2022).

The main finding shows that the audit opinion has a positive effect on the quality of financial management of both central and regional governments. Entities receiving an WTP tend to have stronger internal control systems, better reporting transparency, and a higher level of compliance with regulations compared to entities receiving opinions other than WTP (Hasthoro et al., 2022). This relationship shows that external audit not only functions as a control mechanism but also as a guidance tool in strengthening public financial governance.

The analysis also found that auditor integrity is the main determining factor in the effectiveness of the audit institution. Naim et al. (2022) asserts that the implementation of public audit in Indonesia faces serious challenges related to professional ethics and auditor independence, especially when political pressure and bureaucratic interests influence the examination process. Efforts to strengthen the internal integrity system of the BPK are important to ensure that audit results can be trusted and have legal and social legitimacy in the eyes of the public. This is reinforced by Budiman (2021) who found that the BPK's effectiveness heavily depends on the institution's ability to maintain neutrality and follow up on examination recommendations.

The study results also indicate that external audit plays an important role in increasing public trust in the government. Suharyanto et al. (2018) state that the openness of audit results can strengthen public perception of government integrity, especially regarding fiscal transparency. The public, who have access to the audit results, can assess the extent to which the government manages finances responsibly. This transparency creates social accountability where the public actively participates as supervisors of public policy.

Furthermore, the results of the literature documentation show that public involvement in public audit contributes to broadening the dimension of accountability. Hadna et al. (2022) explains that the mechanism for public comments on BPK audit results provides space for citizen participation in assessing the performance of government institutions. This participatory model strengthens vertical accountability by encouraging the direct involvement of the community in overseeing state financial management. In addition, the publication of BPK examination results reports in the mass media and official websites plays an important role in building cross-institutional transparency.

The research by Majid et al. (2022) found that transparent and integrity-driven public audits are capable of reducing the potential for budgetary deviations, increasing investor confidence, and improving the quality of decision-making in the public sector. They highlight that regions with higher audit frequency and good opinions have more stable financial performance levels. This aligns with agency theory, where external oversight mechanisms are effective in reducing the opportunistic behavior of agents and encouraging compliance with public organizational goals.

In addition to the technical aspects of auditing, the institutional dimension also plays an important role in supporting accountability. Nastiti et al. (2021) show that the independence of public auditors in Indonesia is often influenced by political hegemony and bureaucratic culture. In such situations, audit results risk being used as a political tool rather than a professional instrument of financial oversight. Therefore, strengthening regulations and professional ethics is needed to maintain the objectivity of the audit institution from political intervention. The independence of public auditors can also be strengthened through cross-institutional oversight mechanisms, for example, through the involvement of the People's Representative Council (DPR) in reviewing the follow-up on BPK audit results.

The study results also show that the follow-up on audit results has a significant influence on the improvement of government financial performance. Many entities obtain good audit opinions after implementing BPK recommendations related to internal control, budgeting, and regulatory compliance. Dewata et al. (2018) found that regions that consistently follow up on audit recommendations experience an increase in fiscal efficiency in the following two years. This means that the benefits of external audit do not stop at the report but also impact continuous public management improvement.

This document study also shows that public audit acts as a public education tool. When the public understands the audit results and their implications for budget use, they become more critical and rational in assessing government performance. Thus, external audit functions as a medium of communication between the government and the public in creating social trust in the state financial system (Furqan et al., 2021). The literature analysis also shows a close relationship between audit quality and national fiscal stability. High-quality audits produce recommendations that can improve the budgetary structure and enhance the financial discipline of state institutions. Conversely, audits carried out formally without independence tend to fail to detect deviations and do not provide a deterrent effect. Therefore, the role of the public auditor is not only to ensure administrative compliance but also to assess the economic value, efficiency, and effectiveness of government programs. From a theoretical perspective, the results of this study reinforce the relevance of agency theory in the context of the Indonesian public sector.

External audit is proven to be the main instrument in mitigating agency risks arising from the imbalance of information and conflicting interests between the public and the government. Thus, public audit carried out independently, transparently, and accountably can increase government legitimacy while strengthening fiscal democracy. Based on the overall results, it can be concluded that external audit has a dual role, namely as a formal oversight mechanism and an instrument of participatory democracy. Its effectiveness depends on the integrity of the auditors, the independence of the audit institution, and public involvement in assessing the examination results. A government that consistently follows up on audit recommendations will gain greater public trust and demonstrate better financial performance. External audit by the BPK, therefore, not only fulfills an administrative obligation but also strengthens the structure of sustainable public accountability in Indonesia.

5. Discussion

The findings of this study affirm that public accountability in Indonesia cannot be separated from the existence of an independent and credible external audit. From the perspective of agency theory, the government as the agent has a moral and legal obligation to account for the management of public resources to the community as the principal. However, in reality, conflicting interests between the two parties often lead to information asymmetry. External audit by the BPK functions as an oversight mechanism that bridges this gap, by providing objective, relevant, and reliable information to the public (Narastri, 2022).

The discussion of the study results reinforces the view that the quality of external audit is directly proportional to the level of government accountability. Audits carried out with high professional standards and ethics can yield objective opinions and constructive recommendations. Bostan et al. (2021) show that positive audit opinions reflect the stability of fiscal management and the efficiency of public budget utilization. External audit also serves as a means to strengthen internal controls and identify areas requiring bureaucratic reform. However, the effectiveness of public audit still faces a number of challenges. Political factors, bureaucratic intervention, and human resource limitations can affect the independence of the audit institution. Nastiti et al. (2021) assert that political pressure can reduce the objectivity of public auditors, especially when audits are carried out on institutions with great political power. In this context, strengthening the auditors' integrity system becomes very important (Naim et al. 2022).

Besides the internal aspects, public involvement is a critical dimension in strengthening accountability. Hidayat et al. (2022) indicates that community participation in the public audit process can increase vertical transparency and broaden the scope of social accountability. By providing the public with access to audit results, the BPK not only performs its examination function but also plays an educational role for society. This aligns with the findings of Furqan et al. (2021) which state that the publication of audit results strengthens public trust in government institutions. Institutionally, the role of the BPK as the Supreme Audit

Institution must continue to be strengthened through structural independence, auditor professionalism, and the application of good governance principles.

Utami (2020) emphasize the importance of following up on audit results so that recommendations do not stop at the report but are concretely implemented by the audited entities. When audit results are effectively implemented, public trust in the government increases, and the accountability cycle becomes sustainable. Thus, external audit functions as a link between the principle of accountability and the practice of public governance. The success of this system depends not only on the ability of the auditors but also on the government's willingness to be transparent and the public's willingness to be critical. The integration of professional ethics, the independence of the audit institution, and public participation is the foundation for strengthening national accountability.

6. Conclusion

This research confirms that government accountability is a fundamental element in achieving transparent, efficient, and equitable public governance. Based on the document analysis of ten scientific sources within the last five years, it was found that the external audit carried out by the BPK plays a vital role in strengthening the agency relationship between the government as the agent and the community as the principal. External audit functions not only as an oversight mechanism for state financial management but also as a guidance instrument that encourages improved performance and integrity of government institutions.. When audit results are openly conveyed and properly followed up, the level of government legitimacy and credibility increases. Public participation in the audit process also expands the scope of social accountability and strengthens vertical control between the community and state institutions.

Furthermore, the effectiveness of the audit institution heavily depends on the integrity of the auditors, institutional professionalism, and the implementation of follow-up on audit recommendations. Therefore, strengthening the internal governance of the BPK is necessary to maintain its independence from political and bureaucratic pressures. Thus, a credible and transparent external audit will be the main foundation for maintaining public trust, strengthening fiscal democracy, and realizing accountable governance in Indonesia.

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