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STRATEGIC PLANNING IN STATE FINANCIAL AUDITS

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ABSTRACT

This paper aims to determine the Indonesia Supreme Audit Institution (BPK) strategic planning process which is authorized to carry out audits of governance and state financial responsibility. Through input process output approach, this paper also introduces a strategic thinking framework in strategic audit planning design. The input consists of the basic values of the BPK and the relationship model for management, organization and administration. NPG, SWOT and audit standards compliance are the process approaches used. The resulting output is a quality audit or good strategic planning which ultimately results in the achievement of the accountability organization maturity model and the impact on the achievement of the goals of the state.

INTRODUCTION

Background

Strategic planning is a management tool in carrying out organizational activities and functions so that the organization can achieve its goals. Strategic planning has a long and medium term time frame in process. However, in practice many organizations are weak in their strategic planning so that the stated organizational goals cannot be achieved. There are many problems that cause the weakness of organizational strategic planning, including the fault of the organization in analyzing the development of its internal and external environment and the wrong organization using analytical tools so as to produce a false analysis. To overcome these problems, it is necessary to take appropriate steps for each organization so

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that its strategic planning becomes an effective management tool in achieving organizational goals.

Each country all around the world also has its own objectives. Likewise, Indonesia has also the objectives of a state are set forth in the Preamble to the Constitution (UUD 1945), which consists of:

1. protect the entire Indonesian nation and all Indonesian bloodshed;
2. promote the general welfare;
3. to educate the nation's life, and
4. participate in implementing world order based on freedom, eternal peace and social justice

To achieve this goal of a state, every government institution needs to carry out its respective duties and roles. BPK needs to take a role in accordance with its authority to carry out audits of governance and accountability of state finances in accordance with Law Number 15 of 2004 concerning Audit of State Financial Management and Accountability. To optimize the role of the BPK, one of which is that the BPK must have a good strategic audit plan.

The International Supreme Audit Institution (INTOSAI) identifies that many Supreme Audit Institutions (SAI) as INTOSAI members in the world are weak in formulating their strategic plans, and some SAIs do not even have a strategic plan at all. To solve this problem, INTOSAI issued guidelines for strategic planning for SAI. As a member of INTOSAI, BPK needs to formulate and determine strategic planning in state financial audits. State finances are a source of funds in carrying out of national development program so that the management and accountability of state finance must be carried out in an accountable and transparent manner in order to create good governance and achieve the goals of the state. The strategic audit planning of state finance is formally stated in the BPK's strategic plan. It is hoped that the strategic planning for auditing state finance can help achieve the implemented state objectives.

In the global achievement, the BPK must achieve maturity in accountability model which developed by INTOSAI. The model consists of six layer (1) combating corruption; (2) enhancing transparency; (3) assuring accountability; (4) enhancing economy, efficiency, ethics, equity, and effectiveness; (5) increasing insight; and (6) facilitating foresight.

First to fourth levels is the implementation of the oversight function of BPK, the fifth level of insight and the sixth level of the foresight function. The complete accountability organization maturity model can be seen in **figure 1**:



Figure 1: Maturity Accountability Model of INTOSAI

Problem

As an institution that has the authority to carry out management audits and accountability for state finances, BPK must have good business and management processes, including the BPK must formulate and determine strategic planning that can be used to support the achievement of state goals and BPK itself. The problem formulation of this paper is how the process of formulating strategic audit planning for state finance.

THEORY

State Finance

State finance is an inseparable part of public finance or some even argue that state finance is equal to public finance. This view is based on the theory of public finance that has been developed by Musgrave⁴ (1959) which defines public finance as a science that studies government economic activities. This is reinforced by the opinion of Plehn⁵ (1929) which states that public finance is the study of the use of government funds to meet government payment needs. From these two opinions, it can be seen that there is a closeness between public finances and government activities, which are the main managers of state finances. Arsjad⁶ (1992) argues that the identification of the public sector with the government comes from Anglo Saxon. This can be traced back to existing libraries in the Anglo Saxon country.

The definition of state finance according to Law Number 17 of 2003 concerning State Finance is all the rights and obligations of the state that can be valued in

⁴ Musgrave, Richard A., *Theory of Public Finance.*, 1959., New York McGraw Hill., p.7

⁵ Plehn, Carl C., *Introduction of Public Finance.*, 1929

⁶ Arsjad, Nurdjaman., *Keuangan Negara.*, 1992., Intermedia

money, as well as everything in the form of money or goods that can be used as state property in connection with the implementation of these rights and obligations. From this understanding it is explicitly clear that the scope of state finance is very broad because it does not only concern cash but also includes goods that can be valued for money.

Basic Value of BPK

Article 1 number 8 BPK Regulation Number 4 of 2018 concerning the BPK Code of Ethics defines basic values as moral crystallization inherent in every member of the BPK and auditors and becomes the benchmark and ideal ideals in implementing audit. BPK has three basic values which consist of independence, integrity and professionalism (IIP). Independence is an attitude and action in carrying out an audit to be impartial to anyone and not to be influenced by anyone. Integrity is a quality, character or condition that shows complete unity, honesty, hard work and adequate competence. Professionalism is the ability, expertise and commitment of the profession in carrying out tasks.

Management, Organization and Administration Relation

The management, organization and administration relationship model was first developed by Coase⁷ (1937) who used economics to measure costs in a company. Coase attempted to connect the elements of the company which consists of management, organization and administration. This theory was further adopted by Arif⁸ (1990) to develop a relation model of management, organization and administration. This model reveals that organization and management are tools for administration. The complete model can be seen in **figure 2**:



Figure 2: Relation Model of Management, Organization and Administration

⁷ Coase, R.H., *The Nature of The Firm.*, 1937., *Economica*, New Series, Vol. 4 No. 16, (Nov. 1937)., pp 386 - 405

⁸ Arif, Mirrian Sjojfan., *Hubungan Antara Administrasi, Organisasi dan Manajemen.*, 1990., Modul 1

According to Malinowski (1961), James D. Mooney (1937), Chester I. Bernard (1938) and Henry L. Sick (1999) organization defines as a collection of people who interact and have the same purpose. Pfiffner and Prethus (1953) defines administration as a process of direction and coordination.

International Standard Supreme Audit Institution (ISSAI) and State Finance Audit Standard/Standar Pemeriksaan Keuangan Negara (SPKN)

Paragraph (1) Article 33 of Law Number 15 of 2006 concerning the Supreme Audit Institution states that "to ensure the quality of audits of state financial management and accountability conducted by BPK in accordance with standards, the BPK quality control system is reviewed by other Countries Supreme Audit Agency that are members of INTOSAI". ISSAI is an international standard that is used as a guideline for SAI in the world such as the BPK. ISSAI is officially authorized by INTOSAI. The ISSAI Framework consists of the official INTOSAI principles, standards and guidelines. It is organized into four levels and INTOSAI GOV., Which consists of:

1. Founding Principles - organized into one document: base on Lima Declarations.
2. Prerequisites for the proper functioning of the SAI. The basic prerequisites for the proper functioning and professional conduct of the SAI.
3. Fundamental auditing principles - contains the basic principles for conducting an audit of public entities
4. Audit guidelines - translating the basic principles of auditing into more specific, detailed and operational guidelines that can be used on a daily basis for audit tasks.

SPKN is a standard for conducting audits of the management and accountability of state finances. SPKN is stipulated by BPK Regulation Number 1 of 2017 concerning State Finance Audit Standard. SPKN stated in the form of an Audit Standard Statement/*Pernyataan Standar Pemeriksaan (PSP)*.

Strategy and Strategic Planning

According to Milkovich in Youndt⁹ *et. al.* (1996) strategic is something that has an impact or influence on a specific goal in the long term period. Kerzner¹⁰ (2002) defines strategic planning as a management tool used to manage current conditions in order to project future conditions, so that strategic plans are a guide for organizations to achieve goals in the next five to ten years.

Internal and external environment analysis should be conducted firstly in formulating strategic planning. The most popular approach in analyzing strategic

⁹ Youndt, Mark A., Snell, Scott A., Dean, James W., Levak, David P., *Human Resource Management Manufacturing Strategy and Firm Performance.*, 1996., Academy and Management Journal 1996 Vol. 39 836-866

¹⁰ Krzner, Harold., *Strategic Planningfor Project Management Using a Project Management Maturity Model.*, 2002., Wiley

environments is to use the SWOT method (strength, weakness, opportunity and threat). The SWOT approach was first introduced by Albert Humphrey is basically used to identify internal and external factors that support or deter to achieve organization goals.

SWOT analysis is applied by analyzing and classifying various things that affect the four factors, then describing them in a SWOT matrix image, where the application is how strengths are able to take advantage of existing opportunities and overcome weaknesses that reduce the potential advantages of the existing opportunities. Then how the strengths are able to deal with existing threats and overcome the weaknesses that can make threats become real or create a new threat.

Identification of the organization's external environment is necessary to consider appropriate analytical tools, one of which is the model developed by Tom Peters and Robert Waterman¹¹ in the late 1970s. This model is called the McKinsey 7S Framework, which consists of seven elements for organizations to achieve their goals. The seven elements are divided into two categories in the form of hard elements consisting of (1) strategy; (2) structure and (3) system and soft elements consisting of (4) share values; (5) skills; (6) style and (7) staff. With these seven elements, management analysis tools to classify organizational strengths and weaknesses can be done through value chain analysis, organization culture analysis, workload analysis, competency analysis, IT evaluation analysis and financial analysis. Further analysis can also be done using a Balance Scorecard (BSC) which consists of four perspectives, namely finance, customers, internal processes, and learning and growth.

Identification of the organization's external environment in the form of opportunities and thread can be done by involving seven aspects which consists of political, economic, social, technological, environmental, legal and competitive aspects. Analytical tools that can be used to identify opportunities and challenges are PESTLE analysis, five forces model and supply demand analysis.

New Public Governance (NPG)

Internal and external factors identifications in public sector organizations can be equipped by new public governance (NPG) approach. NPG is formulated by Rhodes¹² (1996) amidst the debate in governance theory. Rhodes identified six terms of governance which consists of: (1) the minimal state; (2) corporate governance; (3) the new public management; (4) good governance; (5) socio-cybernetic system; and (6) self-organizing and inter-organizational networks. Rhodes establishes that governance is self-organizing and inter-organizational networks. This argument is based on the increasing importance of the role of networks that complement markets and hierarchies so that Rhodes defines

¹¹ https://www.mindtools.com/pages/article/newSTR_91.htm

¹² Rhodes, R. A. W., *The New Governance: Governing without Government'*, 1996., Political Studies (1996), XLIV, 652-667., p.653

governance as a change in the meaning of government, referring to a new process of governance, or changing conditions of good governance, or a new method used to organize society.

NPG is a new paradigm in public administration. NPG is complemented by pluralism, the relationship between internal and external organizations. Other theories put forward by experts on NPG relate more to changes in the relationship between government and society as other organizations that may also provide public services, as expressed by Runya¹³ *et. al.* (2015) argue that after the development of New Public Management (NPM), NPG is a theoretical paradigm that is now widely used in contemporary government public administration. These developments led to profound changes in the role of government and its relationship with society. Meanwhile, Bovaird and Loeffler¹⁴ (2003) argues that public governance is the interaction between parties who have interests that can influence public policy.

National Development Planning Systems and Sustainable Development Goals (SDG)

In order to achieve the goals of the state as stipulated in the Preamble to the 1945 Constitution, a national development planning system is formally set out in Law Number 25 of 2004 Concerning the National Development Planning System. In the national development planning system, strategic plans are outlined in a long-term development plan (RPJP) with a period of twenty years and a medium-term development plan (RPJM). The RPJP and RPJM are also stipulated by each region at the Provinces, Regencies, Cities and Villages level. The national development planning system is aimed at:

1. Supporting coordination among development actors;
2. Guaranteeing the creation of integration, synchronization and synergy between regions, spaces, time, government functions and between the Central and Regional Governments;
3. Ensuring linkages and consistency between planning, budgeting, implementation and supervision;
4. Optimizing community participation; and
5. Ensuring the achievement of efficiently, effectively, equitably and sustainably use of resources

Sustainable development goals (SDG) are a set of development programs and targets for and by all UN member states, including Indonesia. The SDGs are valid from 2016 to 2030. The SDGs is the next step of Millennium Development Goals (MDGs), which ended in 2015. The SDGs contain 17 goals with 169 measurable

¹³ Runya, Xu., Qigui, Sun., Wei, Si., *The Third Wave of Public Administration: New Public Governance.*, Canadian Social Science Vol. 11 No. 7 2015., p.11

¹⁴ Bovaird, Tony., Loeffler, Elke., *Public Management and Governance.*, Second Edition., 2003., Routledge

achievements and deadlines set by the United Nations as a world development agenda for the benefit of humans and the planet.

METHODOLOGY

Qualitative descriptive research method is used in this research. By describing, exploring and analyzing theories concerning strategic planning and auditing of the state finance, this research is expected to generate a strategic planning model in auditing state finance.

Research analysis consists of strategic environmental and standards or guidelines analysis related to state finance. The value for money analysis conducted in order to formulate the model. Identification of inputs, processes, outputs, outcomes and impacts is carried out in order to obtain the strategic planning for auditing of state finance model.

RESULT AND DISCUSSION

Strategic Environmental Audit Analysis

Strategic environmental analysis is carried out objectively and comprehensively by considering conditions and events related to audits of state finances, including:

1. The development or condition of achieving the goals of the state through the achievement of long and medium term national development planning
2. The development of governance
3. Updating regulation
4. The development or international supreme audit institution where BPK is involved in it, such as INTOSAI, ASOSAI, ASEANSAI and SDGs
5. Environmental conditions and the existence of BPK as a state institution in order to be supporting the achievement of national development
6. Improved performance and evaluation of the previous period's strategic planning as well as strategic issues, the relevance of the examination with stakeholder expectations.

Strategic Planning Design Guidelines

INTOSAI¹⁵ (2009) issued guidelines for strategic planning for SAIs who are members of INTOSAI. The purpose of issuing these guidelines is for the SAI to formulate strategic planning in easy steps. According to INTOSAI, strategic planning is the first step in the strategic development of SAI.

Strategic development or capacity building is the development of the core capabilities of the SAI in optimal use of its resources and the implementation of more effective inspection tasks in order to produce the expected results. Initiatives for strategic development can come in various forms, such as changes in legislation,

¹⁵ INTOSAI DEVELOPMENT INITIATIVE (IDI)., *Strategic Planning A Handbook for Supreme Audit Institution.*, 2009

development of organizational structures, review of work processes, preparation of work manuals and various influences affecting personnel within SAI.

Strategic Thinking Framework in State Finance Audit

Strategic thinking framework in state finance audit uses input process output (IPO) approach. Input consist of individual and organizational elements. Individual elements are the BPK's basic values (independent, integrity and professionalism). Organizational elements which are built on the basis model of management, organization and administration relationships. The two input elements are processed using the NPG approach and are expected to produce useful and quality audit outputs as stated in BPK vision and mission. Outcome of this process is achieving the accountability organization maturity model. Finally, the impact is successful of achievement of the goals of the state. The complete IPO approach developed by Akbar can be seen in the following figure 3:

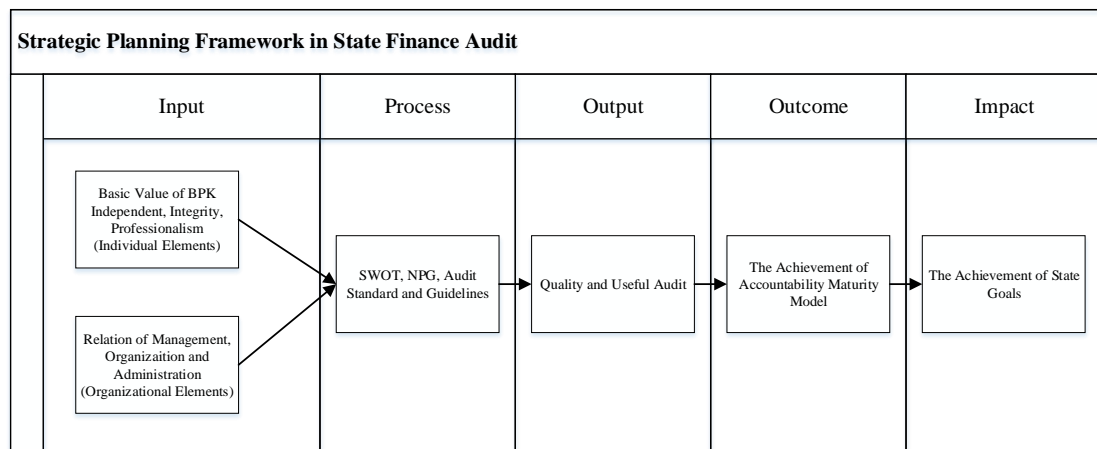


Figure 3: Strategic Planning Framework in State Finance Audit

The basic value of the BPK is the initial capital from the use of BPK inputs, the basic value is expected to be maintained by individuals within the BPK and become the BPK code of ethics. If there is an individual BPK action that violates the basic values, the BPK Code of Ethics Council (MKKE), which is mandated to maintain the BPK's basic value, can take action to enforce the code of conduct in accordance with the Supreme Audit Agency Regulation Number 5 of 2018 concerning the Honorary Council for the Code of Ethics for the Supreme Audit Agency.

The management, organization and administration relationship model is the second input in the model. This model is expected to identify the internal and external strategic BPK environment. Inputs were processed using NPG developed by Rhodes in the form of self-organizing and inter-organizational networks and SWOT analysis. In addition, inputs are also managed in compliance with applicable standards such as ISSAI and SPKN.

The resulting output is a quality and useful audit. Output also can be in the form of good strategic planning from the BPK because it follows the guidelines issued by INTOSAI. A good output will result in an effective outcome in achieving an accountability organization maturity model which also has an impact on the achievement of the goals of the state.

CONCLUSION

Strategic planning is very important tools in organizations including SAI. Strategic planning is expected to become a guideline for achieving organizational goals in the long and medium term that are in line with the goals of the state. The steps for preparing strategic planning start with the identification of the strategic environment and strategic thinking framework and guidelines for strategic planning design.

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