INTEGRITY MANAGEMENT
IN THE INDONESIAN SUPREME AUDIT
INSTITUTION

By

Dedy Eryanto

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RESEARCH SUPERVISOR

Professor Karin Lasthuizen

Brian Picot Chair in Ethical Leadership
School of Management
Wellington School of Business and Government ǀ Ôrauariki
Te Herenga Waka – Victoria University of Wellington
New Zealand

Professor Tony van Zijl

Professor of Accounting and Financial Management
Director, Centre of Accounting, Governance, and Taxation Research
School of Accounting and Commercial Law
Wellington School of Business and Government ǀ Ôrauariki
Te Herenga Waka – Victoria University of Wellington
New Zealand

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DECLARATION

I hereby confirm that the work presented in this thesis is my own and original work that has been carried out through the School of Management, Victoria University of Wellington, during my candidature as a Ph.D. student. I declare that the material of this thesis has not been submitted either in whole or in part for the award of any other diploma at this or any other university. To the best of my knowledge and belief, it contains no material previously published or written by another person or institution except where due reference has been made.

Dedy Eryanto

12 January 2021

GLOSSARY AND ABBREVIATIONS

BKN	*Badan Kepegawaian Negara* (State Civil Apparatus)
BPK	*Badan Pemeriksa Keuangan Republik Indonesia* (Indonesian Supreme Audit Institution)
BPKP	*Badan Pengawas Keuangan dan Pembangunan* (Financial and Development Supervisory Board)
CPI	Corruption Perceptions Index
CEO	Chief Executive Officer
DKI	*Daerah Khusus Ibukota* (Special Capital Region)
DPR	*Dewan Perwakilan Rakyat* (House of People's Representatives); national parliament; there are 575-seats in the national parliament for the period 2019-2024
DPD	*Dewan Perwakilan Daerah* (House of Regional Representatives or the Senate): there are 128-seats in this second national chamber, which has essentially advisory functions
ECC	Employee Care Centre
Gerindra	*Gerakan Indonesia Raya* (Greater Indonesia Movement); party founded by Prabowo Subianto in 2008 to serve as his political vehicle to run for presidential office
Golkar	*Golongan Karya* (functional groups): 'secular' political party founded by the Suharto regime
GDP	Gross Domestic Product
GOI	Government of Indonesia
Hanura	*Hati Nurani Rakyat* (People's Conscience Party): established and once headed by former Indonesian military commander Wiranto
Hormat	Values of respect
HRD	Human Resource Department
ICW	Indonesian Corruption Watch
IMS	Integrity Management System
IAI	*Ikatan Akuntan Indonesia* (Indonesian Institute of Accountants)
INTOSAI	International Organisation for Supreme Audit Institutions
IDI	INTOSAI Development Initiative
ICS	Internal Control System
Irtama	*Inspektur Utama* (Principal Inspector)
ITAMA	*Inspektorat Utama* (Principal Inspectorate)
ISAI	The Indonesian Supreme Audit Institution (*Badan Pemeriksa Keuangan*)
KSAP	*Komite Standar Akuntansi Pemerintahan* (Government Accounting Standard Committee)
Kekeluargaan	*Family principle* (Family-ism)
KPK	*Komisi Pemberantasan Korupsi* (Corruption Eradication Commission)
LSI	*Lembaga Survei Indonesia* (Indonesian Survey Institute)

LHKPN	*Laporan Harta Kekayaan Penyelenggara Negara* (Personal Asset Report Programme of Public Officials)
MPs	Member of Parliaments
MKKE	*Majelis Kehormatan Kode Etik* (Committee of Honour on Code of Ethics)
Kemenpan	*Kementrian Pendayagunaan Aparatur Negara* (Ministry of Empowerment State Apparatus); changed to *Kementrian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi* (Ministry of Administrative and Bureaucratic Reforms) in the 2nd Cabinet of Susilo Bambang Yudhoyono
Nasdem	*Nasional Demokrat* (National Democrats)
NGOs	Non-Governmental Organisations
OECD	Organisation for Economic Cooperation and Development
PI	*Penegakan Integritas* (Integrity Enforcement)
PKMP	*Pemerolehan Keyakinan Mutu Pemeriksaan* (Audit Quality)
PMP	*Panduan Manajemen Pemeriksaan* (Audit Management Guidance)
PDI-P	*Partai Demokrasi Indonesia Perjuangan* (Indonesian Democratic Party-Struggle): a major nationalist/pluralist party
PAN	*Partai Amanat Nasional* (National Mandate Party); a party linked to Muhammadiyah
PPP	*Partai Persatuan Pembangunan* (United Development Party); a government fusion of Islamic political parties established in 1973
PDCA	Plan, Do, Check, and Adapt
PNS	*Pegawai Negeri Sipil* (Civil Servants)
PPG	*Program Pengendalian Gratifikasi* (Control programme for the risk of personal gains)
PKI	*Partai Komunis Indonesia* (Indonesian Communist Party)
PIMK	*Pemeriksaan Internal dan Mutu Kelembagaan* (Internal Inspection and Institutional Quality)
Rukun	A value that can be represented as the maintenance of social harmony
SAP	*Standar Akuntansi Pemerintahan* (Government Accounting Standards)
SAI	Supreme Audit Institution
SPKN	*Standar Pemeriksaan Keuangan Negara* (State Financial Audit Standards)
SISDM	*Sistem informasi Sumber Daya Manusia* (Human Resources Information System)
TI	Transparency International
Tata krama	Politeness
UNCAC	United Nations Convention Against Corruption
WBS	Whistle Blower System
ZI	*Zona Integritas* (Integrity Zone)

ABSTRACT

This study investigates the quality and the adequacy of the Integrity Management System (IMS) of the Indonesian Supreme Audit Institution (ISAI). The ISAI has a key role in promoting the value and benefits citizens in Indonesia obtain from the public sector. Integrity management is seen as a key element in minimising the agency costs in the principal agent relationship between citizens and the public sector, in particular the ISAI. This study uses the OECD IMS, as 'an ideal system and western model' of integrity management to assess the quality and the adequacy of the ISAI IMS both as documented (the 'nominal' system) and as implemented (the 'real' system). Three questions guide this study:

1. *How does the nominal ISAI IMS compare with the ideal OECD IMS and what does this comparison show about the quality of the nominal ISAI IMS?*
2. *How does the real ISAI IMS compare with both the nominal ISAI IMS and the ideal OECD IMS, that is, what is the implementation deficit?*
3. *What are the barriers and challenges that result in the implementation deficit?*

Collection of the data for the study proceeded in three stages. The first two stages aimed to document the nominal and real ISAI IMS from the perspective of internal agents. The first stage was document analysis at the ISAI Head Office in Jakarta and semi-structured interviews with Head Office personnel to address any gaps in information left by the document analysis. The second stage took place at the branches of the ISAI located in *Daerah Khusus Ibukota* (DKI, Special Capital Region) of Jakarta and East Java. In each branch, document analysis was carried out and semi-structured interviews were conducted with management and auditors.

The third stage involved semi-structured interviews with external experts and critical commentators on the operation of the ISAI in order to achieve balance between internal and external views. The three stages provided the data required to address the three research questions.

The findings indicate that the nominal ISAI IMS incorporates most of the significant features of the ideal OECD IMS. However, this study also found that having a high-quality and adequate nominal system is not enough to ensure a high-quality real system. Three factors were identified as posing serious barriers and challenges to achieving the implementation of the nominal system as a high-quality and adequate real system. Firstly, strong political influence, especially in the selection process for ISAI strategic leaders, has a negative impact on the ISAI's institutional integrity and credibility. Many of the interviewees questioned the commitment of politicians to support integrity programmes in the public sector including in the ISAI.

Secondly, the selection process for leaders in the ISAI, operating through the political process, fails to produce strategic leaders with robust organisational ethical leadership. As a result, ISAI personnel, especially auditors, perceive a lack of exemplary leadership behaviours and tone at the top. This situation makes it more difficult to implement principles of integrity within the organisation and may also impact the degree of public trust in the ISAI. Thirdly, local traditions create challenge for compliance with integrity standards developed from a mature western perspective. The OECD's integrity system applies Weber's ideal bureaucracy theory to developing organisational integrity, which has a limited fit with

Indonesian culture and reality. Indonesian values, such as respect, gratitude and loyalty, are positive qualities, but the challenge within an organisational context, including the ISAI, is to ensure that they are applied to the promotion of integrity rather than being capitalised on by unethical persons in the pursuit of personal gain through integrity violations.

This study contributes to the literature on integrity management in at least four fundamental ways. Firstly, it places the value of an integrity management system in the context of minimisation of agency costs. Secondly, it introduces a quantitative assessment technique for comparison of different integrity management systems. Thirdly, the study identifies the negative impact of political influence and the importance of leaders providing ethical leadership in maintaining integrity. Finally, by focussing on Indonesia, a developing country, the study extends the scope of the empirical literature on integrity management which is presently dominated by western perspectives.

The study identifies three significant factors that are barriers and challenges to implementing an integrity management system in the Indonesian context, namely: political influence, ethical leadership, and culture.

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CHAPTER ONE
INTRODUCTION

1.1 Thesis Introduction

This thesis investigates the quality and the adequacy of the integrity management system (IMS) of the Indonesian Supreme Audit Institution (ISAI). The ISAI has an important statutory role to promote the value and benefits for the Indonesian public receives from the public sector. However, the relationship between citizens and the ISAI is subject to agency costs and therefore, in terms of the lens provided by agency theory, a high-quality adequate IMS is viewed as a tool to minimise these agency costs.

The International Organisation of Supreme Audit Institutions Principle 12 (INTOSAI-P 12) encourages Supreme Audit Institutions (SAIs) around the world to 'lead by example' in strengthening the accountability, transparency, and integrity of government and public sector entities (INTOSAI, 2013, 2019a). Therefore, to be 'a leading institution' and a part of the international community of SAIs, the ISAI should have a strong image in terms of maintaining integrity.

Through their audit activities, SAIs have a pivotal role which can benefit citizens (INTOSAI, 2013), by "overseeing the management of public funds and the quality and credibility of governments' reported financial data" (INTOSAI, 2013; World Bank, 2001, p. 1). In other words, SAIs can contribute value to citizens by "carrying out audits to ensure that government or public sector entities are held accountable for their stewardship over, and use of, public resources" (INTOSAI, 2019a, p. 8;

Moore, 2014). The role of the ISAI, therefore, is to facilitate improvement in the governance of Indonesia public institutions and thus promote the trust of citizens and business communities in these institutions.

Furthermore, it is widely recognised that integrity violations in public institutions hinder economic growth and the achievement of prosperity (Lambsdorff, 2003; Mauro, 1995; World Bank, 2004). Such violations create a poor image for the country and a bad reputation for the government (Powell, Wafa, & Mau, 2020; Transparency International, 2020a). A high-quality national integrity management system is therefore of vital importance.

There is evidence to suggest that integrity violations are a common phenomenon all over the world and are not specific to developing countries (De Graaf, Huberts, & Strüwer, 2017; Heywood & Rose, 2015; Scott & Gong, 2015; Siddiquee, 2010; Transparency International, 2017b). However, in developing countries the perception that the level of violations (in particular corruption) is high, often derives from bad experiences in dealing with public sector officials. For instance, bribes are demanded when accessing basic services, such as health and education, and also in tendering activities (Hamdani, Kumalahadi, & Urumsah, 2017; Mohamed, Alykallam, Othman, Omar, & Rahman, 2017; Transparency International, 2017b, 2018a). These phenomena add to the importance and the urgency of this study, especially for Indonesia. While its Corruption Perceptions Index (CPI) issued by Transparency International (Transparency International, 2018a) has shown

improvement over the last couple of years, it has not improved dramatically (Transparency International, 2020a).

The thesis uses the OECD IMS, as both 'an ideal system and western model' of integrity management to assess the quality and the adequacy of the ISAI IMS (the nominal system) and to investigate the barriers if any to implementation of high quality integrity management by the ISAI (the real system).

Many scholars and practitioners perceive the OECD IMS as an acceptable system of public sector integrity management (Macaulay, 2018; Tremblay, Martineau, & Pauchant, 2017). However, Tremblay et al. (2017, p. 223), for example, note that "the actual validity" of this framework "has never been challenged", especially in addressing how this framework deals with the complexity of integrity in practice (Tremblay et al., 2017). Nevertheless, in this study I adopt the OECD IMS as the reference base for evaluation of the ISAI IMS.

The overarching research question of this study is *What is the quality and the adequacy of the ISAI IMS?* This leads to three specific research questions:

1. *How does the nominal ISAI IMS compare with the ideal OECD IMS and what does this comparison show about the quality of the nominal ISAI IMS?*
2. *How does the real ISAI IMS compare with both the nominal ISAI IMS and the ideal OECD IMS, that is, what is the implementation deficit?*
3. *What are the barriers and challenges that result in the implementation deficit?*

1.2 Motivation for the Study

To date, most studies on integrity management in the public sector have been on developed countries such as the US and European countries (Lawton & Doig, 2006; Menzel, 2015). As a result, there is limited research describing the actual practice of integrity management in developing countries (Huberts, Six, van Tankeren, van Montfort, & Paanakker, 2014). Research done to date suggests that anti-corruption and integrity programmes in developing countries do not seem to work (Dao, 2017; Pertiwi, 2016; Van Eeden Jones & Lasthuizen, 2018). This study therefore aims to add to the research literature and in particular identify factors that affect integrity management in developing countries.

There are a range of differences between developed and developing countries. Firstly, most developing countries are categorised as corrupt, based on the CPI. Secondly, developed and developing countries have different levels of democracy, history, social, political and cultural conditions. For example, in a political context, most western countries follow "Max Weber's ideal type of rational-legal bureaucracy" (Sissener, 2001, p. 4) while many Asian countries such as China, Thailand, and Cambodia are influenced by Confucianism and other eastern philosophies that have quite different underlying principles, values, and norms.

These differences trigger debate among scholars on how to apply the principles of integrity across different countries (De Graaf, Wagenaar, & Hoenderboom, 2010; Heres, Huberts, & Lasthuizen, 2017; Mungiu-Pippidi, 2006) and indicate that a

'one-size-fits-all' method for dealing with corruption and integrity problems in different cultures and organisations is unlikely to exist (Holmes, 2015, p. 117). Therefore, this study addresses integrity management from the perspective of a developing country, specifically Indonesia, and aims to contribute to theory development in this area.

1.3 Research Methodology and Approach

This study focuses on applying integrity management in the 'challenging' environment of Indonesia, which has a huge territory, serious corruption problems, and many different local cultures. Integrity is a subject which has many perspectives and interpretations (Fleurke & Hulst, 2019; Hoekstra, Huberts, & Gaisbauer, 2016). It means that integrity should not be treated as an absolute truth. Therefore, to deal with these phenomena, this study adopts the post-positivism paradigm and applies a qualitative study. This approach posits that there are various participants' perspectives, assumptions, experience and even multiple "realities" that lead to no single absolute truth in the world. However, "researchers attempt to get as close to the answer as possible. Cannot fully attain reality but can approximate it" (Lincoln, Lynham, & Guba, 2011, p. 106).

This study applies qualitative analysis with two main research strategies: document analysis and open-ended interviews. Firstly, relevant policy documents are analysed to understand the design of ISAI's IMS and to compare it with the OECD IMS the ideal system. Secondly, semi-structured open-ended interviews are conducted with a range of different participants (including board members, senior officials,

management, human resources personnel, auditors, training centre, academics, activists in anti-corruption, and ISAI's auditees) to identify the real system and to understand the barriers to implementation of integrity management. The participants in the interviews were based at the head offices and two branches: the DKI Jakarta and East Java Regional Offices.

1.4 Summary of Key Findings

The findings of this study show that the nominal ISAI IMS includes the key features of the OECD IMS. However, comparison of the nominal and real ISAI systems indicates three barriers and challenges to successful implementation of the nominal system to achieve improved value and benefits for citizens from the public sector. Political influence in the selection of board members is, firstly, likely to lead to in appropriate choice of Board members and, secondly, to lack of ethical leadership. Finally, the dominant local culture and traditions create challenge for compliance with integrity standards based on a western model.

1.5 Contribution of the Thesis

This study contributes to the existing literatures on integrity management in at least four fundamental ways. Firstly, the study places the value of an integrity management system in the context of minimisation of agency costs. Secondly, it introduces a quantitative assessment technique for comparison of different integrity management systems. Thirdly, the study identifies the negative impact of political influence and the important role for strategic leaders in maintaining integrity, especially how they face the potential for political influence.

Finally, the study, by focusing on Indonesia, contributes to the empirical literatures on integrity management in the public sector.

The study identifies three significant factors that have become constraints in terms of implementing an integrity management system in the Indonesian context, namely politics, leadership and culture. These factors have practical implications for public sector analysts, activists at anti-corruption NGOs, as well as for the larger policy community that is concerned with promoting integrity in public sector institutions in Indonesia.

1.6 Structure and Content of the Remaining Chapters of the Study

Chapter Two starts with a brief review of the wider context of Indonesia, in terms of geography, history, politics, and culture, as background to understanding of the problems of effective implementation of integrity management in Indonesia. The chapter describes the Indonesian public sector, emphasises the efforts to build integrity in the sector and highlights the problem of integrity in the ISAI. The chapter discusses the role of the ISAI and the selection mechanism for ISAI board members, and shows that politics and politicians have a significant influence in this selection process. The chapter also provides an introduction to the key principles of Javanese culture.

The first part of Chapter Three discusses agency theory as the theoretical lens for the role of integrity management in the ISAI. It also discusses the existing literatures

and key concepts of integrity management as a basis for the subsequent chapters in this study. These key concepts cover the explanation of integrity, integrity violations and corruption, integrity management, institutionalisation of IMSs, ethical leadership, and the outcomes of an IMS. The second part of the chapter discusses the barriers and challenges of applying integrity management in the Indonesian context. This includes discussion of ethical violations and corruption in the ISAI, political influence on the ISAI, and lack of ethical leadership. The chapter concludes with discussion of integrity management in the Indonesian context.

In Chapter Four, I explain the research design adopted to answer the research questions of the study. The chapter justifies the selection of the qualitative research approach within the post-positivism paradigm. The research design includes three stages of data collection and the chapter explains how the choice of the head office and two branches of the ISAI as the locations for data collections and the choice of participants for the interviews provide a representative database for the study of the ISAI IMS.

Chapter Five describes the OECD IMS, which is used in this study as the 'ideal' system for the management of integrity in public sector institutions. The OECD IMS is an integrated system of two layers (core and complementary) and context where by each layer comprises three pillars: instruments, processes, and structures. The instruments depend on the approach adopted (compliance or values based) and fall into four functional categories.

Chapter Six compares the nominal ISAI IMS and the 'ideal' OECD IMS and thus addresses the first of the three research questions of the study. The comparison is made using both quantitative and descriptive approaches. The instruments are compared on an instrument-by-instrument basis as included in the OECD IMS. By assigning subjectively determined weights to different aspects of the instruments it is estimated that the ISAI IMS includes 83% of the instruments in the OECD IMS. The descriptive approach describes the instruments of the nominal ISAI IMS and explains the differences from and similarities to the instruments of the OECD IMS.

Chapter Seven compares the nominal ISAI IMS (and the OECD IMS) with the real system and thus addresses the second research question of the study. Extending the quantitative assessment introduced in Chapter six, it is shown that in the ISAI IMS the OECD instruments are implemented to the level of 55%. The chapter reports that comments from most interview participants with real user experience of the ISAI system indicate that the nominal system is adequate in terms of the instruments that are included in the system. The chapter divides the full set of instruments into four categories of differences between the nominal ISAI IMS and the real system and identifies the key differences in terms of instruments being included or not and the degree of implementation. The chapter concludes with consideration of the capability of actors' integrity

Chapter Eight discusses political influence, lack of ethical leadership, and culture as the barriers and challenges to implementation of the nominal ISAI IMS, resulting in the implementation deficit. The chapter thus addresses the third research question

of the study. Political influence in the selection of board members is, firstly, likely to lead to inappropriate choice of board members and, secondly, to lack of ethical leadership. Thirdly, the dominant cultural values in Indonesia pose several challenges to the nominal ISAI IMS, especially when using the 'western' OECD IMS as an ideal system for IMS. However, they are positive values and the challenge therefore is to ensure that they are applied for the benefit of the organisation rather than being capitalised on in behaviour constituting integrity violations.

Chapter Nine concludes the study. It summarises the study and its findings. The chapter recommends changes that could improve integrity management in the ISAI. The chapter notes the limitation of the study and makes some suggestions for further research.

CHAPTER TWO
INDONESIA'S SOCIOPOLITICAL CONTEXT

2.1 Introduction

Implementation of integrity management in public sector institutions depends on the historical, political, and cultural context of a country and a full understanding of the contextual factors plays a crucial role in successful implementation of integrity programmes. Section 2 of this chapter therefore begins by discussing Indonesia's geography, history, politics, and culture. As widely acknowledged, Indonesia's bureaucracy is generally influenced by Javanese cultural values and practices. These, include a set of cultural beliefs and values of *hormat* (respect), *rukun* (living in harmony), and *kekeluargaan* (family-like relationships) held by bureaucrats and civil servants (Prabowo & Cooper, 2016).

Section 3 of the chapter describes Indonesia's public sector institutions and the various efforts that have been made to build integrity management within the institutions. This section also introduces some integrity violation cases, especially cases relating to the ISAI, (these are presented in more detail in Appendix 1). Section 4 explains the role of the ISAI within Indonesia's public sector and is followed in Section 5 by a description of the selection process for ISAI's board members. Finally, Section 6 concludes the chapter with a recap of the distinguishing features of Indonesia's society and cultural environment and how they shape the implementation of integrity management.

2.2 Indonesian Geography, History, Politics and Culture

Indonesia is a unitary sovereign country, an archipelago comprised of more than 13,000 islands. The five major islands are Sumatera, Java, Kalimantan (Indonesian Borneo), Sulawesi, and Papua. The islands cover approximately 1,800,000 square kilometres, and make Indonesia the world's fourteenth largest country in terms of land size. Jakarta is the capital city and the centre of government and business, and is located on Java (Central Intelligence Agency, 2017). Indonesia has a population of around 270 million people, and is thus the fourth most populous country in the world (United Nations, 2019).

The country is also known for its multi-religious and multi-ethnic society. Muslims and Javanese are the major religious and cultural groups and constitute around 87% and 40% of the population respectively (CIA, 2020). The various ethnic and cultural groups are reflected in the country's national motto, *Bhinneka Tunggal Ika* (Unity in Diversity). Each ethnic group has their own local traditions and language. However, Javanese culture dominates over the culture of other ethnic groups.

Historically, Indonesia is a former Dutch colony, which declared its independence on August 17, 1945. Since the declaration of independence, several regimes have ruled the country. The colonial period and the period since gaining independence have not only given 'a lesson-learned' for Indonesian history, politics, culture, and the national character, but have also created social problems including corruption and integrity problems. This section sets out Indonesia's history and politics based on the views of a number of historians and scholars. They have identified four

different phases, namely: the Dutch Colonial Period pre- independence (1602-1945), the Old Regime (1946-1966), the New Order Regime (1967-1998) and the Reform Era (1999-present) (Aspinall & Mietzner, 2014; Ciment & Hill, 2012; Dwiputrianti, 2011; Hadiz, 2003; Heryanto & Hadiz, 2005; Jomo, 2000; McLeod, 2003; Schütte, 2017). Table 2.1 below presents a summary of the important political events in the brief history of Indonesia:

Table 2.1: Brief history of Indonesia and important political events

Year	Events
1602	*Verenigde Oost-Indische Compagnie* (VOC-The Dutch East India Company) came to *Nusantara* (a former name for Indonesia during the era of the Majapahit kingdom) as a trader and established business relationships with many of the kingdoms in Nusantara. Later, the nature of the relationship changed to become occupation and Colonialism and the VOC was replaced by the Dutch government.
1942	During the Second World War, Japan invaded some Asian countries, including Indonesia.
1945	Soekarno and Hatta declared Indonesia's independence from the Netherlands and became the first president and vice-president.
1967	Many widespread demonstrations and riots pressured the government to dissolve the (now-defunct) *Partai Komunis Indonesia* (PKI, Indonesian Communist Party) because of its involvement in the murders of senior army generals. Then, through *Surat Perintah 11 Maret* (Letter of Instruction of March 11, later known by the acronym 'Supersemar'), Major-General Soeharto was appointed to destroy the PKI and he took control of the government and replaced Soekarno as the second president. This period was known as the beginning of Soeharto's New Order that lasted for 32 years.
1998	The serious Asian financial crisis was followed by demonstrations in a number of cities pushing for political and bureaucratic reform amidst massive corruption in Indonesia's bureaucracy. Finally, Soeharto stepped down on 21 May, 1998. He transferred power to the vice-president, B.J. Habibie to run the government until a general election could be held. This event marked the beginning of the Reform Era.
1999	The first election for national, provincial and district legislatures was held and involved 48 political parties. On 20 October 1999, Abdurrahman Wahid was elected as president by Parliament. However, on 23 July 2001, he was impeached by Parliament and replaced by his vice-president, Megawati Soekarnoputri. A programme of reform was launched which included

	enactment of Law 28 ,1999 on Corruption, Collusion and Nepotism-free State Administration as well as Law 31, 1999 on Eradication of Criminal Acts of Corruption.
2004	In the first direct election for president and vice-president. Susilo Bambang Yudhoyono (SBY), a retired army general and Jusuf Kalla, a national entrepreneur, achieved victory over the other candidates. SBY continued the reform agenda, which included, for example, restructuring of civil servants' salaries in certain public institutions. In 2007, the Ministry of Finance was selected as a pilot project for this programme.
2009	SBY was re-elected as president for the next five years (second term).
2014	In the 2014 presidential election, Joko Widodo, popularly known by his nickname "Jokowi", a former governor of DKI Jakarta replaced SBY. In April 2019, Jokowi was re-elected for his current second term of presidency.

2.2.1 Problems of Corruption and Integrity Violations throughout Indonesian History

Integrity violations, especially corruption, have for years been a wide-spread phenomenon in Indonesia's public sector. Therefore, it is important to understand how Indonesia's bureaucracy has become afflicted with these problems. This section gives an overview of the Dutch Colonial Period leading up to independence, the Old Order Regime, New Order Regime and Reform Era.

2.2.1.1 Dutch Colonial Period leading up to Independence (1602-1945)

The problem of corruption in Indonesia has existed since the colonial era (Alatas, 2015; Cribb, 2011; Palmier 1985; Trocki, 1999). According to Frederick and Worden (1993), VOC's personnel were particularly corrupt, and this was a major factors in its bankruptcy in late 1799. Corruption was also part of local society,

"The abuse of power for personal benefit is shaped by patrimonialism[1] and the traditional principles of hierarchy, respect, and taking care of one's extended family" (Schütte, 2017, p. 42). These practices continue to exist in modern Indonesia (Palmier 1985; Schütte, 2017).

2.2.1.2 Soekarno's Old Order Regime (1946-1966)

After proclaiming independence on August 17, 1945, Soekarno (sometimes spelt Sukarno) emerged as a national leader and became Indonesia's first president. During the initial stage of his government, Soekarno struggled to develop the very young country given the vast territory, a large population, and lack of proper facilities. Some historians note that this challenging situation could be attributed to the military conflict with the Dutch who attempted to hold on to Indonesia as a colony, separatist movements that had arisen in some part of the country, and the political and economic instability that ensued (Adam, 2015; Bunnell, 1966; Schwarz, 2018). In an effort to stabilise the country, Soekarno governed in an autocratic style that was known as "Guided Democracy" (Van der Kroef, 1957).

Soekarno's government was ultimately ineffective and characterised by political turmoil. Civil Servants were inexperienced and lacked the skills and capacity to provide good public services (Boediono, 2005; Dwiputrianti, 2011). Nevertheless, since the country's declaration of independence, Soekarno had, realised the importance of having an audit institution to audit the state's finances. He thus

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[1] In general, German sociologist Max Weber describes patrimonialism (or a patrimonial society) as one where bureaucrats struggle to differentiate between what is known as the "private" and the "official" sphere. Under these conditions, they exercise power as if it is their personal property and is free from the constraints of regulation (Webber, 2006, p.409)

established an audit agency, the ISAI, with himself as the head of the agency and appointed ministers as the board members (Dwiputrianti, 2011).

Soekarno faced not only political and economic problems, but also corruption (Alatas, 2015; Quah, 2003). Corruption was particularly acute in the area of import licensing. There were efforts to eradicate corruption in this sector (Quah, 2003). However, the situation became worse, especially because of serious inflation which "eroded civil service salaries to the point where people simply could not live on them and where financial accountability virtually collapsed because of administrative deterioration" (Mackie, 1970, p. 87). Gradually, the economic problems turned into a political crisis, especially after the PKI staged a coup d'état and murdered some army generals. This became 'a trigger' for wide-spread demonstrations to demand the president's resignation. Finally, Soeharto (sometimes spelt Suharto), the commander of the army's strategic reserve, took control and in 1967 replaced the country's founding president Soekarno (Adam, 2015).

2.2.1.3 Soeharto's New Order Regime (1967-1998)

Soeharto set improvement of the economy as a top-priority. With the support of foreign investment and international donors, Soeharto succeeded in building the Indonesian economy (Hill, 1997). During his era, Indonesia came to be classified as a middle-income country with per capita income of over US$1000. Soeharto's New Order not only reduced poverty but also steadily improved the people's education, literacy, and health standards (Schwarz, 2018). Therefore, he was once

dubbed '*Bapak Pembangunan*' (the father of development) in appreciation of his achievement in developing Indonesia (Heryanto & Lutz, 1988).

However, Soeharto's regime was intolerant of critics, and there was lack of freedom and democracy (Liddle, 2000). By drawing on the military as backup and his political machine *Golongan Karya* (Golkar, functional groups), Soeharto was so powerful and dominant that he could control important political decisions and strategic institutions, including the national media. Through his power and influence, Soeharto directly determined the structure of the state financial budget (Ambardi, 2008; Suryadinata, 1992) and could also 'decide' who would be the chairs of other institutions, such as Parliament, the Supreme Court, and the ISAI. The executive's power or influence was thus almost absolute given that there were no checks and balances.

Another negative side of Soeharto's regime was the rampant corruption in the bureaucracy and business. In fact, a booming economy and some dysfunctional institutions had opened up opportunities for rent-seeking activities from government projects and expenditures that benefited a few of the president's inner circle and cronies (Dick & Mulholland, 2018; McLeod, 2011). This situation caused a culture of 'patron-client' relationships among state officials and businessmen, which led to 'patrimonialism' in society (Azra, 2010, p. 116).

McLeod (2011) notes that Soeharto also succeeded in building 'a franchise system' in politics, bureaucracy and business. Specifically, the system worked by using the "coercive power of government privately to tax the general public and redistribute the revenue to a small elite" (McLeod, 2011, pp. 49-50; Schütte, 2017). More broadly, the franchise system involved the legislature, political parties, judiciary, military and law enforcement, and the general bureaucracy and state-owned enterprises that allowed these institutions to invest and receive the revenues extracted from the public and firms outside the system (Schütte, 2017).

Thus, during Soeharto's authoritarian regime, corruption was widespread within society because of a lack of accountability, transparency, democratic institutions, and free press. The terms *Korupsi, Kolusi, Nepotisme* (KKN, corruption, collusion and nepotism) developed into common use in daily life (Robertson-Snape, 1999). Surrounded by sycophants, Soeharto lasted as an authoritarian leader for more than three decades and made Indonesia's political cross-checking mechanisms weak (Schwarz, 2018).

Collapse of the New Order regime was finally triggered by the massive student and public protests and demonstrations that coincided with the Asian financial crisis that hit Indonesia in 1998 (Davidson, 2018). The crisis not only destabilised the country's economy, but also left the people strongly dissatisfied with government policy and particularly the massive corruption. The students and public at large, especially those living in big cities such as Jakarta, Surabaya, Bandung, and Solo took to the streets, demanding the resignation of Soeharto, a new government, and

a clean bureaucracy. Finally, on May 21, 1998 Soeharto stepped down, marking the end of the New Order Regime which had ruled the country for 32 years (Schwarz, 2018). Indonesia then entered a reform era oriented to reduction of corruption in government.

2.2.1.4 Reform Era (1999 - Present)

In terms of political freedom, Indonesia has since 1998 succeeded in running five general elections without any significant riots. This has created an image of democratic maturity, especially in the context of Southeast Asia (Davidson, 2018; Schwarz, 2018) and Indonesia is now viewed as one of the most stable young democratic countries in the world (Pongsudhirak, 2014; Shair-Rosenfield, 2019). Unfortunately, however, in terms of institutional reform of the public sector towards 'a clean bureaucracy', Indonesia is still struggling, partly because systemic corruption involves "many political relationships, including those connecting the political class to both the state and private economy" (Aspinall, 2019, p. 50; Newman, 2011; Znoj, 2007). In other words, full implementation of integrity programmes, including eradication of corruption, has so far been hard to achieve because of strong political influences (Dick & Mulholland, 2016a; Subagio, 2016; Ufen, 2017).

A number of factors are believed to contribute to these strong political influences. Firstly, the fall of the New Order Regime was followed by 'a euphoria' of freedom that altered the Indonesian political landscape (Indrayana, 2008). For example, people could now form political parties freely compared to the situation in the New

Order Era when there were only three 'puppet' parties because of the government's political constraints (Muhtadi, 2019b). This political autonomy and freedom allowed further scope for the public to be involved in politics but also opened up an additional source for corruption. A number of new routes became available for access to power and the strengthening of relationships between politicians and industries (Dick & Mulholland, 2018).

Secondly, the role of Parliament as a legislative institution became increasingly important with the effect that political authorities that were previously dominated by the executive branch were moved or shared with Parliament. Any position in politics became 'a political bargain' for both a politician and political parties to make 'a deal' and sometimes this could lead to corrupt behaviour. As discussed in Section 2.5 below, the authority for selection of the ISAI's board members is a case in point (Dwiputrianti, 2011).

The power sharing between the executive and legislature created not only tensions between the two branches of government, but also a tough competition among political parties to obtain access to and control over the government. In 'a healthy democratic system of government', there are generally two political sides, a ruling party that runs the government on the one hand and an opposition on the other. With these two political units, it is expected that a system of checks and balances will develop.

However, in Indonesia's current political system, there is almost no 'difference' between the ruling party and the opposition because most competitions among political parties ends up in practice with a cartelised party system (Ambardi, 2008; Lestari, 2017; Muhtadi, 2019a; Widojoko, 2017). That is, a system where "colluding parties become agents of the state and employ the resources of the state (the party state) to ensure their own collective survival" (Katz & Mair, 1995, p. 5). As a result, because political parties aim to be part of the government, such a practice crowds out control mechanisms including accountability and instead leads to a collusive democracy (Slater, 2004).

In fact, once the general election is over, parties and politicians often no longer retain their specific identity because they build "a pragmatic coalition" based purely on opportunity, political interests, and without care for their political identity and platform (Widojoko, 2017, p. 257). For instance, following the 2004 general election, members of two 'Islamic parties', namely *Partai Persatuan Pembangunan* (PPP, United Development Party) and *Partai Bulan Bintang* (PBB, Crescent Star Party), joined the cabinet which was formed by the nationalist-secular parties that had won the election (Ambardi, 2008).

Furthermore, Ambardi (2008) identifies that the motive of most parties for entering a cartel is to safeguard their long-term political survival. In the Reform Era, prevailing laws and regulations have permitted the existence of many political parties, incurring considerable costs to form and maintain these parties. According to Ufen (2017, p. 24) the cost of engaging in political activities is higher than in the

past, because political parties and politicians not only "spend most of their budget for media advertisements and political surveys", but also "on travel, accommodation, and crowd payments" (Dick & Mulholland, 2016a, p. 46).

The best strategy for financing these political activities and obtain a return on the money spent is by becoming part of the government or getting access to projects from bureaucracies (Ambardi, 2008). This financial pressure driven by political activities is believed to be a serious challenge in the fight against corruption. The fact, that politicians who are both a Member of Parliament and selected by the president to be a member of the executive, often abuse their power by accessing money from the government budget "through illegal means" strengthens this argument (Subagio, 2016, p. 38).

The current high cost of involvement in Indonesian politics has attracted the attention of scholars, analysts, and international agencies (Aspinall & Sukmajati, 2016; Mietzner, 2007; Muhtadi, 2019b; Saputra, 2018; Transparency International, 2018b). Unfortunately, to date there is no clear regulation over the maximum amount of money that can be donated to political parties and politicians to support their campaigns. In addition, most parties and politicians are not transparent in reporting their political financing (Ufen, 2017). To sum up, the high cost of political activities has negative effects that cause real problems in the mode of Indonesian politics, such as practices that are 'collusive' or 'delegative' (Slater, 2004), 'consolidated but 'patrimonial' (Webber, 2006), 'low quality' (Mietzner, 2008),

'cartelised system' (Ambardi, 2008; Widojoko, 2017), 'vote buying' (Muhtadi, 2019b) and 'political corruption' (Liddle, 2019; Ufen, 2017).

2.2.1.4.1 Political Financing and the Risk of Conflict of Interest

The high cost of participating in politics leads to strong potential for conflicts of interest and corruption between politicians and businessmen (Gunarwanto & Eryanto, 2019; Kuncoro, 2006). A politician "seeking election for public office and requiring campaign funding from third party sources" will "simply provide kickbacks in the form of preferential treatment" for any businessman willing to become a sponsor (Gunarwanto & Eryanto, 2019, p. 32).

Carney and Hamilton-Hart (2015) provide examples of the national business owners who engage and have key roles in political parties: Aburizal Bakrie (former minister and Golkar Chair), Jusuf Kalla (former vice-president and Golkar Chair), Surya Paloh (Nasdem Chair), and Prabowo (Gerindra Chair). They are all famous national entrepreneurs, who are actively involved in politics. The Jakarta Post editorial of 11 October 2019, under the heading "The risk of conflict of interest within Indonesian public institutions", highlighted that as many as 262 or 45.5% of the 575 new Member of Parliaments (MPs) in 2019 were businesspeople ("Massive conflict of interest," 2019, October 11).

The risk of conflict of interest between politicians and businessmen raises the problem of accountability and integrity, especially in the public sector. One route of corruption is opportunities for rent-seeking in government projects (Asril, 2012,

December 27; Gunarwanto & Eryanto, 2019; "Kasus Novanto: Transkrip Lengkap Heboh 'Papa Minta Saham'," 2015, November 21). Another is through 'political deals' at the time of selection of board members for public institutions such as the ISAI (Anam, 2019, July 14; "Bola Panas di Komisi Sebelas (Hot Ball at Comission Eleven)," 2019, August 11).

Problems of accountability and integrity among politicians are evident from the significant number of corruption cases handled by the *Komisi Pemberantasan Korupsi* (KPK, Corruption Eradication Commission) which have involved MPs and public officials. Table 2.2 below reports details on such cases that have occurred over the period 2010-2019. There have also been cases of former MPs who were involved in integrity violation cases, which were brought against them when they were board members of the ISAI (see Appendix 1). As a result, the public tends to question the integrity and commitment of local politicians to eradicating corruption (Aspasia, 2015; Muhtadi, 2019a; Ufen, 2017).

Table 2.2: Public and private officers tried as defendants in KPK cases

Office of defendants / Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Member of parliament (regional and national)	27	5	16	8	4	19	23	20	103	10	**235**
Head of agency/minister	2		1	4	9	3	2		1	2	**24**
Governor	1			2	2	3	1	1	2	1	**13**
Mayor/district head and deputies	31	5	17	14	15	4	9	13	30	18	**156**
Civil Servant Echelon I-III	12	15	8	7	2	7	10	43	24	26	**154**
Judge	1	2	2	4	2		3	1		3	**18**
Corporate sector (chief executive officer)	8	10	16	24	15	18	28	28	56	59	**262**
Others	9	3	3	7	8	3	21	13	31	33	**131**
Total	**91**	**40**	**63**	**70**	**57**	**57**	**97**	**119**	**247**	**152**	**993**

Source: KPK annual report 2010-2019 (KPK, 2019)

2.3 Indonesian Public Sector

The public sector plays a significant role in the Indonesian economy. Statistically speaking, Indonesia's total public spending in 2015 was 1,806 trillion IDR (US$130.88 billion, 15.7% of GDP). Government revenue, including from *Badan Usaha Milik Negara* (BUMN-State-Owned Enterprises), totalled 1,508 trillion IDR (US$109.28 billion, 13.1% of GDP) resulting in a deficit of 2.6% (The World Bank, 2017).

The Indonesian public sector has four tiers: central government, provinces, municipalities, and districts or regencies. In addition to providing some specific goods and services, for instance electricity and transportation, central government also operates through state-owned enterprises (SOEs). Civil servants who work in and operate these institutions are the state apparatus ("Undang Undang No. 5 Year 2014 tentang Aparatur Sipil Negara (*Law Number 4 Year 2014 concerning Civil Servants*)," 2014). They are recruited in compliance with the requirements set out by government agencies through special recruitment programmes that are coordinated by *Badan Kepegawaian Negara* (BKN-State Personnel Board). The recruitment process is open to the public. People can apply for vacant positions, follow the test procedures, and a recruitment committee decides on the successful applicants (Purwoko, 2011).

At the beginning of a newly-recruited civil servants' career, they are trained through a compulsory national induction programme called *Prajabatan Nasional* (PRAJABNAS). This training is semi-military in nature and is aimed at instilling

discipline in civil servants and engendering loyalty to the nation and the constitution. In terms of the prevailing rules and regulations, Indonesian civil servants are managed under Law Number 5 Year 2014 concerning the State Civil Apparatus. According to BKN (2019) records, there are more than four million civil servants as described in Table 2.3 below:

Table 2.3: Number of central and local government civil servants

Level	30 June 2019
Central Government	968,843
Local Government	3,318,075
Total	4,286,918

Source: BKN Statistics 2019, (BKN, 2019)

Funding for civil servant activities and programmes comes from the national state budget. Besides being the main tool to control public expenditure the budget is also a tool for accountability. As part of the reform agenda, after the financial crisis, Indonesia endorsed several budget systems, which have included a new legal framework, a unified and more comprehensive budget, a massive fiscal decentralisation, and a highly assertive role for Parliament in the budget process (Blöndal, Hawkesworth, & Choi, 2009, p. 54). This reform, which is known as a package of state finance laws, included strengthening the role of the ISAI as an independent institution to audit the government's budget and spending.

Indonesia has achieved remarkable progress in preparation of government financial statements in the last decade. Starting with the commitment to implement the accrual[2] system as stipulated in State Financial Law 17/2003, the Government of Indonesia (GOI) established the *Komite Standar Akuntansi Pemerintahan* (KSAP, the Government Accounting Standard Committee), to formulate the accounting standards for government entities. KSAP published *Standar Akuntansi Pemerintahan* (SAP, the Government Accounting Standards) under Government Regulation Number 24 Year 2005, updated, on October 22, 2010, by Government Regulation Number 71 Year 2010. In practice, KSAP adopted International Public Sector Accounting Standards (IPSAS) and modified IPSAS to suit the specific conditions of Indonesia. Overall, SAP has provided Indonesia with the momentum to introduce the accrual system for public sector entities.

In recent years there has been significant improvement in compliance with SAP. This is reflected in the 19% increase in the number of ministry agencies that have been given an "unqualified" audit opinion: from 65% in 2015 to 84% in 2016. Similar increases have been evident in the number of local governments given an unqualified audit opinion (ISAI, 2017, 28 September, p. xxxiv).

2.3.1 Building Integrity in the Indonesian Public Sector

Although the quality of government financial statements is better than before, the Indonesian government still experiences serious integrity violations within the

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[2] Accrual is the most fundamental principle of accounting which requires recording revenues when they are earned and not when they are received in cash, and recording expenses when they are incurred and not when they are paid. Jan, O. (2015). *Accrual Concept*. Xplaind. https://xplaind.com/741603/accrual.

Indonesian bureaucracy including bribery and corruption (OECD, 2016a). This suggest that Indonesia should consider the OECD proposal to "continue efforts to mainstream anti-corruption across government and society, by implementing the National Strategy of Corruption Prevention and Eradication and by applying the National Integrity System" (OECD 2016a, p. 2).

Following his election in 2014, President Joko "Jokowi" Widodo affirmed his commitment to form a clean government and fight against corruption. Even though the context of integrity is broader than corruption problems, the government has focused on corruption cases in the public bureaucracy.

To tackle the complex issues of corruption, the Indonesian government has set up anti-corruption compliance by introducing Law Number 31 of 1999 on the Eradication of Criminal Acts of Corruption and Law Number 20 of 2001 on the Amendment to Law Number 31 of 1999 on the Eradication of Criminal Acts of Corruption. The laws provide a definition of corruption and pronounce a maximum sentence for corruption. They clearly state that "anyone who gives or promises something to a civil servant or the state apparatus with the aim of persuading him/her obligation shall be sentenced to a minimum of one year's imprisonment and a maximum of five years' imprisonment and/or be fined a minimum of 50 million rupiahs and a maximum of 250 million rupiahs" (Lukito, 2016, p. 934; "Undang Undang Nomor 20 Tahun 2001 tentang Perubahan UU No. 31 Tahun 1999 tentang Pemberantasan Tindak Pidana Korupsi (*Law No.21 Year 2001 concerning The Amendment Law No. 31 Year 1999 concerning Eradication Corruption*),"

2001; "Undang Undang Nomor 31 Tahun 1999 tentang Pemberantasan Tindak Pidana Korupsi (Law No. 31 Year 1999 concerning Eradicating Corruption)," 1999).

In general, the aims of these laws are to remind a civil servant not to receive 'something' from anyone attempting to influence her/his decision because she/he has public obligation and authority. The laws note sanctions that should be taken into account by a civil servant. The enactment of these anti-corruption laws is part of the national strategy for the prevention and eradication of corruption (Lukito, 2016, p. 933). Both public and private sector entities are required to comply with the regulations.

In order to enforce the laws, the government has issued other regulations in Indonesia's legal framework for anti-corruption measures (OECD, 2016b, p. 158). The first is Government Regulation Number 71 of 2000 on Procedures for Implementation of Public Participation and Provision of Appreciation in the Prevention and Eradication of Criminal Acts of Corruption. This regulation governs public participation and rewards regarding the prevention and eradication of corruption. In addition, in terms of agencies that are specifically founded to combat corruption, two additional regulations have been enacted: Law Number 30 of 2002 on the KPK, and, Law Number 46 of 2009 on *Pengadilan Tindak Pindana Korupsi* (Tipikor, Corruption Criminal Court).

Corruption has become a central issue in the international context and Indonesia is not the only country that has been fraught with serious corruption issues. In this regard, the United Nations Office on Drugs and Crime (UNODC), has endorsed the Convention Against Corruption (UNCAC) as an international legal agreement among member states to fight corruption. In general, there are five main areas covered by the convention: prevention, law enforcement, international cooperation, asset recovery, and technical assistance and information exchange.

As part of implementation of the UNCAC agreement the Indonesian president endorsed Presidential Regulation Number 55 of 2012 on National Strategy Corruption Prevention and Eradication that is also known as "STRANAS PPK (*Strategi Nasional Pencegahan dan Pemberantasan Korupsi*)". This regulation adopts both a long-term (2012-2025) and medium-term (2012-2014) strategy. In addition, the president also endorsed *Instruksi President* (INPRES, Presidential Instruction) Number 7 of 2015 (on the action plan for corruption prevention and eradication, 2015). Basically, these regulations require that government agencies within central government such as ministries and government institutions, coordinate with *Badan Perencanaan Pembangunan Nasional* (BAPPENAS, the Ministry of National Development Planning) in the fight against corruption[3]. This regulation also encourages civil society and non-governmental organisations (NGOs) to participate in the prevention and eradication of corruption (OECD, 2016b, p. 158).

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[3] Local governments should coordinate with *Kementerian Dalam Negeri* (KEMDAGRI, the Ministry of Home Affairs) with the support of BAPPENAS.

Another important instrument in the corruption prevention and eradication programme is Ministerial Regulation Number 52 of 2014 on Guidelines for the Development of Integrity Zone towards Corruption-Free Region and Clean and Serving Bureaucracy in Government Institutions. According to the regulation, "Integrity Zone" is a title that is given to any government institution where leaders and staff have a commitment to create a corruption-free and clean bureaucracy area through bureaucracy reform, and improved public service quality. The regulation is part of the reform of the bureaucracy through a pilot project at government institutions. The aim of the regulation is to allow government institutions to have a shared understanding of the ways to build integrity zones and corruption-free areas. Nevertheless, all of these regulations have maintained their focus on how to overcome corruption problems rather than to strengthen integrity values and systems.

2.3.2. Integrity Problems within the ISAI

As a strategic public institution, the ISAI attempts to build high integrity within the organisation. However, operating in a challenging environment like Indonesia creates difficulties for the ISAI as the following breaches of integrity indicate. A number of ISAI managers and auditors have committed breaches of integrity[4]. Based on ISAI internal reports from 2014 to 2018, most of the violations have related to receiving personal gain including bribery and having an affair. Statistics on the cases are shown in Table 2.4 below:

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[4] The cases represented in Table 2.4 do not include cases involving ISAI board members

Table 2.4: Number of Management and Auditors Committing a Breach of Integrity from 2014 to 2018

Type of Violation	2014	2015	2016	2017	2018	Total
Receiving facilities/money (bribery)	3	6	7	6	8	30
Conflict of interest			1			1
Having an affair or committing sexual abuse			3		4	7
Auditing not following the standard			3			3
Total	3	6	14	6	12	41

Source: Integrity Unit at Principal Inspectorate (ISAI, 2019f)

In addition, the media has published serious ISAI integrity violations that have occurred between 2003 and 2020. Details on these cases is presented in Appendix 1.

2.4 The Strategic Role of the ISAI

Figure 2.1 below illustrates the concept of a national integrity system as adapted to the context of Indonesia (Brown & Heinrich, 2017; Doig & McIvor, 2003; Dye & Stapenhurst, 1998). It is evident that the ISAI and other institutions are the main pillars of the national integrity system that must collaborate to build high integrity and fight corruption. To be effective these pillars must be supported by strong laws and political will.

Figure 2.1: National Integrity System for Indonesian context
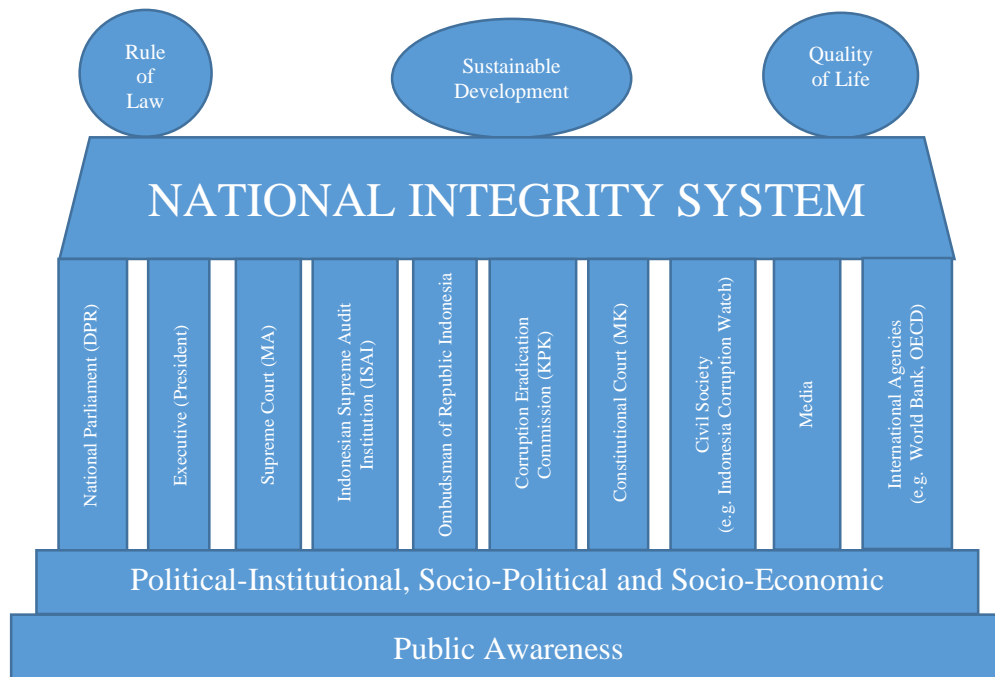
Source: Adapted from National Integrity System (Langseth, Stapenhurst, & Pope, 1999; Pope, 2000)

The 1945 constitution has provided the ISAI with a strong legal status, as stated in Article 23E: "To audit the management and accountability of state finances, there shall be a supreme audit institution which shall be free and independent". The ISAI has the same constitutional status as other state institutions such as the president, Parliament and the Supreme Court. This should guarantee the ISAI's independence from executive and legislative powers in performing its duties. Figure 2.2 below shows the position of the ISAI among other state institutions in Indonesia:

Figure 2.2: The position of the ISAI among other state institutions
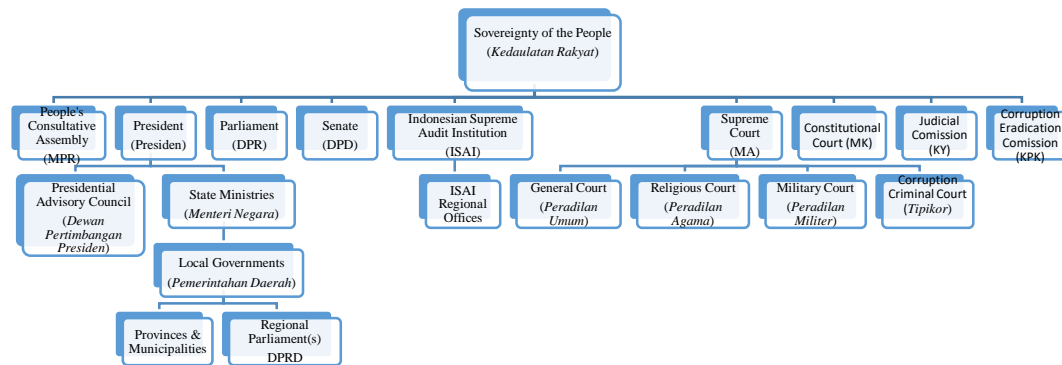
Source: ISAI (2012)

This strong legal mandate grants the ISAI broad authority to audit the state's financial management and monitor accountability. This broad authority is exercised through three types of regular audits on governmental agencies, namely financial, performance, and compliance audits. These audits signify the ISAI's participation in curbing corruption among public institutions. The ISAI is accountable for this authority by submitting audit reports to both national and local parliaments annually (ISAI, 2019c).

Additionally, the law also assigns the ISAI the additional tasks of conducting forensic audits and taking the stand as an expert witness in court trials of corruption cases. These last two tasks assist law enforcement agencies in conducting prosecutions.

The ISAI also submits an annual financial report on their own activities, audited by a major accounting firm nominated by Parliament. In addition every five years the

ISAI is reviewed by the supreme audit institution of another country, nominated by Parliament.

2.4.1 Leaders of the ISAI

There are two types of leaders in the ISAI, namely strategic leaders and bureaucratic leaders. The strategic leaders are the board members, chosen by Members of Parliament in Commission XI. They are not civil servants but, like ministers in the presidential cabinet, they have the same status as "state officials".

Bureaucratic leaders are civil servants who hold structural positions within the ISAI such as senior leaders (Echelon I), heads of regional offices (Echelon II), and audit managers (Echelon III). They manage daily operations within the ISAI. However, in terms of power, strategic leaders are more powerful than bureaucratic leaders. Strategic leaders can control and influence almost all activities including auditing which is the main business of the ISAI. Therefore, in terms of implementing integrity, most interviewees identify strong leadership in strategic leaders as the key to success.

2.4.2 The Role of ISAI Board Members

Dye and Stapenhurst (1998) identify the ISAI as a supreme audit institution with a board model. In practice, the board model comprises a small committee, which applies a collegial management style among the members who select one board member as a chair who is the de facto auditor general (Dye & Stapenhurst, 1998). The board model is thus, in substance, similar to most supreme audit institutions in

Commonwealth countries that apply the Westminster system. The selection mechanism for ISAI board members, including the chair, is explained in Section 2.5 below. Currently the ISAI has nine board members including one chair and one vice-chair. Table 2.5 below provides a summary of the functions and duties of ISAI board members:

Table 2.5: Fields of duties, audit portfolios and functions of individual ISAI Board Members

No	Board Member	Fields of duties, audit portfolios and function
1.	Chair (concurrently serving as a board member)	• Institutional Affairs of the Audit Board • Audits on state finances' management and accountability in general • Home and International affairs • Investigation Audit Unit
2.	Vice Chair (concurrently serving as a Board Member)	• Supporting units and the Secretariat General • State losses affairs
3.	Board Member I	Audit management and accountability of state finance for politics, legal and security affairs
4.	Board Member II	Audit management and accountability of state finance for economics and national development planning agency
5.	Board Member III	Audit management and accountability of state finance for government agencies, public welfare, the state secretariat, state apparatus, and research and technology
6.	Board Member IV	Audit management and accountability of state finance for the environment, natural resources and infrastructure management
7.	Board Member V	Audit management and accountability of local government finance of region I (Islands of Java and Sumatera)
8.	Board Member VI	Audit management and accountability of local government finance and local government of region II (Island of Bali, Nusa Tenggara, Kalimantan, Sulawesi, Moluccas and Papua)
9.	Board Member VII	Auditing management and accountability of state finance at State-Owned enterprises (SOEs)

Source: (ISAI, 2018d); ISAI (2020b)

Figure 2.3 below shows the organisational structure of the ISAI and the position of the board members including their control of audit portfolios within the eight principal audit units.

Figure 2.3: ISAI organisational structure
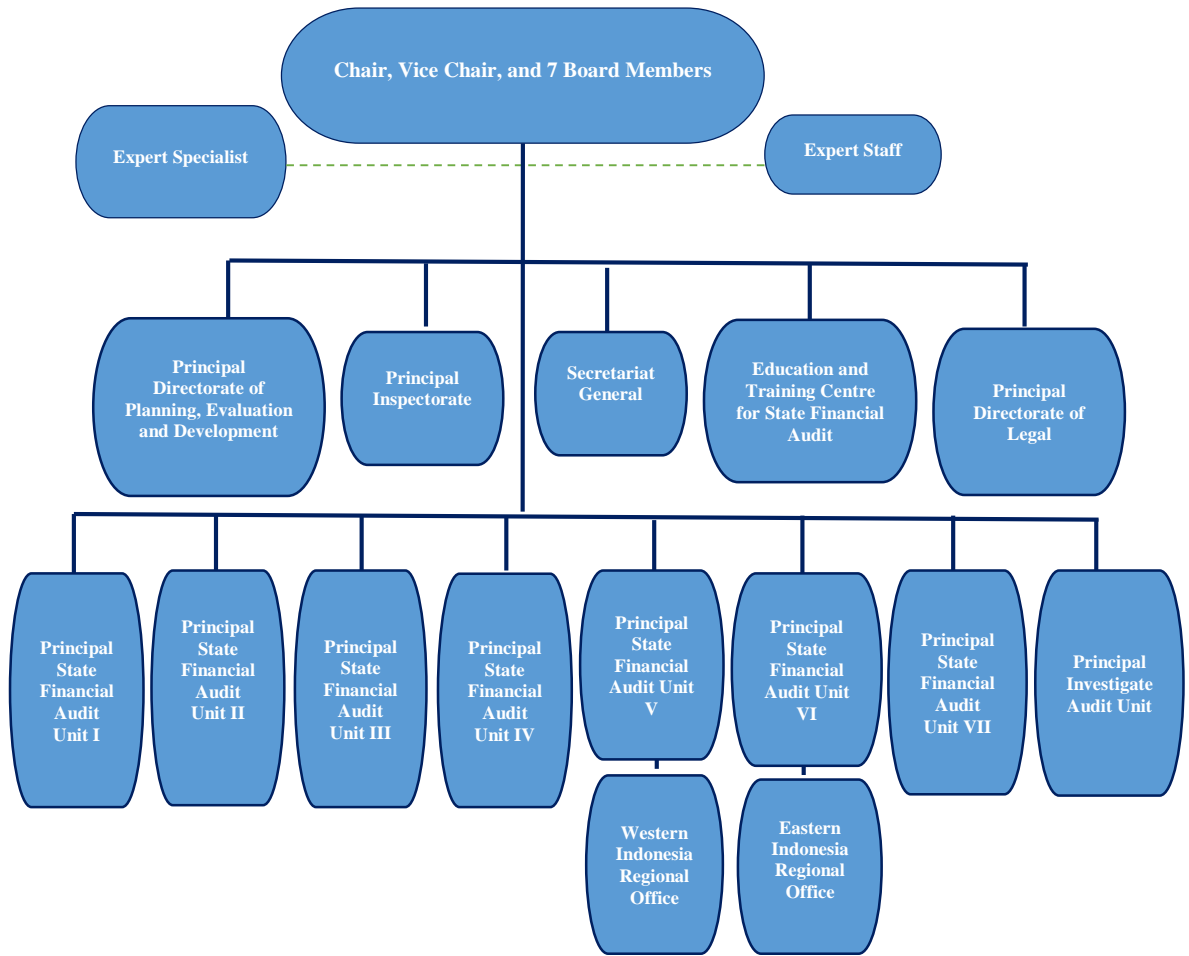
Source: ISAI (2020a)

2.4.3 Structure for Integrity

The organisational structure of the ISAI is displayed in Figure 2.3. The CEO of the Secretariat General is called the Secretary General and, although at the same level of seniority as the CEOs of the other ISAI units at the Secretariat General level, they are perceived externally as the senior bureaucrat leader in the ISAI.

The role of the Principal Inspectorate (*Inspektorat Utama*, 'ITAMA') is to investigate and monitor integrity. Not shown in the organisational structure is the Honorary Board of Ethics Code (*Majelis Kehormatan Kode Etik*, 'MKKE') which conducts hearings on alleged integrity violations. Its decisions are forwarded to the Secretariat General as recommendations for action if the violation was conducted by a staff member of the ISAI (manager or auditor); if the violation involved a board member the recommendation is forwarded to the board for action. The MKKE is assisted in the investigation by the ITAMA. Both the ITAMA and the MKKE are discussed in greater detail in Chapter Six, Section 6.6.

2.5 Selection of ISAI Board Members

This section discusses the selection process for ISAI board members within the framework of the Indonesian constitution and political history. The discussion reflects the legal basis of selection mechanism and previous studies that include the ISAI and other publications[5]

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[5] (Bramastha, 2019; Dwiputrianti, 2011; ISAI, 2019c, 2020b; Syukur, 2015; "Undang Undang 15 Tahun 2004 tentang Pemeriksaan dan Pengelolaan Tanggung Jawab Keuangan Negara (*Law Number 15 Year 2004 concerning the Auditing of State Finances Management and Accountability*)," 2004; "Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006).

2.5.1 Selection Process: Pre-and Post-Reform

In order to obtain a comprehensive perspective of the selection mechanism for ISAI board members, it is important to identify and understand the history of this mechanism. As suggested earlier, there are four different periods to analyse the development of the ISAI, namely the Dutch Colonial Period until independence (1602-1945), the Old Order Regime (1946-1966), the New Order Era (1967-1998), and the Reform Era (1999-present). This periodisation follows the political situation within Indonesian history.

However, in terms of the board selection mechanism, this study identifies two main differences during these four periods. Firstly, the president was the most powerful institution among other institutions to decide on ISAI board members during the Old Order and New Order regimes (Dwiputrianti, 2011; Mukthadir, 2015). In other words, viewed from the political perspective, the ISAI was more or less under the influence of the executive power during these periods.

During the New Order, based on Law Number 5/1973 on the ISAI, Parliament could influence board selection by proposing certain candidates to the president. However, the president had full authority to appoint the chair, vice-chair and the board members of the ISAI. As a result, the ISAI was perceived as being unable to work effectively and independently to audit the state finances. As well as the president controlling the selection mechanism, the ISAI also had only a limited operational budget and insufficient authority to conduct its duties (Dwiputrianti,

2011). Because of the limited budget, ISAI auditors at that time received very low salaries. However, this situation has improved considerably during the Reform Era.

Since 2006 during the reform era, Parliament or *Dewan Perwakilan Rakyat* (DPR) has had full authority to select ISAI board members. Because the ISAI had conducted audits during previous periods with limited effectiveness, professionalism, and independence, during the Reform Era support gathered to strengthen its authority and capability (Dwiputrianti, 2011; ISAI, 2012). This included changing the selection process for board members, transferring the president's authority to appoint board members completely to Parliament (Dwiputrianti, 2011; Madril, 2013).

In compliance with the third amendment to the 1945 constitution in 2001, a new law covering the ISAI was introduced by the enactment of Law Number 15/2006. The constitution amendment, especially Chapter VIIIA, guaranteed the ISAI as a free and independent institution to audit the management and accountability of Indonesia's state finances. Article 23F of the constitution also states that the members of the board should be selected by the DPR in consultation with the senate or *Dewan Pertimbangan Daerah* (DPD). In addition, the audit board should be led by a chair and vice-chair who are elected by and from among the board members (ISAI, 2012).

Law Number 15/2006 specifically regulates the selection of the board. For instance, there should be nine board members, whose terms of duty will last for five years,

and they can only be re-elected once ("Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). The board members enjoy the status of state officials and have a secure position because their mandate comes from the constitution.

2.5.1.1 Description of the Current Selection Process

Law Number 15/2006, specifically Articles 13, 14, and 15, stipulates the requirements and selection process for ISAI board members. The law elucidates the provisions related to ISAI in the constitution. For example, Article 13 contains specific requirements for individuals to be eligible for appointment to the board, including: be an Indonesian citizen; be loyal to the Republic of Indonesia, Pancasila, and the constitution; hold a bachelor's degree; have at least two years' break from a position as an official managing state finances, including the position of Secretary General of the ISAI (the head of Secretariat General) although lower ranking officials may apply.

Article 14 provides further explanation of the selection process. The authority granted by the constitution to select board members lies with Parliament. At the initial stage, Parliament publicly announces the vacancy inviting people to apply for the board. After completing all prerequisite documents, applicants send their application to Parliament (Step 1). A committee of Commission XI of Parliament examines all applicants' documents to select the candidates. Before starting the process of selecting from among the candidates, the committee sends a letter to the

senate soliciting their consideration of the candidates (Step 2). In response, the senate provides the committee with a formal written statement of their views on the candidates, no later than one month after receiving the committee's letter (Step 3). However, the law does not state explicitly whether Parliament should endorse the senate's views.

When requesting the senate's views, the committee should also invite the public to give their opinion of the candidates (Steps 4 and 5). Once the committee receives both the senate's views and comments from the public, they start the selection process. The final selection is made by a vote of the 50 members of Commission XI (Step 6). Finally, the elected board members may arrange a special meeting among themselves to select the chair and vice–chair, if necessary (Step 7). The complete process is illustrated in Figure 2.4 below:

Figure 2.4: Selection Process for ISAI Board Members, Chair and Vice Chair
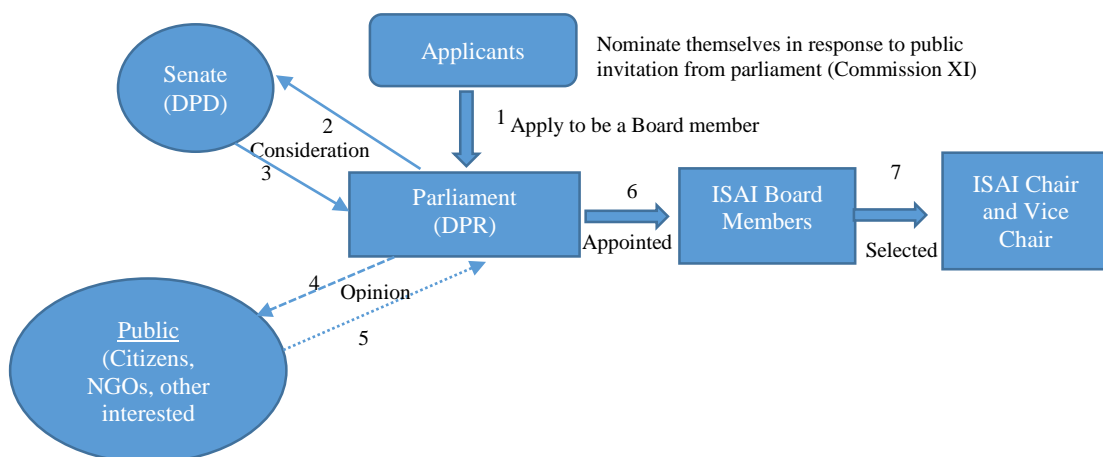
Source: Adapted from the amended 1945 Constitution ("Undang Undang Dasar Negara Republik Indonesia Tahun 1945 (The Constitution of the Republic of Indonesia year 1945)," 1945) and Article 14 of the Law Number 15/2006 ("Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006)

2.5.2 Criticism and Notes on the Selection Process

Since the third Amendment to the 1945 constitution in 2001 and the latest promulgation of Law 15/2006 regarding the ISAI, Parliament has performed the ISAI board member selection for almost 15 years. There have been at least four major occasions for selecting the board members. These four occasions occurred between 2004 and 2019. In the first such selection in 2004, Parliament was required to select seven board members as the number of board members only increased to nine with the promulgation of Law Number 15/2006. The selection of nine members took effect from 2009 onwards.

There have been several extraordinary ISAI board member elections. These elections were held because some board members were sentenced for their involvement in corruption cases, board members died, or for other reasons.

Since 2009 pressure groups have criticised the current system of selection. These groups are mostly associated with academia, activists, NGOs, media and civil societies and usually voice their criticism through the media. The main concern is with the absolute authority Parliament to decide on the ISAI board members. The groups assert that such authority leads to potential misconduct and a lack of accountability Parliament in relation to the selection process of preferred candidates (Gunarwanto, 2014; ICW, 2009d; Madril, 2013; Wildan, 2019).

As discussed above, the initial aim of granting Parliament such an authority was to limit the influence of the president (executive branch) on public institutions,

including the ISAI. The public expected that the ISAI would thus be able to work independently without worrying about intervention from the executive branch of the government and that Members of Parliament would perform their function reliably and effectively and select and appoint suitable candidates for the board.

However, during the years that selection has been handled by Parliament, the process has never been free from public criticism and scepticism (Bramastha, 2019; Hasan, 2019; ICW, 2009c). The public have often expressed their doubt and pessimism about the quality of the final decisions made by Parliament in selecting ISAI board members.

2.5.3 Commission XI of Parliament and Political Affiliation

Parliament assigns different roles and duties to a number of commissions that accordingly have specific areas of authority and responsibility. For example, Commission XI handles matters pertaining to finance and banking. The commission is responsible for making regulations that govern activities, processes and practices relating to finance and banking that are under the supervision of the Ministry of Finance, Central Bank, Statistics Bureau and the ISAI. In addition to enacting laws and regulations concerning finance and banking, the commission appoints heads of the strategic institutions, such as the governor of the central bank and the board members of the ISAI.

Currently, in Commission XI there are 50 MPs who elect ISAI board members. According to Parliament's official website, they are currently affiliated with several political parties as described in Table 2.6 below:

Table 2.6: Number of seats in Commission XI in terms of political parties

No	Name of Party	Number of seats
1.	*Partai Demokrasi Indonesia-Perjuangan* (PDI-P, The Indonesian Democratic Party-Struggle)	10
2.	*Golongan Karya* (Golkar, functional groups)	8
3.	*Gerakan Indonesia Raya* (Gerindra, Greater Indonesia Movement)	7
4.	*Partai Amanat Nasional* (PAN, National Mandate Party)	5
5.	*Nasional Demokrat* (Nasdem, National Democrate)	5
6.	*Partai Demokrat* (Democratic Party)	4
7.	*Partai Persatuan Pembangunan* (PPP, United Development Party)	4
8.	*Partai Kebangkitan Bangsa* (PKB, Nation Awakening Party)	4
9.	*Partai Keadilan Sejahtera* (PKS, Prosperous Justice Party)	3
	Total	50

Source: DPR (2019)

There is clearly no single party that is in a fully dominant position. However, five political parties have relatively more seats than others. These are PDI-P, Golkar, Gerindra, PAN, and Nasdem. To some extent, this party configuration represents candidates who are likely to become board members of the ISAI. While it is difficult to find a simple relationship between the dominant parties in Commission XI and the political background of elected board members, there seems to be a certain pattern. Tables 2.7 and 2.8 below, linking board selection to party affiliation, show the political background and affiliation of the board members of the ISAI elected by Commission XI for the periods 2014 – 2019 and 2019 – 2024:

Table 2.7: Profile of ISAI Board Members 2014–2019

No	Board Member	Political background and Affiliation
1.	Chair	(Former) Indonesia's National Governmental Auditor (BPKP)
2.	Vice Chair	(Former) BPK auditor and local government adviser
3.	Board Member I	Affiliated to Golkar party (Son of Member of Parliament from Golkar)
4.	Board Member II	(Former) Indonesia's National Governmental Auditor (BPKP) and BPK expert staff
5.	Board Member III	(Former) Demokrat party politician
6.	Board Member IV	(Former) PAN party politician
7.	Board Member V	(Former) PDI-P party politician
8.	Board Member VI	(Former) Golkar party politician
9.	Board Member VII	(Former) Indonesia's National Governmental Auditor (BPKP) – dead

Source: (Asril, 2012, December 27; ISAI, 2019e); ISAI (2020a)

Table 2.8: Selected ISAI Board Members 2019–2024

No	Board Member	Political Background and Affiliation
1.	Pius Lustrilanang	(Former) Gerindra party politician
2.	Daniel Lumban Tobing	(Former) PDI-P party politician
3.	Hendra Susanto	(Former) ISAI auditor
4.	Harry Azhar Azis	(Former) Golkar party politician
5.	Achsanul Qosasi	(Former) Demokrat party politician

Source: Bramastha (2019) and Rosana (2019a)

2.5.4 The Challenge of Political Influence and Conflict of Interest

Analysts, academics, and other interested groups argue that the existing selection process for ISAI board members has two main problems, namely, political influence and conflict of interest (Gunarwanto, 2014; Madril, 2013; Nasution, 2009). Regarding political influence, recent selection processes show that the majority of candidates for board members are (former) politicians. This situation

has occurred because the regulations gives politicians opportunity to apply for the positions and take part in the selection process.

The only technical requirement as a prerequisite to apply for appointment to a board member position is a degree from any educational background. Although the main role of the ISAI is to audit public sector entities, there is no relevant additional requirement that candidates must comply with, such as to be a chartered accountant or to have other relevant professional experience. Therefore, political affiliation and connection appear to have become the most important factors in the selection process (Rosana, 2019b).

It is difficult for candidates with a professional or an academic background but without political connections to be selected. Therefore, it usually comes as no surprise to the public that the majority of successful candidates for new ISAI board members are (former) politicians (Bramastha, 2019). A former MP, who was involved in the selection process for board members in 2009, conceded this in an interview with media "There is clear evidence that candidates who were afflicted with legal problems were still on the list of candidates. Parliament did not take into account the background and capability of the candidates. It was all about politics" (Nasution, 2009).

In order to move away from the current situation, critics have argued that it is necessary to develop an additional mechanism to ensure a more transparent and accountable process of selecting candidates for ISAI board positions (Gunarwanto,

2014; Hasan, 2019; ICW, 2009d; Rosana, 2019b). Once suggestion has been the establishment of a special committee to conduct the preliminary phase of the process and recommend suitable candidates for follow-up assessment and selection by Parliament. This committee could propose individuals of high professional capability and integrity to represent civil society and other interest groups. Members of the committee could be appointed by the president in the same way as the current practice of selecting the KPK commissioners. Under the proposed mechanism, the negative effect of political affiliation or connection on the selection process of ISAI board members could be minimised.

Strong political influence on the selection process of the board members has inevitably created conflicts of interest for the board members. This situation arises because many of these public figures are former politicians. Therefore, it becomes a challenge for ISAI to operate professionally because the current board members are mostly former politicians or at least people who have political connections to politicians and political parties (Bramastha, 2019; Hasan, 2019; Wildan, 2019).

2.6 Special Issues for Indonesian Society and Culture

Javanese people make up around 40 percent of the total population. They are not only the largest and sociopolitically dominant ethnic group in Indonesia, but Javanese cultural beliefs and values are also widely believed to have a significant influence on the sociocultural lives of all Indonesians and, in particular, on the country's politics and public administration (Geertz, 1961; Sarsito, 2006; Vickers, 2001). In this respect, Javanese cultural beliefs and practices have shaped the

rhythm of the work of civil servants from the time of Soekarno's Old Order (1950s-1960s), throughout Soeharto's New Order (1970s-1990s), and into today's Reform era (Goodfellow, 1997; Irawanto, Ramsey, & Tweed, 2012; Irmawan, Haniffa, & Hudaib, 2013; Liddle, 1996).

A number of Javanese cultural norms and values are generally held to have an important bearing on the country's bureaucratic environment, such as the values of *hormat* (respect) and *berterimakasih* (gratitude) to the leader, and *rukun* (keeping the spirit of harmony) (Magnis-Suseno, 1997). Furthermore, it is especially important for public leaders to recognise the Javanese values of *kekeluargaan* (family-ism) and *bapak-ism* (father-ism). An understanding of these values helps them maintain a harmonious relationship with their subordinates or followers (Koentrjaraningrat, 1985). The following section set outs specific Javanese values.

2.6.1 The Principles of *Hormat*, *Berterimakasih*, and *Rukun*

Javanese culture places a high value on *hormat* (respect) for others and especially on seniors or older people. The processes of enculturation generally begin in the family and the wider social milieu as well. The importance of the characteristics and norms is evident in the communication style of Javanese people and particularly in the different speech levels of Javanese language.

Three basic speech levels of Javanese languages, *krama inggil* (high style), *madya* (middle style), and *ngoko* (low style), indicate the social status and nature of the relationship between interlocutors. These are usually assessed on the basis of a

number of factors, which may include age, descent, education or occupation wealth, and social distance or solidarity. For example, Javanese *krama inggil* is the most polite form, reflects the highest level of formality, and is thus used to address or communicate with older people including parents or grandparents. The use of semi-polite and semi-formal forms, *madya*, is expected, for example, when people talk other people of the same age who do not know one another. The non-polite and informal forms, *ngoko*, are commonly used in communication between people of the same age or by people of higher social status to those of lower status (Geertz, 1961; Hermawan, 2015).

In some bureaucratic environments leaders or supervisors may have a directive style, in response to which subordinates would be passive and wait for instructions (Irawanto, 2009). There might also be erroneous interpretations and misguided actions regarding the Javanese ethic of *mikul duwur mendem jero*, which refers to the idea of respecting one's parents and upholding their dignity while they are alive and after their death (Irawanto, Ramsey, & Ryan, 2011). These, however, sometimes result in misplaced respect for leaders with subordinates turning a blind eye to their superior's misconduct. In other words, such treatment of leaders is something like 'father-ism', or *bapak-isme* according to the local expression. From the perspective of Javanese culture, the relationship between leaders and their subordinates or followers is basically hierarchical which shows quite a close personal tie of mutual respect and responsibility (Moertono, 2009).

Berterimakasih (gratitude) to the boss or leader may be demonstrated by a civil servant giving a gift to the leader where they perceive the leader as having carried out a favourable action for them. Such a gift is simply recognition of the favour done and is intended as an expression of thanks and not a bribe in the hope of securing further favourable action.

In addition, concerning relationship-building, Javanese people are taught to always strive to live in peace and harmony (*rukun*). In a professional setting, one may find the principle of *rukun* very important to work in harmony with colleagues in his/her organisation. However, this may lead to the idea that one should avoid conflict with others and especially the leaders (Magnis-Suseno, 1997).

2.6.2 The Principle of *Kekeluargaan*

Generally speaking, Indonesian culture is more communal than western culture. That is, one should treat others as if they are members of his/her family. The cultural belief and behaviour are generally concerned with the 'family principle' (*kekeluargaan*). In practice, in contrast with western societies at large, collegiate relationships in Indonesia's public sector bureaucracies sometimes turn into a 'family-type' relationship among employees, which essentially means close and harmonious relationships (Hermawan, 2015, p. 128). Many public leaders also tend to apply the principle of *kekeluargaan* to their organisation in an effort to establish harmonious relationships between superiors and subordinates.

This may mean that a 'family' is concerned not only with the immediate nuclear family, but also with the extended family. The spirit of togetherness and living in harmony is always a high priority. In Javanese culture, such a spirit is reflected in the practice of *gotong royong* (mutual assistance and the sharing of burdens) to jointly tackle problems that members of a 'family' are facing as well as the principle of *mangan ora mangan sing penting kumpul* (whether or not there is something to eat, the important thing is togetherness)[6].

2.7 Chapter Summary

This chapter has provided an overview of the problems of integrity violations and corruption throughout the history of Indonesia with special emphasis on political developments. The chapter describes the public sector and the role of the ISAI. It discusses the mechanism for the selection of ISAI board members and notes the challenges for integrity management and ethical leadership in the ISAI. The chapter concludes with an introduction to key principles of Javanese culture and the possible impact of these principles on relationships in the public sector.

It is worth mentioning that, firstly, the present study was conducted in ISAI's main office in Jakarta and two other branch offices on Java island. The data nevertheless covers and indicates important phenomena in other places in Indonesia. Within Indonesia's sociocultural and political context, Javanese cultural beliefs and practices are generally perceived to have a significant influence on the bureaucracy and public service, or more precisely on bureaucrats and civil servants. The research

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[6] This is similar to Hofstede's concept of collectivist society which indicates that people are part of groups that take care of each other in exchange for loyalty (Hofstede Insights, 2019).

setting of this study is thus particularly relevant and as such the influence of cultural

norms and values will be discussed more thoroughly in the finding chapter.

CHAPTER THREE
LITERATURE REVIEW

3.1. Introduction

This literature review discusses agency theory and the main concepts of integrity and integrity management. This chapter is divided into two parts. The first part, Sections 3.2 to 3.6, examines the relevant literature to understand the theoretical framework provided by agency theory and the key concepts of integrity and integrity management including the outcomes of an IMS. It also introduces integrity management approaches and strategies in an organisation and critically analyses the characteristics, strengths, and weaknesses of the various approaches.

The second part of the chapter, Section 3.7, provides a critical review of integrity management in the Indonesian context. The differences between developed and developing countries need to be understood in terms of their history, and their social, political, and cultural conditions (cf. Chapter Two). Therefore, this section analyses the extent to which the current understanding of integrity management concepts, that mostly reflect western-centric views, is applicable to Indonesia's bureaucracy.

3.2. Theory and Key Concepts

This research uses agency theory as the theoretical framework to position integrity and integrity management in the ISAI as a key instrument to promote value and benefits for the people of Indonesia from the public sector. Thus the following sections introduce agency theory and the concepts of integrity management.

3.2.1 Agency Theory

3.2.1.1 Agency Theory and the Theory of the Firm

Shapiro (2005) explains that agency theory was originally associated with 'the theory of the firm', and first gained widespread notice through the work of Ross (1973) and Jensen and Meckling (1976) in the early 1970s. The theory describes an 'agency relationship' as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent" (Jensen & Meckling, 1976, p. 308). In practice, the contract does not need to be 'a real (formal) contract' and the concept can be applied at any level within an organisation, even in non-commercial, cooperative relationships (Jensen & Meckling, 1976). The contract can reflect terms agreed between the parties formally or otherwise and can at least in past derive from the institutional and legal framework within which the parties operate.

The principal-agent relationship also assumes 'circumstances', "if both parties to the relationship are utility maximisers there is good reason to believe the agent will not always act in the best interests of the principal" (Jensen & Meckling, 1976, p. 308), that is, there will be divergent behaviour by the agent. The principal does not have full information because of their limited knowledge, expertise, and time to gain full information. On the other hand, the agent does not have any difficulty in accessing the information. Agency theory describes this situation as knowledge and information asymmetry between the principal and the agent (Bergh, Ketchen,

Orlandi, Heugens, & Boyd, 2018; Peiffer & Marquette, 2015; Shapiro, 2005; Sharma, 1997; Streim, 1994).

Information asymmetry is at the heart of agency theory. If there was perfect information there would be no agency problem. If the agent acted against the principal's interest, the principal would be aware of it. In practice there is information asymmetry and therefore to guard against opportunistic behaviour by the agent the principal must monitor the agent's behaviour but thus incurs monitoring cost.

On the other hand, the agent may (with a suitable incentive) "guarantee" that they will not engage in "certain actions" which can harm the principal. In this case, the agent sacrifices resources and incurs "bonding costs" that refer to the cost incurred by the agent (Jensen & Meckling, 1976, p. 308).

However there will be instances where the cost of monitoring exceeds the benefit from monitoring and thus a cost of divergent behaviours will remain. Similarly for bonding by the agent. The costs that remain after monitoring and bonding are described as the residual loss of the agency relationship. Thus, overall, agency cost contains three items, namely, "the monitoring costs, the bonding costs, and the residual loss" (Jensen & Meckling, 1976, p. 308).

Contracting can be used to specify the expectations of the principal about the activity of the agent. However, contracting cannot realistically specify every detail

nor anticipate all events that may occur in the future. That is contracting is inevitably incomplete. This factor provides a further basis for the emergence of agency costs.

3.2.1.2 Agency Relationships and the Challenge for the ISAI IMS

The agency costs of a principal-agent relationship will obviously decrease if the agent engages in divergent behaviours only to some extent. In the limit the cost would decrease to zero. The likelihood of this happening depends on the integrity of the agent. With perfect integrity the agent would always put aside their own interest and do what they anticipate the principal would have wanted. There would thus be zero agency costs. Hence, integrity management systems to promote integrity in behaviour are of vital importance to achieving the interests of the principal. That is, in practical terms, to minimise agency costs.

To apply agency theory to the context of the ISAI, I follow the lead taken in many studies that have extended the application of agency theory beyond the theory of the firm to analysis of public sector issues. For example, in the auditing literature. Hay and Cordery (2018) use agency theory to explain the emergence of auditing in the public sector. The authors recognise that the structure of agency relationships in the public sector is more complex than in the private sector because there may be "several levels of relationship". This complexity has been identified by Moe (1984, p.765), as quoted by Hay and Cordery (2020, p.2)

> *Democratic politics are easily viewed in principal-agent terms. Citizens are principals, politicians are their agents. Politicians are principals, bureaucrats are their agents. The whole of politics is therefore structured by a chain of principal-agent relationships, from citizen to politician to bureaucratic subordinate and on down the hierarchy to the lowest-level bureaucrats.*

My analysis begins with the scenario of a democratic country. During a general election, citizens vote for politicians to become MPs to represent their voices on a wide range of issues including the functioning of the public sector and the role therein of the ISAI. In this case the citizens are the principal, who delegate authority to politicians as the agent.

In turn, Parliament acts as a principal in directing and monitoring the various entities in the public sector (as agent) to deliver the services and goods desired as output from the public sector. This is illustrated as the right hand branch of Figure 3.1. Parliament's role is facilitated by public sector agencies providing financial information on their position, results, and effectiveness. To be useful, this information should be 'reliable', that is, it should have been subject to audit. It is the role of the ISAI to provide the audits. However, for the audits to provide an indication of the reliability of the financial information, they should be of high quality, that is, reflect the work of independent and technically qualified auditors acting with integrity. Hence the principal-agent relationship from the citizens to the ISAI.

As discussed in Chapter Two, Section 2.5, MPs who are members of Commission XI effectively select the ISAI board members. In this context, the MP members of Commission XI are the principal who delegates authority to the board and the board is the agent. The board has overall responsibility for the audit activities of the ISAI and individual board members have responsibility for particular portfolios of the audit work.

In daily operations, the board members deal with management and auditors within the bureaucracy of the ISAI and delegate certain authorities to both management and auditors. At this point, the board is the principal and management and auditors are the agent. The left-hand branch of Figure 3.1 below illustrates the cascade of principal-agent relationships from citizens through to the ISAI bureaucracy which is the ultimate agent, through auditing, to promote better services from public sector entities (the ISAI's auditees).

Figure 3.1: The cascade of principal-agent relationship between citizens and the ISAI and the wider public sector
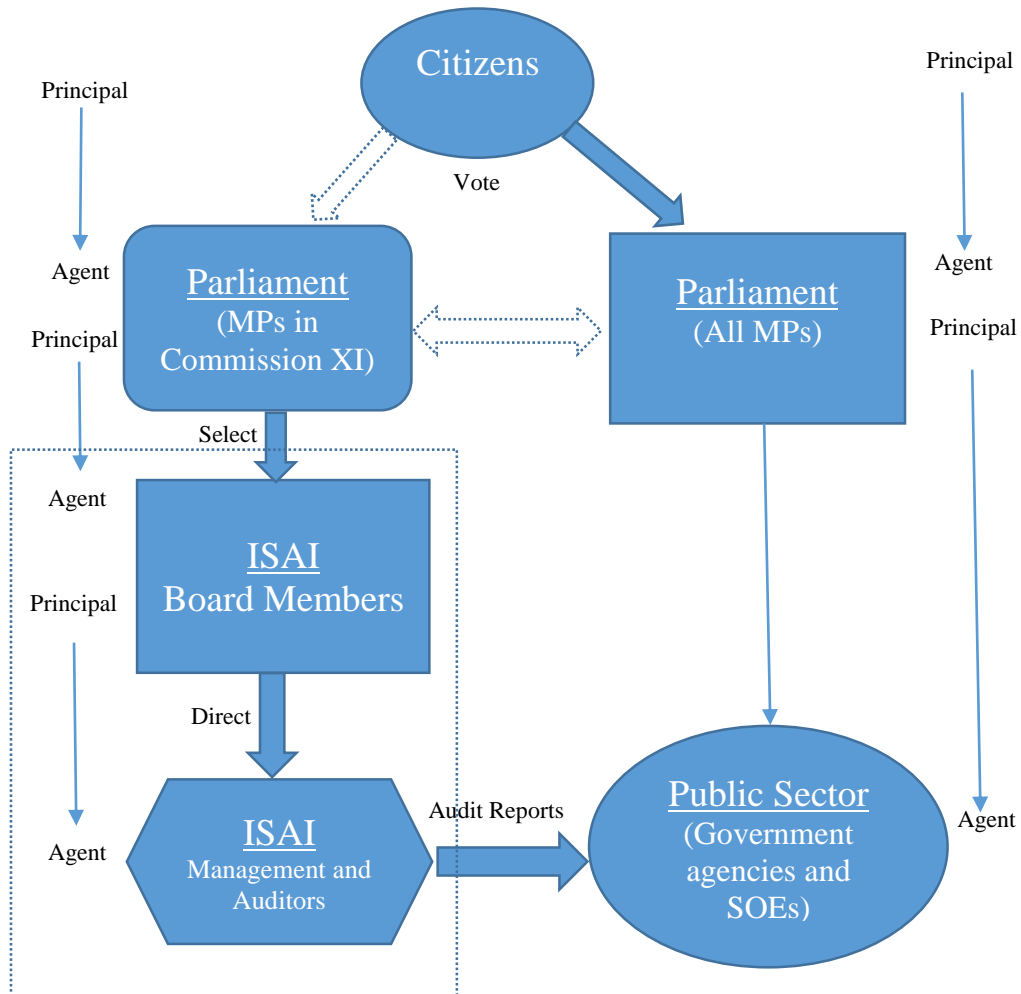
In each of the agency relationships in the cascade, there is the potential for divergent behaviour by the agent, given that there is information asymmetry between the parties and incomplete specification of the expectations of the principal.

The scope for divergent behaviour by an agent can be constrained through monitoring by the principal and/or bonding by the agent. Monitoring is likely to be most effective if the agency relationship is well-specified. Lack of specification is a key weakness in the relationship between citizens and their ultimate agent, the

ISAI bureaucracy, as the cascade includes the intermediate relationships of citizens with Parliament, Parliament with the ISAI board, and the ISAI board with the ISAI bureaucracy.

Citizen's relationship with Parliament is probably the weakest link in the cascade. Citizens have one vote but there are many issues that may influence their vote. Similarly, MPs are likely to have different priorities on different issues and are unlikely to be able to address all issues. Collectively, citizens can reject the current MPs at the next election but in the meantime there is no direct relationship.

The lack of a direct relationship between citizens and their representatives renders it vital that MPs act with integrity as this will lead to voluntary constraints on opportunistic behaviour during the parliamentary term. This applies to the promises they make, any new issues that arise during the term, and their commitment not to pursue their own interests at the expense of the interests of citizens. This is a fundamental weakness in a system of democracy but most would regard the system as comparing favourably with current alternative political systems. The media and NGOs are likely to be the main influences to limit opportunistic behaviour, expose such behaviour when it occurs, and thus provide information for citizens to inform their vote at the next election.

Putting aside any shortcomings on the part of MPs to ensure that the role of the ISAI in the public sector is in fact carried out, it is obviously vital that the board members (i) are technically competent to meet their responsibilities, and (ii) that

they act with integrity. Therefore, the board members should be selected so that they meet these broad criteria. However, as discussed in Chapter Two, Section 2.5.1.1, the reality is that there are no criteria applied in the selection process to ensure technical competence. Instead the selection process is heavily dominated by politics and on occasion has been demonstrated to have had limited regard for the integrity of the board members.

In practical terms, ISAI's senior management is chosen by the board. There are therefore possible shortcomings in the selections made and furthermore, once in place there is weak direct oversight of management. Thus citizens face not just agency cost in the indirect relationship with the ISAI management but also the costs arising from the shortcomings on the part of MPs and the ISAI board in acting as intermediate principals. Given these structural weaknesses in the indirect relationship, the importance of a high-quality integrity management system in the ISAI cannot be overstated.

Chapter Nine discusses these identified weaknesses in the relationship between citizens and the ISAI bureaucracy and suggests key changes that would ensure better value and benefits for citizens from the public sector.

3.3 Integrity

There are many different views of what constitutes integrity. Based on the literature on ethics and integrity, Huberts (2014, pp.39-44) presents at least eight perspectives of integrity, namely: wholeness and coherence; integration into the environment;

professional responsibility; moral reflection; value(s) like incorruptibility; laws and rules; moral values and norms; and exemplary behaviour. Hoekstra et al. (2016) explain that it is 'a challenge' to define integrity because there is a range of different views and Trevinyo-Rodríguez, (2007) notes that scholars use of the term 'integrity' depends on the different discipline perspectives, for instance, psychology, leadership, or organisational behaviour.

INTOSAI (2019b, p. 6) defines "integrity" as "to act honestly, reliably, in good faith, and in the public interest". INTOSAI's definition draws on personal characteristics, such as honesty and organisational behaviour that can contribute to the public interest (cf. Trevinyo-Rodríguez, 2007; Huberts, 2014).

The ISAI views integrity as "a quality, nature, or circumstance that indicates an intact unity, possession of an honest, hard-working attitude, and adequate competence" (ISAI, 2017, 6 January, p. 16). Under this definition, the ISAI demands an additional quality in order to be perceived as an auditor that maintains high integrity, a hard-working attitude, and competence which to some extent relates to Huberts' second perspective on integrity "professional responsibility" ("a professional who exercises his duties adequately, carefully, and responsibly by considering all relevant interests"), Karssing, (2001/2007, p.3). The ISAI therefore also emphasises the importance of personal qualities when it defines integrity.

Discussion of integrity and ethics by scholars and practitioners has been long-standing (Montefiore and Vines, 1999; Huberts, 2014). For example, in Nicomachaen Ethics, the name given to the principal works of the Greek philosopher Aristotle (384-322 BC), ethics is perceived as a virtue to look for good. More specifically, the ultimate good of human beings is to achieve happiness (*Eudaimonia*), and Aristotle claimed that "every art and every inquiry, every action and every choice, seems to aim at some good; whence the good has rightly been defined as that at which all things aim" (in print Aristotle, 2000, p.1).

Often people see ethics and integrity as synonyms, and many studies use these concepts "interchangeably" (Lasthuizen, 2008, p.13). However, Huberts, Lasthuizen and Peeters (2006, p.267) note that it is helpful to clarify the difference between these terminologies. Ethics can then be seen as the study and evaluation of human conduct in the light of moral principles; a moral philosophy or a systematic reflection on morality (what is 'good'). Ethical theory (for example; deontology, teleology, virtue ethics) provides us with a set of moral principles by which we clarify right and wrong, which therefore function as yardsticks or forms of measurement to assess individuals' integrity (Lawton, Rayner and Lasthuizen, 2013, p.18-22).

This study adopts the concept of integrity formulated by Huberts who defines integrity as "a characteristic or quality that refers to (conduct in) accordance with the relevant moral values and norms" (Huberts, 2014b, p. 4). This concept is adopted for the following reasons. Firstly, it is broad in scope and encompasses

other interpretations of integrity which exist in the literature. Secondly, it applies integrity not only at an individual level but also at an organisational or even system level (Huberts, 2014a).

This is important because the concept of integrity adopted in this study includes the behaviour of people within public institutions for whom moral values and norms serve as the key elements of integrity. As indicated earlier, ethics and integrity may contain contested meanings and can be either subjective or relative (Lawton, Rayner, & Lasthuizen, 2013, pp. 17-18) and this study highlights the importance of the local Indonesian context in applying integrity and determining the relevant moral values and norms. This aspect is discussed further in Section 3.7 below.

3.3.1 Integrity Violations and Corruption

As with integrity, scholars and practitioners have long debated what behaviours could be classified as integrity violations (Association of Certified Fraud Examiners, 2018; Hardi, Heywood, & Torsello, 2015; Heywood & Rose, 2015; Lasthuizen, Huberts, & Heres, 2011; Lawton et al., 2013). The debate also relates to the concept of corruption, because researchers, activists and policy-makers often assume that integrity is the panacea for corruption (Heywood, Marquette, Peiffer, & Zuniga, 2017). Even though corruption is only one type of integrity violation, discussion of corruption tends to dominate discussion over other types of integrity violations (Heidenheimer & Johnston, 2002).

Cases of corruption in developed countries are typically not the same as cases occurring in developing countries. In many cases developed countries perceive "breaches of trust, creating unfair advantage, and diminishing quality service" as part of corruption. However, developing countries tend to describe such cases as "bribery, extortion, and embezzlement" (Graycar, 2016, p. 1).

Huberts et al. (2006) propose three definitions of corruption which both concern specific contexts and also offer broader interpretations, as illustrated in Figure 3.2 below. Firstly, from a narrow perspective, corruption is perceived as bribery. Huberts et al. (2006) quote a common definition of corruption in the legal framework. For example, in the Netherlands, corruption is equal to "bribing (giving or accepting a bribe)" (Huberts et al., 2006, p. 267).

Secondly, corruption occurs when someone behaves inappropriately within their regular duties in a public role for personal gain (personal, family, private clique), pecuniary gain or a gain in status. This is similar to the Transparency International (TI) definition of corruption which refers to the abuse of office for private gain (Pope, 2000).

Thirdly, in the broadest context, Huberts et al. (2006, p. 267) argue that corruption correlates with "all types of violations of moral norms and values." According to this definition, Huberts et al. (2006) indicate that relevant moral values, norms, and rules are the parameters by which to judge whether or not people or organisations

have integrity. Such views of corruption help clarify the nature or characteristic of corruption and integrity.

Figure 3.2: Three conceptual understandings of corruption and integrity
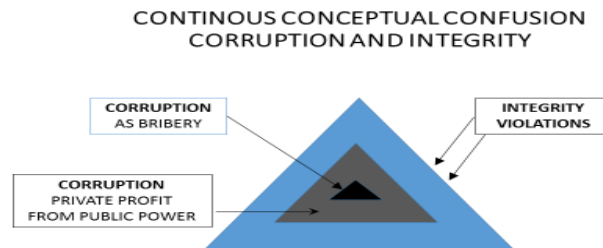
Source: Huberts and Lasthuizen (2006, p. 7)

In addition, other studies provide various models and theories to assist understanding of the phenomena of integrity violations, corruption, and fraud (Cressey, 1973; Krambia-Kapardis, 2001; Wolfe & Hermanson, 2004). Cressey can be perceived as a pioneer who introduced the concept of a fraud triangle for analysis of fraudulent behaviour. This concept describes pressure, opportunity and rationalisation as the main causes for leading an individual to commit fraud (Cressey, 1973). To some extent, this model inspired Krambia-Kapardis (2001) to develop the ROP fraud risk-assessment model and Wolfe & Hermanson (2004) to propose the fraud diamond model.

Similarly, Houqe, van Zijl, Karim and Mahoney (2019) also propose a modification of the Cressey (1973) fraud triangle to suggest three triggers for corruption, namely net benefit, low risk, and rationalisation, as presented in Figure 3.3 below. Firstly, the entities involved must expect a net benefit from corruption. The net benefit is

the difference between an existing reward compared to the reward that will be received from the corruption.

Secondly, the appeal of corruption will depend on the risk of discovery and thus corruption will be more likely if that risk is low such as in an organisation where there is "lack of accountability, poor monitoring mechanisms, and weak enforcement regimes" (Houqe et al., 2019, p. 125).

Finally, people usually look for some rationalisation for being corrupt. Some people may argue that "everybody does it" and therefore "I can do the same thing" (Houqe et al., 2019, p. 125). Others may be corrupt simply for survival.

Figure 3.3: Corruption Triangle
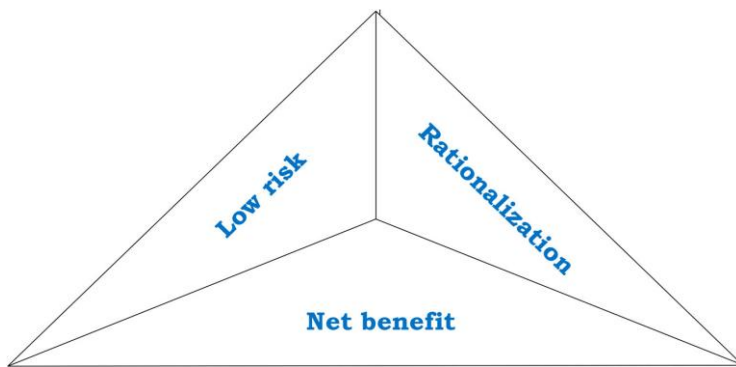
Source: Houqe et al. (2019, p. 125)

Huberts (2014b) has explained that because integrity is about being consistent with relevant moral values and norms, it is important to think of the types of behaviour that might jeopardise integrity in the broad sense. Based on the analysis of the literature on police integrity, and collaborative research with other scholars,

Huberts et al. (2006) formulated a typology of integrity violations, and this was validated in a later study (Lasthuizen et al., 2011). This comprehensive typology attempts to cover all improper behaviour, including professional behaviour within the organisation and personal behaviour in the society which embeds the organisation. This study applies the typology to classification of integrity violations. The typology is shown in Table 3.1.

Table 3.1: Types of integrity violation

1.	*Corruption: bribing* Misuse of (public) power for private gain: asking, offering, accepting bribes
2.	*Corruption: favouritism (nepotism, cronyism, patronage)* Misuse of authority or position to favour family (nepotism), friends (cronyism), or party (patronage)
3.	*Fraud and theft of resources* Improper private gain acquired from the organisation or from colleagues and citizens, with no involvement of an external actor
4.	*Conflict of (private and public) interest through gifts* The interference (or potential interference) of personal interest with the public/organisational interest because of gifts, services, assets, or promises taken
5.	*Conflict of (private and public) interest through sideline activities* The interference (or potential interference) of personal interest with the public/organisational interest because of the jobs or activities practised outside the organisation
6.	*Improper use of authority* The use of illegal/improper means or methods to achieve organisational goals (sometimes for 'noble causes')
7.	*Misuse and manipulation of information* The intended or unintended abuse of (access to) information, such as cheating, violation of secrecy rules, breaching confidentiality of information, or concealing information
8.	*Indecent treatment of colleagues or citizens and customers* Unacceptable treatment that includes not only discrimination (based on gender, race, or sexual orientation), intimidation, and sexual harassment but also improper behaviour like bullying, nagging, and gossiping
9.	*Waste and abuse of organisational resources* Failure to comply with organisational standards and/or improper or incorrect/dysfunctional internal behaviour
10.	*Misconduct in private time* Conduct during private time that harms people's trust in the (public) organisation

Source: Lasthuizen et al. (2011, p. 389)

3.4 Quality Integrity Management

Much of the current literature emphasises that many public institutions and countries have launched a variety of schemes to promote integrity and fight against

integrity violations (Huberts et al., 2014; OECD, 2020). They range from issuing a code of conduct, providing training activities, and punishing the wrongdoers. These measures are expected to have a positive impact on integrity within organisations. However, Lawton et al. (2013) identify there is still only limited evidence about the extent to which these arrangements deliver good results. In other words, little is known about "how successful or effective such integrity instruments and institutions actually" are (Huberts et al., 2014, p. 167). This concern is relevant for a discussion about the quality of integrity management which is indicated by the concept of ethical performance.

Lawton et al. (2013, p. 134) define ethical performance as "how well individuals and organisations perform from an ethical point of view". The key point of the concept is how the organisation can measure the performance of an integrity programme. In practice, it is hard to find accurate methods to measure the end result of integrity programmes in organisations (Keogh, 1988; Treviño, Weaver, Gibson, & Toffler, 1999). This difficulty arises from philosophical, technical and implementation issues (Lawton et al., 2013). Lawton et al. (2013) explain that philosophical issues are related to who should be responsible, technical issues focus on what parameters or benchmarks to apply, and implementation issues focus on ethical approaches such as "top-down versus bottom-up" (Lawton et al., 2013, p. 135).

As regards ethical performance, this study focuses on the quality of the IMS of the ISAI. The study assumes that if the system is reliable, it will increase auditors'

awareness of the importance of integrity and reduce the number of integrity violations. In addition, the study considers other outcome variables to gauge ethical performance (see Figure 3.4 below). Treviño et al. (1999, p. 133) identify several outcomes relevant to quality integrity management, namely "less unethical/illegal behaviour observed during the past year, employee awareness, looking for ethics advice, delivering bad news to management, ethics violations are disclosed, ethical programmes cause better decision making, and employee commitment". To assess the quality of an IMS, this study links the input and outcomes of an IMS as shown in Figure 3.4. The following sections discuss the inputs and outcomes in turn.

Figure 3.4: Inputs and Outcomes of an Integrity Management System
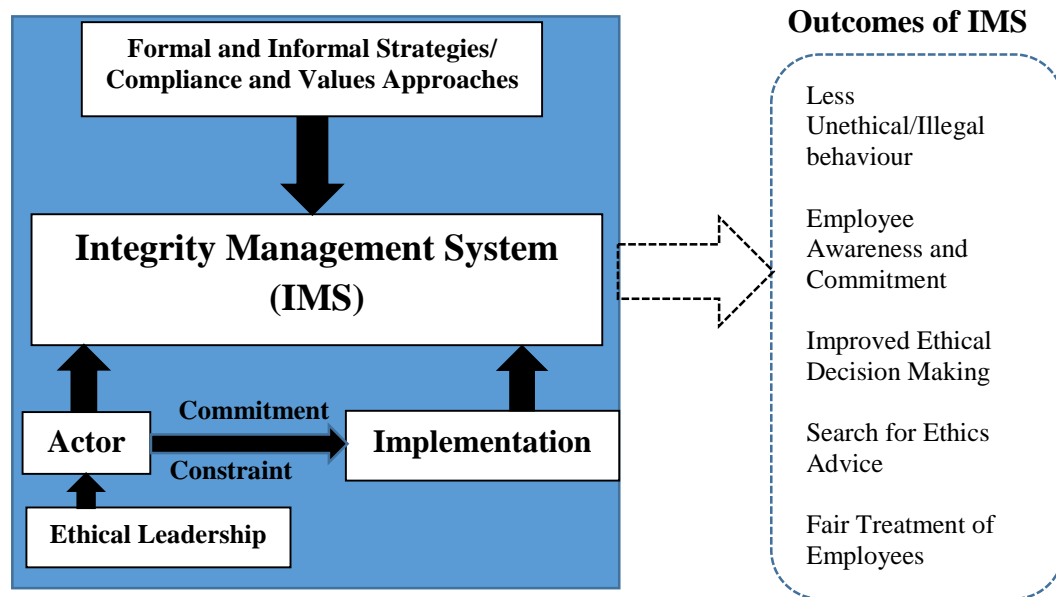
Source: Adapted, in part, from Treviño et al. (1999)

3.4.1 Integrity Management System (IMS)

The importance of managing integrity in an organisation has been a focus for discussion since the early 1990s, especially following the many integrity violation

scandals that came to light in both the private and public sectors worldwide during the 1980s and 1990s (Paine, 1994). Scholars have thus put forward various approaches to define integrity management. For instance, Behnke and Maesschalck (2006) and Heywood et al. (2017) emphasise that integrity management is a specific formal framework which can guide the ethical behaviour of public sector officials in order to comply with legal norms. In general, this study agrees with Hoekstra's perception that every continuing programme to maintain integrity in a particular organisation is integrity management (Hoekstra et al., 2016). Similarly, Scott and Gong (2015, p. 386) argue that integrity management relates to "rationale, processes, instruments, and effects of maintaining high integrity standards in governmental organisations".

The OECD (2009) identifies integrity management as activities which strengthen ethics and integrity to protect an organisation from corruption and other integrity violations. To assess the soundness of integrity management, the OECD (2009) introduced the concept of an IMS containing instruments, processes and structures which are perceived to be the influential framework for their member countries. To achieve successful implementation of the framework, the OECD (2009) emphasises that an organisation needs to understand the wider socio-political context. This means that the organisation must identify factors which have an influence on the operationalisation of the IMS, for instance, organisational culture, economy, and politics. The form of the framework is shown in Table 3.2 below:

The framework is used in this study and is explained in detail in Chapter Five. The contextual factors of the OECD IMS are also explained in-depth in Chapter Five. In this chapter, I discuss different approaches to integrity management and, especially in Section 3.7, the challenge of integrity management in the Indonesian context.

3.4.2 Integrity Management Strategies and Approaches

This section discusses two important aspects of integrity management, namely how to institutionalise integrity and what strategies and approaches to adopt.

Table 3.2: OECD Integrity Management System: Three pillars and two layers

	Instruments	Processes	Structures
Core measures	Codes, rules, guidance, integrity training and advice, disclosure of conflict of interest, and other instruments	Overall continuous integrity development process, constant development processes for individual instruments, one-off projects to introduce or change instruments, other relevant processes.	Integrity actor, management
Complementary measures	Integrity as a criterion in personnel selection and promotion, integrity aspects of procurement procedures and contract management, including integrity in the quality assessment tool, and other instruments for complementing the core layer.	Processes in personnel management, procurement and contract management, financial management, information management, and other systems	Personnel management, contract management, financial management, and information system management.

Source: OECD (2009, p. 22)

3.4.2.1 Institutionalisation: Formal versus Informal Strategies

Institutionalisation is an important part of integrity management (Hoekstra &
Kaptein, 2014) and scholars have debated the best way to institutionalise integrity
in organisations (Hoekstra, 2015; Hoekstra & Kaptein, 2012). There are basically
two approaches, namely formal and informal strategies (Heywood et al., 2017;
Hoekstra, 2015; Hoekstra & Kaptein, 2012). Each strategy has both positive and
negative aspects.

Brenner (1992) categorises the way organisations organise their ethics programmes
into two components, explicit and implicit. He argues that ethics programmes can
be viewed as having structural and behavioural dimensions. Each dimension has its
own characteristics and impact on organisational integrity. Scholars have
transformed Brenner's idea into formal and informal strategies. Formal strategies
relate to certain policies and the goal is declared explicitly, for instance, "integrity
structures". On the other hand, informal strategies operate in more implicit ways to
influence the ethical climate, for instance, "organisational culture and leadership"
(Hoekstra et al., 2016, p. 21).

In 1992, based on a survey of municipal governments and private companies in the
US, Berman, West and Cava (1994) found that public institutions tend to adopt
more formal strategies through rules than do private institutions. In addition, many
government agencies take a formal approach, such as training and rules, to
implement their rules (Berman et al., 1994, p. 198). Hoekstra et al. (2016) argue
that a formal approach should be considered because of the litigation risk. For

example, where an employee is suspected of breaching integrity, the case often goes to court where judges will investigate the extent to which the organisation adopted formal procedures to protect against integrity violations (Hoekstra et al., 2016, p. 20). In such cases, a formal approach is relatively more important.

However, some previous studies highlight the importance of institutionalisation based on both formal and informal strategies. In fact, there is no "one-size-fits-all" for integrity management, including how to embed integrity in an organisation (Hoekstra, 2015; Hoekstra & Kaptein, 2012).

3.4.2.2 Institutionalisation: Compliance Based (Rules) Approach versus Values Based (Integrity) Approach

The implementation of integrity is always about the best approach, whether it is a compliance based (rules) approach or a values based (integrity) approach (Heywood et al., 2017; Huberts et al., 2014; Lawton et al., 2013; OECD, 2009; Paine, 1994; Tremblay et al., 2017). Most scholars assume a balanced strategy between compliance and values is the most effective way to implement integrity (Heywood et al., 2017; Huberts et al., 2014; Maesschalck, 2004). However, some scholars challenge the concept of a balanced strategy because it is very difficult to achieve in practice (Tremblay et al., 2017). This study interprets the idea of a balanced strategy as the combination of both approaches. The rest of this section explores the nature of each approach.

Generally speaking, "the use of laws and regulations to control unethical behaviour" is the main point of the compliance approach (Lawton et al., 2013, p. 95). Menzel (2015) finds that a compliance (rules-based) approach is common and derives from scandals and integrity violations that have happened in the past. Academics and practitioners have thus come up with "dos" and "don'ts" (Menzel, 2015, p. 354). Therefore, the purpose of the compliance approach is to control the desire to commit integrity violations and this approach follows the logic of "deterrence theory", which assumes that people are rational human beings (Paine, 1994, p. 110).

Consistent with the key assumption of agency theory, people attempt to maximise their self-interests. On the other hand, they think about costs and benefits. They engage in unethical conduct if they think there is low possibility of getting caught. In other words, people consider misbehaving as long as they think that the benefit is greater than the cost (punishment). Therefore, according to Paine (1994, p. 110), the compliance approach endorses "threat of detection and punishment" to guide people to curtail unethical activities.

In addition, Maesschalck (2004) identifies the compliance approach as an external control on the behaviour of public institution officials. This approach applies rigid rules and regulations to reduce the chances of unethical behaviour. It is hoped that because of the existence of rules, officials will not consider breaking the law. The compliance approach also uses many control mechanisms, for instance, a code of

conduct combined with various instructions about "do's and don'ts" (Maesschalck, 2004).

Menzel (2015) states that a value (integrity) approach is conducted by "example and positive inducements (e.g. recognition, training, education)" which can apply at both a personal and organisational level (Menzel, 2015, p. 354). This approach is also "based on the concept of self-governance of employees in accordance with a set of guiding principles within the organisation and the wider environment" (Lawton et al., 2013, p. 118). Moreover, Lawton et al. (2013) identify "ethical leadership" as an important element of the strategy, as it can provide a model for behaviour. This is discussed further in Section 3.5 below on ethical leadership. At a glance, the logic of the value approach is that the organisation puts trust in employees' adaptable skills when they face problems of integrity during their daily duties.

Paine (1994), as quoted by Lawton et al. (2013) differentiates the two approaches as presented in Table 3.3. The approaches are also captured in the principles of the OECD IMS, which is discussed in Chapter Five.

Overall, it is clear that the value and compliance approaches have different purposes and characteristics. Heywood et al. (2017) argue that implementation of these approaches needs to consider various contextual factors. If the bureaucracy faces serious corruption problems, it is better to enforce the compliance approach as it

would be naïve to depend on value based programmes in the hope that people would be deterred from committing integrity violations, at least in the short term.

However, if public officials are trustworthy, a strong compliance approach in the system carries a risk of negative impacts on the organisation, such as red tape (Anechiarico & Jacobs, 1996; Heywood et al., 2017; Webb, 2012). More importantly, most scholars agree that the approaches should not be separated (Heywood et al., 2017; Maesschalck, 2004). The OECD (2009) takes the view that neither a value nor a compliance approach totally addresses the problem, and that there needs to be a balance between the two approaches.

Table 3.3: Approaches to Integrity Management

Orientation	Values Based (Integrity) Approach	Compliance Based (Rules) Approach
Ethics	Self-government and subjective responsibility according to chosen standards within organisations	Conformity with externally imposed standards and objective responsibilities
Objective	Enable ethical conduct and moral reasoning	Prevent and combat unethical conduct and integrity violations
Behavioural assumptions	Social beings guided by values, principles, (public service) motivation and leaders and peers	Autonomous beings guided by economic self-interest
Policy	**Values Based (Integrity) Approach**	**Compliance Based (Rules) Approach**
Methods and instruments	Internal controls, ethics education and training, communication and deliberation, ethical leadership, ethical culture and climate, reinforcement by rewards	External controls, education of rules and codes of conduct, reduced discretion and autonomy, auditing, monitoring and controls, reinforcement by sanctions
Implementation	**Values Based (Integrity) Approach**	**Compliance Based (Rules) Approach**
Standards	Organisational mission, values and aspirations, social obligations, including law, rules, codes and norms	Criminal and regulatory law

	Managers, ethics officers	Lawyers, compliance officers
Leadership and staffing		
Activities	Lead (bottom-up) development of organisational values and standards, training and communication, integration in organisational system and culture, providing guidance and consultation, assessing values and performance, identifying and resolving problems and dilemmas	Developing (top-down) compliance standards, education and communication, handling reports of misconduct, conducting investigations, overseeing compliance audits and monitoring, enforcing standards with clear sanctions
Education and training	Ethical decision-making and values, dilemma training	Compliance standards and system, codes of conduct

Source: Lawton et al. (2013, p. 121) and Paine (1994)

3.5 Ethical Leadership

Heres (2016) argues that policies and instruments regarding integrity will be worthless if leaders within an organisation do not have a high commitment to and serious support for the maintenance of integrity. More specifically, scholars have identified the important role of ethical leadership in maintaining organisational integrity (Bromell, 2019; Dobel, 2018; Downe, Cowell, & Morgan, 2016; Hassan, Wright, & Yukl, 2014; Mendonca & Kanungo, 2007) and it has become "a prominent theme" since the mid-2000s.

This study also identifies leaders as one of the most influential actors in maintaining integrity. Specifically, they should have certain roles, capacities, and ethical leadership in order maintain their commitment and ensure that the implementation of the IMS is on the right track, as indicated in Figure 3.4.

This study adopts the definition of 'ethical leadership' proposed by Brown, Treviño and Harrison (2005b, p. 120), that is, "the demonstration of normatively appropriate

conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making." The definition underlines four important aspects of ethical leadership. Firstly, people who are perceived to be ethical leaders must engage in "normatively appropriate" behaviour, for instance, "honesty, trustworthiness, fairness, and care". By doing so, they gain legitimacy and become role models in the organisation.

Secondly, this concept emphasises "two-way communication". This means leaders should actively communicate with their followers, and followers should also have the means to communicate within the organisation to express their opinions and ideas regarding ethics, both in formal and informal procedures. Thirdly, the law enforcement mechanism must be clear. For instance, someone who breaches the law should be punished. On the other hand, someone who obeys the law should never be penalised. Finally, decision-making should be fair and transparent (Brown et al., 2005b).

Ethical leadership is also believed to be an important factor in building an organisational ethical culture (Hassan et al., 2014). Most studies on ethical leadership have found that ethical leaders have a positive impact on control of integrity violations within organisations, for instance, fraud, theft, and misuse of organisational resources (Lasthuizen, 2008; Mayer, Kuenzi, Greenbaum, Bardes, & Salvador, 2009). In practice, cultural factors influence ethical leadership (Eisenbeiss, 2012; Eisenbeiss & Brodbeck, 2013; Hanges, Aiken, Park, & Su,

2016). For instance, some cultural dimensions, such as assertiveness, future orientation, and humane orientation, require specific desired leadership styles (Hanges et al., 2016).

Eisenbeiss (2012) points out that all the current approaches to ethical leadership are from a western perspective and other perspectives are needed, for instance from eastern cultures. This is important, especially to avoid the contested assumption that "the same style of ethical leadership" fits all organisations (Heres, 2014, p. 17). Therefore, study of the extent to which ethical leadership depends on the cultural context and place (Jackson, 2019; Lasthuizen, 2018) and attention to unethical leadership and its negative impact on public institutions are highly relevant (Hassan, 2019).

In terms of the cultural context of ethical leadership, Eisenbeiss and Brodbeck (2013, p. 355) indicate differences between western and eastern cultures. Eastern people perceive ethical leadership as "leader modesty and openness to other ideas" including how a leader could show "a participative management style and empower others". On the other hand, western tradition identifies ethical leadership more as "transactional performance management such as setting clear objectives, monitoring behaviour, giving feedback, and contingent reward" (Eisenbeiss & Brodbeck, 2013, pp. 355-356). In addition, Van Eeden Jones and Lasthuizen (2018) propose a trickle-down model for ethical leadership in developing countries that highlights the significance of political leadership for successful organisational integrity management.

Treviño, Hartman and Brown (2000) argue that it is important for a leader to show ethical leadership in order to build a good reputation in an organisation. They identify two pillars that constitute ethical leadership: the moral person and the moral manager, as shown in Table 3.4 below. The first pillar emphasises that an ethical person should have "certain traits, engaging in certain kinds of behaviours, and making decisions based upon ethical principles" (Treviño et al., 2000, p. 130). Some of the traits are honesty, trustworthiness, and integrity. In addition, leaders should have high ethical standards and care for other people (Brown & Treviño, 2006). Lastly, leaders always have to make decisions. In doing so, their decisions should be based on values, rules, objectivity, and concern for the public interest.

However, having good morals as a person is not enough to have a good reputation as a leader. A leader should also create "a strong ethics message" that inspires other people or employees and highlights that integrity is a number one priority in the organisation (Treviño et al., 2000, p. 128). Therefore, besides being a moral person, a leader should also be a moral manager who can guide employees by providing a role model, applying rewards and discipline, and communicating ethics and values. The two pillars of ethical leadership are presented in table 3.4 below.

Table 3.4: The two pillars of ethical leadership

Moral Person	Moral Manager

Traits
    Integrity
    Honesty
    Trustworthiness
	Role Model Through Visible Action

Behaviours
    Do the Right Thing
    Concern for People
    Being Open
    Personal Morality
	Reward and Discipline

Decision-Making
    Hold to Value
    Objective/Fair
    Concern for society
    Follow Ethical Decision Rules
	Communicating about Ethics and Values

Source: Treviño et al. (2000, p. 131)

3.6 Outcomes of IMS

Positive outcomes is the ultimate goal of building an IMS. Generally speaking, many outcomes have been used as indicators to assess the extent to which integrity programmes or integrity management perform well or otherwise in an organisation or institution (Brown, Uhr, Shacklock, & Connors, 2005a; Dondé, 2018; OECD, 2005, 2009).

Some scholars have identified outcomes such as less unethical behaviour, organisational trust, organisational justice, organisational climate, fairness and, fewer interpersonal conflicts between co-workers (Akar, 2018; Bedi, Alpaslan, & Green, 2016; Heres & Lasthuizen, 2014). However, in line with Figure 3.4, this study limits the discussion to five outcomes of an IMS, namely less unethical/illegal

behaviour, employee awareness and commitment, improvement of ethical decision making, search for ethics advice, and fair treatment of employees (Treviño et al., 1999).

3.6.1 Less Unethical/Illegal Behaviour

Experience show that organisations face the threat of unethical behaviour, integrity violations, or fraud and abuse, from time to time (Association of Certified Fraud Examiners, 2020; CIPFA, 2020; Dondé, 2018). The threat could be from internal or external sources. Therefore, many organisations including the ISAI apply integrity management to reduce the potential risk of unethical behaviour (Haugh, 2017; Paine, 1994).

International institutions such as Transparency International and the Institute of Business Ethics conduct surveys to monitor the extent to which illegal behaviour such as corruption exists (Dondé, 2018; Transparency International, 2019; Treviño et al., 1999). The output from such surveys can be useful in judging the success of integrity programmes in limiting integrity violations or unethical behaviour (cf. Table 3.1).

3.6.2 Employee Awareness and Commitment

Many scholars and practitioners believe that employees' lack of awareness and commitment to integrity management present special challenges to successful implementation of an IMS (Hassan et al., 2014; Heres & Lasthuizen, 2014; Wright, Hassan, & Park, 2016). Even though employees may have high values, there is no guarantee that they will be aware of and committed to an IMS. Treviño et al. (1999)

suggest that an effective compliance management programme could improve employees' awareness of and commitment to integrity management.

However, employee awareness and commitment should be reinforced by actors having commitment to integrity, as illustrated in Figure 3.4. In addition, these actors, especially leaders, should display ethical leadership (cf. Section 3.5).

3.6.3 Improved Ethical Decision-Making

Employees who provide public services, especially in a developing country such as Indonesia, can sometimes be faced with integrity violations such as bribery, embezzlement or corruption (Graycar, 2020; OECD, 2016b; Olken & Pande, 2012; Transparency International, 2017a). Therefore, they need ethical decision-making skills to deal with these situations effectively (Cooper, 2012; Craft, 2013; Lawton et al., 2013). Integrity programmes or instruments, such as ethics training and counselling, can be expected to help employees improve their ethical decision-making skills (Lawton et al., 2013; OECD, 2009; Treviño et al., 1999).

However, Treviño et al. (1999) emphasise that the extent to which integrity programmes can bring benefits to, and improve, employees' ethical decision-making skills is open to question because employees may perceive the programmes as "mere window dressing". It is therefore important that the programmes are presented in a convincing manner as a genuine attempt to improve integrity (Treviño et al., 1999, p. 135).

3.6.4 Search for Ethics Advice

Treviño et al. (1999) indicate that if an organisation has an effective integrity programme or ethical management, employees will be more willing to seek advice and help to solve their problems such as avoidance of conflict of interest or how to respond to an offered gift. Thus willingness to look for advice is also an important outcome of sound IMS (Treviño et al., 1999).

3.6.5 Fair Treatment of Employees

Ethics has a close relationship with "fairness", because most employee perceive ethics in terms of how the organisation treats them and their colleagues. If they feel that they are not treated fairly, they might engage in violations to compensate (Treviño et al., 1999, p. 142). Thus fair treatment throughout the organisation should be an important outcome of an IMS.

3.7 Integrity Management in the Indonesian Context

Section 3.4, 3.5 and 3.6 discussed the key inputs and outcomes of an integrity management system mostly based on western views. However, implementation requires consideration of a number of contextual factors (OECD, 2009). Implementation of integrity programmes and the fight against corruption need to take account of various local social and cultural aspects (Chadda, 2004; Pertiwi, 2016; Pertiwi & Ainsworth, 2020; Stark, 2018). This section, therefore, focuses on the key concepts of integrity management within the Indonesian context. The section begins with discussion of political influences, then ethical leadership, and

finally the challenge of implementing integrity programmes in the Indonesian cultural context.

Broadly speaking, these factors have been discussed in Chapter Two, the Indonesian context. However, in this section the discussion primarily focuses on the relationship between the three factors and corruption. The discussion begins with corruption in the context of the ISAI.

3.7.1 Corruption and the ISAI

Figure 3.5 below illustrates the relationships between Commission XI, the ISAI board, ISAI management and auditors, and ISAI auditees in terms of the potential for corruption.

Figure 3.5: The ISAI and the potential for corruption
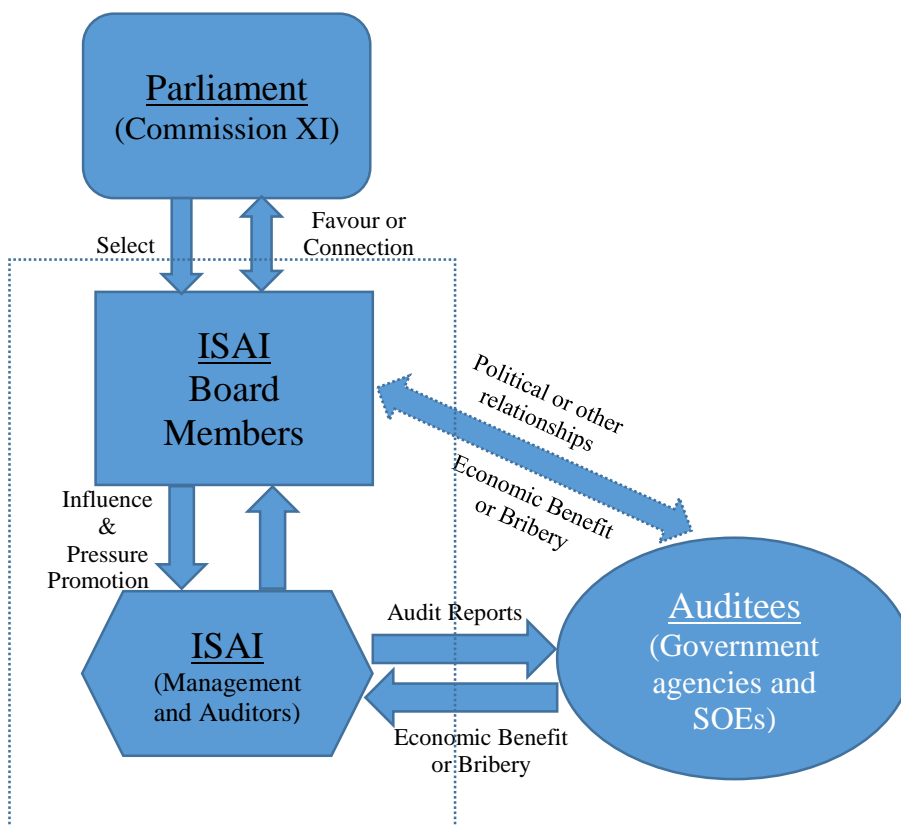
Following are possible forms of corruption within the ISAI audit process which may include board members:

1. There may be corruption between the members of Commission XI and the successful candidates in the selection for board members.

2. Management of the auditee may initiate the corruption by suggesting to a board member(s) that the audit report not refer to certain inappropriate actions by the auditee in exchange for economic benefits (possibly cash) being given to the board member. The auditor is compliant in order to protect their promotion prospects.

3. Same circumstances as above but the corruption is with a senior member of the ISAI management.

3.7.2 Integrity Management and the Problem of Political Influence

The first aspect to consider in the implementation of the IMS in the Indonesian context is politics. This aspect has a significant influence on determining success or otherwise of governance and integrity management in public sector institutions (Lawton & Doig, 2006; Macaulay, 2018; Maesschalck, 2002). According to the OECD (2009, p. 8) politics is categorised as part of the "outer context" that could be "factors or actors in the wider public sector and governance environment beyond the control of a specific organisation, but can have an important impact upon its integrity management and the integrity of its members". Lasthuizen, Heres and Webb (2019, p. 551) state that "the unique characteristics of the public-political context are important to understand both ethical and unethical leadership practices and outcomes." Similarly, in the Indonesian context, this study identifies that

politics is very influential in the application of integrity management in public sector institutions, especially the ISAI.

As discussed earlier in Chapter Two, Section 2.5.1.1, the law has given Parliament full authority to select the board members of ISAI. This mechanism has to a degree made it difficult for the ISAI as a public institution to be free from political interference. The role of politicians as well as their political interest in, and control of, the process of selection of the ISAI board members cannot be overlooked (Rosana, 2019b). Viewed from an organisational perspective, political influence can affect how the ISAI can maintain its political neutrality and freely implement integrity management (INTOSAI, 2019b).

INTOSAI (2019b) has highlighted the issue of political influence and emphasises that every Supreme Audit Institution in the world should anticipate and be aware of any "threats" or "vulnerabilities" including "political influence" that can disturb their code of ethics, integrity and independence (INTOSAI, 2019b, p. 7). This is because political influence could be the main barrier to the maintenance of the SAI's political neutrality (IDI INTOSAI, 2018) and "may impact the ability of supreme audit institutions' leadership or staff to discharge their professional duties impartially" (INTOSAI, 2019b, p. 18).

Therefore, referring to the way politicians in Parliament select and appoint ISAI board members, the warning issued by INTOSAI is especially relevant. In fact, regarding the selection of the board members, politicians have generally shown

greater concern for their own political agenda than for the public interest or candidates' credentials (Embu, 2019, October 4). For instance, politicians tend to ignore candidates who have shown interest in anti-corruption programmes and declared clear intentions of eradicating corruption. Such a tendency is in direct contradiction to the fight against corruption that has been high on the nation's agenda, and has thus become one of the most important problems for the SAI to deal with in an effort to deliver value and benefit the public (IDI INTOSAI, 2016).

Parliament and politicians have established a 'fit and proper test' mechanism whereby they can measure candidates' knowledge and ability, elect suitable candidates, and accordingly claim that they have followed 'a fair process of selection'. However, in each selection process, candidates selected for the board have mostly been former politicians or have some political connection to MPs (Bramastha, 2019; Nasution, 2009). Therefore, in the case of the ISAI, it seems the problem of political influence is a serious one that needs to be considered. In particular, the crucial issue relates to the extent to which the role of politicians as the board members may cause potential conflict of interest between the ISAI and their auditees (ICW, 2009d; "Massive conflict of interest," 2019, October 11; Thomas, 2019; Wildan, 2019).

On the other hand, previous studies indicate that political support is essential for the successful implementation of integrity and anti-corruption programmes in public institutions and the bureaucracy in Indonesia (Muhtadi, 2019a; OECD, 2016b; Subagio, 2016; Van Eeden Jones & Lasthuizen, 2018). However, in the

particular case of the ISAI, the extent of the importance of political support needs to be questioned and clarified. This is because the principle of political neutrality and impartiality is essential for the ISAI as an institution that audits governmental entities' accountability in managing public money (INTOSAI, 2019b).

With that in mind, it is important to find an effective mechanism to protect the ISAI from political interference leading to the potential for conflicts of interest. Practically, this mechanism could issue comprehensive guidance under which any conflict of interest could be managed. Additionally, ensuring the selection of candidate(s) with a strong profile and reputation in terms of commitment to fight against corruption rather than just political connection would be a good alternative way to show political support for promoting integrity in public institutions (Van Eeden Jones, Eryanto, & Lasthuizen, 2020).

Unfortunately, the current condition presents some challenges and questions as to whether or not there is such political will or support in the Indonesian context. This is because there is a strong indication that serious conflicts of interest have occurred for many politicians (ICW, 2019; "Massive conflict of interest," 2019, October 11). In fact, some politicians also have a problem with accountability and integrity, as indicated earlier in Chapter Two. A number of corruption scandals in public institutions are related to their roles as the main actors in such cases (Anti-Corruption Clearing House, 2018; Kahfi, 2019, June 24). In summary, in the current situation it is still difficult to obtain real political back-up for strengthening anti-corruption programmes in many public sector institutions.

3.7.3 Indonesian Public Sector Institutions and the Challenge of Ethical Leadership

The second important aspect to consider for implementing integrity management in the Indonesian context is the role of organisational leadership. Many studies on organisational integrity highlight the important role of organisational leadership in ensuring integrity. Regarding the role of leadership, Section 3.5 has explained the concept of ethical leadership. It describes the important role of an ethical leader, as both a moral person and a moral manager to promote integrity in an organisation (Bromell, 2019; Ciulla, 2020; Dobel, 2018; Heres, 2016; Lasthuizen, 2008; Treviño et al., 2000).

That said, the government of Indonesia is currently seeking to find 'clean' leaders who are expected to be able to become representative leaders who maintain high integrity in order to manage and lead public sector institutions, especially strategic state-owned enterprises (SOEs) (Van Eeden Jones et al., 2020). However, recent studies show that public institutions in Indonesia are still faced with serious challenges and difficulties in finding suitable leaders who possess competence, professionalism and integrity and accordingly can be considered to implement ethical leadership. In some cases, a person may be regarded as a good leader and have a strong reputation for their commitment to fight against corruption. However, their past may lead to the questioning of this reputation (Van Eeden Jones et al., 2020).

3.7.4 Integrity Management and the Problem of Cultural Bias

The third challenge is that of cultural bias. Chapter Two, especially Section 2.2, described Indonesia's geography, history, politics and culture, as some of the contextual factors that need to be taken into account in applying an IMS. The problem of potential cultural bias usually stems from the dominance of the western views on ethics, integrity and integrity violations that lead to a single myopic understanding of these concepts (De Graaf et al., 2010; Heres et al., 2017; Huberts & Lasthuizen, 2020; Mungiu-Pippidi, 2006; Sissener, 2001). For example, Chadda (2004, p. 122) as quoted in Huberts & Lasthuizen (2020, p. 48) criticises the western dominant views on corruption that mostly derive from Weber's ideal type of bureaucracy. Chadda (2004) challenges the feasibility of TI's definition of corruption in the context of developing countries by arguing "to judge transactions originating in the traditional sphere as corrupt because they clash with the requirements of the rational-legal order can be seen as merely an ideological argument for the rapid destruction of the traditional sphere".

A number of earlier studies, conducted in three different countries, have pointed out the problem of cultural bias, especially in understanding corruption in developing countries. These studies have found that the perception of corrupt activities as 'the abuse of power for private gain', as most international communities perceive corruption, cannot be taken as a single, conclusive finding (Dao, 2017; Khalid, 2016; Pertiwi, 2016). For example, in the case of Indonesia, Pertiwi (2016, p. 65) found that corruption tends to be viewed as arising from three factors, namely, "(1) to get things done; (2) to secure sources of livelihood; and (3) to maintain social

relation/obligations". To some extent, these perceptions are also different from TI's definition of corruption which is that abuse of power is the main form of corruption (Transparency International, 2020b).

Therefore, in order to minimise the problem of cultural bias in considering a corruption case, it is important to understand the contextual condition of the case (Huberts & Lasthuizen, 2020; Sissener, 2001). This approach is of particular relevance to Indonesia where local traditions such as Javanese cultural beliefs and practices have a dominant cultural and political influence for a wide group of people.

3.7.4.1 Corruption and Patrimonial Culture: A biased understanding of the Phenomenon of Corruption

Corruption cases have been recorded over many years of Indonesian history (cf. Chapter Two, Section 2.2.1). The phenomenon has even been identified as having occurred prior to the coming of colonial European countries to Indonesia (Arifianto, 2001; King, 2000). Some scholars perceive corruption as part of the Indonesian culture (Lindsey & Dick, 2002; Margana, 2009; Robertson Snape, 1999; Rosidi, 2009; Znoj, 2007). Mohammad Hatta, a founding father and first vice president of the Republic of Indonesia, stated that "Indonesia had developed a culture of corruption" (Znoj, 2007, p. 56). His statement strengthens the perception of corruption as 'culture'.

Some scholars propose patrimonial culture as one of the causes of corruption in Indonesia (Alatas, 2015; Azra, 2010; McLeod, 2000; Prabowo & Cooper, 2016; Rubinstein & Maravic, 2010; Schütte, 2017; Webber, 2006). However, in some respects this is only a simple traditional habit for some people. Therefore, to some extent, the perceived 'culture' actually has nothing to do with corruption (Alatas, 2015).

Viewed from a cultural perspective and in relation particularly to the Javanese tradition, patrimonial practices in an organisation could reflect the principles of *hormat* (respect) and *berterimakasih* (gratitude) to the boss (leader), and *rukun* (keeping the spirit of harmony) (Arifianto, 2001; King, 2000; Znoj, 2007). During the classical Javanese kingdoms, the elites paid tribute to the kings to show respect and gratitude for putting the elites in their positions (Arifianto, 2001; King, 2000). Nowadays, if a civil servant is appointed to a 'position' that can give him/her opportunity to exercise authority and gain benefits, it is likely that he/she will show respect and gratitude by offering something to their boss in return for such an appointment. The civil servant would not perceive the practice as one that has anything to do with corruption, but rather simply a gesture of gratitude.

Similarly, Pertiwi (2016) identifies common cultural practices in the way people deal with others and especially with officials in Indonesian society. Such actions or traditions which are sometimes couched in euphemistic terms as 'face saving', '*kekeluargaan*' (kinship/of or related to family), (and '*uang lelah*' ('tired money') or '*uang rokok*' ('cigarette money') could be perceived by westerners as corrupt

practices (Pertiwi, 2016, p. 53). However, some Indonesians who are familiar with these practices may view the actions more as appreciation of other people's help than an act of giving bribes, even though sometimes 'the assistance' is still part of the officials' duties (Pertiwi, 2016; Znoj, 2007).

Generally speaking, the phenomena cited in Pertiwi (2016) may not be surprising if the cultural context within which people perceive corrupt practices is taken into account. In the early 1970s, Smith (1971, p. 22) indicated the same phenomena in his study on corruption in Indonesia. For instance, people gave '*uang semir*' ('lubricating money') or 'speed money' when dealing with officials. At that time, people seemed to acknowledge these transactions as if they were 'fair transactions'. Therefore, it was also "a normal thing" for officials to receive money from the people because it was to 'thank' the officials for the services given (Smith, 1971, p. 31).

On the other hand, western societies tend to perceive patrimonial practices, even ones intended to be 'tokens of gratitude or appreciation', as corruption (King, 2000; Smith, 1971; Znoj, 2007). Regarding these practices, in most cases the officials or civil servants are not aware of the difference or the need to differentiate. Their conduct is then categorised as violating the principles of public office, as explained by "Max Weber's ideal type of rational-legal bureaucracy" model (Sissener, 2001, p. 4), that is, bureaucrats exercise their authority to obtain personal gains. As a consequence, what they do becomes an abuse of power and is categorised as corruption (Philp, 2006; Sissener, 2001; Webber, 2006).

In summary, there are differences between eastern societies, especially Indonesian, and western societies in the ways that the nature or acts of corruption may be perceived. These differences lead to biased cultural attitudes towards understanding the phenomenon of corruption and may pose challenges to integrity management in the ISAI context, especially if a western model such as the OECD IMS is used as the ideal system to build organisational integrity.

3.8 Chapter Summary

This chapter has discussed the key concepts of agency theory and integrity management and provided a review of integrity management in the Indonesian context. The first part explains agency theory as the theoretical framework for the role of integrity management in promoting value and benefits for the people of Indonesia from the public sector. The chapter discusses integrity, institutionalisation of an IMS, ethical leadership, and the outcomes of an IMS.

The second part of the chapter discusses the potential for ethical violations and corruption in the ISAI and the problem of political influence. The chapter concludes with a discussion of the barrier to integrity management posed by political influence and lack of ethical leadership, and the challenges of culture.

CHAPTER FOUR
RESEARCH METHODS

4.1 Introduction

This chapter discusses the research design and strategy to answer the research questions stated in Chapter One. Section 2 provides my justification for applying a qualitative approach to examine the phenomenon of integrity management. Section 3 explains the research design. Section 4 discusses research strategy including the stages of the field research. Section 5 discusses the research population, location and accessibility, and the research techniques and methods, namely policy document analysis and semi-structured interviews. Finally, Section 6 concludes by discussing how the research design and strategy answers the research questions.

4.2 Research paradigm and qualitative study approach

Briefly, the research paradigm influences the way researchers approach their study, especially in implementing the research design and strategy (Creswell, 2014; O'leary, 2004). It also relates to ontology and epistemology as well as data collection and analysis (Lincoln et al., 2011). Moreover, the research paradigm or 'worldview' is a foundation for the assumptions made in understanding the phenomena being studied (Creswell, 2014). In short, the research paradigm refers to "a way of thinking about and making sense of the complexities of the real world" (Patton, 2002, p. 69).

Integrity is a subject that can be analysed from a multidisciplinary approach. As Huberts (2014a) has identified, there are at least eight views on integrity in the

literature on ethics and integrity. For example, integrity can be viewed both as "professional responsibility" and "exemplary moral behaviour" (Huberts, 2014a, p. 39). In other words, integrity is a debatable and complex subject. Therefore, it is reasonable to define the term as having many perspectives and interpretations (Fleurke & Hulst, 2019; Hoekstra et al., 2016). Various participants' perspectives, assumptions, experiences and even multiple realities in this study reflect this phenomenon, especially the perceptions of participants.

Therefore, in this study I adopt the post-positivism paradigm. This approach is especially important when investigating integrity management systems which focus on the perspectives of participants (Crotty, 1998; Phillips & Burbules, 2000). Generally speaking, this paradigm assumes that truth is discovered by applying the process of empirical study. However, post-positivism also argues against the traditional notion of the absolute truth of knowledge and recognises that we cannot be positive about our claims of knowledge, especially in study related to the behaviour and actions of humans (Phillips & Burbules, 2000).

In other words, truth is not always absolute, sometimes it depends on the context or situation. In this study, integrity has 'multiple meanings' that cannot have the same interpretation everywhere. This means that integrity should not be treated as an absolute truth. However, we can get to 'the truth' through the process of an empirical study to obtain additional perspectives on integrity from other places, for example, the ISAI which operates in Indonesia, a country that has its own social, cultural, political, and economic characteristics. This Indonesian context has a

significant influence on the implementation of IMS principles in the ISAI, which will be taken into account when carrying out the empirical study.

Post-positivism distinguishes between belief and objective reality, but at the same time it also allows and acknowledges multiple "realities" or perceptions of participants (Creswell, 2014; Eriksson & Kovalainen, 2008; Miller, 2000, p. 38). Therefore, in this study, I assume that the social and cultural contexts are part of beliefs in society as well as fact. Participants in this study, who were assumed to represent people in the society, are free to have their own perceptions and judgements on culture. These judgments are viewed as 'relative' not 'absolute'.

Post-positivism draws on social anthropology (Eriksson & Kovalainen, 2008; Patton, 2002; Tesch, 1990) and many researchers adopting this paradigm thus utilize "qualitative techniques" as a more appropriate research approach (Guba & Lincoln, 1994, p. 110). This qualitative approach typically enables researchers to investigate "the meaning of people's lives, under real-world conditions" and capture their perspectives and experiences of the social phenomena in their lives (Creswell, 2014; Malterud, 2001; Yin, 2015, p. 7). In other words, this approach gives a 'voice' to participants who are involved in the organisation and to key informants who have a more extensive knowledge of related issues in this organisation than others may have (Bluhm, Harman, Lee, & Mitchell, 2011; Lee, 1999). By adopting the qualitative approach, I have a wide-angle lens and an opportunity to investigate 'deeper' social phenomena (Gray, 2009; Guba & Lincoln, 1994) and, more specifically, to explore the problems and challenges of

integrity management, mostly based on "participants' perspectives" (Taylor, 2005, p. 74).

This qualitative study emphasises the importance of participants' voices that refer to their statements, opinions, perspectives, and views, including experiences related to the problem of integrity management in the ISAI. In particular, this study attempts to acknowledge and recognise the views of auditors and management, including other external experts, whose voices are crucial but probably have not often been recorded in extant empirical studies. Therefore, in order to obtain a deeper understanding of these voices, including their meaning, a qualitative study requires that researchers focus on "the process that is occurring" or are "process oriented" (Creswell, 2014; Merriam, 1998; Taylor, 2005, p. 74). In this study, I focus on the process of building integrity in the ISAI to determine its quality and adequacy.

In order that qualitative research succeeds in describing the participants' voices as well as the phenomena being studied more comprehensively, it needs to take place "in natural settings, where human behaviour and events occur" (Creswell, 2014, p. 255). In practice, this can be achieved only if researchers manage to build a close relationship with their research participants. It was, therefore, important for me to establish a good rapport with the participants. Firstly, I directly contacted all the participants and communicated interactively with them. In most cases, I contacted them by making a phone call or sending a direct message through WhatsApp.

During the process of this communication, I attempted to arouse their enthusiasm for the importance of this study for the ISAI.

Additionally, it is also crucial for researchers to build a relationship with and gain the trust of the participants (Ghauri, Grønhaug, & Strange, 2020), especially, if the research is related to 'a sensitive topic'. The participants' trust is an important prerequisite for discussing the research issues or problems openly and objectively. Without trust, the participants will not feel comfortable about joining the research. Therefore, this study maintains the anonymity of the participants by keeping their identities strictly confidential and using codes to refer to them (see Appendix 6).

Qualitative research aims to "study a real-world setting, discover how people cope and thrive in that setting - and capture the contextual richness of people's everyday lives" (Yin, 2015, pp. 3-4). This study encapsulates a broad knowledge and understanding of local culture, tradition, custom and bureaucracy in Indonesia where the study is conducted. Moreover, insight into the local social, cultural and political setting captures 'a whole picture' of the problems and minimises the situational constraints that can happen during fieldwork or data collection. A researcher needs to consider all previous factors carefully in order to ensure that the qualitative study runs smoothly.

As both a native Indonesian and "an insider" of the ISAI, who received special permission to pursue postgraduate studies in New Zealand for several years, I had 'a special status' in the study. This status gave me significant advantages compared

to any western scholar but it also had a potential downside. In other words, there are always 'pro and cons' to being an insider in a research project. Firstly, I was already familiar with the Indonesian context in terms of culture, tradition, politics, and bureaucracy. Therefore, I was able to handle and cope with the potential constraints that might cause inconvenience and misunderstanding during my interaction with the participants.

Secondly, because I have worked at the ISAI for more than fifteen years and am still employed by the institution, I have in-depth understanding of the ISAI. This helped me to understand and interpret both the aims of policy documents and participants' comments, including their 'sense' of sensitive issues relating to integrity in the ISAI. This included an ability to recognise any answers given by the participants as intended to ensure a favourable impression of the ISAI. On the other hand, my position with the ISAI could have influenced my judgement and objectivity in analysing policy documents and participants' responses. However, I attempted to minimise these risks, by maintaining neutrality. Furthermore, during the period of my study in New Zealand I was not involved in any business of or position within the ISAI that could have impaired my independence and objectivity in carrying out the research.

4.2.1 The Challenge of the Qualitative Approach

As stated earlier, one of the key components of qualitative approach is allowing participants to have their voices. Researchers thus need to unpack what 'these voices' are. In practice, researchers often use "personalised, informal and context-

based language" in order to understand the meanings of the voices (Lee, 1999, p. 6). Unfortunately, during this process, there is a possibility that researchers might not always be neutral and objective because of biased understandings and subjective interpretations (Creswell, 2014; O'leary, 2004). Therefore, the possibility of bias is a challenge for researchers adopting a qualitative approach. Lee (1999, p. 7) recommends that "qualitative researchers explicitly and overtly apply their own subjective interpretation to the understanding of organizational phenomena".

Referring to this challenge, I was aware of the potential problem of researcher bias when conducting the present study, especially during the process of document analysis and interview sessions. This means that I was 'active' in terms of generating meanings based on the text in the documents and interpreting the participants' voices. Therefore, I recognise the limitation of this study and acknowledge that the interpretations were the result of information accumulated across all activities of this study and the perceptions were inter-subjective views. The limitation was partly because the interpretations came from textual analysis, respondents' arguments, and my personal knowledge.

Similarly, Head, Brown and Connors (2008, p. 91) posit that qualitative studies, especially those investigating integrity and ethics, are likely to be affected by the researcher's perceptions. In order to mitigate this problem, interviews were held with experts representing academic institutions and NGOs, as external parties critical and aware of the ISAI's reputation and performance. By adopting such a strategy, I attempted to be objective to all participants' opinions by giving priority

based on the context and extent to which these opinions were valid for the real situation.

Furthermore, Head et al. (2008, p. 91) also argue that there is a potential risk of being given desirable responses. In other words, respondents will provide answers which they think the researcher prefers to hear rather than their perception of a particular situation or problem. This is because integrity problems or violations can sometimes make people feel 'uncomfortable' when they openly discuss the issues. Therefore, I encouraged participants to be honest and express their own opinions and at the same time I assured the participants that they would remain anonymous. In addition, as stated earlier, being "an insider" of the ISAI, I had a comprehensive understanding of business processes within the ISAI, which was useful in preventing misunderstanding of information from participants.

The last challenge of a qualitative study is related to its ability to generalise the research findings to other "places outside of those under study" because a qualitative study is commonly only conducted in a specific context and with a particular object of study (Creswell, 2014, p. 253; Gibbs, 2007a). Therefore, the result is also limited to certain cases and the ability to generalise is limited.

Similarly, because this study focused on a single public institution in Indonesia, the ability to generalise the research findings was reduced. However, according to Yin (2015) there is still a possibility to generalise a qualitative study, especially for researchers undertaking case study research. The researcher can generalise the

result to some broader theory (Creswell, 2014; Yin, 2015). As indicated earlier in Chapter One, the ISAI has the strategic role to improve governance through its position as a supreme audit institution. Through its motto of "leading by example" regarding integrity practices, the case of the ISAI can be generalised and provide lessons for other public sector institutions in Indonesia.

4.3 Research Design

Figure 4.1 shows the research design for this study as the blueprint for the collection, assessment and analysis of the data on my research questions. All research strategies and methods are explained in the following section.

Figure 4.1: The research design

Research Paradigm and Approach
Post-positivism and Qualitative Study

Research Strategy
Data collection at Head Office and two branches of ISAI (field research)

Research Techniques and Method
Document analysis and semi-structured interviews
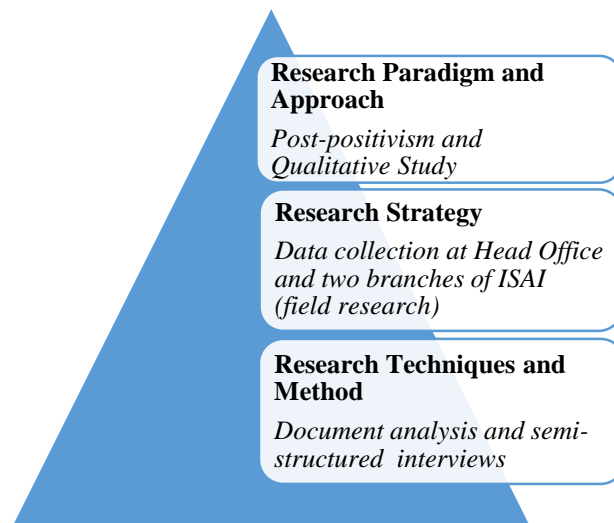
4.4 Research Strategy

This study applies a case study approach which is a way of "collecting information about a specific object, event or activity, such as a particular business or organisation" (Sekaran & Bougie, 2013, p. 103). A case study approach was

selected as it is well suited to the study of human behaviours or actual contemporary events within a real-life context where a researcher has little control over the events (Yin, 2017). This strategy, together with other approaches within qualitative research, has contributed significantly to the development of knowledge in public administration and public management research (Blume & Voigt, 2011; Van Thiel, 2014). This is because, when conducting a case study, researchers have the opportunity to apply triangulation through many sources of data and different research techniques (Yin, 2017).

4.4.1 Contextual Factors

This study also highlights the importance of the Indonesian context particularly the following factors:

1: the influence of politics on the implementation of integrity management in the ISAI that should be considered in the Indonesian context (Van Eeden Jones & Lasthuizen, 2018);

2: the complexities of ethical leadership by strategic leaders both as moral persons and moral managers which might pose a challenge in the selection of suitable leaders for the institution (Heres, 2014; Van Eeden Jones et al., 2020);

3: specific Indonesians customs and traditions which are different from western societies and that are important in understanding and evaluating the implementation of standards of integrity in Indonesia (Chadda, 2004; Pertiwi, 2016; Sissener, 2001).

These three factors are important influences in shaping the interview questions.

4.4.2 Research Stages

This study used document analysis and semi-structured interviews. The study also identified integrity violations in the ISAI which were published in the media as examples of violations to evaluate the quality of the ISAI IMS (described in Appendix 1). There were three consecutive stages. The first stage was a visit to the ISAI head office for document analysis and interviews. The second stage was a visit to two branches to collect data from and to conduct interviews with auditors and management. Finally, the third stage was interviews with some external experts.

Furthermore, as a complement to the three stages of the study, I analysed local media publications for reports on integrity violations in the ISAI over the previous seventeen years (see Appendix 1). The facts showed that almost every year the ISAI experienced integrity violations that involved auditors, management and board members. These incidents illustrate the integrity problem in the ISAI and could be a 'red flag' for stakeholders to evaluate the quality of integrity programmes within the ISAI.

4.4.2.1 Stage One

To determine the nominal system of the ISAI, stage one of the study started with document analysis at the ISAI head office in Jakarta. In selecting the documents, it was important to make a comprehensive selection in order to avoid having a biased or incomplete view of the IMS (Madhushani, 2016; NHMRC, ARC, & AVCC, 2011). However, it was inevitable that the document analysis left gaps in my

understanding of the IMS and therefore I conducted semi-structured interviews with head office personnel to address these gaps.

One of the reasons for choosing the head office as a starting point was that a centralised organisation directs its policies and commands from the head office, including all specific policies, programmes and initiatives related to integrity and ethics. Therefore, to understand the programmes of integrity in ISAI, I interviewed a number of internal people from different groups in the head office.

In general, the study of the nominal system was guided by the template provided by the OECD (2009), a section of which is presented in Appendix 2. Once documented, the nominal system was compared with the benchmark, the OECD IMS. The aim of the comparison was to assess whether or not the nominal system was adequate (detailed discussion of the nominal system is given in Chapter Five). Overall, this initial stage of the study addressed research question one (Q1).

4.4.2.2 Stage Two

Stage two of the study moved to two branches of the ISAI, that are, located in DKI Jakarta and East Java. In each branch, I conducted a document analysis and semi-structured interviews with management and auditors. This was for the purpose of documenting the real system of the ISAI IMS for comparison with the nominal system of the ISAI IMS and is explained in detail in Section 4.5.1. This second stage of the study, therefore, addressed research question two (Q2) and three (Q3).

4.4.2.3 Stage Three

Finally, to obtain the critical views of external parties on the issues and problems of integrity in ISAI, I also interviewed external experts who represented ISAI stakeholders. I selected them based on both their capacity and role in monitoring the overall integrity of ISAI (see the detailed explanation given in Table 4.2 below). These expert views were important to keep a balance between internal and external opinions. Moreover, this was a way to minimise the risk of social desirability response effects (Fernandes & Randall, 1992; Randall & Fernandes, 1991; Treviño & Weaver, 2003).

4.5 Research Population, Location and Accessibility

This section describes the research population and the locations of the field work including the arrangements for visiting the ISAI head office in Jakarta and the two ISAI branches. In addition to the research population, this section also addresses research accessibility and confirmation, and provides a brief profile of ISAI.

4.5.1 Research Population: the ISAI and the Location for Field Work

The ISAI has its head office in the capital city, Jakarta. It also has 34 branch offices that are located in all provinces in Indonesia. According to the Supreme Audit Office of Poland (*Najwyzsza Izba Kontroli*-NIK), which conducted a peer review of ISAI in 2019, the ISAI is categorised as "one of the biggest SAIs in the world" because it has over 7,000 employees (NIK, 2019, p. 9). Based on the ISAI annual report of 2017, the number of auditors who conducted audits of governmental

activities, including revenue and spending arrangements for citizens, public infrastructure and procurements, was 3,359 (or 51% of total employees).

The ISAI conducts audits of both central government and local governments. At present, there are at least 629 government entities whose financial statements are audited annually. The ISAI also provides annual performance audits and special purpose audits for selected government entities (ISAI, 2018b, p. 104). The map below shows the areas where the ISAI conducts its audits, and the location of the head office (Jakarta) and the two branches included in the study sample (DKI Jakarta and East Java Province).

Figure 4.2: Map of Indonesia
ISAI Representative Offices Locations

The two branches were in DKI Jakarta and East Java Province, which are marked with red circles in the map above. It is recognised that the two branches selected for the study form a small proportion of the total number of branches (34). However,

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ISAI operates a centralised system and thus the branch processes are uniform across the set of branches. Furthermore, the system of staff rotation ensures that staff (in both audit and management) have broad work experience that reflects having worked in a number of different branches. Finally, the two branches were selected on the basis of their size, geographical location, economic considerations, culture and involvement in investigation of corruption cases. It is thus reasonable to assume that the two branches are sufficiently representative of the total set of branches to treat the inferences drawn from studying them as having general application. Table 4.1 below presents a summary of the head office and the two branches in terms of the criteria applied in their selection.

Table 4.1: Description of Head Office and Two Branches

Categories	Head Office	Branch One	Branch Two
Name of Visited Places	ISAI head office	DKI Jakarta Regional Office	East Java Regional Office
Territory in Indonesia (for the location, see the Map, Figure 4.2)	ISAI head office is located in Jakarta, Indonesia's capital city. Jakarta is the biggest and the most modern city in Indonesia. ISAI is a centralised organisation, so head office controls all branch offices, which are located in 34 provinces in Indonesia.	This regional office is located in *Daerah Khusus Ibukota* (DKI), or Special Capital Region of Jakarta). Coincidently, DKI-Jakarta is also in Indonesia's capital city. However, DKI Jakarta Regional Office has a separate office from the head office.	This regional office is in Java Island, specifically in East Java whose capital is Surabaya (a very well-developed area).

Considerations	1) Head office produces and publishes all policies in ISAI, including the policies related to integrity management	1) Some suspected corruption cases occurred here and became national issues a few years ago. For example, the acquisition of land for *Sumber Waras* Hospital. Another case was maladministration of Jakarta Bay reclamation project. Both cases were investigated by the Principal Investigative Unit of ISAI ("Ahok questioned over reclamation project," 2018, February 26; Wijaya, 2016).	1) There were number of corruption cases in local governments here in 2016 and 2017 (ICW, 2016, 2017).
	2) All the supporting units, for instance Human Resources, Principal Inspectorate, and Training Centre are at the head office	2) In terms of budget and spending, DKI Jakarta is of great significance, because it has the highest revenue among local governments in Indonesia for the last five years (BPS, 2019, 30 December)[7].	2) This province is perceived as a well-off, modern and educated area because it is in Java Island where the most industrialised areas in Indonesia are located. In addition, people practice Javanese culture in their daily life and some regencies in East Java are known as a stronghold of *santri* (roughly meaning steadfast Muslims) because they have many *pesantrens* (Islamic Boarding schools)
	3) All strategic leaders and MKKE are based in the head office. The head office handles and processes all integrity violations in ISAI	3) DKI Jakarta Regional office is one of the most important branches because it has a large audit portfolio of more than 70 *suku dinas* (local government offices) including *Badan Usaha Milik Daerah/* BUMD (Local	3) East Java branch is a very large and busy branch office with more than 35 portfolio audits.

[7] *Badan Pusat Statistik* (BPS, Statistics Indonesia)

		Government–owned enterprises).	
The number of auditors, structural leaders, and functional leaders	1,319 auditors, 300 structural leaders, and 110 functional leaders (ISAI, 2018b).	126 auditors, 13 structural leaders, and 3 functional leaders (ISAI, 2018b).	187 auditors, 12 structural leaders, and 6 functional leaders (ISAI, 2018b).

4.5.2 Research Accessibility

During the second week of April 2018, a few months before submitting my research proposal on June 5, 2018, I sent an email to an ISAI official. The email was an initial communication to inform ISAI of my interest in conducting research on the quality of the ISAI IMS. Considering the sensitivity of the research topic, this email was also intended to 'test the waters', that is, to check ISAI's response.

After extensive discussions, especially about the aim and benefits of this study for ISAI, the official I communicated with, sent a Letter of Intent (LOI). The letter contained positive feedback and welcomed me to conduct the study at ISAI. To proceed further, I had to send a detailed plan of my research to the ISAI Secretariat General. The plan was to describe the purpose of this study, the data collection time frame and types of data required, and to specify the particular units and branches of ISAI I had selected as the sample for the research.

I had follow-up communication in mid-February, 2019. As an initial step, I sent a formal letter of application to the Secretariat General asking for permission to conduct a study at ISAI. The letter was written on university letter-head and was

signed by my supervisors. I also sent a sample consent form that would ensure that all the participants would remain anonymous at every stage of the research (see Appendix 4).

On February 25, 2019, I received from the head of the Human Resources Department (HRD) approval of my application and granting of the necessary access to conduct the research. The HRD's letter was also sent to the units and branches that became my research sample that is DKI Jakarta and East Java as well as the Training Centre and The Inspectorate General in the head office. I departed for Indonesia on April 14, 2019, to start my field work in Jakarta.

4.6 Research Techniques and Methods

4.6.1 Document Analysis

As an initial step, I collected relevant documents on integrity programmes or activities within the ISAI. The documents, in printed and electronic forms were reviewed and analysed. I accessed the documents at the ISAI head office and two branches. They came from a variety of sources such as official publications that related to integrity activities, for instance, the ISAI integrity policy, codes of conduct, rules and regulations, organisational structure, initiatives and programmes. Appendix Three provides a list of the integrity documents accessed at the head office. Other relevant important documents accessed at the branches included letters signed by auditors to declare they were free from any conflict of interest in practice, and any local policy papers addressing integrity.

4.6.2 Semi-structured Interviews

As a preliminary step to conducting the interviews sessions, I performed pilot interviews, through the virtual meeting application, Zoom, with four ISAI auditors from head office. The purpose of this stage was to test my interview questions for clarity and likely understanding by the participants. This pilot was helpful in modifying the questions I had proposed.

I interviewed a total of 42 interviewees, from mid-April to the end of August 2019, over approximately four months in Indonesia, and one additional interview through Zoom on September 04, 2019 (see Appendix 6). The participants came from both internal and external environments of ISAI and belonged to twelve different groups. The first group of interviewees comprised the board members as the strategic leaders of ISAI. The second group consisted of high-ranking officials who coordinate the entire bureaucracy, followed by the third group which was from the Human Resources Bureau. Table 4.2 provides a breakdown of the interviewees according to their capacity and role, selected so that these views would be largely representative. To recruit the interviewees, especially to enlist participants from outside ISAI, I used my personal networks and suggestions from other interviewees.

Table 4.2: Interviewees' Profiles

Actors	Number of participants	Capacity	Role in promoting the overall integrity of ISAI
Head Office Board Members (Strategic leaders)	1	These leaders have the authority to publish strategic policy at the organisational level	This role must have set "tone at the top" to promote integrity for the whole organisation.
Secretariat General (High-ranking officials)	2	These persons have the authority to coordinate the entire bureaucracy in ISAI. Their function also includes giving rewards and punishments to employees and auditors.	This role can endorse rules and regulation and it can assign officials, managers, auditors, and employees to all working units within ISAI. Therefore, this role should promote people who have high integrity to many strategic positions in ISAI.
Human Resources Bureau	4	These persons can allocate auditors to different sections and departments of the organisation across Indonesia. They can also initiate policy specifically to manage people, for instance, rotation and promotion	This role can observe, access, and manage all employees at an organisational level.
Training Centre	4	These persons can organise training for auditors and have authority to decide on the participants. They also have the authority to develop the curriculum and select the trainers.	This role is to teach appropriate concepts from a theoretical perspective. Their role in general is to deliver the training content for auditors.
Principal Inspectorate, specifically the Integrity Unit	6	These persons have full access to all auditors. They have the mandate to enforce regulations at the organisational level.	This role is to show that law enforcement is fairly operated and transparent. The inspectorate also acts as a watch dog for auditors and employees
MKKE	2	These persons have the authority to hold hearings on wrongdoing by staff or board members.	This role is also in law enforcement, even up to board member level. They have the strategic governance role for both the internal and external organisations.

	Branch Office			
1)	Structural leaders (Heads of Branch Office & Audit Managers)	10	These leaders can allocate human resources (auditors), execute decisions, and produce internal policy in their own branch or department.	This role is to supervise auditors within their portfolios. They can inspire and become role models for auditors directly within the branch or department level.
2)	Functional leaders (Technical Supervisors)	2	These leaders have direct influence on the auditors in their team.	This role can instruct auditors about their duties in the field.
3)	Auditor	6	These persons conduct audits of government agencies' budgets and spending. The audits should be based on auditing standards and code of conduct.	This role should apply and maintain high ethical standards and integrity principles during audit activities.
	Stakeholders			
1)	Local Government Inspector	1	These persons are liaison officers for auditors who conduct audits in the field.	This role is a counterpart for auditors to maintain their integrity during their auditing field work
2)	CEO of Anti-corruption NGO and Director of Anti-corruption Research Centre	2	These persons provide reports and studies on integrity violations, specifically for auditors who are involved in corruption, for instance bribery cases.	In terms of integrity, this role has an indirect relationship for enforcing integrity for all auditors and officials in ISAI. This role can exert external pressure to raise the awareness of integrity among people in ISAI.
3)	Academics	2	One of these academics was an expert in training sessions for auditors, while the other had in the past been a candidate for the ISAI board	This role contributes through their ideas and feedback based on their experiences in dealing with ISAI auditors and the process for becoming a board member.
	Total	**42**		

Source: adapted from Conducting the Research (Transparency International, 2014, p. 15)

The objective of the semi-structured interviews was to obtain information from and record the views of the participants. Some of them were actors within the structure of integrity management in the ISAI (that is, MKKE and ITAMA). This study also

considered actors' capacity and role in promoting integrity within the organisation. In addition, the interviews covered the participants' day-to-day experience in attempting to apply principles of integrity.

Before the interviews were conducted the researcher received Victoria University of Wellington Human Ethics Committee (HEC) approval. Before each interview session, interviewees were provided with a plain language statement and a consent form in their preferred language, that is, either English or Indonesian (see Appendix 4). The interviews were guided by an interview guideline or protocol for guiding the questions (see Appendix 5).

In order to have a natural conversation, during the real interviews I did not strictly follow the interview protocol by asking the interviewees questions in sequence. Rather, I let the dialogue flow by following the context of the conversation and at the same time I ensured that all the necessary topics of discussion were covered. I also transcribed the discussions verbatim and recorded any body language or expression which I considered relevant to the main content of the conversation. All but two of the interviews were digitally recorded as approved by the interviewees. Two interviewees were not recorded in line with the board secretariat's protocol, which prohibits tape recording of any conversation for security and privacy reasons. However, notes were taken during and after these interviews. I also recorded my field notes to capture my thoughts immediately after the interview.

At the conclusion of each interview, I wrote down the important points, sent a thank-you letter to maintain the relationship, and reviewed my notes, all in line with recommended practice (Ghauri et al., 2020). All the interviews were conducted in *Bahasa Indonesia* (Indonesian). Each interview was transcribed completely and the transcript was provided to the interviewee to ask for their approval regarding the substance. None of the interviewees requested that changes be made to the transcript of their interview.

I was assisted in the transcription by a transcriber who signed an agreement to keep all the materials and information private and confidential. The transcripts were translated into English with the assistance of a professional translator. As with the transcriber, the translator signed an agreement to keep all the material private and confidential. Once all transcripts were translated, these were ready to be analysed.

4.6.2.1 Analysis of interviews

The next stage was analysis of the interviewees' comments to unpack the problem of integrity management in ISAI. During the process of analysing the transcripts, I depended not only on what had been explicitly stated by the interviewees, but also their body language during the interviews, the symbols or metaphors they used, any stories behind the conversations, including my own knowledge about the ISAI IMS. All these factors were incorporated and taken into account in order to discover the message and meaning within all interviewees' comments and arguments.

I used NVivo software (Version 12 plus) to store the transcripts and code all statements, comments and arguments into specific categorisations to identify patterns in the arguments in relation to ISAI. As with other computer-assisted qualitative data analysis software such as CAQDAS, NVivo also assisted me in tracking the themes in the responses. Moreover, NVivo is useful to create hierarchical coding and conduct matrix searching (Gibbs, 2007b).

The initial process of coding generated a number of codes such as 'quality', 'instrument', 'process and approach', 'structure', and 'challenge'. These preliminary codes were categorised into four themes. The first theme was related to benchmark system, especially the interviewees' perception of the quality of the ISAI IMS. However, this also implicitly reflected 'an ideal system' based on what the interviewees perceived as an ideal system.

The second theme was the current design of the ISAI IMS (nominal system). The aim here was to understand the interviewees' opinions on the existing design and components of ISAI IMS. This theme also included the integrity process and approach, and the actors. The last two themes were about the real system and the riskiness of integrity violation. Table 4.3 summarises the range of codes that informed further analysis.

Table 4.3: The Preliminary Coding Structure

Theme	Code	Central Questions
Benchmark System (Reflection on OECD IMS)	Quality	• What are the key features of the ISAI system? • Does ISAI have a good design for integrity management? • To what extent does ISAI consider building integrity management?
Nominal System (Design/Existing System)	Instrument	• Does the organisation have enough tools/programmes /mechanisms to control integrity violations? • What should the organisation do to protect auditors from the risk of integrity violations?
	Process and approach	• What are the ISAI approaches for promoting integrity? • What is the process for handling integrity issues?
	Structure (Actors)	• What is the structure of the integrity system in ISAI? • What is the mechanism for becoming a board member? • What is the role of board members for promoting integrity? • What is the capacity and capability of other structures (e.g: ITAMA and MKKE) for maintaining integrity?
Real System (Implementation)	Challenge	• What are the challenges in the field of promoting and enforcing integrity in ISAI?
	Sanction and penalty	• To what extent have sanctions and penalties been implemented to punish people who commit an integrity violation?
	Other influential factors (e.g.: Leadership, Context, and Bureaucracy, etc.)	• How do other factors influence the implementation of integrity? • What do you think about the role of leaders within ISAI in terms of promoting integrity; for instance, heads of branches and some other leaders?
	Gap	• To what extent are the integrity management programmes successful? • Is there any gap, between integrity policy and practice?
Riskiness of Integrity Violation	Integrity Violation	• What factors cause integrity violations?

In the process of evaluating these preliminary codes, I focused on how the interviewees viewed the nominal system, especially whether the nominal system could operate effectively in ISAI. If there was a challenge, I would explore what factors influenced the level of implementation. In addition, themes relating to integrity violations constantly emerged because most interviewees were concerned about these. They referred to media publications on these issues. The comments included factors that interviewees perceived as the causes.

When analysing the preliminary codes, I also attempted to put together all evidence which contained the interviewees' statements. This evidence was then cross-checked and compared to form a more robust coding. For example, when I revisited each transcript relating to 'what factors cause integrity violations?', I traced what the interviewees mentioned such as 'personality', 'habit' and 'conflict of interest' as the internal factors that caused integrity violations. Moreover, I identified a wider context such as 'culture' or even 'politics' within which potential integrity violations might be explained.

After refining the preliminary themes, I reorganised them. Some themes were merged with other themes. At the same time, the code for a particular theme was extended. Table 4.4 shows the result of the refining process in the second phase of coding.

Table 4.4: Codes used in the Second Phase of the Coding Process

Themes	Codes
ISAI IMS (Nominal System)	Instruments Training Rules Sanction and Penalty Process and Approach Control Mechanism Values and Moral Structures Board members Management MKKE Principal Inspectorate
The Challenges of Implementation (Real System)	Leadership Role Model Tone at the top Culture Politics
The Riskiness of Integrity Violations	Personality Habit Money Conflicts of Interest Family and Friends

4.6.3 Media Publication Analysis

To complete the information obtained from the document analysis and interviews, I conducted analysis of media publications. I explored any news on integrity violations involving auditors and board members or other SAI employees. The news was an indicator of the extent to which the ISAI IMS could effectively prevent and control integrity violations considering that some violations, such as bribery and fraud activities, often have a hidden agenda. This study did not focus on the amount of money incurred but on the frequency of incidents of a particular kind. A sample list of such integrity violations from 2003-2020 is listed in Appendix 1.

This study also considered external data regarding integrity and corruption issues at a national level. Some of this data came from Indonesia's CPI ranking as reported by Transparency International, other relevant studies about corruption in Indonesia from international institutions such as the OECD, Asian Development Bank, and World Bank, and other similar studies conducted by domestic NGOs and scholars, such as ICW and LSI. This information was covered in Chapter Two, "the Indonesian context", which offers a general description of the environment in which ISAI operates.

4.7 Chapter Summary

This chapter has discussed the research design to address the research questions of the study. The chapter explains the qualitative study approach adopted within the post-positivism research paradigm. Data collection proceeded in three stages: document analysis and semi-structured interviews, first at the head office of the ISAI (stage one) and then at two branches of the ISAI (stage two), and finally semi-structured interviews with relevant external parties to ISAI. The chapter explains why the selection of the locations for data collection and the participants for the interviews provided a representative database for the study of ISAI IMS.

CHAPTER FIVE
OECD IMS (IDEAL SYSTEM)

5.1 Introduction

This chapter discusses the OECD Integrity Management System (IMS) which in this study is regarded as the ideal system. The chapter begins with the justification for selecting the OECD IMS both as a 'benchmark' and a recommended system for managing integrity in public sector institutions within many developed countries (Macaulay, 2018; Tremblay et al., 2017). The following sections first describe the OECD IMS approach and then a number of relevant contextual factors. Finally, the chapter discusses the instruments of the OECD in detail in terms of typology, processes, and structures.

5.2 Why the OECD IMS?

This section provides a theoretical explanation as to why the present study uses the OECD IMS as a benchmark for integrity management. Selecting the OECD IMS as best practice can be justified on at least two grounds. Firstly, OECD member countries' have a long tradition and experience in building a good reputation for, and commitment to, integrity and anti-corruption campaigns. As well as serving as a special forum for more than 30 democratic countries that collaborate to achieve a better economy, the OECD has for a long time closely focused on integrity as an important factor in "good governance" (OECD, 2005; 2009, p. 6).

OECD countries have for decades focused their attention on and taken into account the threat of corruption as a common problem for many countries across the globe, including OECD countries. Therefore, these countries consider an improvement in "public sector integrity management", which is sometimes also known as "ethics management", to be high on the agenda for gaining the trust of the public (OECD, 2009, p. 6). Currently, most OECD countries are categorised as less corrupt countries according to the CPI (Transparency International, 2018a, 2020a). This achievement provides supporting evidence of the countries' strong commitment to, as well as success in, introducing integrity management in the public sector.

The OECD report on Trust in Government (OECD, 2000) details the experience of some countries in promoting and implementing the principles of IMS within their environment (OECD, 2000). For example, Canada has addressed some ethical issues in their public service that have emerged during the last two decades, especially, the increased risk related to the acceptance of gifts, benefits and hospitality because of the relationship between the public service and the private sector. Canada has also attempted to handle the issue of the potential conflict of interest associated with post-employment by appointing an Ethics Counsellor. Mexico provides a further example in respect of the 'challenges' in the area of officials' welfare. The report indicates that officials feel that "the level of salaries, promotion practices, and career stability" in the public sector do not meet their expectation (OECD, 2000, p.232). These experiences show that countries have different challenges that reflect their particular situation.

The second reason for selecting the OECD IMS as best practice is that it was developed on the basis of an extensive literature review, previous practical experiences, and the research findings of ethics scholars from across the globe. The system was also reviewed by experts including academics concerned with the promotion of integrity in the public sector (OECD, 2009). Therefore, it has become a widely accepted concept of integrity management in the public sector (Macaulay, 2018; Tremblay et al., 2017). The implementation of the IMS is not limited to public sector institutions in OECD countries, but rather, when practically feasible, is also implemented in many other countries including developing ones. Given these considerations, I adopted the OECD IMS as the reference point or ideal system for assessment of the ISAI IMS in the present study.

I acknowledge Tremblay et al. (2017) on the importance of conducting more empirical studies on the ideal system, in particular, their suggested research into an evaluation of 'an ideal combination or balance' between the compliance and values approaches in IMSs (Gregory, 2017; Heywood, 2012; Hoekstra, 2015).

5.3 Systematic Approach of the OECD IMS

As indicated in Chapter Three, Section 3.4.2 the concept of integrity management not only focuses on the characteristic of the instrument as a mechanism for managing people to behave with integrity, but also covers the process of integrating the framework into an organisation, including into the structures that are involved in and are responsible for an IMS. Briefly, the structures refer to actors who handle the problems of integrity. Under this concept, instruments, processes, and structures

constitute three pillars of the OECD IMS (cf. Chapter Three, Table 3.2, OECD IMS). The three pillars are conceived of as interdependent elements, work in combination and in practice depend on contextual factors (OECD, 2009).

Furthermore, the three pillars are split into two layers to build a sound integrity management system. The first layer is the core that measures instruments, processes, and structures and sets the main objective which is to foster integrity in an organisation. This layer is the central component of integrity management and is a more commonly perceived instrument than others, for instance, conflict of interest, whistle-blower system and code of ethics. This layer is the backbone of integrity management within public institutions.

It has been argued, however, that the core layer alone is not adequate to achieve maximum results for integrity management. Therefore, it needs the second layer as a complementary element to provide support. The second layer consists of instruments and policies in the supporting areas of the organisation, for example, personnel and financial management. Despite being a supplementary component of the IMS, the layer is also "very important in shaping the organisational members' integrity as the instruments, processes, and structures at the core" (OECD, 2009, p. 8). The combination of the three pillars and the two layers including context (explained in Section 5.4) is called the 'integrity framework' as presented in the following table:

Table 5.1: The Integrity Framework

Integrity Framework							
Integrity Management Framework (IMF)						Context	
Core (First Layer)			Complementary (Second Layer)			Inner Context	Outer Context
Instruments (1st Pillar)	Processes (2nd Pillar)	Structures (3rd Pillar)	Instruments (1st Pillar)	Processes (2nd Pillar)	Structures (3rd Pillar)		

Source: OECD (2009, p. 10)

5.4. Contextual factors of The OECD IMS

The OECD (2009) emphasises that an IMS does not work in a vacuum. That is, it is always dependent on many contextual factors such as social, political, economic, environmental, and organisational culture. For the OECD, the success or otherwise of integrity programmes also depends on the economic, sociocultural, and political context within which a public institution operates. Specifically, an IMS is influenced by organisational factors that can be internal and external.

5.4.1 Inner and Outer Context

The first factor is called 'inner context' which refers to any factors that do not connect directly to integrity management, but may have an impact on the integrity of members of the organisation, for instance, how they perceive "fairness" within the organisation (OECD, 2009, p. 23; Treviño & Weaver, 2003). Specifically, fairness could relate to incentives, promotion, the rotation mechanism and any treatment of the employee by the organisation. In other words, 'inner context' affects organisational climate.

The second factor is called 'outer context' which refers to actors and factors outside the organisation which may have an impact on the organisation (OECD, 2009).

These actors and factors are typically beyond the control of organisational management. In this respect, as indicated in Chapter Two, Section 2.2 and 2.5, these actors and factors are present in Indonesia's sociopolitical context. The outer contexts, such as social conditions and the political situation, are therefore considered to be important actors and factors for the ISAI in implementing the IMS and in making the organisation an ethical institution.

5.5 Brief Typology of The OECD IMS Instrument

Following on from the explanation given above of the three pillars and two layers of the OECD IMS, this section begins by describing the instruments of the OECD IMS in the core layer and the complementary layer. To provide a systematic description, this section presents the instruments according to four main functions that is, determining and defining integrity, guiding towards integrity, monitoring integrity and enforcing integrity (OECD, 2009), including the nature of instruments whether they are compliance based or values based approaches. The typology is displayed in Table 5.2.

Table 5.2: Typology of IMS Instruments from the OECD IMS

Layers	Approach	Determining & Defining Integrity	Guiding towards integrity	Monitoring integrity	Enforcing integrity
Core (First layer)	Compliance Based	- Risk analysis - Code of conduct - Conflict of interest policy - Gifts and gratuities policy - Post-employment arrangements - Structural measures (e.g. function rotation)	- Compliance based integrity training - Oath, signing an "integrity declaration" - Advice, counselling	- Whistle-blower policies - Complaints policies - Inspections - Integrity testing - Early warning systems - Systematic registration of complaints, investigation, etc. - Survey measurement of integrity violations and organisational climate	- Formal sanctions - Procedure for handling integrity violations
Core (First layer)	Values based	- Analysis of ethical dilemmas - Consultation of staff and stakeholders - Code of ethics - Non-written standard setting	- Values based integrity training - Integrating integrity in the regular discourse (e.g. announcing the integrity policy through channels of internal and external communication) - Exemplary behaviour by management - Coaching and counselling for integrity	- Survey measures of integrity dilemmas - Informal probing for ethical dilemmas and issues among staff	Informal sanctions
Complementary (Second layer)		- Assessing the fairness of reward and promotion systems - Appropriate procedures for procurement, contract management and payment - Measures in personnel management (e.g. integrity as criterion for selection, evaluation and career promotion) - Measures in financial management (e.g. 'double key', financial control) - Measures in information management (e.g. protecting automated databases) - Measures in quality management (e.g. reviewing the quality assessment tool)		- Internal control and audit, - External control and audit	

Source: OECD (2009, p. 29)

5.6. Instruments in the Core layers

5.6.1 Determining and Defining Integrity

The OECD (2009, p. 29) points out that the first function of the instruments is to determine and explain certain objectives of the integrity programme, for example, "the expectation of behaviour, the important values for the organisation, the rules that should be obeyed". Technically, there are various instruments and possible different combinations of instruments which can fulfil these objectives. For example, in the compliance based category there are risk analysis, codes of conduct and conflict of interest.

On the other hand, some other instruments, such as analysis of ethical dilemmas, consultation of staff and stakeholders, and a code of ethics, are perceived to be able to define integrity according to the values based approach. Typically, the instruments define the meaning of integrity in terms of the organisational point of view and the expectation of the organisation from its members regarding integrity. In practice, concerning the application of the instruments, the OECD (2009) also highlights the significance of taking the outer context into consideration, as previously mentioned in Section 5.4.1.

Irrespective of the context, clarity and accountability are important criteria for determining and defining integrity (OECD, 2009). Clarity is the basic prerequisite for instruments so that these can be implemented by the members of the organisation. It relates to the minimum requirement which should be met by

personnel for a particular instrument. In other words, clarity makes clear what the primary duties and inappropriate behaviours are.

Moreover, clarity explains the consequences of certain attitudes. It reflects the rule of the game in an organisation. Sometimes, such a rule is stated explicitly, but it is likely to be acknowledged implicitly. It largely depends on the approach adopted to the implementation of the instrument.

Accountability is defined "in such a way that public servants can be held accountable for their actions" (OECD, 2009, p. 29). The following section summarises several instruments for determining and defining integrity both compliance based and values based.

5.6.1.1 Risk Analysis

The OECD (2009) starts by explaining an instrument that could use risk analysis to define integrity. This instrument focuses on mapping or selecting risky areas within an organisation which could have a high potential for integrity violations. Technically, the OECD (2009) classifies risk analysis into two categories, that is: sensitive processes and sensitive functions. The sensitive processes are related to business activities which have a high risk of misbehaviour. Examples of these activities are "procurement, promotion of staff members and inspection" (OECD, 2009, p. 31). In Indonesia, these areas are labelled by some as "wet" and "dry" spots (*tempat basah, tempat kering*) with a high or low potential for corruption" (Znoj, 2007, p. 60).

In addition, sensitive functions are related to the role of a person who handles the sensitive process or makes decision in this particular area, for example, an inspector or a treasurer (OECD, 2009). Therefore, the aims of risk analysis are not only identifying which process is risky, but also which role is more prone to violating existing laws. Ultimately, based on the result of risk analysis, the organisation can make certain preparations to protect the organisation from potential integrity violations.

However, the main problem of the instrument is that an organisation may fail to identify the risky areas within their business processes. The people working in the organisation and especially top management may not be aware of potential risks. Thus, the organisation may not make adequate preparations to anticipate this kind of risk.

5.6.1.2 Code of Conduct or Code of Ethics?

Secondly, the OECD (2009) points out two other instruments that should determine and define integrity in an organisation, namely a code of conduct and a code of ethics. For some organisations, these instruments are almost the same thing (INTOSAI, 2019b; ISAI, 2017, 6 January). However, because of its nature and objectives, the OECD IMS differentiates between a code of conduct and a code of ethics.

A code of conduct refers to "a typical instrument that applies a compliance based approach" in managing integrity (OECD, 2009, p. 34). This concept works on the

assumption that human beings are motivated by self-interest and that they tend to behave according to their self-interest. As a result, in an organisation, a detailed code is needed to provide every member of organisation with ideas about "which behaviour is expected" from them (OECD, 2009, p. 34). At a glance, this instrument is similar to a statement of what is allowed or forbidden in an organisation. Through the mechanism, the principles of integrity are integrated into an organisational code of conduct that should be followed by everyone in that organisation (OECD, 2009).

On the other hand, a code of ethics focuses more on general values than on specific guidelines and thus presents members of the organisation with a more general view of acceptable behaviour. In this regard, the idea is that an organisation trusts their members' ability to deal with integrity problems. In this way, an organisation does not need to provide them with 'a detailed instruction' like a code of conduct. Instead, it is deemed enough that "the organisation provides its members with a general framework that identifies the general values and provides support, training and coaching for the application of these values in daily real-life situations" (OECD, 2009, p. 34). In practice, this instrument is categorised as being a values-based approach.

In addition, it is important that when an organisation makes a draft of either a code of conduct or a code of ethics, members of the organisation should make these instruments clear, simple, and relevant (OECD, 2009). This is primarily aimed at avoiding misunderstanding and ambiguity. Another important goal is to make these instruments a living document in an organisation. The instruments can provide

inspiration for all members of and all activities within the organisation. In other words, they should not end up as a meaningless symbol to members of the organisation.

5.6.1.3 Conflict of Interest Policy

Another important instrument that may shape integrity is conflict of interest. According to the OECD (2009), if an official has a vested interest, it will raise the risk of personal bias in their decisions. Therefore, public institutions must implement a conflict of interest policy as a preventive and protective measure.

Moreover, the OECD (2009) provides some guidelines on how to draft a policy on conflict of interest. First, it should provide comprehensive information to raise awareness. Second, it should apply correct procedures for declaration of a conflict of interest. Finally, each problem arising from a conflict of interest should be addressed appropriately (OECD, 2009). However, sometimes the main problem for the conflict of interest is a lack of awareness of the problem and of the strategy to handle the case properly.

5.6.1.4 Gifts and gratuities policy

The OECD (2009) emphasizes the importance of having a policy on gifts and gratuities. Generally speaking, there are potential risks from a gifts and gratuities tradition in that it may lead to a problem of conflict of interest and favouritism. As indicated in Chapter Two, Section 2.6 on Special Issues of Indonesian Society and Culture, it is common for Indonesians to uphold the principles of *hormat* (respect)

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for others in society. In practice, a common the way to show respect is through hospitality or sometimes by giving a gift. However, particularly in relation to gift-giving, Verhezen (2014) indicates a shift in perception of such practices so that they may become a form of bribery rather than simply a form of saying thank you.

That said, in order to pre-empt problems arising from the tradition, establishing a policy on gifts and gratuities is of vital importance. However, the OECD IMS also realises that it could be challenging for an organisation to apply a 'zero tolerance' policy on gifts and gratuities (OECD, 2009). For western societies, the practice of gift-giving is relatively rare. In this situation, zero tolerance may be easily applied. However, gift-giving is common and acceptable in some eastern societies including Indonesia. Therefore, a zero-tolerance policy may not only raise practical problems, but also does not fit with the Indonesian context and the tradition of giving gifts and gratuities (cf. Chapter Three, Section 3.7.4.1).

5.6.1.5 Post-employment Arrangements

A policy on post-employment arrangements can also help clarify the issue of integrity. The OECD (2009) identifies a problem for public officials who leave their institutions to take up another form of employment. Problems that may arise from such a situation are that the officials may have specific networks, knowledge, and internal information which could lead to "suspicion of impropriety, such as the potential misuse of 'insider information' for the illicit benefit of former public officials" (OECD, 2009, p. 40).

In that regard, the OECD (2009) points out that public institutions must have a specific policy on post-employment and present a policy to protect the institutions from the problem. The policy should provide for handling post-public employment issues, such as:

- Current public officials should be prohibited from granting preferential treatment, special access or privileged information to former officials (OECD, 2009, pp. 41-42).

- An auditor should not be tempted to overlook certain matters because of the potential for or a promise of employment by the auditee following the auditor's retirement.

The policies mentioned above are examples of additional requirements that institutions can enact in an effort to minimise any negative impact of post-employment arrangements.

5.6.1.6. Structural Measures

The next important instrument for determining integrity is organisational structure. The OECD (2009) recommends that if public institutions add roles or make other changes to their organisational structures, they should also strengthen the structures with certain constraints to ensure that integrity violations can be avoided. For example, apply segregation of duties for different roles in one specific unit. This could minimise the chance of violations because a strategic authority has been separated in the unit. In addition, a cross-check mechanism can be established if the roles have been separated appropriately.

5.6.2 Guiding towards Integrity

The second important function of instruments is to guide the members of an organisation towards integrity. The OECD IMS instruments for this particular function include training, an oath or a formal declaration, coaching and counselling, and providing exemplary behaviour by management (OECD, 2009). The following sections describe these instruments separately.

5.6.2.1 Integrity Training

Training is perhaps the most popular instrument which is used to educate people about integrity (OECD, 2009). However, the OECD IMS emphasises that training also contains a broad concept which follows "the continuum of the values based and compliance based approaches to integrity management" (OECD, 2009, p. 47). Therefore, consistent with this view, the OECD IMS classifies integrity training into three types, that is, values-based training, compliance based training, and dilemma training.

Values based training is an inductive approach where the participants are expected to actively participate in the training session. The instructor gives the participants some cases that are related to integrity and ethics for discussion in the classroom. The instructor takes a role as a facilitator and stimulates the participants to be active in the case discussion (OECD, 2009).

On the other hand, compliance based training is conducted in a classical setting where participants sit in a classroom to listen to training topics discussed by an instructor. The design of training is a one-way communication where the instructor explains orally in front of the participants in the classroom. In other words, the instructor is the main actor who speaks in the classroom and dominates the participants (OECD, 2009).

Finally, dilemma training sessions are a combination of values based and compliance based models. The purpose of this training model is to show the participants that sometimes as public officials, they will be faced with a real dilemma. This training provides signals for the participants to feel that they are not alone in this situation and that the institution would assist them in handling such situations judiciously (OECD, 2009).

5.6.2.2 Oath or formal declaration

The next instrument is taking an oath or formal declaration. It is common for public institutions to require civil servants to take an oath as a symbolic commitment that they will carry out their duties with integrity (OECD, 2009). The OECD IMS considers this important for both the institution and employee, especially if difficult conditions prevail and threaten the integrity of the organisation.

Sometimes no formal event is held for an employee to take an oath. The institution simply asks the employee to sign a declaration on paper and state that they are committed to accepting and complying with the rules and regulations including the

code of ethics. It is a common practice for Indonesia's public instituitions to have employees affirm their commitment to integrity (OECD, 2009).

5.6.2.3 Advice, Counselling, and Coaching

Another instrument that can guide employees on how to have and retain integrity is advice. An employee may be faced with "difficult situations" so that they need advice on dealing with issues relating to integrity. The issues can be about how to interpret the rules in practice or how to behave according to a prevailing set of sociocultural values in local societies. In this context, advice, counselling, and coaching can be categorised either as a compliance based approach or as a values based approach (OECD, 2009). The categorisation depends on the purpose and nature of the problem.

However, the main problem of advice, counselling and coaching is that, in some cases, members of an organisation are reluctant to speak up. They may not fully trust the system in the organisation. This happens especially when the inner context of the organisation is considered to be less conducive to candidness or less committed to some form of whistle-blowing practices than might generally be expected. For instance, some members may feel that they do not have attractive opportunities to develop their career. In this case, they may not be interested in looking for advice when facing problems. In other words, the value of counselling can largely depend on the inner context of the organisation.

5.6.2.4 Exemplary behaviour by management

The OECD IMS emphasises that the management of the organisation has an important role in leading the implementation of integrity management. Management is expected not only to coordinate the integrity programme within the organisation, but also to lead by example in terms of inculcating a sense of integrity into all members of the organisation.

Employees observe management's attitude and behaviours in daily organisational activities. In particular, employees will be curious as to the extent to which people in managerial positions have a real commitment to integrity. This commitment is indicated by managers' behaviour which sends out a signal to employees regarding "what is acceptable and what is not acceptable" (OECD, 2009, p. 47). In a broader context, the instrument is part of ethical leadership which serves as a key concept in this study (cf. Section 3.5: Ethical Leadership)

5.6.3 Monitoring Integrity

The third function of instruments is to monitor members of the organisation as they apply integrity management. The organisation needs to understand the extent to which its programmes of integrity are actually implemented as intended. In other words, the organisation should monitor the real implementation of integrity management (OECD, 2009). Moreover, the OECD (2009) identifies two types of monitoring systems, namely passive and active.

5.6.3.1 Passive Monitoring

Passive monitoring is where the organisation waits for reports regarding integrity violations, if any, which could be from internal or external sources (OECD, 2009). The most popular instruments for this model are a whistle blower system for internal reports and a specific stakeholder complaint channel for external reports (OECD, 2009).

A whistle blower system is a mechanism by which anyone in the organisation can report integrity violations committed by any members of the organisation. The OECD (2009) identifies some aspects of such systems. Firstly, the action may be too risky as the whistle-blower's future career may be placed in jeopardy. This applies especially if the case relates to someone who holds 'great powers' in the organisation.

Secondly, the report of a whistle blower could make an institution suffer a disproportionate loss of reputation (OECD, 2009). For example, a public institution may have been embroiled in a relatively minor corruption case but, when it is exposed to the public, there is a significant loss of trust in the institution.

Therefore, the OECD (2009) formulates two general recommendations on how to establish a whistle-blowing system. First, the organisation should consider the serious impact of the whistle-blowing system, such as any damage to its organisational image and its integrity framework. Secondly, it is also important to combine, along with the two aspects of whistle-blowing systems (the reporting

channel and the protection mechanism), "a correction mechanism for those cases where the reported accusations turn out to be unfounded" (OECD, 2009, p. 55).

The second instrument of passive monitoring is policies on general complaints. This instrument is slightly different from the whistle-blowing system. The purpose of general complaint policies, which are sometimes called "citizen complaint systems", is to receive complaints from outsiders' to the organisation, such as from academia, NGOs, the public, and any other communities (OECD, 2009, p. 55).

5.6.3.2 Active Monitoring

In active monitoring the initiative is taken by the organisation. The OECD (2009) distinguishes two approaches to active monitoring. The first is where the monitoring mechanism focuses primarily on controlling individual members of the organisation, for example, daily supervision, regular inspection, integrity testing, and active search for individual integrity violations. The second is where the monitoring process is at the policy level for the whole organisation for example, early warning systems, systematic registration of complaints, and survey assessment of integrity violations (OECD, 2009).

5.6.4 Enforcing Integrity

Finally, while preventive actions and clear guidance are important, every IMS still requires an enforcement component as the fourth function of the instruments (OECD, 2009). If instruments have been clear to all members of the organisation and there are monitoring activities to check whether or not the members follow the

rules, "then sanctions will be necessary if the integrity management framework wants to maintain its overall legitimacy" (OECD, 2009, p. 58).

Ball, Trevino L and Sims (1994) emphasise that for sanctions to be effective the implementation should be fair. Moreover, it is also important to maintain consistency in the implementation (OECD, 2009). Therefore, everybody should be treated fairly and given the same punishment if they break the rules, regardless of their position and status within the organisation.

5.6.4.1 Formal and Informal Sanctions

In terms of imposing sanctions, there are two common approaches, that is, formal and informal sanctions. A formal sanction is one which is normally followed by specific procedures, for instance, the process of investigation closely examines the case, assesses the consequences, and determines who is responsible for the case. At the end of the process, there will be a formal decision on the case and sanctions imposed against the responsible party, including an official letter issued by the authority in the organisation to enforce the sanctions.

On the other hand, an informal sanction is concerned more with social sanction than formality, for example, "exclusion from social events by colleagues" (OECD, 2009, p. 58). However, both sanctions should be imposed under suitable conditions. Obviously, the aim of the sanction is to legitimise the integrity management of the organisation and to ensure that any integrity violations will be punished accordingly.

5.7 Instruments in the Complementary Layers

Even though the instruments in the complementary layer only support the main instruments in achieving the objectives of integrity management in the core layer, their existence is significant in terms of achieving a successful integrity programme (OECD, 2009). Some specific examples are "personnel management, procurement and contract management, financial management, information management, and quality management" (OECD, 2009, p. 43). However, the two key areas are personnel management and financial management, as these instruments are integral to ISAI's daily operations.

5.7.1 Measures in Personnel Management

As one of the important areas in the complementary layer, personnel management or human resources (HR) should have instruments of integrity to protect employees from integrity violations. Technically, an organisation should be aware of areas within the "HR cycle" such as hiring, training, promoting, or even firing in connection with the probability of violations that can be committed (OECD, 2009, p. 43). Awareness is important because it may help to decide which instrument and strategy are best suited to the particular area.

For example, during the process of recruitment, the instruments of integrity could be embedded in the selection phase to ensure that an organisation will recruit only candidates with good integrity (OECD, 2009). Moreover, it is also important to rotate staff members periodically, especially ones who have handled risky areas for

quite a long time (cf.5.6.1.1, Risk Analysis). In the context of this study, the rotation programme is important to stop 'any special relationship' between auditors and their auditees developing because of frequent or long-term contact between them. Finally, an organisation also needs to adhere to principles of fairness in terms of promoting and rewarding staff.

5.7.2 Measures in Financial Management

Many potential integrity violations relate to attempts to obtain money. Some violations can be committed because of "corruption, fraud, theft, etc" (OECD, 2009, p. 46). In this case, the OECD (2009) recommends sound financial management that includes how to shape and maintain employees' attitudes towards an effective, proper and legitimate use of the organisation's funds. Practices relating to "procedures for filing expenses or policies concerning the use of air bonus miles" are examples of this particular area (OECD, 2009, p. 46).

5.8 Processes

The previous sections describe the first pillar of the OECD IMS, that is, instruments of the core and complementary layers according to the four main functions. This section discusses the second pillar, that is, processes. The OECD IMS defines processes as what an organisation undergoes in an effort to ensure that the instruments of integrity are implemented, institutionalised, and improved. The OECD IMS also refers to the process of bringing all instruments to 'live and operate' in an organisation. Importantly, the instruments are always in 'good health'

and members of the organisation are strongly committed to using them (OECD, 2009).

There are many models of processing instruments in an organisation. However, because this study adopts the OECD IMS as a benchmark, in this section I focus only on describing the model that is introduced by the OECD IMS, that is, the "Deming"-cycle or PDCA that stands for "Plan, Do, Check, and Adapt". This model is also regarded as a common model and as having an "inherently iterative nature" (OECD, 2009, p. 59) Moreover, it is believed that adopting every step of this model can help overcome the problems of IMS implementation.

5.8.1 Continuous versus One-off Projects

In practice, the OECD (2009, p. 59) identifies two types of processes in developing an IMS, that is "continuous" and "one-off" projects. The continuous process refers to a step-by-step process as indicated in the PDCA pattern. This process begins with planning as 'preparation' for an instrument before it is executed. Once the instrument is operating, there is a process for checking whether the instrument is operating as well as intended or otherwise. If the instrument requires modification because of the current situation, an adjustment will be made.

Another process is called "one-off projects" (OECD, 2009, p. 59). The main characteristic of one-off projects is that the projects "are limited in time and are typically to introduce or change the integrity management framework or particular instruments within it" (OECD, 2009, p. 60). For example, an organisation that has

adopted a strong compliance based approach to their IMS strategy may then consider, after some time, changing and becoming more values-based. In this case, the organisation could apply a one-off project approach to change their IMS orientation. Overall, selection of the type of process depends on the situation. In normal circumstances, the continuous process may be best because it ensures sustainability of integrity programmes in the organisation.

5.9 Structures

While the previous sections describe two important pillars of the OECD IMS, this section explains the last pillar, that is, structures (cf. Table 3.2 OECD IMS). This pillar is related to "integrity actors" who can be "persons, committees or units whose main responsibility is to stimulate and enforce integrity within an organisation" (OECD, 2009, p. 62). Although all members of an organisation are responsible for maintaining the integrity of the organisation, in fact the OECD (2009) emphasises that there are some actors who have a more important role and authority than others. A suitable structure can then be an initial step for actors to run their functions effectively.

The OECD (2009) also categorises structures in the two layers of the OECD IMS, that is core and complementary layers. In the core layers, managers are perceived as the most important actors who have significant roles in organisational integrity. This is because they are seen as people who should be able to show their capacity and characteristics as both moral people and moral managers (OECD, 2009;

Treviño et al., 2000). This capacity is the same as ethical leadership as explained in Chapter Three on key concepts (cf. Section 3.5, Ethical Leadership).

In addition, there are some other actors in the complementary layer. Even though their main duties are not directly related to integrity their roles have some impact. The OECD (2009, p. 67) classifies these actors as being in "supportive positions" such as "personnel management, financial management, information management, quality management, and others." There are at least two reasons why actors in these positions are also considered actors in the complementary layer. Firstly, their role and responsibilities are closely related to many instruments in the complementary layers, as discussed in the earlier section (cf. Section 5.7). Secondly, some instruments in this layer have an indirect impact on applying integrity at an organisational level, such as fair treatment in promoting staff (OECD, 2009).

5.10 Chapter Summary

This chapter has described the OECD IMS which, in this study, is used as the 'ideal' form of IMS. The OECD IMS is an integrated system. It comprises layers (core and complementary) and context (inner and outer), and each layer comprises three pillars: instruments, processes and structures. The instruments depend on the approach followed (compliance versus values based), and fall into four broad functional categories: determining and defining integrity, guiding towards integrity, monitoring integrity, and enforcing integrity.

CHAPTER SIX

ISAI NOMINAL SYSTEM VERSUS THE OECD IMS 'IDEAL SYSTEM'

6.1 Introduction

This chapter compares the nominal ISAI IMS (the intended system) with the OECD IMS (as the ideal system). The discussion thus begins to address the first research question: *How does the nominal ISAI IMS compare with the ideal OECD IMS and what does this comparison show about the quality of the nominal ISAI IMS?*

This comparison is mainly based on the result of analysis of ISAI's documents, and aims to identify whether the nominal system adopts the principles of the ideal system. For example, the comparison examines whether the nominal system has a risk analysis, a code of conduct, and other recommended instruments. When making the comparison, I apply two approaches, quantitative and descriptive approaches.

The quantitative approach provides a comparison of the number of instruments of the nominal system of ISAI, including their categories, with the similar instruments in the benchmark system. The comparison was made by making a number of assumptions in relation to the importance of the instruments. Section 6.2 discusses the quantitative approach and the results obtained.

Section 6.3 explains the descriptive approach used to compare the nominal and ideal systems. It gives a detailed explanation of each instrument in the nominal system in the core layer according to the four functions of the instruments, that is, defining (6.3.1), guiding (6.3.2), monitoring (6.3.3) and enforcing (6.3.4). Section 6.4 discusses the instruments in the complementary layer. Section 6.5 discusses processes and 6.6 discusses structures. Finally, Section 6.7 concludes the chapter.

6.2 Quantitative approach

The quantitative approach comprises several steps. In the first step, I list all the instruments of the nominal ISAI IMS vis-à-vis the OECD's IMS ideal system, as presented in columns one and two in Table 6.1 below:

The presentation follows the characteristics and classification of the OECD IMS (cf. Chapter Five) as follows:

1. The OECD IMS has two layers: core and complementary;

2. The OECD IMS has two approaches: compliance and values based;

3. Instruments of integrity have four functions: defining, guiding, monitoring, and enforcing.

Table 6.1: Comparison between the ISAI nominal IMS and the OECD IMS (Ideal System)[8]

Layers	No	OECD Instruments	ISAI Instruments	Present or Not Score	Weight per item	Instrument Weights	ISAI Weights	Implementation Scores	ISAI Implementation Weights	Max Implementation Weight
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Compliance Based								
		Determining and Defining Integrity								
	1	Risk analysis	Risk management policy	1	0.1	0.0168	0.0168	2	0.0336	0.0504
	2	Code of conduct	Code of ethics	1	0.3	0.0504	0.0504	3	0.1512	0.1512
	3	Conflict of interest policy	Conflict of interest policy	1	0.2	0.0336	0.0336	1	0.0336	0.1008
	4	Gifts and gratuities policy	The control programme for gratuities	1	0.2	0.0336	0.0336	2	0.0672	0.1008
	5	Post-employment arrangements	None	0	0.1	0.0168	0	0	0	0.0504
	6	Structural measures (e.g. function rotation)	The rotation programme	1	0.1	0.0168	0.0168	3	0.0504	0.0504
					1.0					
		Guiding towards integrity								
	7	Rules-based integrity training	Training in Ethics	1	0.5	0.042	0.042	3	0.126	0.126
	8	Oath, signing an "integrity declaration"	Oath and signing integrity declaration	1	0.1	0.0084	0.0084	3	0.0252	0.0252
	9	Advice, counselling	Counselling	1	0.4	0.0336	0.0336	1	0.0336	0.1008
					1.0					
		Monitoring integrity								
	10	Whistle blowing policies	Whistle blowing system	1	0.1	0.014	0.014	2	0.028	0.042
	11	Complaints policies	e-chanelling (*Mobile Sipadu*)	1	0.1	0.014	0.014	1	0.014	0.042
	12	Inspections	Routine inspections	1	0.4	0.056	0.056	2	0.112	0.168
	13	Integrity testing	None	0	0.1	0.014	0	0	0	0.042
	14	Early warning systems	None	0	0.1	0.014	0	0	0	0.042
	15	Systematic registration of complaints, investigation, etc	External complaint from stakeholder	1	0.1	0.014	0.014	1	0.014	0.042
	16	Survey measurement of integrity violations and organisational climate	Periodic survey	1	0.1	0.014	0.014	1	0.014	0.042
					1.0					
C		**Enforcing integrity**								
o	17	Formal sanctions	Formal santions	1	0.8	0.1344	0.1344	3	0.4032	0.4032
r	18	Procedure for handling integrity violations	Specific procedure for integrity cases	1	0.2	0.0336	0.0336	3	0.1008	0.1008
e					1.0					
		Values Based								
		Determining and Defining Integrity								
	19	Analysis of ethical dilemmas	Include in ethics training	1	0.3	0.0216	0.0216	1	0.0216	0.0648
	20	Consultation of Staff and Stakeholders	Consultation forum of staff and stakeholders	1	0.2	0.0144	0.0144	1	0.0144	0.0432
	21	Code of Ethics	Code of ethics	1	0.4	0.0288	0.0288	3	0.0864	0.0864
	22	Non-written standard setting	Non-written standard	1	0.1	0.0072	0.0072	1	0.0072	0.0216
					1.0					
		Guiding towards integrity								
	22	Values-based integrity training	Training in Ethics	1	0.1	0.0036	0.0036	3	0.0108	0.0108
	23	Integrating integrity in the regular discourses	None	0	0.1	0.0036	0	0	0	0.0108
	24	Exemplary behaviour by management	Motto "leading by example"	1	0.6	0.0216	0.0216	1	0.0216	0.0648
	25	Coaching and counselling for integrity	Coaching Training	1	0.2	0.0072	0.0072	1	0.0072	0.0216
					1.0					
		Monitoring integrity								
	26	Survey measures of integrity dilemmas	None	0	0.3	0.018	0	0	0	0.054
	27	Informal probing for ethical dilemmas and issues among staff	None	0	0.7	0.042	0	0	0	0.126
					1.0					
		Enforcing integrity								
	28	Informal sanctions	Informal sanctions	1	1.0	0.072	0.072	1	0.072	0.216
					1.0					
						0.8	69%		145%	240%

Layers	No	OECD Instruments (1)	ISAI Instruments (2)	Present or Not Score (3)	Weight per item (4)	Instrument Weights (5)	ISAI Weights (6)	Implementation Scores (7)	ISAI Implementation Weights (8)	Max Implementation Weight (9)
C o m p l e m e n t a r y		**Determining and Guiding integrity**								
	29	Assesing the fairness of reward and promotion systems	None	0	0.5	0.05	0	0	0	0.15
	30	Appropriate procedures for procurement, contract management and payment	N/A	0	0	0	0	0	0	0
	31	Measures in personnel management (e.g. integrity as evaluation and promoti	Yearly performance report	1	0.3	0.03	0.03	1	0.03	0.09
	32	Measures in financial management (e.g. financial control)	Routine internal control by Principal Inspectora	0	0.05	0.005	0	0	0	0.015
	33	Measures in information management (e.g. protecting automated databases)	N/A	0	0.05	0.005	0	0	0	0.015
	34	Measures in quality management (e.g. reviewing the quality assessment tool)	Routine internal control by Principal Inspectora	1	0.1	0.01	0.01	1	0.01	0.03
					1.0					
		Monitoring integrity								
	35	Internal control and audit	Structural Leader and Principal Inspectorate	1	0.6	0.06	0.06	2	0.12	0.18
	36	External control and audit	Peer-Review and Accounting Firm	1	0.4	0.04	0.04	1	0.04	0.12
					1.0	**0.2**	**14%**		**20%**	**60%**
Total						**1.0**	**83%**		**165%**	**300%**
Total recommended instruments by OECD							**83%**			
Instrument that have been implemented							**55%**			

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[8] Columns 7, 8, and 9 are discussed in Chapter 7

Table 6.1 shows that the nominal ISAI IMS includes almost all the instruments of the OECD IMS, except the instruments that are shown in blue, namely post-employment arrangements, integrity testing, early warning systems, integrating integrity in the regular discourses, survey measures of integrity dilemmas, internal probing for ethical dilemmas and issues among staff, and assessing the fairness of reward and promotion systems.

In the second step I make some assumptions about the relative degrees of importance of certain components of IMS that reflect the earlier discussions of the OECD IMS, related literatures, and document analysis of the nominal ISAI IMS. These assumptions are a subjective view and are my personal judgements and corresponding assumptions made by others. My first assumption is that most organisations require more instruments in the core layer than in the complementary layer. This is mainly because the core layer is "the central part of integrity management" and is related directly to the problem of integrity (OECD, 2009, p. 7). Therefore, in making the comparison I assumed a weighted score of 80% for the core layer and 20% for the complementary layer. The weighting indicates that the core layer is more important than the complementary layer.

The next assumption relates to the approach taken in IMSs. Generally speaking, integrity management requires finding a suitable mix of compliance based (rules) and values based (integrity) approaches (cf. Chapter Three, Section 3.4.2.2). The comparison applied the two approaches. In the document analysis, I found that the

nominal ISAI IMS was more focused on a compliance approach rather than a values based one. As an indication, seven out of ten instruments in the nominal system are compliance-based in their approach (see Appendix 3). Therefore, I allocated a weighting of 70% of the score to the compliance approach and 30% to the values-based approach.

My third assumption relates to the four functions of the instruments of integrity, namely determining, guiding, monitoring and enforcing integrity (OECD, 2009). The weightings I assumed were as follows: determining, 30%; guiding 15%; monitoring, 25%; and enforcing, 30%.

Determining and enforcing integrity received the same higher weightings of 30%, because in my view they comprise the key instruments that should be prioritised in an integrity system. The instruments included in the monitoring and guiding classifications are secondary in terms of priority. The instruments in monitoring are allocated 25%, while those in guiding are allocated 15%. For example, within monitoring, the instrument of inspections is relatively more important than oath in guiding. Overall, the three dimensions of the OECD IMS including the allocated scores are presented in Table 6.2 below:

Table 6.2: Assumptions of the quantitative approach for three dimensions of the OECD IMS

Assumption	Layers		Approach		Function			
	Core	Complementary	Rules-Based	Value-Based	Determining Integrity	Guiding Integrity	Monitoring Integrity	Enforcing Integrity
Percentage Allocation	80%	20%	70%	30%	30%	15%	25%	30%

100%   100%   100%

I then checked for the existence of each instrument of the OECD IMS in the ISAI IMS. If an instrument was present, I allocated a score of one. On the other hand, if it was not present, such as post-employment arrangements, then the score was zero. The scores are shown in Column Three of Table 6.1.

Next, shown in Column Four, I assumed weights per item for each instrument within a specific function in each cluster, based on its familiarity and frequency in an organisation (Huberts et al., 2014; Van den Heuvel, Huberts, van der Wal, & Steenbergen, 2010). In this step, I applied the literature and my subjective judgment to allocate weightings to each instrument. For example, six instruments comprise the function cluster of determining and defining integrity in the compliance based approach. In this cluster, my judgement was to allocate the highest weighting of 30% to code of conduct because the code is the most common instrument and is important in every organisation. The total percentage for each cluster was 100 % (1.0). The same procedure also applied to all the other instruments and the weightings are shown in Column Four of Table 6.1.

In the third step, I calculated weights for each instrument in the OECD IMS as the product of the four weightings for the layer approach, function, and sub function (as shown in Table 6.2). As an example, the calculation for risk analysis is as follows: 0.8 x 0.7 x 0.3 x 0.1 = 0.0168, where 0.8 applies because the instrument is in the core layer, 0.7 applies because the instrument is a compliance based approach, 0.3 applies because the instrument is in the determining and defining integrity function cluster, and 0.1 is the weighting assigned to the instrument as a sub-function. The other instruments are calculated in the same way, and the resulting weights are shown in Column Five.

Column Five also shows that the sum of the instrument weights for the OECD IMS within the core layer (as expected) is 0.8 and within the complementary layers is 0.2.

In the fourth step I calculated instrument weights for the instruments of the nominal ISAI IMS which are the product of the instrument weights for the OECD IMS shown in Column Five and the present or not score in Column Three. For example, the calculation for risk analysis is 0.0168 as follows: 0.0168 x 1 = 0.0168 where 0.0168 is the OECD IMS instrument weight and 1 is the value of the present or not indicator.

As another example, where the instrument is not present, the calculation is zero, such as for the post-employment arrangements instrument. The other instruments are calculated in the same way, and the results are shown in Column Six.

Column Six also shows that the sum of the ISAI IMS weights for instruments in the core layer is 69% and in the complementary layer is 14%, a total of 83%. This means that in terms of adequacy, the nominal ISAI IMS has in total 83% of the instruments that are included in the OECD IMS. This, of course, also means that 17% of the instruments included in the OECD IMS are missing from the nominal ISAI IMS. Key instruments not in the nominal ISAI IMS are instrument such as post-employment arrangement and early warning system.

6.3 Descriptive Approach

In the previous sections, I explained the quantitative approach to comparison of the nominal ISAI IMS with the ideal OECD IMS. Continuing this comparison, this section applies a descriptive approach to explain in detail the nominal ISAI IMS and compare it with the OECD IMS described in Chapter Five.

In describing the nominal system, I adapt the typology of the OECD IMS. Therefore, the explanation of each instrument of the nominal ISAI IMS follows four main functions of the instruments in IMSs, that is, defining integrity (6.3.1), guiding integrity (6.3.2), monitoring integrity (6.3.3), and finally enforcing integrity (6.3.4) (OECD, 2009).

6.3.1 Instruments of the Nominal ISAI IMS in the Core Layers

This section starts by describing the first pillar of the nominal system of ISAI, namely the instruments. Most instruments within the nominal system of ISAI are in

the form of rules and regulations (see Appendix 3). Other instruments are through certain programmes such as dissemination through meetings or training or even a film. To make a comparison with the OECD IMS, I report on the nominal ISAI IMS, both in compliance based and values based approaches, in terms of the format of the OECD IMS, as presented in Table 6.3 below:

Table 6.3: Nominal ISAI IMS based on the four main functions of the OECD IMS Instruments

Layers	Approach	Determining and defining integrity	Guiding towards integrity	Monitoring integrity	Enforcing integrity
Core	**Compliance Based**	▪ Law on the State Audit ▪ Code of Ethics ▪ Conflict of interest ▪ State Financial Audit Standards (SPKN) ▪ The Control Programme for the Risk of Personal Gains ▪ Audit Management Guidance (PMP) ▪ Risk management policy ▪ The Rotation Programme	▪ Compliance-based integrity training (classical model) ▪ Oath, "promise as a civil servant" ▪ Advice and counselling	▪ Whistle Blower System ▪ Internal Control System ▪ Personal Asset Report Programme ▪ General Survey of the understanding of employees about principal values of ISAI	▪ Formal sanctions (heavy and medium category)
	Values Based	▪ Integrity Zone	▪ Values-based integrity training through film *"Menjaga Harta Negara"*		▪ Informal and moral sanctions (light category)
Complementary		▪ The development of *esprit de corps* and civil servants' code of ethics ▪ The career path of employees ▪ Supporting Management Audit Guidance (Integrity culture in an organisation	▪ An internal review from Inspectorate ▪ Peer Review from other SAI ▪ External Audit from Accounting firm for ISAI's financial report	▪ Civil servant Discipline

Source: Adapted from OECD (2009)

6.3.1.1 Determining and defining integrity

The first set of instruments concern determining and defining integrity in an organisation (OECD, 2009). The document analysis indicated that the nominal ISAI IMS has nine instruments at the core layer: eight instruments in the compliance based category and one instrument in the values based category. The following section focuses on the core rather than on the complementary layer, and emphasises the compliance approach.

6.3.1.2 Law on the State Audit

Law Number 15, Year 2006 on the State Audit is the first instrument which can be perceived as a legal basis for determining and defining all the principles of integrity and practices in ISAI. Specifically, this law has given a strong mandate to the ISAI to set up a code of ethics and to appoint members of the MKKE as an important instrument of integrity. The Law on the State Audit is the fundamental instrument of integrity that has further determined and defined the practices of integrity in ISAI ("Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). This instrument is also a specific instrument for an auditing institution like ISAI.

The law imposes an obligation on ISAI to set up a code of ethics to preserve its dignity, honour, image, and credibility. There are also several clauses in the law that attempt to address how to define integrity. Firstly, having moral, integrity, and honesty is one of the requirements to be appointed as a board member ("Undang

Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). In other words, this law has given an important message that during the process of recruiting and selecting the board members (strategic leaders), the candidate's track record of integrity is the dominant criterion. The aim of this criterion is to ensure that ISAI appoints leaders with a strong reputation for integrity.

Furthermore, the law declares that if a board member commits integrity violations or breaks the code of ethics, the member will be discharged from the board position. This law implies that no one is above the law, even if they are a member of the board and thus a strategic leader with the highest position in the ISAI. However, the law provides a fair and formal mechanism to process their case before deciding whether a board member is guilty or not. For example, they will be charged in a special proceeding led by the MKKE. In that proceeding, the board member is allowed and has the opportunity to defend themselves.

Overall, this law has formed the basis to build principles of integrity within the ISAI through the obligation to establish a code of ethics and the MKKE as the main instrument of integrity. Figure 6.1 below illustrates the general foundation of ethical principles in the ISAI:

Figure 6.1: The foundations of ethical principles in the ISAI
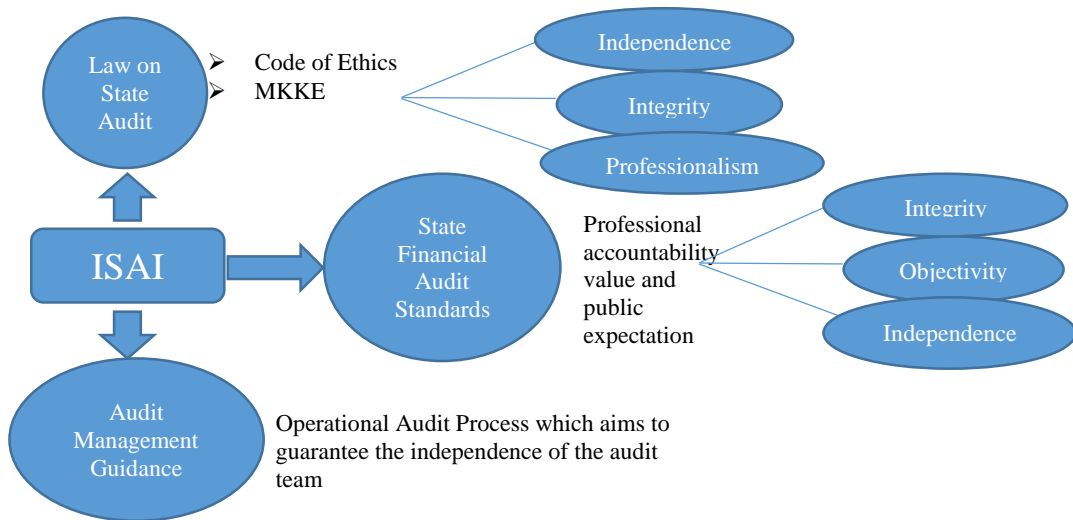
Source: ISAI (2017)

Figure 6.1 shows three foundations of ethical principles in the ISAI, that is, the Law on the State Audit, State Financial Audit Standards, and the Audit Management Guidance. In terms of building the principles of integrity, these foundations have their own specific areas. The Law on the State Audit focuses on establishing a code of ethics and the MKKE. State Financial Audit Standards concern professional auditors' accountability, and the Audit Management Guidance is the reference source for conducting the audit process and ensures the audit team's independence. Figure 6.2 summarises the ethical principles within each foundation:

Figure 6.2: The summary of the ethical principles within each foundation

Constitution 1945 and Law on State Audit (Law No.15 Year 2006)	• Chapter VIIIA constitution 1945, for auditing the accountability of state finance need an independent ISAI • Chapter IV article 29 (1) Law 15/2006, ISAI must compose a code of ethics which should be obeyed by board members and auditors during audit engagements to maintain dignity, honour, image, and credibility of ISAI
Code of Ethics and MKKE	• The principle values of the code of ethics are Independence, Integrity, and Professionalism • Code of ethics has 13 obligations and 17 prohibitions • MKKE is a complementary body to ISAI to enforce the Code of Ethics
State Financial Audit Standards (SPKN)	• Based on auditing conceptual framework, code of ethics is one of seven core principles of state financial audit • Based on general standard, ISAI's board members and auditors must conduct audit in accordance with the ethical principles as an important element of professional accountability value and public expectations
Audit Management Guidance (PMP)	• Guidance for board members and auditors to conduct audit from planning to reporting • To ensure that audit is managed, designed, organised, conducted, and controlled effectively and professionally to achieve audit quality based on auditing standards • During all operational audit processes should ensure the independence of the audit team

Source: ISAI (2017)

6.3.1.3 Code of Ethics

The second important instrument, which also determines and defines integrity, is a code of ethics. The ISAI issued the code of ethics through Regulation Number 4 Year 2018 (ISAI, 2018, 28 December). There are minor differences in viewpoint between the code of ethics in the nominal ISAI IMS and the code of ethics in the OECD IMS.

The OECD IMS classifies the code of ethics as an instrument in the values based approach, whereas the code of conduct is regarded as a compliance based approach. However, the nominal ISAI IMS assumes there are no specific differences between the code of conduct and the code of ethics because ISAI's code of ethics combines

both compliance based and values based aspects. Therefore, in the ISAI IMS, the code of ethics and code of conduct are interchangeable terms.

This is consistent with what I found in the quantitative approach section, that is, the ISAI combines compliance based and values-based approaches in the principles of the code of ethics. As Table 6.1 above shows, in the column for ISAI instruments, the ISAI has a code of ethics both as compliance based and as values based. In the compliance based, the code has a clear statement about the obligations and prohibitions that must be followed by board members, auditors, and other groups, such as accounting firms who carry out audits on behalf of the ISAI. Figure 6.3 below shows the obligations and prohibitions in the ISAI code of ethics:

Figure 6.3: Obligations and prohibitions in the code of ethics

OBLIGATIONS AND PROHIBITIONS FOR BOARD MEMBERS AND AUDITORS

Obligations and prohibitions for auditors cover all processes of auditing from planning, conducting, reporting, to monitoring of audit results, and follow-up

13 Obligations	17 Prohibitions
1. Faithful to the unity of the Republic of Indonesia based on Pancasila and the 1945 Constitution	1. Being a member of a prohibited organisation publicly denounced by the GOI
2. Complying with laws and regulations	2. Becoming a middleman for any procurement of goods and services within the government
3. Maintaining the dignity, honour, image, and credibility of ISAI	
4. Being honest, assertive, accountable, objective, and consistent in expressing ideas based on auditing facts	3. Asking for and/or receiving money, goods, and or/facilities, either directly or indirectly from parties relating to the audit

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5. Maintaining confidentiality of the audit results from unauthorized people 6. Maintaining self-control, politeness, and trustworthiness to create collaboration in conducting duties 7. Being independent in auditing tasks 8. Presenting audit finding, which contains criminal element, according to the procedure set by board members who assigned the task 9. Avoiding conflicts of interest 10. Conducting audit assignment rigorously, thoroughly and accurately, complying with auditing standards, manual, and guidance 11. Giving the opportunity to auditees to respond to audit findings and audit conclusion and including this in the audit report 12. Improving knowledge and skill 13. Conducting audit according to standards and guidance.	4. Abusing and going beyond his/her authority both intentionally or unintentionally 5. Hindering implementation of audit tasks for the benefits of his/her own, another person, and/or a third party 6. Using confidential state information which is known because of his/her job and position for the interests of his/her own, another person, and/or a third party 7. Enforcing/imposing personal will on the auditees 8. Showing partisanship and support to political activities in practice 9. Becoming a manager of a foundation, and/ or SOEs funded by the state budget 10. Being involved either directly or indirectly in activities of the auditee, such as providing assistance, consulting service, system development, preparing and/or reviewing financial statements of the entity or programme being audited 11. Discussing his/her working with the auditee outside ISAI's office or out of office or auditee's working area 12. Auditing a state finance official with whom there is a consanguinity relationship upward, downward, or legacy relationship up to the second degree 13. Auditing an organisation where the auditor has worked during the previous two years 14. Changing audit objectives and scope in the audit programme without approval from the auditor-in-charge 15. Disclosing audit reporting or the substance of auditing results to mass

	media and/or other parties, without permission or order from board members
	16. Changing the findings or ordering change of any audit findings, opinions, conclusions, and recommendations of audit results, that do not fit with the fact and/or evidence in the Audit
	17. Changing and/or eliminating audit evidence.

Source: ISAI (2018, 28 December)

The code also applies a values based approach through its emphasis on three core values of ISAI, namely independence, integrity, and professionalism. These values are commonly used by auditing institutions such as the ISAI. Firstly, the code interprets independence "as an attitude and action that is not partial to anyone and also cannot be influenced by anyone during the audit". Secondly, "integrity covers a quality, nature, or circumstance that indicates unity, honesty, hard work, and adequate competence. Lastly, professionalism is ability, expertise, and commitment to the profession in performing duties" (ISAI, 2017, 6 January, p. 27). Overall, this code of ethics is obligatory for all staff of ISAI who are involved in audit activities, from board members to management and auditors. In particular, they must commit to these core values of independence, integrity, and professionalism.

Chapter 5, Section 5.6.1.2 explained the criteria for a quality Code of Ethics as being clarity, simplicity, and relevance. With reference to these criteria, ISAI publicly displays the code on its website. Therefore, it is easily accessed not only by all employees but also by the public at large. ISAI follows a formal procedure

in drafting the code. Specifically, the code document is issued as a formal decision by the board in the form of an ISAI regulation. The content is stated in simple form and is relevant to the duties and authorities of ISAI as an official state audit institution. Most clauses relate to the core business of ISAI as the state finance auditor. Thus, generally speaking, ISAI code of ethics follows the criteria of the benchmark system (OECD IMS).

6.3.1.4 Conflict of Interest

The third ISAI instrument is conflict of interest. In the quantitative approach, this instrument was allocated a score of one for its implementation stage as there is no comprehensive specific document that explains 'conflict of interest' in detail. The term 'conflict of interest' exists and is found in three different ISAI instruments, the code of ethics, *Standar Pemeriksaan Keuangan Negara* (SPKN, auditing standards) and *Panduan Management Pemeriksaan* (PMP, audit management guidelines).

Firstly, the code of ethics states that both the board members and auditors must avoid any type of conflict of interest. Conflict of interest is interpreted as "a conflict, where a board member or auditor has a potential for interest or personal gain from their duties and authorities, and this might cause them to ignore the principal values of ISAI" (ISAI, 2018, 28 December). In this case, the interest or personal gain can be direct or indirect, such as financial reward, financial relationship, social status, family relationship and political influence.

Secondly, SPKN (the auditing standards) states that auditors must be objective and free from conflicts of interest in performing their professional responsibilities. This conflict of interest can limit the auditor's scope of an audit, harm his/her professional scepticism, and weaken the audit findings. SPKN also provides some examples of conflict of interest, such as having a consanguinity or legacy relationship with the management of the auditee, and having a financial interest, either directly or indirectly in the auditee (ISAI, 2017, 6 January).

Thirdly, PMP (ISAI's audit management guidelines) requires that before undertaking an audit task, every person who is involved in the audit team must sign a declaration of independence to confirm that they do not have any conflict of interest in the engagement.

6.3.1.5 *Standar Pemeriksaan Keuangan Negara* **(SPKN, State Financial Audit Standards)**

SPKN, ISAI's auditing standards, were issued by the formal regulation No 1 Year 2017, and contain the principal guidelines that must be obeyed by both board members and auditors during an audit engagement (ISAI, 2017, 6 January). In addition, SPKN acknowledges that integrity and ethics are two important principles that must be upheld during an audit, and they are therefore embedded and required in auditing practice.

Furthermore, as an instrument, SPKN views a code of ethics and a code of conduct as being substantially the same thing. SPKN uses these terms interchangeably within the standards (cf. Section 6.3.1.3). This is consistent with the International

Standards of Supreme Audit Institutions (ISSAI) that interpret the code of conduct as being similar to the code of ethics (INTOSAI, 2016). However, this view is not consistent with the OECD IMS which distinguishes between the code of conduct and the code of ethics (OECD, 2009).

SPKN defines integrity as "a quality, nature, or circumstances that indicate an intact unity, possession of an honest, hard-working attitude, and adequate competence" (ISAI, 2017, 6 January, p. 15). Therefore, ISAI clearly perceives that there is a close relationship between the code of ethics and auditing standards, as both of them are part of the ethical principles in ISAI (cf. Figure 6.1 and Figure 6.2).

In terms of integrity violations, SPKN identifies at least four examples perceived as undermining integrity, as follows:

1. asking for and/or receiving money, goods and/or facilities, either directly or indirectly from parties related to the audit;

2. hindering implementation of audit tasks for the benefits of himself or herself, a person, and/or group;

3. enforcing/imposing personal will on the auditees; and

4. changing the findings or ordering changes to any audit findings, opinions, conclusions, and recommendations of audit results, that do not fit with the facts and/or evidence in the audit (ISAI, 2017, 6 January, pp. 33-34).

These are just some examples commonly found in audits. Other instances may need to be taken into account and anticipated by application of other instruments.

6.3.1.6 *Program Pengendalian Gratifikasi* **(the PPG, the Control Programme for the Risk of Personal Gains)**

Another instrument in this layer is ISAI's *Program Pengendalian Gratifikasi* (the PPG, the control programme for the risk of personal gains) to prevent auditors from receiving 'a gift' or something that could lead to bribery. Besides its status as a special programme, the PPG is perceived as an instrument of integrity in determining and defining integrity because the aim of this programme is to improve the understanding and awareness of auditors regarding the reporting of gratuities. This programme also makes it easier for ISAI to control and handle cases of gratuities which auditors may face.

The PPG defines personal gain, including gratuities, as "giving in a broad context, such as money, goods, discounts, commission, a loan without interest, travelling tickets, hotel facility, tour facility, free medical check-ups, and other facilities which can be received in both the domestic area and abroad through either electronic media or non-electronic media" (ISAI, 2018a, p. 4). These gifts could come from anyone, such as auditees, suppliers, contractors, colleagues, third parties and others. The motives for giving could be an attempt to bribe an official in ISAI or may just be a normal present.

The PPG divides personal gain into two categories. The first is personal gain that must be reported, while the second is not compulsory to be reported. Further, within the reporting category, there are also two classifications of personal gain, a gain perceived as a bribe and a gain relating to official duties. Specifically, personal gain

perceived as a bribe relates to the position as an auditor of the ISAI and is contrary to the role and obligation of an auditor. Some examples are anything that has monetary value such as shares, precious metals, facilities, food services, sport services, or other goods and services (ISAI, 2014, 18 July).

An example of personal gain as a bribe, which must be reported, is where an auditor receives some money from the auditee. The money can influence the independence of the auditor in making a fair decision. Therefore, the rules of the PPG programme, require the auditor to report the money through certain procedures because such a gift may be a personal gain similar to a bribe.

An example of personal gain that is not related to formal duties is where the auditor has been invited by a university to give a special lecture on audit practice in the public sector. The university gives the auditor an honorarium in appreciation of his efforts. This honorarium is regarded as personal gain but it is not treated as a bribe. However, the rule requires the auditor to report the honorarium.

An example of a personal gain, without an obligation to report it, is a gift for a wedding, birthday, or farewell. These gifts arise from family or friend relationships. This kind of gift is very common in many societies and it is believed that there is no conflict of interest in receiving such a gift. Therefore, personal gain in this category is allowed. However, the PPG does stipulate the maximum amount for such gifts to be permitted and legal, namely from three hundred thousand rupiahs (equal to thirty New Zealand Dollars) to one million rupiahs (equal to one hundred

New Zealand Dollars). Thus a gift exceeding this limit must be reported. Figure 6.4

below illustrates the rules for treatment of personal gains and gratuities:

Figure 6.4: The rules for treatment of personal gain and gratuities in the ISAI
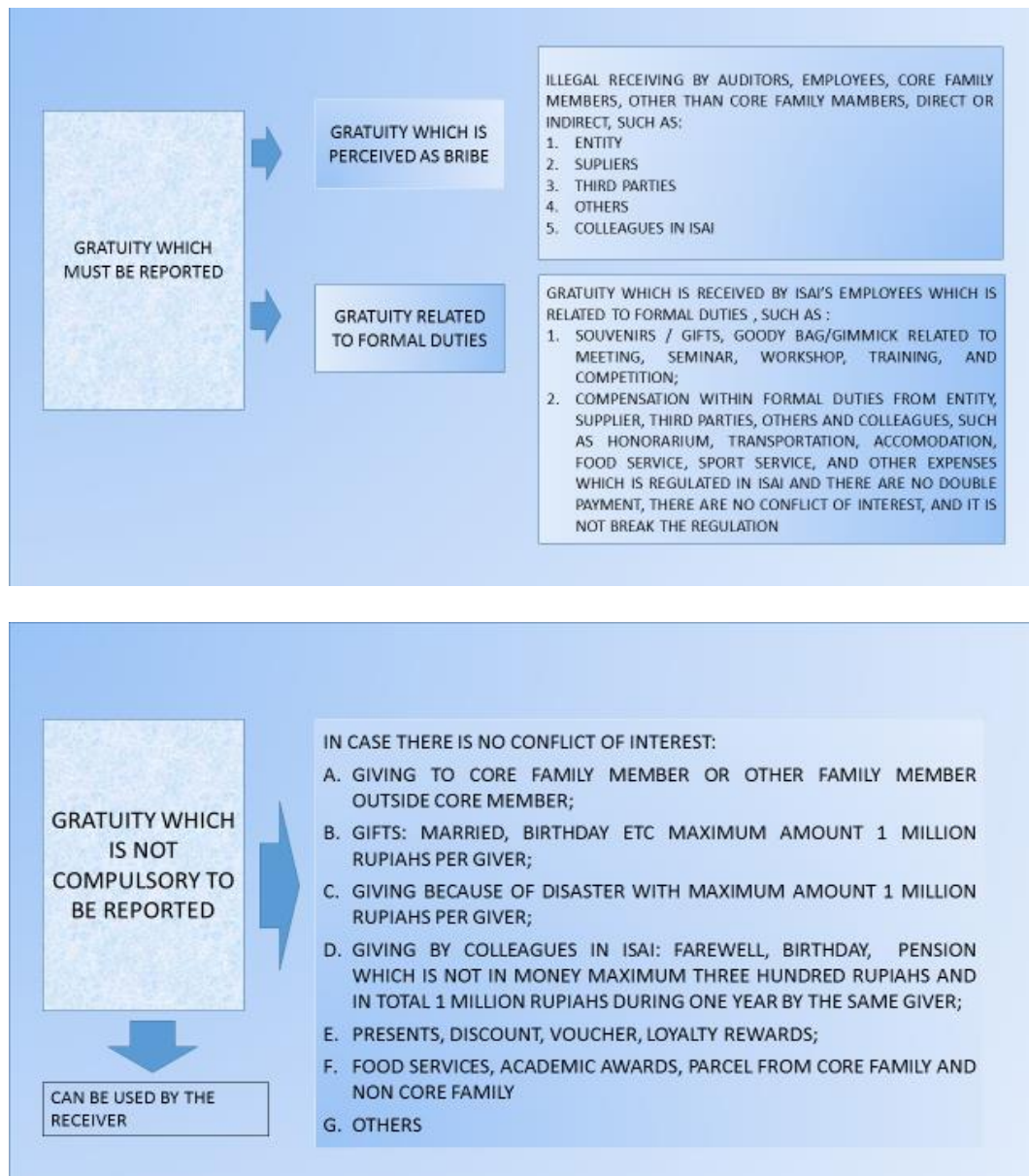
Source: ISAI (2014, 18 July)

Overall, ISAI has detailed regulation on personal gains. This regulation is an effort

to minimise risks associated with personal gains. However, while the scope of this

regulation covers employees of ISAI (including the auditors), it does not cover board members although they might be a target for a bribe.

6.3.1.7 *Panduan Manajemen Pemeriksaan* (PMP, Audit Management Guidance)

PMP (Audit Management Guidance), is part of the structure of ethical principles in ISAI and aims to guide auditors, including board members, in more technical aspects of an audit. Specifically, PMP explains the steps in an audit from the planning to reporting phases. For example, before signing the audit engagement letter, board members should explain their expectation for the audit, and what specific issues the audit team should take into account. If there is an indication that an audit team has a problem relating to independence, the board should ensure appropriate restructuring of the team. The PMP also addresses the responsibility of auditors based on their rank in ISAI. For example, in the planning phase, an audit manager sets up an audit team with a certain composition while an audit team leader prepares an audit programme (ISAI, 2015, 27 October).

Besides guiding the auditor in managing the audit process, PMP also stipulates that auditors must maintain their independence, integrity and professionalism as their basic ethical principle. This is a pre-requisite to achieving better audit quality. In terms of independence, PMP also obligates the auditor to declare formally in advance his or her independence from any factor which may lead to bias in giving an audit opinion (cf. Section 6.3.1.4, Conflict of Interest). As an example, where the auditor has a special relationship with the management of the auditee (for

example, his family member is the CEO of the entity), the auditor should withdraw from the audit engagement. Audit managers should also be aware of anyone within the audit team who has a problem with independence with regard to a particular audit and, if so, they should be excluded from that audit engagement.

Those involved in the audit team, always need to maintain integrity during the audit process. The principles of integrity follow what has been declared both in the code of ethics and auditing standards. In practice, the PMP requires that at the end of the audit engagement, the auditee should evaluate the integrity of the audit team through a template questionnaire. This provides a mechanism for the auditee to give their opinions. However, there is a risk that the auditee will not provide an objective view, because they may hesitate to reveal the true behaviour of the audit team.

6.3.1.8 Risk Management Policy

The ISAI released its risk management policy through a formal document called the Guidance for Implementation of Risk Management issued by ISAI decree Number 7 Year 2018. The aim of risk management for ISAI is to identify the types of risk, anticipate the risks, and implement strategies to handle the risks. Therefore, the risk management policy assists ISAI in identifying risks for organisational internal control and thus strengthen internal control (ISAI, 2018, 4 September).

ISAI identifies six categories of potential risks: Policy Risk, Compliance Risk, Law Risk, Fraud Risk, Reputational Risk, and Operational Risk. Each organisational unit in ISAI performs their own risk assessment (ISAI, 2018, 4 September). However,

ISAI does not currently have follow-up documents showing that this policy has been implemented.

The OECD IMS states that, in doing risk analysis, a public institution should identify sensitive functions within the organisational structure where there is perceived potential for integrity violations, such as in procurement. However, ISAI's risk policy is broader than integrity and therefore this is a case where there are different outcomes between the OECD IMS risk analysis and ISAI's risk policy in addressing risks.

6.3.1.9 The Rotation Programme

To prevent auditors from building 'a special relationship' with auditees, especially government agencies, ISAI rotates auditors from one working unit to another after a certain period. In general, an auditor should be in the same unit for four years at the longest. For example, Auditor A has been working at the head office for four years in July 2020. In accordance with this policy, she/he should be transferred to a new place of work. The aim of this policy is to minimise an opportunity for auditors to lose their independence and integrity because of a long-term relationship with an auditee.

6.3.1.10 Integrity Zone

The ZI (integrity zone) is a response to control and minimise serious cases of corruption in public sector institutions that have been common for more than three decades since the 'New Order Regime' under Soeharto. In the Reform Era, the

government has been more focused on eradicating corruption in public sector institutions through a programme that is widely known as *Pembangunan Zona Integritas* (ZI, Development of Integrity Zone) ("Permenpan RB Nomor 52 Tahun 2014 tentang Pedoman Pembangunan Zona Integritas Menuju Wilayah Bebas dari Korupsi dan Wilayah Birokrasi Bersih dan Melayani di Lingkungan Instansi Pemerintah *(Bureaucracy and Reform Ministry Regulation Number 52 Year 2014 concerning Guidance for Establishing Integrity Zones Towards Clean and Corruption Free Zones in Government Agencies),*" 2014).

The ZI is controlled by *Kementerian Pendayagunaan Aparatur Negara* dan *Agenda Reformasi Birokrasi* (Kemenpan-RB, Ministry of Administrative and Bureaucracy Reform Agenda) and invites other public sector institutions, including ISAI, to participate in this programme. The ZI is a signal to certain public institutions that their leaders are committed to creating *Wilayah Bebas Korupsi* (WBK, Free Corruption Area) and *Wilayah Birokrasi Bersih dan Melayani* (WBBM, Clean Bureaucracy Area) in their institutions.

The general process of building an integrity zone is focused on improving several areas such as change management, good governance, human resources management, and strengthening monitoring, accountability, as well as public services. In the context of ISAI, the ZI commenced in 2015. In the initial phase, ISAI only assigned two working units, the East Java regional office and the Training Centre, as pilot projects. Currently mostly regional offices are involved in the programme. As such, 25 regional offices across Indonesia have been involved and

participated (ISAI, 2019d). Overall, ZI is not a specific rule, but more of a moral movement to encourage people to have integrity. Therefore, this instrument is classified as determining and defining integrity under the values based approach.

6.3.2 Guiding towards Integrity

The second function of instruments is guiding towards integrity, by applying either compliance based or values based approaches (OECD, 2009). ISAI has three instruments within the compliance based approach that are similar to the OECD IMS instruments and one instrument within the values based approach. These compliance based instruments are compliance based integrity training (conventional learning model), oath, and advice. ISAI also made a film entitled '*Menjaga Harta Negara*' (Guarding the State's Assets) that could be categorised as values based integrity training. The following section describes all these instruments.

6.3.2.1 Training in Ethics

ISAI regularly conducts training in ethics in their Training Centre. The training programmes do not differentiate clearly between compliance based and values based approaches. In contrast, the training model of the OECD IMS classifies three different types of integrity training, namely compliance based, values based, and dilemma training (OECD, 2009). ISAI mainly applies the compliance based approach in their training programmes because most of the training focuses on the expected behaviour of auditors according to the code of ethics. This is typically delivered in a room with a trainer dominating during the learning process (OECD,

2009). For the values based approach to integrity training, ISAI has produced a film entitled "*Menjaga Harta Negara*".

Practically, the SPKN obliges ISAI to regularly provide training in ethics for every level of auditors (ISAI, 2017). Table 6.4 below shows the content and objectives of training in ethics for every level of auditor.

Table 6.4: Contents and objectives of training in ethics for every level of auditors

Level	Content and objectives
Junior Team Member	• Understand concepts of professional ethics; • Understand ethics for auditors; • Identify behaviours unsuitable for the auditors' ethics.
Senior Team Member	• Build integrity among team members in audit engagements; • Argue persuasively in maintaining integrity; • Reject offerings or maintain an unbiased stance; • Encourage other people to be independent in their work; • Implement due care according to auditing standards.
Junior Team Leader Senior Team Leader	• Implement the principle of objectivity and know how to deal with pressure; • Deal with an open confrontation; • Real integrity according to the code of ethics and ISAI's values; • Build trust and work with integrity; • Implement due care according to auditing standards; • Secure and avoid the misuse of confidential state information for private, group, and others gains • Innovate, develop, and improve their own professional development; • Maintain respect, trust and communication as well as teamwork to solve a problem within the team; • Utilise public resource efficiently, effectively, and economically.
Supervisor	• Understand and explain ethical concepts for auditors; • Understand and explain the organisation's ethics; • Manage ethics and integrity.
Auditor in Charge	• Understand and identify the scope of ethics in ISAI; • Analyse and provide suggestions to build conducive working conditions in ISAI based on auditor ethics; • Implement independence in the work environment; • Understand and implement ISAI policies in decision making and terms of engagement that is in line with auditors' ethics.

Source: Training material on Ethics for Auditors (ISAI, 2017)

Table 6.4 shows that at the initial stage, training builds an understanding of ethics and teaches integrity concepts to auditors. This understanding is then continued with practice in real life situations during an audit, such as the ability to argue persuasively, to deal with an open confrontation and to implement ISAI policies in decision-making. It is expected that such an ability will continue to improve, especially where the auditor is promoted to a higher level because he or she will take on greater responsibilities.

However, it seems that training is needed more by team leaders than by low-level employees. This is because audit team leaders have many duties during field work and they control the main operation of audit activities including directing their colleagues. Therefore, ISAI provides with them more training than others.

ISAI does not explicitly provide specific values based integrity training. However, the Training Centre has produced a film entitled '*Menjaga Harga Negara*' (Guarding the State's Assets) that could be categorised as a values based approach. The Training Centre initiated this film in 2018 and has received many positive responses. The film is not only for viewing by ISAI's auditors, but can also be viewed by the public at large, such as university students, government employees, NGOs, and others.

The lesson from this film is that auditors often face a challenging environment during their audits. They come across many barriers both internally and externally, such as a limited number of people in an audit team and an obligation to visit many

remote areas to check out government projects. Sometimes, they are offered bribes. The film describes real experiences of auditors during their audits, which may provide important lessons for trainees.

6.3.2.2 Taking an oath and signing of *pakta integritas* (integrity declaration)

In general, all ISAI employees are civil servants who must follow regulations as a government employee which includes taking an oath. Specifically, "Undang-Undang No. 5 Year 2014 tentang Aparatur Sipil Negara (*Law Number 4 Year 2014 concerning Civil Servants*)" 2014) stipulates that anyone becoming a civil servant in any government department must take an oath in a formal ceremony. The oath declares that the employee will be loyal to *Pancasila* as a national philosophy and loyal to the 1945 constitution, will comply with all laws and regulations, and will carry out his or her duties in a fully responsible manner ("Peraturan Pemerintah Nomor 53 Tahun 2010 tentang Disiplin Pegawai Negeri Sipil *(Government Regulation Number .53 Year 2010 concerning Employee Discipline)*," 2010; "Undang Undang No. 5 Year 2014 tentang Aparatur Sipil Negara (*Law Number 4 Year 2014 concerning Civil Servants*)," 2014). The ISAI usually organises for the oath to take place at the welcome session for new employees. The employee must also declare the specific oath again when he or she is promoted.

Besides taking an oath as a civil servant, all ISAI auditors are required to sign a *pakta integritas* (integrity declaration) before carrying out audits. The PMP requires every auditor to declare their integrity and independence by signing a special document before carrying out an audit (ISAI, 2015, 27 October). The process to

sign this integrity declaration is compulsory as one of the planning stages within the auditing protocol in ISAI. Overall, in terms of the obligation to take an oath, this is common practice in most public institutions around the world.

6.3.2.3 Advice and Counselling

The ISAI appreciates that as a human being who lives in the real world, an employee will face many problems. These problems could be from the office, home, or elsewhere. It is thus a common phenomenon for an employee to need advice and counselling to solve their problems. Therefore, ISAI provides the Employee Care Centre (ECC), as a medium and place for employees to consult about their problems. The ECC was introduced in July, 2010 and assists employees in dealing with problems that relate to their family, career and personality (ISAI, 2019b).

The ECC has qualified counsellors to assist employees with problems. They are from both internal and external organisations and have credentials in psychology. They are ready to listen and become a mediator, for instance, for an employee with marital problems. In addition, counsellors provide advice to employees who want to develop their skills, such as communication and negotiation skills. Counsellors also attempt to find suitable training to support employees' skills. The important thing is that all counsellors have high ethical standards and accordingly maintain confidentiality for employees (ISAI, 2019b).

Currently, the ECC operates at head office and some regional offices. The management of ECC is controlled by the human resources bureau. The ECC also

serves employees through an online mechanism which is known as e-counselling. Employees can simply fill in an application detailing their concerns. The ECC programme appears to be working. However, there is no additional information on whether employees really use the ECC to assist them to solve their problems, especially problems of integrity management. In general, the ECC is similar to a coaching and counselling instrument within the OECD's IMS. However, the scope of the ECC is broader in scope because it also covers problems other than those to do with integrity.

6.3.3 Monitoring Integrity

To monitor integrity, ISAI applies four instruments under the compliance based approach: the Whistle Blower System (WBS), Internal Control System (ICS), Personal Asset Report Program, and General Survey of the understanding by employees of the principal values of the ISAI. ISAI does not have any instrument for monitoring integrity that applies the values based approach. However, it does have some instruments in the complementary layer, such as internal reviews from the inspectorate, peer review from other SAIs, and external audits from an accounting firm. The next section describes the instruments.

6.3.3.1 Whistle Blower System

The ISAI has attempted to control potential integrity violations through the Whistle Blower System (WBS) for almost a decade since the policy was first launched in 2011 (ISAI, 2011, 8 December). According to this policy, every employee is a potential whistle blower as long as s/he is willing to report any integrity violations

through this specific channel. Their report is handled by *Satuan Tugas (Satgas)* *Kepatuhan Internal* (Internal Compliance Task Force) manned by people from several different units in ISAI, such as the Principal Inspectorate, Human Resources Bureau, and the Principal Directorate of Legal.

Satgas evaluates every report comprehensively. They rigorously assess the validity of each report in order to avoid false and inaccurate information. This policy obligates *Satgas* to protect the safety of the whistle blower (ISAI, 2011, 8 December). In addition, to improve the ease with which an employee can become a whistle blower, ISAI has set up an online application for the WBS. Therefore, a whistle blower can simply send their report through http://wbs.bpk.go.id. It is expected that this application will encourage employees to make the bold move to become a whistle blower.

6.3.3.2 Internal Control System (ICS)

The ISAI applies the Internal Control System (ICS) as an important instrument for monitoring integrity. ISAI defines ICS as an integrated process of continuing activity for leaders and employees to provide adequate assurance to achieve ISAI's effectiveness and efficiency objectives, reliable financial statements, safety of its assets, and compliance with rules and regulation. Essentially, the ICS is a tool for ISAI to control and monitor the implementation of all functions and duties based on regulations including ethics and integrity.

ISAI applies five common elements of the ICS, being Control Environment, Risk Assessment, Control Activities, Communication and Information, and Monitoring. To make the ICS work effectively, it is important that all these elements are interconnected as an integrated system. ISAI underlines the important role of leadership to lead all organisational components towards effective implementation of the ICS. For example, the board members are responsible for creating a conducive environment at the organisation level. Meanwhile, other leaders, such as Echelon I and Echelon II officials, are responsible at the level of divisions or units in the ISAI. This means that the role of leadership and their responsibilities play a very important role in ensuring sound implementation of the ICS.

6.3.3.3 *Laporan Harta Kekayaan Penyelenggara Negara* (LHKPN, Personal Asset Report Programme)

As a commitment to the bureaucracy reform agenda and aim to create clean government, the Indonesian government obligates every government employee, including auditors in the ISAI, to report their personal assets through KPK (ISAI, 2015; KPK, 2016). This programme, which is known as *Laporan Harta Kekayaan Penyelenggara Negara* (LHKPN, Personal Assets Report Programme), is the third programme to pre-empt government employees from engaging in corrupt practices.

In addition, the programme provides a specific mechanism for employees to provide a yearly report through an online application at www.elhkpn.kpk.go.id (ISAI, 2018c). Although the programme is mainly to fulfil ISAI's obligation and commitment to the KPK, administratively ISAI also maintains and manages the employees' report records (ISAI, 2015). However, the extent to which ISAI uses

this data for analysis to prevent and identify auditors who might become involved in corrupt activities is unknown.

6.3.3.4 General Survey of the understanding of employees of principal values of ISAI

ISAI conducts an annual survey on their employees' understanding of the principal values of ISAI: independence, integrity and professionalism. This survey is part of the activities related to developing an integrity zone (cf. Section 6.3.10). ISAI hires a consultant to conduct this survey and report on it. The survey has been conducted three times since its launch in 2017. The reports have shown that most ISAI employees have a good understanding of the principal values and do not have specific issues concerning the principal values (PT WDU, 2017, 2018).

6.3.4 Enforcing Integrity

To enforce the implementation of integrity programmes and make employees obey the rules and regulations, most organisations apply sanctions and punishments as instruments to fulfil this objective. Similarly, ISAI imposes sanctions against their auditors and discipline measures to non-auditor employees. Before applying sanctions, ISAI follows certain procedure as outlined in the following section.

6.3.4.1 The Procedure for Handling Integrity Violations

ISAI has an official procedure for handling integrity violations among auditors and board members. According to ISAI's Regulation Number 5 Year 2018 concerning MKKE, there is a specified process for handling integrity cases (ISAI, 2018, 28 December). In general, an integrity violation case is filed when there is a report of

such a violation from auditees, colleagues, or the public. The report is processed by ITAMA, as an *ex officio* unit that assists MKKE.

ITAMA serves as the administrator for the MKKE. They receive the report, file the report, contact people who are involved in the proceeding, arrange the proceeding, prepare minutes of the meeting, draft a decision letter, and so on. Furthermore, in analysing the substance of the case, the MKKE appoints a code of ethics team from ITAMA to assist the board in carrying out a preliminary assessment of the case. The team has a coordinator for the whole team and team member(s).

The team has several functions such as to determine the truthfulness of both the informant and the person being reported on, to collect and analyse data, and to examine the case and prepare it to go to the court. The final step is a trial where the suspect is examined to decide whether s/he is guilty or not. Once the decision has been made, it will be sent to the ISAI board to issue a formal decision through a legal letter. The following figure describes the process of enforcement:

Figure 6.5: Enforcement of the Code of Ethics
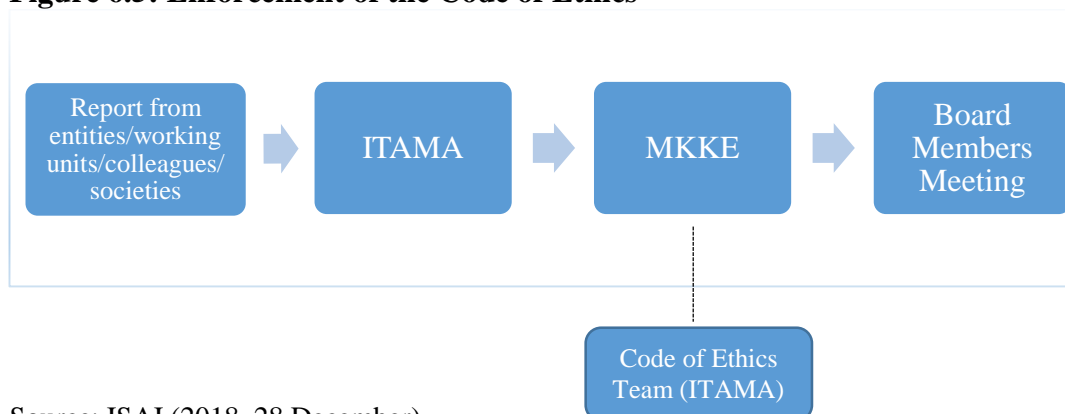
Source: ISAI (2018, 28 December)

There are formal and informal sanctions, depending on the context. In the following section, I limit the discussion to formal sanctions for either board members or auditors, and exclude sanctions for employees who are not auditors. Informal sanctions are only applied to auditors and not to board members.

6.3.4.2 Formal Sanctions

A formal sanction refers to the process and mechanism for a punishment of a wrongdoer, either board members or auditors.

The code of ethics distinguishes between sanctions for board members and for auditors. There are three types of sanctions for board members, that is, *peringatan tertulis* (written warning), *pemberhentian* (dismissal as a board member) and *sanksi lebih berat* (a more severe sanction). In general, these sanctions reflect the impact of a violation. Figure 6.6 below shows three different types of sanctions for board members according to their impact.

Figure 6.6: Types of sanction and consequence for breach of code of ethics for board members

Written Warning	• If a Board member conducts a violation over obligation and prohibition which negatively impacts the unit of work
Dismissal as a board members	• If a Board member conducts a violation over obligation and prohibition which negatively impacts on the country and or ISAI
Heavier Code of Ethics sanction	• If a Board member conducts more severe violation of the code of ethics

Source: ISAI (2018, 28 December)

The lightest sanction for board members is a written warning and the next heaviest is dismissal from the board. However, the extent to which a violation could be categorised as negatively impacting the unit of work or the country and or ISAI is unclear. A board member receives a more severe sanction if they continue to commit violations. However, the question of how severe a violation needs to be to move from one level of sanction to a higher level is unclear.

The code of ethics also declares three categories of sanctions for auditors, namely *ringan* (light), *sedang* (medium) and *berat* (severe) sanctions. These sanctions relate mainly to the auditor being able to maintain their status as an auditor. The sanction for an auditor varies from a discharge from their auditor duties for only a short period of time to a permanent release, and the period of time depends on the degree of severity of their offence. Figure 6.7 below shows the categories of sanction for auditors:

Figure 6.7: Types of sanction and consequence for breach of the code of ethics for auditors

Light Sanction Prohibition from auditing for 1 year with 6 months probation period	• If auditor conducts violation over obligation and prohibition which negatively impacts to the audit team
Medium Sanction Prohibition from auditing minimun for 1 year and maximum for 2 years	• If auditor conducts violation over obligation and prohibition which negatively impacts his/her unit of work
Heavy Sanction Prohibition from auditing minimum for 3 years or dismissal as an auditor permanently	• If auditor conducts violation over obligation and prohibition which negatively impacts on the country and or ISAI

Source: ISAI (2018, 28 December)

As for board members, the level of severity that moves an offence from one level to another remains uncertain. In practice the decision reflects the judgement of the MKKE members.

The code of ethics also states that an auditor who receives a sanction will be announced and recorded in the *Sistem informasi Sumber Daya Manusia* (SISDM, Human Resources Information System), a special online platform of electronic data on all ISAI personnel (ISAI, 2018, 28 December). For example, an auditor was involved in a case of bribery and caught by KPK and publicly reported by the mass media. The court also decided that they were guilty of receiving bribes. In this case, the SISDM should announce and record their name on this platform. However, in practice it seems that ISAI has not done this yet because there no any such records at all in the SISDM.

6.3.4.3 Informal Sanctions

To enforce integrity, ISAI also applies sanctions informally, and these are commonly applied to auditors who do not obey rules. The degree of an informal sanction is less severe than formal sanctions. For example, an auditor should have conducted field work for 30 days. However if, they were on duty for only 25 days, spending the other five days on holiday, the auditor would receive an informal sanction, such as not being assigned to the next audit or excluded from social programmes among auditors for a certain period of time.

Administration of the punishment does not follow a specified procedure. The wrongdoer does not receive any formal decision with a formal letter from management or the structural leader.

6.4 Instruments of the IMS in the Complementary Layers

ISAI also applies some instruments of integrity at the complementary level. These instruments are categorised as complementary because their objectives are not to monitor the auditors' integrity directly, but other aspects of ISAI, such as general and administration staff. The following section briefly describes these instruments:

6.4.1 Determining and Guiding Integrity

To determine and guide the integrity of general and administration staff, ISAI applies Government Regulation No. 42 Year 2004 regarding The Cultivation of Esprit de Corps and Code of Ethics of Civil Servants (*Peraturan Pemerintah No.42 Tahun 2004, tentang Pembinaan Jiwa Korps dan Kode Etik PNS*). Generally speaking, the aim of this instrument is to maintain and improve the spirit of civil servants to be loyal and dedicated to the country, Pancasila and the 1945 constitution (*Pengabdian dan Ketaatan Kepada Pancasila dan UUD 1945*). This instrument also requires a civil servant to have integrity in order to obtain public trust ("Peraturan Pemerintah Nomor 42 Tahun 2004 tentang pembinaan Jiwa korps dan kode etik PNS (*Government regulation No. 42 Year 2004 concerning the development of spirit of the Corps and Civil Servants' Code of Ethics)*," 2004).

The ISAI still does not have an instrument for assessing the fairness of reward and promotion systems. The system of promotion is dominated by the internal mechanism of the bureaucracy. ISAI assesses their employees on a yearly basis. Furthermore, ITAMA conducts a routine internal examination of the financial unit and other supporting units such as the HR unit (cf. Section 6.6.2).

6.4.2 Monitoring Integrity

In terms of monitoring integrity in the complementary layer, ISAI applies a number of instruments, namely daily monitoring from a structural leader, an internal review from ITAMA, a peer review from other SAIs, and an external audit from an accounting firm. Monitoring integrity at the complementary layer aims to oversee the implementation of integrity in the supporting units within the organisation. For example, in order to maintain the practice of transparency and public accountability, once a year ISAI's financial reports are audited by an accounting firm because ISAI also draws on the state budget to fund its daily operations. Therefore, ISAI should follow the mechanism of accountability and transparency in providing a financial report. By preparing a financial report, ISAI shows their accountability to the public. Parliament selects the accounting firm to audit ISAI's financial report.

The law also requires a peer review of ISAI by another SAI. This peer review is conducted every five years. The mechanism for the peer review is that ISAI proposes three different SAIs to Parliament for selection as the reviewer. From 2004 to 2019, ISAI was peer-reviewed four times by different SAIs. These included the Office of the Auditor General New Zealand (OAG NZ) in 2004, *Algemene*

Rekenkamer (ARK, The Netherlands Court of Audit) in 2009, *Najwyższa Izba Kontroli* (NIK, The Supreme Audit Office of Poland) in 2014, and NIK again in 2019 (OAG, 2004; Algemene Rekenkamer, 2009; NIK, 2014, 2019).

6.4.3 Enforcing Integrity (Civil Servant Discipline)

In addition, to enforce integrity in the complementary layer, ISAI applies regulations for civil servant discipline as an instrument that addresses employees who are auditors. Civil servant discipline is an instrument that requires a strong commitment of all *Pegawai Negeri Sipil* (PNS, civil servants) in public institutions to obeying the laws and rules concerning obligations and prohibitions for a PNS. If they break these laws and regulations, they are subject to a punishment ("Peraturan Pemerintah Nomor 53 Tahun 2010 tentang Disiplin Pegawai Negeri Sipil *(Government Regulation Number .53 Year 2010 concerning Employee Discipline)*," 2010). To some extent, this instrument is similar to the code of ethics for an auditor at the core layer. The difference between those instruments is that the code of ethics only applies to board members and auditors in ISAI, while civil servant discipline covers all PNS wherever they pursue a career in any public sector institution in Indonesia.

6.5 Processes

The previous sections have addressed the first pillar of the nominal ISAI IMS, that is, instruments. This section focuses on the second pillar, namely processes. In general, to develop instruments, ISAI does not seem to launch the instruments though a structured process. For instance, the laws mandate ISAI to have a code of

ethics, followed by other structures, such as the MKKE (ISAI, 2018, 28 December; "Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). To do this, ISAI did not follow a systematic pattern, as in the OECD IMS recommendation of 'Plan, Do, Check, Adapt' (cf. Chapter Five, Section 5.8).

However, ISAI established a team to conduct a study on how to draft a code of ethics. Once this team completed the draft, it was presented and submitted to an official board meeting for them to decide on whether the draft be accepted as a formal code of ethics. Once the board gave their approval, the code was ready to be implemented. In terms of monitoring, there is no specific unit that monitors the implementation continuously. Monitoring focuses more on finding a breach of the code than on the applicability of the substance of the code. In this case, there is no 'specific cycle' like the pattern of the OECD IMS in terms of developing a checking instrument.

No special evaluation or study is required to identify whether an instrument needs to be revised. To internalise existing instruments, certain units in ISAI conduct these duties based on the organisational structure (ISAI, 2017, 29 September). For example, the Training Centre always provides ethical training including other learning materials on integrity, such as the code of ethics for new auditors and staff. This training seems to be a continuous programme for ISAI to introduce aspects of integrity to new employees. On the other hand, ITAMA will deliver updated material for senior employees, if there is a revised code of ethics.

In addition, the ISAI sometimes arranges a special programme to launch a certain instrument. The programme usually follows the agenda of the central government. For instance, as a reform agenda, the government has declared the aim to create a clean government and bureaucracy. Therefore, they have initiated an integrity zone in many governmental entities and public institutions. To participate in this programme, ISAI also established integrity zones in their offices. This process is an example of one-off projects to progress the instrument of integrity that are in similar to those in the OECD IMS. Overall, some instruments seem to be developed by continuous projects and while others are one-off projects. However, there is no specific pattern such as the PDCA example in the OECD IMS.

6.6 Structures

Finally, this section addresses the third pillar of the nominal ISAI IMS, namely the structures. According to existing laws and regulations, the organisational units that are perceived as structures in the ISAI nominal system are the MKKE and ITAMA (ISAI, 2018, 28 December). Their roles and authorities are to monitor and punish those who violate integrity in ISAI. The following sections provide additional explanation about these bodies.

6.6.1 MKKE

As part of governance, the establishment of the MKKE is mandated by Law Number 16 Year 2006 that obligates the ISAI to have a code of ethics and an MKKE to ensure and enforce the implementation of the code of ethics ("Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year*

2006 concerning Indonesian Supreme Audit Institution)," 2006). According to the law, MKKE is only an ad-hoc unit, but its authority is strategic in the nominal ISAI IMS (ISAI, 2019g; "Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006) as it has the power to punish wrongdoers.

Initially, the MKKE was established through the decision of ISAI No. 29/K/I-VIII.3/5/2007, with three persons from the ISAI board and others from outside of the ISAI (ISAI, 2007). However, to decrease the dominance of the board views, the number of board members in the MKKE was reduced from three to two in 2013 (ISAI, 2013). The current configuration of the MKKE is thus as follows: two ISAI board members and three outsiders. One outsider represents professionals usually from a professional body such as the Institute of Chartered Accountants, and the other two are university academics (ISAI, 2019g). All five persons are appointed by the nine members of the ISAI's board and serve for two-and-a-half years for the first term, with a possibility of being re-elected for a second term, which is the maximum (ISAI, 2018, 28 December).

In general, MKKE has the following duties: (1) to establish an ethics team from ITAMA to handle cases of integrity violation (cf. Section 6.3.4.1); (2) to obtain information and data from relevant parties, such as the suspect, witnesses, experts and so on, in order to investigate the case; (3) to make a decision on whether there has been an integrity violation; and (4) to punish the offender (ISAI, 2019g). In conducting these duties the MKKE is assisted by ITAMA, both for the secretariat

and the ethics team that investigates the cases, as previously explained in Section 6.3.4.1 on the procedures for handling integrity violations.

6.6.2 ITAMA

The second important structure of the nominal ISAI IMS is ITAMA. This is a special unit in ISAI that is led by a principal inspector with assistance from other inspectors. The unit's annual evaluation report shows that ITAMA has 95 personnel (including management) who are divided into three inspectorates, *Pemerolehan Keyakinan Mutu Pemeriksaan* (PKMP, Quality Assurance Audit), *Pemeriksaan Internal dan Mutu Kelembagaan* (PIMK, Internal Inspection and Institutional Quality), and *Penegakan Integritas* (PI, Integrity Enforcement). Among these inspectorates, PI has the smallest number of personnel at 25 (ISAI, 2019a). Figure 6.8 shows ITAMA's organisational structure:

Figure 6.8: Organisational Structure of ITAMA
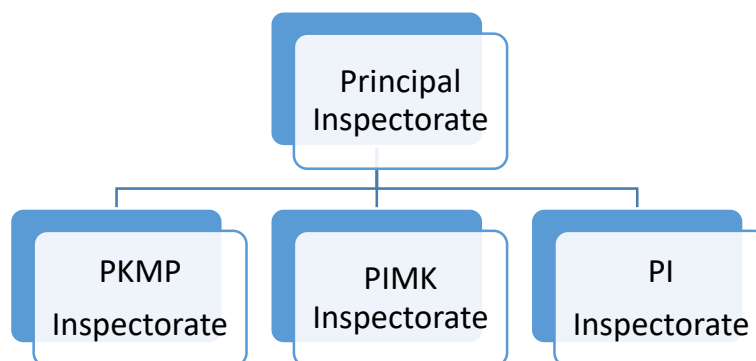
Source: ISAI (2019a)

The PKMP inspectorate focuses on the processes applied in audits, for example the appropriateness of using audit sampling. The PIMK inspectorate also examines the supporting units, for example, the financial units and HR.

ITAMA also has additional duties to assist MKKE, especially in processing integrity cases. In this role, ITAMA functions as a secretariat of MKKE and the code of ethics team (cf. Section 6.3.4.1). Mostly, these duties are handled by the PI inspectorate. They organise the MKKE trials by providing data, recording every session in the court, and maintaining all the data of integrity violation cases. Moreover, as a code of ethics team, they investigate a case by collecting data, interrogating suspects, validating information, confirming, and so forth. Overall, their function is to provide significant support for MKKE, because as an ad-hoc unit, MKKE does not have any personnel or a bureaucracy in ISAI.

6.7 Chapter Summary

This chapter reports on the comparison of the nominal ISAI IMS and the 'ideal' OECD IMS. The comparison is made using both quantitative and descriptive approaches. The IMSs are compared on an instrument-by-instrument basis according to the OECD IMS. By assigning (largely) subjective weights for layer, approach, function, sub-function and presence or not in the ISAI IMS, I calculate a weighting for each of the instruments. Aggregation across the full set of instruments shows that the nominal ISAI IMS has 83% of the instruments included in the OECD IMS.

The descriptive approach to comparison focuses primarily on the instruments that are part of the OECD IMS but are either missing from the nominal ISAI IMS or implemented to a low level. The OECD IMS includes a code of conduct as a compliance based instrument and a code of ethics as a values based instrument. The ISAI IMS has only a code of ethics. However, that code of ethics in effect covers both the code of conduct and the code of ethics of the OECD IMS and thus the IMSs are effectively the same on this issue. On conflict of interest, the ISAI IMS includes a number of forms of guidance but there is no formal overall statement of policy on conflict of interest. The ISAI IMS coverage of risk analysis is limited and to date has only been implemented to a low level. The ISAI IMS includes a policy statement that prohibits gratuities (risk of personal gains) but in practice this leaves uncertainty for auditors in distinguishing between gifts that are akin to presents and those more like attempted bribes.

Among the instruments not included in the ISAI IMS the most significant is that there is no policy on post-employment arrangements. The chapter also describes the enforcement instruments in the ISAI IMS, applied through MKKE and ITAMA, but this category of instruments is not described in detail in the OECD IMS. The instruments are fully implemented but political influence leaves a question mark about their effectiveness.

CHAPTER SEVEN
THE REAL ISAI IMS

7.1 Introduction

In the previous chapter, I compared the nominal ISAI IMS with the OECD IMS (the ideal system). The main focus of the comparison was to identify the extent to which the nominal system has adopted the principles of the ideal system. However, as the comparison was based mainly on document analysis, it did not examine in full the degree of implementation of the nominal system.

The quality of the nominal ISAI IMS depends not only on how many of the instruments of the ideal system it includes, but also on the degree to which the instruments are actually implemented within the system. That is, what is the quality of the real system? Therefore, this chapter focuses specifically on how the various instruments in the nominal system are applied in ISAI. This chapter, therefore, addresses the second research question: *How does the real ISAI IMS compare with both the nominal ISAI IMS and the ideal OECD IMS, that is, what is the implementation deficit?*

I refer back to Chapter Six which reported on the comparison between the nominal ISAI IMS and the ideal system, as described in Table 6.1. Extending the quantitative approach introduced in Chapter Six, show that in the nominal ISAI IMS, the OECD instruments are implemented to the level of 55%. Then, by reporting on the interviews of the 42 participants from various backgrounds, I discuss the findings in terms of the multifarious challenging factors of the real system based on the most

frequent issues that were raised by the participants. This chapter then identifies the differences among the systems to answer the third research question by combining the two sets of results.

In this chapter the instruments are compared on the basis of four groupings, those in the OECD IMS but not in the nominal ISAI IMS; those included in the ISAI IMS but with uncertain effectiveness; those in the ISAI IMS but in most cases with less than optimal implementation; and finally those not in the OECD IMS but in the ISAI IMS. The chapter concludes with consideration of the capabilities of actors' integrity.

7.2 Quantitative Assessment of Implementation

The quantitative analysis presented in Chapter Six showed that the nominal ISAI IMS included 83% of the OECD IMS instruments. However, not all instruments have been implemented to the same degree. I therefore extended the quantitative approach introduced in Chapter six to assess the implementation of the nominal ISAI IMS. This was a pre-assessment because it was mainly based on follow-up documents, reports and other information that was available to indicate that any particular instrument was being applied in actual practice. The assessment was also based on my personal view as 'an insider' with relevant knowledge of actual integrity practices in ISAI. Therefore, this assessment is also a subjective view that could be debated and might differ from a corresponding assessment made by another observer. However, I have attempted to provide supporting information to justify my personal assessment of the implementation of each instrument.

The process of assessment began with assignment of implementation scores at four levels from zero to three, as shown in Column Seven of Table 6.1. Firstly, a score of zero is for an instrument that is not used because it does not exist in the nominal system, for example, post-employment arrangements. A score of one means this instrument is only partly used. In other words, the nominal system includes this instrument, but there is no specific document to describe the degree of use. An example of a score of one for an ISAI instrument is conflict of interest policy. ISAI's auditing standards acknowledge that an auditor should be "free from conflicts of interest" to ensure they are independent (ISAI, 2017, 6 January, p. 16). However, there is no specific document to guide auditors and helps them avoid such conflicts of interest. Therefore, my assessment for this instrument is a score of one, as stated in Column Seven of Table 6.1.

A score of two means that an instrument is used but its implementation is still limited. For example, ISAI has a risk management policy to identify and anticipate various risks. However, there are no supporting documents that describe its implementation (see Section 6.3.1.8). A score of three means that an instrument is present and fully implemented. An example of an instrument that has a score of three is structural measures, such as the mechanism of rotation The ISAI has a policy to transfer their auditors and officials from one work unit to another after a certain period. They publicise the rotation of their officials on the website. Similarly for the other implementation scores, which are shown in Column Seven of Table 6.1.

I then calculated the pre-assessment implementation weight for each instrument in the nominal ISAI IMS and the results are shown in Column Eight of Table 6.1. For example, the calculation for risk analysis is 0.0168 x 2 = 0.0336 where 0.0168 is the ISAI weight and 2 is the implementation score. The maximum value of the ISAI implementation weight is shown in Column Nine of Table 6.1 and is the result of multiplying the ISAI weight by the maximum possible implementation score. Thus for risk analysis the result is 0.0168 x 3 = 0.0504. Similarly for the other instruments, the results of which are shown in Column Nine.

The total in Columns Eight and Nine show the actual aggregate implementation result and the maximum aggregate implementation result: 145% and 240% respectively for instruments in the core layer, and 20% and 60% for the complementary layer.

Therefore, the results of preliminary assessment at the aggregate level indicated that the nominal ISAI IMS included and implemented the OECD IMS instruments to the level of 55% (=165/300). A perfect value of 100% would mean all instruments were included and were fully functional

This aggregate value of 55% is also a signal that 45%, almost half, of the OECD IMS instruments are either not present in the nominal ISAI IMS or are not functional. In other words, ISAI still has a problem known as an "implementation deficit" (Heywood et al., 2017; OECD, 2009). In the next section, this study

highlights issues of implementation as reflected in the comments of participants with real user roles in the ISAI IMS.

7.3 What are the participants' impressions?

To complement the quantitative analysis, this section reports on interviewees perceptions of the adequacy of ISAI IMS. However, the aim was to obtain comment on real user experience of the ISAI IMS. Therefore the question was only put to 17 of the 42 interviewees who were internal participants. They were from different roles and sectors and included board members, the principal inspectorate, the secretariat general, the training centre, audit managers, and auditors. This spread was to ensure their comments were representative of all participants' views.

On the question of whether ISAI had enough tools, programmes, or mechanisms to promote integrity and control violations, my interview data reveals that ISAI has quite well-established instruments for promoting integrity within the organisation. This finding is very significant because nearly all of the 17 participants agreed that ISAI's instruments were adequate to support auditors to have integrity. As one audit manager said,

> In my opinion, the tools are sufficient. The most important factor is the leader. For example, if the leader says A [today], but tomorrow B, [then] we as low-level employees will get confused (A23).

Another senior auditor commented:

> In my opinion, the instruments are sufficient. We already have a code of ethics and other rules (A25).

While another said:

> The instruments are appropriate and adequate, I think (A34).

All the participants' responses and the pattern of data show that they perceived that most of the instruments were sufficient, even excessive, and that they were currently used in the system. It was also perceived that all the instruments would be effective in preventing auditors from conducting integrity violations. The following word-tree presents their comments about the completeness of the instruments and shows that most participants saw the current instruments of integrity as 'adequate, complete and sufficient':

Figure 7.1: The word tree of the completeness of the instruments
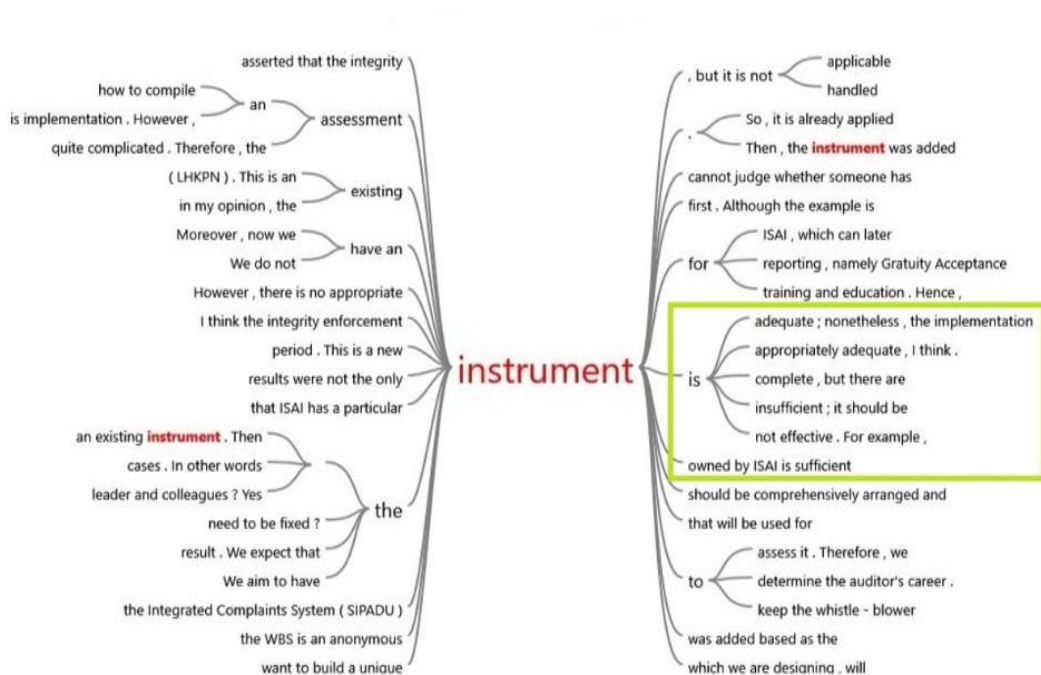
A very small number of participants commented that the current instruments were insufficient. For example, an integrity manager said:

> In my opinion, the existing instruments are insufficient; They should be added to other instruments (A9).

Although some participants stated that there were too many instruments, they believed no instrument was devised to measure an auditor's level of integrity. They stated that most of the instruments focused more on preventing and handling a case rather than measuring the level of integrity. For instance, a whistle-blower system is for dealing with people who want to report incidents of integrity violations. This instrument can prevent people from conducting integrity violations because their violation will be reported by their colleagues.

7.4 Comparing the instruments

This section returns to the format of Table 6.1 and adds the real system to enable comparison of the ideal, nominal and real systems. Table 7.1 lists the OECD IMS instruments together with the corresponding entries for the nominal ISAI IMS and the real ISAI IMS.

Table 7.1: Overview of Instruments in the Three Different Systems

Layers	No	OECD IMS (Ideal System)	Nominal ISAI IMS	Real ISAI IMS
		(1)	(2)	(3)
		Compliance Based		
		Determining and Defining Integrity		
	1	Risk analysis	Risk management policy	Risk management policy
	2	Code of conduct	Code of ethics	Code of ethics
	3	Conflict of interest policy	Conflict of interest policy	Conflict of interest policy
	4	Gifts and gratuities policy	The control programme for gratuities	The control programme for gratuities
	5	Post-employment arrangements	None	None
	6	Structural measures (e.g. function rotation)	The rotation programme	The rotation programme
		Guiding towards integrity		
	7	Rules-based integrity training	Training in Ethics	Training in Ethics
	8	Oath, signing an "integrity declaration"	Oath and signing integrity declaration	Oath and signing integrity declaration
	9	Advice, counselling	Counselling	Counselling
		Monitoring integrity		
	10	Whistle blowing policies	Whistle blowing system	Whistle blowing system
	11	Complaints policies	e-chanelling (*Mobile Sipadu*)	e-chanelling (*Mobile Sipadu*)
	12	Inspections	Routine inspections	Routine inspections
	13	Integrity testing	None	None
	14	Early warning systems	None	None
	15	Systematic registration of complaints, investigation, etc	External complaint from stakeholder	External complaint from stakeholder
C	16	Survey measurement of integrity violations and organisational climate	Periodic survey	Periodic survey
o		**Enforcing integrity**		
r	17	Formal sanctions	Formal santions	Formal santions
e	18	Procedure for handling integrity violations	Specific procedure for integrity cases	Specific procedure for integrity cases
		Values Based		
		Determining and Defining Integrity		
	19	Analysis of ethical dilemmas	Include in training in ethics	Include in training in ethics
	20	Consultation of Staff and Stakeholders	Consultation forum of staff and stakeholders	Consultation forum of staff and stakeholders
	21	Code of Ethics	Code of ethics	Code of ethics
	22	Non-written standard setting	Non-written standard	Non-written standard
		Guiding towards integrity		
	22	Values-based integrity training	Training in Ethics	Training in Ethics
	23	Integrating integrity in the regular discourse	None	None
	24	Exemplary behaviour by management	Motto "leading by example"	Motto "leading by example"
	25	Coaching and counselling for integrity	Coaching Training	Coaching Training
	26	None	None	Religious Event
		Monitoring integrity		
	27	Survey measures of integrity dilemmas	None	None
	28	Informal probing for ethical dilemmas and issues among staff	None	None
		Enforcing integrity		
	29	Informal sanctions	Informal sanctions	Informal sanctions
		Determining and Guiding integrity		
	30	Assesing the fairness of reward and promotion systems	None	None
C	31	Appropriate procedures for procurement, contract management and payment	N/A	N/A
o	32	Measures in personnel management (e.g. integrity as evaluation and promotion)	Yearly performance report	Yearly performance report
m	33	Measures in financial management (e.g. financial control)	Routine internal control by Principal Inspectorate	Routine internal control by Principal Inspectorate
p	34	Measures in information management (e.g. protecting automated databases)	N/A	N/A
l	35	Measures in quality management (e.g. reviewing the quality assessment tool)	Routine internal control by Principal Inspectorate	Routine internal control by Principal Inspectorate
e		**Monitoring integrity**		
m	36	Internal control and audit	Structural Leader and Principal Inspectorate	Structural Leader and Principal Inspectorate
e n t a r y	37	External control and audit	Peer-Review and Accounting Firm	Peer-Review and Accounting Firm

I have grouped the instruments in Table 7.1 into four categories. The first category comprises instruments included in the OECD IMS that are not available in the nominal ISAI IMS. These were discussed in Chapter Six. However, while they do not exist in the nominal system some operate informally in the real system.

The second category is the instruments that have been implemented in the day-to-day operations of ISAI but the effectiveness of their implementation is uncertain. Their existence can be traced in some ISAI documents, for example, the rotation programme, the oath and signing the integrity declaration, and the periodic survey. I have shown these instruments in Table 7.1 in green.

The third category is instruments not included in the ideal system or the nominal system but that in practice have been implemented by ISAI. However, I found only one instrument that belongs in this category, that is, religious events. I show the category in yellow.

Finally, the last category is instruments that are included in the nominal system and implemented in the daily operation of ISAI but, based on the previous pre-assessment, their implementation has in most cases not been optimal. Table 7.1 shows the instruments within this category without any colour. They have important functions. Therefore, this chapter focuses mainly on discussion of the instruments in this category, referred to by the interviewees and perceived to have an important role in building integrity in ISAI.

7.4.1 Instruments that are not present in the nominal system (Blue in Table 7.1)

As indicated in the previous section and discussed in Chapter Six, some OECD IMS instruments are not included in the nominal system, such as post-employment arrangements, integrity testing, early warning systems, integrating integrity in the regular discourse, survey measures of integrity dilemmas, informal probing for ethical dilemmas and issues among staff, and assessing the fairness of reward and promotion systems. These are shown in blue in Table 7.1.

Post-employment arrangements were raised by interviewees and are also perceived to be important in the context of ISAI. The ideal system includes rules on post-employment for employees of public institutions. The rules are intended to prevent former employees from 'misusing' their organisation's internal information for personal gain (cf. Chapter Five, Section 5.6.1.5). The instrument is especially relevant for ISAI. Nonetheless, it seems that the organisation has not been aware of its importance. In particular, this should concern key personnel including strategic leaders, board members and high-ranking officials who have easy access to, and wide networks in, the ISAI. In this respect, a board member who was also a member of MKKE commented on the importance of the instrument as follows:

> I think the post-employee [arrangement] is important. For example, I don't know whether I will be re-elected or not. I may even have activities in other places after this. From my experience of working for ISAI, of course I know something about ISAI. This information will affect ISAI, yet the regulations [on the issue] have not been set forth. Therefore, I think a special arrangement should be made. It sounds good. Well, there are still no thoughts on it. I support it [the effort] (A2).

The board member appreciates that knowledge gained while working for ISAI could raise potential problem, such as conflict of interest, if they were later employed in a government agency.

A similar view on this issue was conveyed by a high-ranking official. The official perceived that ISAI should consider the instrument because it could lead to conflicts of interest.

> We have not settled post-employee [arrangements] properly. We still need to map it effectively because sometimes we are confused about how to decide one's position after his/her current position. For instance, after being an auditor, what is the next position? Will it lead to a conflict of interest? (A5).

However, there have been a number of cases of former board members and high-ranking officials who have taken strategic positions in state-owned enterprises and government agencies. A senior official in a government agency who was formerly an ISAI auditor may be able to use their knowledge and influence to 'intervene and mislead' the audit team. On the other hand, the audit team ma also feel 'uncomfortable' in dealing with their former colleagues. This is partly because respect for others, especially for a person who has a 'position' in society, including former bosses, is part of the culture of the bureaucracy (cf. Chapter Two, Section 2.6.1). Another aspect of the problem is that an ISAI auditor might sacrifice their integrity and independence in their on-going audit duties if an auditee offers the auditor a senior job within the auditee's organisation.

Some instruments that are not included in the nominal ISAI IMS are actually applied informally in ISAI. For example, integrating integrity in the regular discourse of the organisation has been facilitated by the ISAI's website which provides information about the code of ethics and integrity-related programmes. By doing so, ISAI has publicised their code of ethics for all members of the organisation to take note of and obey.

Routine inspections by ITAMA could compensate for two other instruments not included in the nominal ISAI IMS, namely integrity testing and an early warning system. This is because routine inspections aim to identify any integrity issues in ISAI at an early stage. The inspections can therefore be seen from an organisational point of view to serve both as integrity testing of employees and an early warning system.

7.4.2 Implemented Instruments with uncertain effectiveness (green in Table 7.1)

Examples of implemented instruments with uncertain effectiveness are the rotation programme, and the oath and signing the integrity declaration (presented in green in Table 7.1)

Where auditors have audited the same auditees for many years, 'a special relationship' could build up with the auditees. In order to mitigate this risk, the auditors need to be moved to new positions (assignments) under a regular rotation programme. In practice, ISAI rotates their auditors at least twice every year, that is,

between April and November (cf. Chapter Six, Section 6.3.1.9). The instrument thus exists in the real ISAI IMS. However, interviewees questioned the effectiveness of the instrument.

7.4.3 Instruments that have been implemented (No Colour in Table 7.1)

The final category is concerned with instruments that have been implemented and yet in many cases, the implementation has been less than optimal. Based on my interviews, the instruments with some shortcomings are the Risk Management Policy, Code of conduct, Conflict of Interest Policy, Gift Giving and Gratuities, Training in Ethics, Whistle Blower System, and Sanctions and Punishment. The instruments in this category are shown without any colour in Table 7.1. However, this section limits its discussion to the instruments that were frequently mentioned by the participants as having shortcomings. I discuss them in turn in the following sub-sections.

7.4.3.1 Risk Management Policy

ISAI has published a policy on risk assessment and measurement for management in its head and regional offices (cf. Chapter Six, Section 6.3.1.8). However, based on my interviews, ISAI has not yet implemented the policy as intended, partly because the policy is relatively new. The high-ranking official's comment below illustrates this situation:

> Currently, we have not begun yet, because we launched this policy only last year. So, this year we will see units that will give their reports to us. After that, we will review any risk they are facing in their unit. We will see risk profiles in all units that create high risks and [identify]

what their problems are. We will give them Standard Operating Procedure (SOP) to guide them in risks assessment (A7).

The comment is consistent with my pre-assessment that the instrument operates but only to a limited degree. An important consequence of the delayed implementation of this policy is that the ISAI does not currently have an early warning system.

7.4.3.2 A Code of Ethics and the Challenge of Coping with Local Traditions

As discussed in Chapter Six, ISAI does not have a specific code of conduct. But, ISAI does have a code of ethics under which board members and auditors are expected to behave with integrity and professionalism (cf. Chapter Six, Section 6.3.1.3). The code was introduced in August 2007 as a part of ISAI's reform agenda that was initiated almost ten years earlier (Dwiputrianti, 2011).

In terms of implementation, some participants find that full compliance with the code of ethics is challenging. This is partly because of some local traditions, such as hospitality to visitors, which is commonly seen as 'best practice' by many Indonesians. If one has guests, a good host will treat the guests in a friendly and welcoming manner. This practice is also followed by government entities when they have auditors at their offices, that is, food and drink will be shared, sometimes including gift-giving as a manifestation of respect for the auditors, who are regarded as guests.

However, this local tradition can present real challenges to auditors because ISAI's code of ethics prohibits auditors from asking for, or receiving, money, goods and/or benefits, either directly or indirectly from the auditee and other parties that relate to

the audit (ISAI, 2018, 28 December). So, for many auditors, respecting local

traditions and accepting hospitality is like "eating a *simalakama* fruit[9]" to use a

local expression, roughly meaning "damned if you do, damned if you don't".

Therefore, in general auditors believe that it is important that ISAI should provide

them with clear written guidance. One member of the management in the DKI

Jakarta regional office said:

> … as for gratuities, personal gains and others, I think we have already
> moved to 'a shifting culture'. [We also] have no problem with eastern
> culture, except for trivial matters like eating or drinking. This practice
> continues and is still accepted, even though the Code of Ethics does not
> state the condition in detail. But sometimes any condition could
> happen….
>
> So, I advise the auditors that [we] still tolerate a banquet even though a
> code of ethics prohibits the practice. It is not expressly forbidden (A20).

The comment shows that although ISAI's code of ethics prohibits receiving money,

benefits and goods, the participants perceive that the instrument still fails to

adequately deal with practical situations.

The serving of food and beverage by auditees during fieldwork has for many years

spurred a serious debate among auditors, management, the principal inspectorate

and leaders. In terms of the leader's perspective, food and beverages are acceptable

as long as they are well defined and are not served on a regular basis. A comment

below from a board member shows the level of acceptability:

> We must also respond to eastern culture wisely. For example, when
> meeting for the first time, the audit team comes in at an entry meeting
> to begin an audit. Let's say the auditee has prepared food and beverage.

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[9] "Eating a *simalakama* fruit" is an Indonesian expression of a no-win situation where all possible
solutions have a terrible or undesirable outcome.

It is impolite if we reject it. However, this meal should not become a continued practice. So, the audit team leader and the technical supervisor must be able to manage it. Conversely, if they do not show a proper example [how to control it], it will continue and become a bad tradition (A1).

The board member is aware of the fact that Indonesia is a country with certain norms and traditions that auditors need to take into account and behave in 'a friendly manner' towards others. If ISAI want to apply a rigid code, which stipulates that auditors should not receive any kind of food, the result could be counterproductive for ISAI. If auditees perceive that ISAI does not have any tolerance and sensitivity towards their hospitality and common traditions, they may be less than cooperative with auditors during the fieldwork.

In terms of clarity about how to approach the issue of food and beverage offered by auditees, the inspector of integrity argued that the code of ethics was clear and stated:

I think everything is clear, because the rules about the prohibition are clear. As for what is permissible in the context of our relationship with the entity, it is about accepting food during [the audit] engagement, a simple menu of boxed food. While for extreme places, (for example) that are difficult to reach by vehicle, the auditees' vehicles may be used. Except for this condition, actually, it is not a 'grey area', and then we adjust to the conditions. For example, when we are in a place that does not have any restaurant and so on. [if] the auditee provides us [with food], we are allowed to take it. That is what is called personal *ijtihad*[10] (A8).

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[10] *Ijtihad* is an Islamic legal term referring to the independent interpretation of problems not precisely covered by the Qur'ān, Hadith, and *ijmā'* (scholarly consensus). In this case, it may refer to independent reasoning or the thorough exertion of a person's mental faculty in finding a solution to a question or problem.

The comment indicates that although there is no specific written regulation regarding how to treat a food benefit from auditees, the auditors are expected to use their professional judgement when making decisions. Detailed written guidance, that is similar to a code of conduct and issued as a response to the challenge of cultural context, may not be urgently required but it certainly needs to be taken into consideration.

7.4.3.3 How is the Policy on Conflict of Interest Implemented?

ISAI still does not have a specific document serving as a comprehensive statement of policy on how to address the problem of conflict of interest. Other documents that are also instruments in ISAI, for instance, the code of ethics, SPKN, and PMP have defined the terms of conflict of interest and provided some explanations (cf. Chapter Six, Section 6.3.1.4). However, ISAI still has to interpret the term 'conflict of interest' and provide detailed guidance on ways of avoiding such conflicts.

The challenge may derive from the Indonesian cultural environment that is generally regarded as a communal society, as explained earlier in Chapter Two, Section 2.6.2. A member of MKKE shares their experience in facing the problem of conflict of interest, as follows:

> … in these duties, sometimes we are faced with the fact that "A is a nephew of this person, B is a relative of C". Well, that is the fact. In Indonesia, we uphold kinship, which is a common practice. Sometimes, we also interfere in our neighbour's life. That is our culture. But, as a Member of MKKE, we must state "what is right or what is wrong." That is [one of] the challenge[s] I face as a member of MKKE (A2).

The statement depicts the challenge of the Indonesian cultural environment, partly because a strong culture of kinship can influence the implementation of policy on conflict of interest and land some people, including MKKE members, in difficult situations. Moreover, considering the absence of any specific document that serves as a guideline on how to manage the risk of conflict of interest, the participants agree that such a document should be available as a complement to the code of ethics. An additional comment below provides a further example to consider:

> I agree. In my opinion, regulations on conflict of interest need to be clarified more fully. For instance, an auditor's wife opens a meatball restaurant. The customers may be the auditee. Can it be categorised as a conflict of interest? It is hard to tell (A2).

Similarly, a director of a centre for anti-corruption studies at a well-known university identifies the challenging situation faced by many Indonesians to act according to the principles of conflict of interest in public institutions. While there is a clause in the code of ethics stating that every civil servant must avoid conflicts of interest, in reality it is not always easy to put the rule into practice in the day-to-day operations of a bureaucracy. The challenges could be that some people do not have a clear understanding of what conflict of interest means.

The director explains in the comment below what people think about conflict of interest:

> Until now, the code of ethics in a bureaucracy is still being debated. The discussion about this should no longer be an issue. For example, civil servants are not allowed to meet 'face to face' with vendors, to avoid [they could build 'a special relationship' that could lead to] the risk of conflict of interest. However, our society has yet to understand this kind of value. Perhaps, in New Zealand, it is good enough. People

> do not need to be [strictly] regulated because [they realise] there are potential conflicts of interest.
>
> Perhaps the value of our society is still relatively basic. So firstly, we fix the value. Probably, it has not been directly addressed by the policy on conflict of interest. I have discussed with various local governments, and they do not understand what conflict of interest is. However, if we say do not accept money because it is related to bribery, then they will understand (C2).

The comment reflects that it remains a challenge to stick to the principles affecting conflict of interest. It seems that it is not only ISAI that has difficulty in putting the principles into practice, as many other public institutions also have the same problem.

Conflicts of interest can arise through family or ethnic connections and result in nepotism. An actual instance of this issue is the favourable punishment for an auditor who was suspected of violating integrity because of 'selling an audit opinion in *Kementerian Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi'* (Ministry of Village, Disadvantaged Regions, and Transmigration, or *Kemendes* for short) (see Appendix 1).

Kemendes' case, which happened a few years ago, is significant for auditors. CA (the auditor) served as a negotiator between the ISAI management, *Auditorat Keuangan Negara III* (State Finance Auditorat III/AKN III), which signed the audit report, and Kemendes (the auditee). The case was brought to court by the KPK, and two high-ranking officials were sent to jail. However, the auditor was not arrested

by the KPK, even though her/his role was obvious, namely demanding some money. MKKE took the case to court. As a result, MKKE decided to recommend that the auditor be suspended from their duties for a certain time. However, the bureaucracy did not act on the MKKE's recommendation. The result was considered suspicious because the auditor received support from one of the board members who had the same ethnic origin.

A former high-ranking official at the principal inspectorate offered a detailed explanation about the case in the following statement:

> It is CA's case, isn't it? (He confirmed). Even though CA has been dismissed as an auditor, this auditor has no a career in ISAI. However, the work unit needs him due to alignment. I already reminded the Principal Auditor that he fired CA or [otherwise] we create a negative image. I was also wondering why the work unit retains him as though there will be a significant loss if the organisation dismisses CA. I suggested we bring this person into HRD for better guidance. But again, it is back to the issue of ethnic relationship. You get my point, don't you? (He seemed to give an implicit affirmation) (A6).

An MKKE member, who handled the case, made the same comment about the potential conflict of interest.

> But let's talk about CA. The case involving the auditor has been investigated and has been settled, but why was the process dropped like that? Who has that power? If the person is the current board member … what is his name? (This MKKE member asked), who comes from…, who is the [board] member? ("Mr…") If the member is the one who influences it [the case decision/settlement], it means the board is not strong enough. So, what do you think? (A3).

7.4.3.4 How to Control Gift Giving and Gratuities involving the board and their Families?

It is likely that gift giving and gratuities pose a threat to integrity unless they are managed properly (Verhezen, 2014). Therefore, to prevent the tradition from generating serious problems, ISAI issued the PPG as an instrument that was aimed at controlling these traditions (cf. Chapter Six, Section 6.3.1.6). Unfortunately, sometimes conditions are not easy to anticipate, especially where gift-giving and gratuities involve board members and their families.

For example, the principal inspectorate's annual report 2017 reveals that there was a case of gift-giving that involved the family of a member of the board (ISAI, 2018, 2 January). The report states that on 28 April, 2016, 'someone' sent a letter to ISAI to report that there were indications that the wife of a board member received many valuable gifts at her birthday party from local government officials who attended the party. It was feared that the birthday party was used as a 'camouflage' for taking personal gain from government agencies (ISAI, 2018, 2 January).

Unfortunately, the report also stated that the case was 'pending' or could not be followed up. There are reasons why 'serious action' regarding the case was not taken. Firstly, the focus of the current regulations concerning gift-giving and gratuities, which is PPG, only affects auditors (cf. Chapter Six, Section 6.3.1.6).

Secondly, in practice the unit that monitors PPG is the principal inspectorate and their authority is based on the rules of PPG which exclude board members and

people who are connected to them, such as their family members. Therefore, the principal inspectorate was not able to take on the case.

In addition, the regulation of PPG is signed only by the secretariat general and therefore cannot be used to regulate board members. The challenge of handling the case is also explained by an integrity auditor at the principal inspectorate as follows:

> I think the main point is a lack of commitment. I mean the commitment shown by the leaders (the board members). Currently, PPG is still in the form of the Secretary General's Decree. The initial design that we built with the KPK should also reach the level of the ISAI's board. So, this is definitely a setback. We built this design with the KPK in around 2011 and early 2012, and it was implemented in 2014. It took a long time to build it. Initially in the design, what we want is in the form of regulations or ISAI decisions so, the programme also binds the board rather than auditors only. However, it is only a decree of the Secretary General. It means that it only binds the auditors but not the "board member" as well.

> Actually, if we discuss gratuities, the code of ethics, and such like, the only thing that is needed is exemplary [behaviour]. This is also reflected in several surveys we conducted involving auditors, who mostly stated that we need exemplary [behaviour] (A11).

The case illustrates that while ISAI has PPG as an instrument, PPG still has severe limitations as it cannot control board members and their families.

7.4.3.5 Training in ethics, is it worth doing?

Integrity training is one of the most popular instruments as well as a common method for many organisations to promote integrity among their employees (Maesschalck & De Schrijver, 2015). As with ISAI, state auditing standards require that auditors maintain their competence through continuous training of at least 80

hours spread over every two years. Training subjects should include training in ethics and integrity (ISAI, 2017, 6 January). ISAI organises regular training programmes in ethics, especially for newly-recruited auditors as part of an induction programme. In addition, in-service auditors also attend training in ethics when they are promoted to a higher position (cf. Chapter Six, Section 6.3.2.1).

However, my interview data indicates that ethics training is ranked third as the most frequently mentioned topic[11], While this indicates that training in ethics is regarded as an important aspect of ISAI's nominal system, the comments were often critical of the programmes offered.

Two important issues have emerged from the comments. First, is there any benefit of training, viewed from an auditor's perspective? Second, what have been the challenges of organising integrity training so far? As for the second question, this study concentrates on the training centre management and instructors who have a role in organising the training.

The views of participants tend to be influenced by their own experience of attending training programmes. Some auditors comment that training has had little impact and that it has been nothing more than a matter of gaining new knowledge. In other words, there is no guarantee that people who attend the training will have greater integrity than they had previously, as the following views show:

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[11] Nvivo's word frequency records the words 'integrity training' 416 times as a research topic, after integrity first and auditors second

In my opinion, [integrity] training is only about knowledge, [that is] for those who previously do not know [and] then understand. That is what the training is about. It is the same as education. It requires something else in order to make the lesson something to hold and practise, for example, leadership and [work] environment (A21).

I think training in ethics is only a theory. There is no added value. The first time should be enough when as new employees, ISAI provides [us] with training in ethics. After that, as new audit team members, we do this training again as an improvement [in knowledge]. Then, when we get a promotion such as KTY, KTS[12], we get integrity training again. I think this training is no longer needed (A26).

The two participants, who were an audit manager and a senior auditor, perceive that the current training in ethics is overly theoretical. What they have learned from the training is more or less about integrity according to ISAI as an institution and what the textbooks say. They think they have acquired background knowledge to understand theories of integrity and that the integrity training offers few additional benefits.

Nonetheless, other auditors gave more positive feedback. They felt the training gave not only theoretical ideas but also good practical lessons. For two audit managers, attending training in ethics was a positive experience:

Regarding the training, I have no idea if auditors at the lower level, such as ATS[13], have the same feeling. However, I attended training in ethics at an audit supervisor level, including at the leadership level. It was superb. The training not only discussed theories, but also presented some reasons of high integrity as speakers. So, the training was more meaningful than if we only discussed the instrument of integrity A, B, C, and so on (A22).

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[12] KTY (*Ketua Tim Yunior*, Junior Audit Team Leader); KTS (Ketua Tim Senior, Senior Audit Team Leader)

[13] ATS (*Anggota Tim Senior*, Senior Audit Team Member)

A few days ago, I did the training and, in my opinion, [it] was also good. We were asked to relate the integrity of what we have done so far. So, everyone said that actually they have integrity. I mean, some people are so strict with how they ensure integrity, even for trivial matters (refusing a bottle of water can be a case in point), but we continue to do so. This makes us feel ashamed of ourselves. So, it's good to share such experiences. However, it was [impossible] just one meeting in the class, so this makes an impression forever, isn't this so? That is why [we] need more sessions (A23).

The two audit managers found the training in ethics and what they learnt at the training centre to be useful. Attending sharing sessions that involved both colleagues and persons of high integrity gave them fresh insights and reaffirmed their commitment to integrity. However, they think that the training is only an initial step and that it is important to have follow-up sessions.

Thus auditors appear to have both positive and negative perceptions of the training, which are shaped by what they think, feel and understand about the training. Sometimes, they relate the training benefits to the actual implementation of integrity in ISAI. But they also think about other thing(s) that may be required in addition to the training, such as a working environment conducive to integrity and good leadership. The auditors' perceptions of the training in ethics have revealed many aspects.

Besides the auditors' perceptions, two other challenges of managing training in ethics were evident: first, the way to deliver learning materials in the training classroom and, second, the way to prepare appropriate materials for the learners. To understand the dynamics of organising integrity training, I conducted interviews

with instructors and a curriculum manager at the Training Centre. The interview questions were mainly about the challenges of organising training in ethics in ISAI.

The first challenge is in the process of delivering learning materials to training participants. As part of the learning mechanism, the instructor is required to give an assessment of participants at the end of the training session to decide whether the participants pass or fail an integrity subject. However, because integrity is closely related to 'human behaviour', it is difficult to assess whether the participants improve their integrity by taking the course. It is difficult to measure the success of the course, as an instructor commented:

> I do not feel comfortable about giving a score and deciding whether participants pass or fail. For me, integrity examination is not in the classroom or on an exam paper, but in real life. So, I do not think the instructor evaluation is necessary (A18).

The above statement indicates that according to the participant the current assessment system through the mechanism of an exam is questionable. As the instructor noted, the idea of assessing the participants by conducting a sit-in exam seems absurd because the score in an exam may not represent the real integrity of the participants. They argue that true integrity only occurs in real life. Therefore, they tend to let all participants pass the exam.

As a result, finding a suitable and practical tool for assessment remains a challenge. A curriculum manager in the training centre notes that the exam mechanism is complicated:

> The highest target of [training] in ethics is implementation. However, an assessment instrument cannot judge whether or not someone has implemented the code of ethics properly. It is quite complicated. Therefore, the assessment instrument should be comprehensively arranged and observed (A17).

The second challenge of managing training in ethics is preparing suitable training material. In addition to finding suitable assessment material, some auditors state that the learning material is too theoretical for real-life conditions. Regarding the organisation of the training sessions especially ones involving new employees in an induction programme, the training centre has collaborated with the human resources department to develop the learning materials.

However, because integrity in Indonesia has many complexities, the curriculum department finds it difficult to create a satisfactory learning programme. These difficulties include how to make sure all participants understand the lessons properly. For the time being, the current method still depends on an exam at the end of training sessions. A curriculum manager explains his anxiety about the exam:

> Right, why do all the training participants pass this subject? (She admitted that in general all participants pass the subject). All participants pass because we have not been able to do high-standard training regarding both the assessment mechanism and the development of learning materials, including methodologies. So, we have not been able to implement those matters. According to what was conveyed by the instructors, it is difficult to give an integrity score to the training participants. Maybe it is because we have a lack of knowledge about it (A17).

This acknowledgement of the training centre's lack of knowledge shows that there are difficulties not only in how to assess whether the programme is successful by

assessing participants through an exam, but also in how to select the appropriate training syllabus for each level of auditor.

7.4.3.6 Do people participate in being a whistle blower?

ISAI introduced and implemented a Whistle Blower System (WBS) almost 10 years ago (ISAI, 2011, 8 December). However, my interview results show that even though a WBS has existed for a long time, people are still reluctant to be a whistle blower for reasons such as an inappropriate approach, career safety, and appreciation of possible adverse personal consequences of the action.

The CEO of an anti-corruption NGO identifies that the approach of the current WBS is not suitable. His observation of several public institutions indicates that the WBS is ineffective because the approach is inappropriate and thus almost nobody participates in it. The following statement explains his view on this problem:

> We also need to audit whether there have been WBS reports or not since the establishment [of the system]. An absence of a report does not necessarily mean there is no problem in the organisation. Based on our findings in several other institutions, WBS almost never reports. Why? It is because people perceive the WBS concept as a public complaint approach. In fact, the WBS is an anonymous instrument that will be used for enforcement.

> The public complaint is used as an improvement. Therefore, it must be completed with the reporter's data. There will be confirmation and research later on; hence, the data can be employed as a baseline to see the quality of public services quality.

> Meanwhile, the WBS is designed anonymously so that the reporter feels safe to report because the violator might be a high-ranking official and urgent…The reporter must be given an incentive. At the very least, the reporter will not face danger and negative consequences from their report (C1).

One concern with the WBS is that it may be misused for example as a tool for defaming someone within the organisation. This leads to the preference for other forms of reporting fraud. The reporter should declare their identity. This increases the reliability of the report.

ISAI does consider anonymous reports obtained under the WBS. But they are given lower priority for action. The argument is the same as the previous explanation as to whether or not the report is reliable. Whistle blowers who reveal their identity are concerned that their identity may be leaked, and therefore they will be at risk of retaliation. This is especially likely to happen if the person allegedly involved in fraud or another form of violation has a strategic position in the organisation. The following comment of an audit manager at the East Java Regional office describes such a concern:

> We are often fearful that if we see a violation and make a report, we'll run into problems. That makes us doubtful [about making a report]. Finally, we reluctantly cling to the idea that "as long as we do not commit it [, we do not care". It means that if we try to report a case and the like, we may not succeed in revealing it [the fraud]. Some colleagues have even got themselves into trouble after reporting it (A33).

Some people show a lack of willingness to be a whistle blower because they perceive that the problem of integrity is none of their business, but rather a personal matter. Therefore, they tend to mind their own business and ignore what is happening around them. This situation reflects that people do not see ethical

leadership as being present in the organisation. I address the problem of ethical leadership in Chapter 8.

The phenomenon is also highlighted by a member of the MKKE who has extensive experience in dealing with cases of integrity in ISAI. He expresses his opinion about the ignorance shown by some people in ISAI about reporting violations as follows:

> I'm not quite sure but I see that not many people are willing to report corruption as a whistle blower if it does not have anything to do with them. It is [related to] culture, isn't it? Maybe we are too lenient. It might also be a [contributory] factor.
>
> For example, an audit team consists of seven people. There is a person in charge, and so on. If there is an insolvent person, it'll be unlikely for others do not know. He is just looking safe. He keeps silent. Is it [about] culture? There may be a [contributing] factor. We are lenient (A3).

A senior auditor in the DKI Jakarta office has a different opinion about the implementation of the WBS. He perceives that the low participation in the WBS programme is not related to people's lack of willingness to report cases, but rather low instances of a need to report anything. In other words, he claims that ISAI's auditors have high integrity, as expressed in the following statement:

> In my opinion, there are not too many whistle blowers. It is not because they are not helpful but there is a lack of cases. That is, because the auditor's integrity is fairly high, there are only a few cases and reports made by using the whistle-blowing system. This especially happens in the DKI Jakarta Regional Office.
>
> I think [it also happens] in other places, for example AKN[14] II. I worked in there for almost 12 years. There was also no whistle blower. Some people say that the WBS is not very effective. It is not ineffective, but because integrity is already high. There are no cases that need to be reported; that is what I mean (A26).

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[14] AKN (*Audit Keuangan Negara*, Principal State Financial Audit)

This auditor believes that many auditors understand integrity. They are committed to maintaining their integrity and aware of any condition that can harm it. Therefore, no cases need to be reported. He states that the current situation is different from that of earlier years.

7.4.3.7 Sanction and Punishment are not imposed fairly and strictly

The enforcement of rules and regulations is crucial to the effectiveness of integrity management. The implementation of the instruments requires fairness and certainty, that is, everyone in the organisation will be treated fairly and equally regardless of their position or other differences. Therefore, the principle of fairness must remain at the forefront of implementation for most instruments to be regarded as legitimate by all members of the organisation (Ball et al., 1994).

ISAI has attempted to impose different forms of sanctions and punishments on wrongdoers who breaks the rules and regulations, including board members and auditors. The sanctions are expected to have deterrent and preventive effects on everybody in ISAI. However, in practice many of the prevailing arrangements only focus on managing the behaviour of auditors rather than that of board members. That is, except for the code of ethics, not many rules currently impact on board members. Therefore, it seems that the existing rules are far from being fair. An integrity auditor at the principal inspectorate, for example, shares his views about that unfair situation in ISAI as follows:

> In general, the instruments in operation today [in ISAI] are intended to regulate the auditors rather than the board members. Only a few regulations deal with the board members, that is, the code of ethics. Meanwhile, currently there are no [other] instruments relating to

integrity, which can touch the board. Take, for instance, PPG that is only compulsory for auditors.

So, in my opinion, there is a lack of support or commitment shown by the leaders. We, as integrity auditors, often feel reluctant because it seems we only dredge up colleagues' faults. Meanwhile, it is not impossible that the board makes mistakes, too (A11).

The comment reflects the fact that more instruments are intended to regulate the ethical behaviour of auditors than control the behaviour of the board, and thus sanctions and punishments are more likely to be imposed on auditors than on the board.

In addition, participants felt that the implementation of punishment is not strict and instead tends to be too lenient. For example, employees have been proven guilty of violating ethical principles under the code of ethics, but were then promoted to a higher-rank or more senior job. This practice obviously contradicts ISAI's rules and recommended practices. An audit manager at the East Java regional office describes this unfair phenomenon as follows:

Punishment at ISAI is not real. As you can see, there were many people who were involved in case A, B, or C. Instead of being punished and their cases closed, these employees were raised to higher positions. There have been many similar cases. For instance, [they were] not only about receiving money but also making problems in night clubs. What is the penalty? In fact, the person could apply for an upper echelon and had a [important] position in our organization.

There are many incidents like that. There are many colleagues who are 'non-job' [placed in non-strategic positions]. However, they will try to return [to get their position] and it is not a problem. In the past, this situation was recorded in the 'red book', and they could not advance their career. But this is not the case now. A person's behaviour can change by justification. People see that making mistakes is normal. Can't we forgive them? (A33).

The practice of making an exception for some people, especially because of their senior or high-ranking position in the organisation, creates a negative image for other employees. A senior audit team leader reveals his feelings on the situation below:

> … we cannot neglect, for instance, that there were officials who were involved in [violation] cases, but they were still promoted. Even so, their case was dismissed. There is subjective judgment here …[So], if the wrongdoer is, for instance, a leader, his/her case will be "thrown out". On the other hand, if the violator is a low-ranking employee, the punishment will be more severe than for the leader (A34).

The phenomenon of unfair treatment meted out to ISAI personnel committing violations and thus deserving punishments, was identified by a number of people in the organisation. The result is a decreased level of trust among the auditors and management in the degree to which ISAI is committed to enforce integrity principles.

The objective of making punishment act as a deterrent seems difficult to achieve. An audit manager at the East Java Regional Office commented as follows:

> In my opinion, there is no deterrent effect. As I have so far observed, it seems that some violators are 'protected'. In fact, some of them who were involved in [violation] cases were even promoted. I had also been informed that there were auditors, who were punished. ...Their bosses said 'do not worry about the punishment, I also got the punishment, but I was still promoted'. So, it seems that punishment has not brought about a significant effect.

> The same situation has arisen from the assessment process and results. Some have highlighted that people of low integrity were promoted. In contrast, people of high integrity had poor assessment results… It has often made the auditors feel hopeless (A31).

The comments suggest that the enforcement of integrity has not been strong and the penalty or punishment for wrongdoers has not been fairly and strictly imposed. Such a phenomenon has raised pessimism among ISAI auditors and management about the administration of punishment in the enforcement of integrity. In some ways the situation also indicates weaknesses of ethical leadership in the ISAI which are discussed in detail in Chapter 8.

7.4.4 Instruments not included in the nominal ISAI IMS but practiced by the ISAI (yellow in Table 7.1)

There is just one case in this category, namely religious events. ISAI organises a significant number of religious events, especially during the month of *Ramadhan*[15]. ISAI invites an *ustadz*[16] to give ISAI religious advice and to deliver sermons on Islamic values for Muslim staff[17]. Furthermore, similar events are also held for members of other faiths, for example, for Christian staff over Christmas. All the events are held in an effort to help staff foster their respective spiritual and religious values and to behave professionally in accordance with integrity and ethics.

7.5 The capability of actors' integrity

This section discusses interview participants' comments on the structure of integrity, especially on the role of actors or units of integrity in ISAI in terms of

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[15] *Ramadhan* (a holy month in Islam where Muslims fast and train themselves to be pious persons)
[16] *Ustadz* (male religious Muslim teacher)

[17] Given that, Muslims form 87.2% of the Indonesian population, this instrument could have a significant impact on strengthening religious values and thus on behaviour.

monitoring and enforcing integrity (OECD, 2009). As discussed in Chapter 6, Section 6.6 on the structure of the nominal ISAI IMS, ISAI has several main actors whose duties are monitoring and enforcing integrity, particularly *Majelis Kehormatan Kode Etik* (MKKE, Honorary board of Code of Ethics) and the *Inspektorat Utama* (ITAMA, the Principal Inspectorate). The interview results identify a number of issues concerning the capability of the two organisations to conduct their duties and, in particular, to perform integrity management.

7.5.1 Some Problems in the MKKE

Some interviewees state that there are two main problems that the MKKE needs to remedy: the MKKE's approach to integrity violations, and the MKKE's management.

7.5.1.1 The MKKE Approach to Integrity Violations

The prevailing regulations give the MKKE the authority to prosecute auditors and board members who have committed integrity violations. Before someone is tried for alleged breaches, there are processes of investigation to collect evidence about the violations. The process of investigation starts after receiving a report about an apparent violation. In other words, the report triggers the MKKE investigation. Cases that may have featured in the media but are not formally reported to the MKKE are ignored. Thus the MKKE's approach to alleged violations is passive rather than active. An inspector of integrity identifies the problem as follows:

> … the nature of the MKKE work is passive. The MKKE processes only reported events. Regarding some cases, the MKKE may set a policy governing the process [of the case]. But in order to comply with the

regulations, the case should be reported first. There are several cases like that. For example, because of a case that has been widely discussed, the Chair of ISAI has finally made a report so that the case is processed…So the thing is that there are still gaps. Thus, the first issue is that the mechanism at work in the MKKE is still passive (waiting) (A8).

The inspector emphasises that serious cases of integrity violations in ISAI sometimes create a controversy in the media. However, according to the rules, if there is no report to MKKE, the case cannot be investigated (cf. Chapter Six, Section 6.3.4.1).

However, one MKKE member has a positive view of the passive approach. Based on his years of first-hand experience, he is convinced that there is good reason for MKKE not to take action, despite a case creating a media controversy:

> According to the rules, MKKE is passive. It means that as long as there is no report (complaint), even though the media widely report it, we'll remain silent. There must be an official report so that MKKE can work on it. Reports can be made by insiders, outsiders, and anonymously. Actually, the restriction is reasonable in order to prevent us from digging up [mistakes of] people we dislike. In my opinion, this is positive.
>
> However, people are likely to be reluctant to make reports because they think that is it none of their business. As a result, no one makes any statements even though it is actually simple. The report is only valid if it is a written report (A3).

As the MKKE member explains above, such a passive approach has enabled MKKE to avoid using their authority in inappropriate ways. However, making a report can be a big challenge for some employees and can make them feel reluctant to report integrity violations. The MKKE member goes on to explain, his experience of

meeting ISAI personnel with information regarding integrity violations but reluctant to report the case to MKKE, as follows:

> Can I tell you something for your background? [The member asked rhetorically). Well, I met someone. He is one of the ISAI personnel. Is he an auditor? (I asked) Yes, he is. (This member replied). His position was Echelon II. He had a problem in the past. He does not work currently, but he still gets a full salary. Do you mean 'non-job' (referring to non-structural positions)? (I asked) Exactly (This member answered). But it is not official. He said, "If somebody disturbs me, I should make a lot of reports to MKKE. If only, someone dares to bother me" (A3).

The MKKE's story brings a broader perspective to both the positive and negative sides of the MKKE's current mechanisms for, and approaches to, violations. Adopting a passive stance may mean that the MKKE has no intention of exploiting threats to legitimate 'like and dislike' attitudes towards some people in the organisation. Equally important yet demanding is to encourage people to participate in the mechanism by reporting integrity violations. This case illustrates that if people think there is no incentive for them, they may not care about potential code violations or fraud cases. On the other hand, if they feel that if their mistakes are dug up, they may open up a 'Pandora's box' of similar cases that may reveal some sensitive or surprising information, they may do so if provoked.

7.5.1.2 The MKKE's Management

Currently, according to the rules, there are five members of MKKE. Two members are from the ISAI board and the other three are from outside ISAI (cf. Chapter Six, Section 6.6.1). The chair of MKKE is elected by the five members but it must be one of the two members of the ISAI board. The chair has the role of deciding

whether to have ITAMA conduct an investigation and when this is complete to submit the case for consideration by the full set of members of MKKE.

The chair of MKKE is thus in a strong position of authority. They are the first person to know about a case so the extent to which MKKE actively gets involved in handling the case largely depends on the view taken by the chair. A member of MKKE describes the challenge of the mechanism below:

> However, perhaps we can call it a weakness, that is, the Chair of MKKE is from the board. All ethical cases [reports] are submitted to MKKE and then handled by a number of people similar to a clerk of a court which is the principal inspectorate (ITAMA). After that, they make a report to MKKE through the Chair. Hence, the MKKE chair strongly influences the activeness, freedom, and anything about the MKKE. For instance, [if] the chair neglects an incoming letter, we'll never know [what comes next].

> Therefore, the process in MKKE is, a formal report, it could be a letter that comes to the clerk, from the clerk to the MKKE chair, and finally, the chair distributes it to the members of MKKE who will arrange a trial schedule. If the chair is away, the forum will be delayed. I do not accuse anybody if there is something which is probably not to be disclosed. This is a possibility. I don't know how to deal with it (A3).

As the MKKE member notes, the work or activities of MKKE depend primarily on the chair. If something happens to the chair, for instance, he is busy or away, the situation can impact on the work of MKKE. The possibility that the chair has a 'hidden agenda', for instance, that he ignores a specific case because he has some interest in it, has also been a subject of speculation. As such the potential risks may increase. Thus, the member points out that the chair's authority can potentially be misused for a 'hidden agenda' if he is an unethical person.

7.5.2 The Weak Position of the ITAMA

Some interviewees agree that the ITAMA has weaknesses which can influence their duty to monitor and enforce integrity in ISAI. As a special unit in ISAI which focuses on monitoring the implementation of all instruments and programmes of integrity (cf. Chapter Six, Section 6.6.2), the ITAMA has authority to supervise or audit all units within the ISAI. However, it seems that the ITAMA is not sufficiently protected from other influences, especially from ISAI's leaders. Here is the view of an audit supervisor in the East Java regional office on the position of ITAMA in ISAI:

> The existing ITAMA is useful to maintain the atmosphere of integrity in ISAI. However, if a case involves the board members, the case is stopped; it will not be investigated. Sometimes that is what happens. We also see what the pattern of the PI[18] unit looks like. How they help is also not clear. ITAMA looks like a watchdog. It works when one commits a violation rather than preventing a violation (A36).

According to the supervisor, the ITAMA is not fully independent, especially if it handles 'big cases' involving a 'powerful person', such as a leader. The supervisor feel that sometimes ITAMA cannot touch such a person, so they doubt whether ITAMA's position within ISAI's organisational structure is strong enough.

An audit manager at East Java regional office holds a similar view and argues that ideally, ITAMA must be independent of any influence, even from the leaders.

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[18] PI is *Penegakan Integritas* (Integrity Enforcement). It is one of the sub-units in ITAMA (the Principal Inspectorate)

ITAMA should be an exclusive unit with full freedom from outside control or influence.

However, they believe that currently ITAMA is under the control of the leaders, and that this is the case with almost all other internal audit units in public institutions in Indonesia. The audit manager, who had been an officer in ITAMA for several years, said of the independent position of ITAMA in ISAI:

> Generally, now we can say the ITAMA, Inspectorate General, and Inspectorate are under the leader's control. They do not have the courage to speak up (A33).

One board member has concern about the capacity of ITAMA in ISAI and among the staff to perform their duties professionally. Given the complexities and risks that ITAMA faces, it needs people who have the requisite skills and who are also well-supported especially by the leaders. According to the board member, the ITAMA does not have optimal capability:

> … the quality of human resources at the ITAMA is important. Sometimes, the problems for ITAMA are because they inspect their own colleagues, which is not easy. … The person in this unit should be capable of investigating integrity violations. It is indeed a challenging job. Therefore, personnel in the ITAMA must be people who dare to 'say no and are resistant to temptation and pressure'.

> [Additionally], ITAMA still isn't run optimally including the appointment of *Inspektur Utama* (*Irtam*a, principal inspector) and inspectors. The person must be tough, have the capacity to carry out investigations, and have great integrity. The ITAMA must 'speak up.' Based on my experience, people who have duties like the ITAMA will usually be regarded as 'a public enemy and smart-aleck'. Therefore, the ITAMA must have strong backup and be powerful. Irtama seems to lose out to Auditor Utama (*Tortama*, Principal Auditor). If there were

> problems, *Tortama* would say to *Irtama* "You don't understand this." Therefore, the board should also strengthen the ITAMA's position in the organisation (A1).

The above explanation indicates that as ITAMA's duties involve searching for proof when unpacking integrity violation cases, the person in the position needs specific skills in investigating complex problems. The board member acknowledges that these people are very likely to face intense pressures from many parties, including from their colleagues, but they must be brave and have the courage to speak up and state facts. However, the member believes that ITAMA has so far underperformed because they sometimes 'feel' their colleagues know more than them.

The statement about how colleagues feel in ISAI is consistent with a member of MKKE's opinion. This member highlights the capacity of the current *Irtama*, the head of ITAMA, and describes the situation as follows:

> Sorry, I do not mean to "throw mud". It seems that Mr. X (a former *Irtama*) is more powerful than now. Maybe, he has the ability to influence other units,. perhaps because they are junior employees while Mr. X is a senior one. It can be a contributing factor (A3).

The above comments, particularly ones made by the MKKE member, and the board member, suggest that the position of ITAMA as an institution (including the position of *Irtama*) is not strong enough. Therefore, the ITAMA needs support, especially from the strategic leaders (the board members) to improve its strength and self-esteem.

Almost all the management at the ITAMA realise that they have been facing problems related to their capability and to three main issues as follows: human resources, authority, and budget. In terms of human resources, the constraints arise from the number of staff and their skills to support ITAMA's duties in ISAI. As an inspector at ITAMA explains:

> During my nine months here, there are around 24 people. As for the current condition, it is generally poor, because there are activities that are not yet settled or completed, such as complaints. We must address the complaints by first conducting data and information collection activities, and so on. At present, there are around 15 cases that are pending; some of the cases have been from the year 2018, and some from 2019 (A8).

According to the inspector, ITAMA and especially its PI (the integrity enforcement unit), has a limited number of people who struggle to deal with their duties. It seems that the current personnel are not supported by an optimal workload, so that it is hard to achieve targets. The situation becomes more difficult if we consider the skills and authority of the human resources.

A manager at PI points out that the requirements for ITAMA to unpack the cases of integrity violation are difficult. Therefore, ITAMA feels that their current duties are challenging and sometimes almost impossible to realise, as the manager comments below:

> These issues (proof of the cases) are complicated for us. It is not easy to obtain the proof of integrity violations. [So], we are in a difficult situation, for instance, to fulfil our leader's expectation by collecting data and information based on the reports [relating to violations]. Meanwhile, we have a relatively limited time, unlike investigators or law enforcement officers, such as police. They have plenty of time to investigate. On the other hand, we do not have much time; our authority

is also very restricted. For example, if a leader forbids us to investigate their team, we can do nothing (A10).

As regards budget, the ITAMA feels that their operational budget is inadequate to fund their duty to monitor the implementation of integrity in ISAI. ISAI operates in 34 provinces in Indonesia and has one head office in the capital city, Jakarta. This is a huge working area for the ITAMA to evaluate and monitor. Besides the need for highly qualified people, the ITAMA also needs an adequate budget to do its job, as a former Irtama of ITAMA explains:

> If [we] take the ratio and compare to the complete budget of ISAI, the ratio is less than 1%. Do you think it is enough?. [Therefore] we have to make an adjustment. We have to control 34 regional offices, [meaning] we have to prioritise. If [we] ask, actually these 34 regional offices must be controlled. Finally, we prioritise, we make a schedule, we adjust with the available budget. This is not enough, of course (A6).

ITAMA has a key role, as described above, in monitoring and enforcing integrity. However, weaknesses identified influence their capacity to carry out the role and this obviously has a major impact on the real ISAI IMS.

7.6 Chapter Summary

This chapter has provided a comparison of the nominal ISAI IMS (and the OECD IMS) with the real system and thus addresses the second research question of the study. The chapter begins with a quantitative assessment of the degree of implementation and shows that in the ISAI IMS the OECD instruments are implemented to the level of 55%. The chapter then reviews comments from a sub-set of the interviews, those with participants with real user experience of the ISAI

IMS. The comments indicated that almost all participants regarded the ISAI instruments as being adequate to support auditors to have integrity. In the next sections of the chapter, the instruments are compared on the basis of four groupings, those in the OECD IMS but not in the ISAI IMS, those included in the ISAI IMS but with uncertain effectiveness, those in the ISAI IMS but in most cases with less than optimal implementation, and finally those not in the OECD IMS but in the ISAI IMS.

Examples of the instruments that are in the first classification are post-employment arrangements, integrity testing, early warning systems, integrating integrity in the regular discourse, survey measures of integrity dilemmas, informal probing for ethical dilemmas and issues among staff and assessing the fairness of reward and promotion systems. However, the chapter focuses on post-employment arrangements. It is perceived that the role of the instrument is crucial in order to minimise the potential problem of conflict of interest because some employees move and take new jobs. This is especially important if their new positions or organisations are closely related to the ISAI, such as government agencies and SOEs. In addition, auditors might sacrifice their on-going audit duties if they receive a 'special offer', such as a new position, from an auditee. Therefore, there should be a policy on post-employment arrangements.

The second classification is for some instruments that are perceived to operate very well, such as the rotation programme, the oath and signing the integrity declaration. The third classification includes all other OECD instruments. However, the chapter

focuses primarily on some instruments that are highlighted by the participants, such as the risk management policy, code of conduct, policy on conflict of interest, control of gifts and gratuities, training in ethics, whistle blower system, and sanction and punishment.

Finally, the fourth classification is for an instrument that frequently operates, although the instrument is not included in the ideal system. The example in the classification is religious events that are conducted by the ISAI and are held for employees of a number of different faiths. This has the potential to reinforce the instrument for integrity in behaviour.

The chapter concludes with the consideration of the capability of actors' integrity and highlights the problems of MKKE and the weak position of ITAMA.

CHAPTER EIGHT
POLITICS, LEADERSHIP, AND CULTURE: REASONS FOR DIFFERENCES

8.1 Introduction

In the previous chapters, I have discussed the comparison between the nominal ISAI IMS and the ideal OECD IMS to identify differences between the two systems. I also described how the real system operates and the shortcomings in implementation. However, the previous chapters have not identified the factors that cause the implementation (the real system) to fall short of the nominal system.

This chapter thus aims to answer the third research question, *What are the barriers and challenges that result in the implementation deficit?* The chapter draws on my findings on the challenges to implementation from my interviews with the 42 participants from both within and outside the ISAI. The interview results are particularly important in gaining an understanding of the challenges to implementing integrity in the context of a developing country like Indonesia.

In discussing the findings, I focus on three factors that have emerged as the main reasons for why the differences arose: political influence, weak ethical leadership and local traditions.

The NVivo word frequency tool for a minimum of seven words shows that respondents commented 166 times on politics, 133 times on leadership, and 209

times on culture. These issues are summarised in the table below which I discuss in more detail in the following sections.

Table 8.1: Three main challenges of implementing integrity in the ISAI

		1st Order Concepts	2nd Order Themes	Aggregate Dimensions
1	• Politicians are less sensitive to issues related to integrity. • The minimal trust in politicians in terms of their support for integrity programmes.		Politics and politicians tend not to support integrity.	
2	• Parliament's authority to select the board members in ISAI is problematic.		Political domination leads to lack of transparency of the board recruitment system.	**Political Influence**
3	• The selection mechanism provides an incentive for certain candidates who are well connected politically. • Political interference is almost inevitable.		Political interests lead to conflict of interest.	
4	• The political process often ignores the aspect of integrity.		No guarantee that the political process will yield good leaders.	
1	• The public is suspicious of serious commitment to integrity programmes and the rules of some leaders.		Lack of commitment and support.	
2	• Some leaders are perceived as people who do not care enough about their (ethical) behaviour.		Lack of examples (Role Models).	**Weak Ethical Leadership**
3	• Some leaders are perceived as not having set the right tone at the top.		Lacking tone at the top.	
4	• If one board member creates a problem, all board members will be affected. • The leaders have their own ways. Is this because of collective collegiality?		The drawbacks of the board model.	

5	• Two things cause violations: pressure and instructions.	The leaders' pressure and 'contradictory instructions'.	
1	• The leaders are treated as kings • ISAI's people are happy to serve "the kings" (*raja*).	The problem of respecting leaders and senior colleagues.	
2	• Indonesia is a collectivist society. • The communal principles could influence professionalism.	Communal relations and the principle of extended family.	
3	• Gratuities reflect a long social tradition. • We like giving 'something', and sometimes it is not easy to refuse it.	The challenging tradition of serving and giving 'something' to show respect for someone.	**Existing Local Tradition**
4	• Bureaucratic impartiality starts from civil servants' impartiality towards anything.	The challenge of implementing 'impartiality' within an Indonesian context.	
5	• "Whatever the boss orders, I will do it".	Servant-master relationship.	

8.2 It Is All About 'Politics'

As indicated earlier, since the New Order Regime led by the absolute president, Soeharto fell in 1998, Indonesia has started to transform into a democratic country (Schwarz, 2018). Reforms that have been implemented include the freedom of the press, the elimination of military domination in the bureaucracy, the fight against corruption in government, and the new opportunity to express political ideas through new political parties (cf. Chapter Two, Section 2.2.1.4). Schwarz (2018) and Muhtadi (2019b) indicate that a considerable number of new political parties were established as a manifestation of political freedom. Therefore, during the Reform Era, there has been a shift of central power from the executive, which was

dominated by the President in Soeharto's New Order, to Parliament through political parties.

There has also been a shift of power holders and the euphoria of this political freedom has spread to some public institutions. However, appointments to key positions as the leaders of public institutions such as the commissioners of KPK, Chief of the Indonesian national police, governor of the central bank, and the board members of the ISAI have not been free from political influence. Therefore, political influence currently remains strong within Indonesian public sector institutions. This practice has an impact on the commitment to an integrity agenda and its implementation in these institutions, and up until now the public is unsure whether politics and politicians have a serious commitment to integrity building, especially in the public sector (cf. Chapter Two, Section 2.5.4).

My interview revealed at least four challenges arising from political influence and that it is regarded as one of the main threats to implementing integrity in ISAI. The four challenges are lack of political support, lack of transparent recruitment systems for the board members, potential conflicts of interest, and a lack of certainty that 'good' leaders will be appointed. This section elaborates on these political issues relating to the implementation of integrity in ISAI.

8.2.1 Lack of Political Support for Integrity

In the national context, the strong influence of politics and politicians on some Indonesian public sector institutions is both a trend and an inevitability. This influence affects various aspects of these institutions including the selection process

of the board members in ISAI. Unfortunately, because the nature of most politicians is a tendency to be opportunistic, they are not sensitive to problems relating to integrity. Therefore, their commitment to supporting the agenda for integrity is doubtful, as noted in the first statement of the second order theme in Table 8.1.

Muhtadi (2019a, p. 18) highlights the findings of a nation-wide study of provincial politicians conducted by Lembaga Survei Indonesia (LSI, indonesian survey institute) in 2018, which reveals that the majority of politicians emphasise economic development issues rather than the public sector reform agenda such as integrity management and an anti-corruption programme. Moreover, he explains that this perspective is understandable because it is commonly known that involvement in politics requires substantial resources including money (Muhtadi, 2019b). In fact, that is why corruption scandals in public institutions tend to be linked to both politics and politicians (Dick & Mulholland, 2016b; Kahfi, 2019, November 18). Many politicians use their influence in the tender process for government projects, for example, the case of PT. PLN, a state- owned enterprise in supplying electricity, where Eni M Saragih and Idrus Marham, two politicians from the Golkar party received a bribe for their 'help' to a businessman to secure a building project for a power plant for PT.PLN (ICW, 2020; Mukaromah, 2019).

Almost all the interviewees believed that the political atmosphere in Indonesia has contributed significantly to integrity issues in public sector institutions, including ISAI. One of the interviewees, an activist and the CEO of an Indonesian NGO for anti-corruption, who has extensive experience from many years of observing and

researching corruption issues in Indonesia, expressed the following opinion on some anti-corruption programmes:

> In Indonesia … most issues [are] related to how to maintain good governance, we create specific institutions [to tackle the issues] … Unfortunately, with a system [as enormous as in Indonesia], we have not been able to utilise it [the institutions] maximally. In my opinion, it is because of two points, firstly, politics and secondly, the legal issues.
>
> So, various attempts to fight corruption are frequently stalled because politics and the law do not allow it. For example, if we refer to the Corruption Perception Index (CPI), we are moving very slowly. There is progress, but it is not progressive. We have everything, but why it is not progressive? Because the epicentre of the problem is politics and law. If these two problems are not solved, the reform agenda in public institutions will remain stagnant, and could even rot (C1).

His comment relates to the situation at the national level where Indonesia still has serious challenges to eradicating corruption because of politics and laws. Even though many public institutions have been established to fight corruption, they struggle because politics and laws do not support their efforts.

Another interviewee, a professor in ethics and integrity, also believed that the threat of politics to public sector institutions in Indonesia is real, especially, the way politicians' behaviour is connected to integrity violation issues in these institutions. Although there is awareness of the need to improve integrity on the part of public sector managers (bureaucrats), it will remain a serious problem if there is no concern in politics to aim for high integrity as well. Moreover, the professor commented as follows:

> I personally think that this topic is still a never-ending task for us, that is, to continue strengthening public sector integrity. We know that up until today, corruption is still rampant although many public institutions focus on fighting against corruption. This problem, I think, is a very serious challenge for us to be able to enforce integrity.

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> Nevertheless, the awareness of the need to improve public sector managers is better.

> However, in terms of the political regime, I personally think that our government nowadays is being driven by the political regime. In contrast, back then it was dominated by the economic regime; nowadays all aspects must be connected with the political context. The aberrations occurring in the public sector are also related to political issues. Thus, it causes several problems of integrity in our public sector associated with the integrity of the political perpetrators (D1).

The comments of these two interviewees' highlight the effects of political influence on the integrity of public sector institutions. Their opinions also indicate that stakeholders worry about the bad influence of politics and politicians on the agenda for integrity in the public sector because most politicians themselves have serious problems with integrity. Their views also support what other analysts, academics and activists currently perceive about Indonesian politics, that is, politics is the main barrier to implementation of reform agendas in both the public and private sectors. The agenda includes promoting integrity and combating corruption within the governmental bureaucracy (Chalmers & Setiyono, 2012; Dick & Mulholland, 2016b; Widojoko, 2017).

8.2.2 Political Domination Causes lack of Transparency in Recruiting Board Members

The interviewees were deeply concerned about the board selection process. They perceive that the process lacks transparency and is thus difficult for the public to influence (cf. Chapter Two, Section 2.5.2).

Most interviewees have little trust in the existing recruitment process. They expected that the selected candidates will have 'a special relationship' with politics and politicians and, as a result, the board will have a weak commitment to integrity in ISAI. The following comment by an NGO activist is representative of stakeholder opinion on the selection process.

> ISAI is an independent institution, but its independence is disrupted due to the members' selection process, which is strongly affected by political tendencies. The selection process is open to public comment but this is widely accepted to be a mere formality. However, the public cannot control it further because the constitution puts limitations on the public regarding the selection process (C1).

This statement stresses that civil society does monitor the board selection process but, the regulations limit their effectiveness. Currently, based on the regulations, Commission XI of Parliament effectively has the sole authority to handle the process of board selection. This process starts with the selection of the candidates and finishes with the announcement of the successful candidates as board members. In other words, because of the rule, Commission XI has a strong monopoly power over the selection of board members (cf. Chapter Two, Section 2.5.3). However, the activist regards the selection process as needing reform because candidates who do not have a 'special relationship' with politics are unlikely to be selected to serve on the board.

This activist also compared the ISAI selection process with that of the KPK. Although the boards of the two institutions are both selected by Parliament, the KPK has a better process than does the ISAI. For the KPK, a special committee comprising representatives of civil societies and government determines a list of 10

candidates. The committee gives the list of 10 candidates to the president who, after review gives the list to Parliament, to select five of the 10 candidates as the commissioners ("Undang Undang No. 30 Tahun 2002 tentang Komisi Pemberantasan Tindak Pidana Korupsi (*Law No. 30 Year 2002 concerning Eradication Corruption Comission*)," 2002).

The politicians in Parliament may still select candidates with political connections. But, at least all candidates for the KPK board will meet the necessary technical requirements. The activist gave this opinion on the comparison between the selection processes of the ISAI and the KPK:

> For the KPK, since the beginning the process has already been transparent. In it, there are two phases, the first being at the executive level, the president, who is assisted by a selected team to choose the candidates. The next is at the legislative level to determine the successful candidates. Therefore, the checks and balances are better.
>
> It is unlike ISAI, in which the selection process is regulated by Parliament. Our experience of getting information from the KPK, [sometimes] we know that violations against standards, regulations, competencies, track records, and actual information for consideration in selecting the candidate are [sometimes] not published. It is because they [Parliament] consider political matters since it is a political institution. So, the selection of KPK members is more complicated, though it has been screened. It will result in the ten best candidates who still can be 'rotated' [shuffled?] by Parliament. What about ISAI, whose board selection process is managed directly by Parliament? (C1).

A director of a research centre for anti-corruption studies mentioned the problem of political domination in selecting ISAI board members and commented as follows:

> In fact, ISAI board members are special. The DPR[19] has the full authority not to involve any filters from any other institution. Hence, the reason why it is highly political is that the DPR can elect everybody

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[19] DPR (*Dewan Perwakilan Rakyat*, Parliament/House of Representative)

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with [who only meets] the basic requirements. Again, most of the nine ISAI members are politicians.

So the public is not wrong when they say that the ISAI board members selection uses a political mechanism. There is no strict limitation on how to conduct the selection process. Even the requirements of being ISAI members are easy, including for an active politician. This process is stated in the constitution, so it is hard to amend the ISAI members' election method. In conclusion, the election method is political because the DPR chooses it (C2).

Furthermore, he argued that it is important to analyse whether the selection process of public sector leaders is both accountable and independent. The following is his comment:

Regarding the selection of public leaders, there are two important things [to analyse], firstly, the mechanism, and then, the requirements. These two aspects determine the extent to which the selection mechanism is accountable and runs independently (C2).

The requirements for selection are too loose. To become a board member, a candidate only needs a bachelor's degree in any discipline. Given that the ISAI is a practical institution concerned with audits, it might have been expected that the degree should be in accounting or, at least commerce. The next requirement is that the candidate should have experience of public sector management. However, this requirement is difficult to apply and in any case it is an optional requirement.

8.2.3 Political Interests and Conflict of Interest Influence Institutional Integrity

As indicated in the third main row of Table 8.1, the interview results suggested that the third challenge for the implementation of integrity is political interests and conflict of interest. Because the current selection process of the board is dominated

by Parliament, politicians tend to be more successful than other candidates in selection, as shown by the previous results of the selection process. This raises significant risk of conflicts of interest for the successful candidates with regard to political actors in Parliaments or governmental agencies, such as ministers, governors, and mayors (Asril, 2012, December 27; Rosana, 2019b), for example, 'special treatment' in the design of the audit of a certain ministry, if the minister is from the same party as the ISAI board member (Thomas, 2019).

Most of my interviewees agreed that conflict of interest is a serious risk for the ISAI in maintaining integrity both at the institutional and global levels.

One of the board members, who has served the ISAI for ten years, provides his view on this issue. As a board member, he has extensive experience as both a strategic leader in ISAI and a person who interacts with other board members. He also understands why the public is concerned about the risk of political interest in ISAI and expressed this view:

> Politicians' involvement as board members is difficult to avoid. In my opinion, the regulations regarding the selection process and requirements to be a board member are still problematic. The requirements for running the selection are only to have a bachelor degree from any field and to understand state finance (cf. Chapter Two, Section 2.5.1.1). Thus, in this context, it is almost impossible for the ISAI to be immune from political parties within this process. But we are still lucky, among the current nine board members, there are only four members who have political backgrounds.

> In this context, it depends on the board member's personality… When I was inaugurated as the strategic leader, I was also asked about political issues in ISAI. You can refer to my previous response in the media. I said 'There is no politics in ISAI'. So, when someone is selected as a board member, they have to terminate their relationship with a political party. But again, indeed it is unavoidable… In the

future, the regulations for the selection of the board should be amended. However, is it possible? [He also seems not sure about the possibility of amending the regulations] (A1)

This statement points out that the regulations and the selection process are the two main causes of political interests threatening ISAI. As previously explained politicians control the entire selection processes, and therefore the risk of political interest is real in ISAI, despite his statement that once someone becomes a board member, he should discontinue all of his political relationships. However, his term 'unavoidable' indicates that in practice this is not an easy thing to do (cf. Chapter Two, Section 2.5.4).

An inspector at the principal inspectorate also commented on the risk of political influence in ISAI. Based on this respondent's observation, the phenomenon of political influence cannot be ignored and poses a dilemma for both auditors and management in ISAI. This interviewee commented as follows:

We know that audits are carried out by auditors who happen to be under the control of leaders' orders. On the other hand, there is still a strong political element in our leadership [that is the board members], because the board election process is determined by members of Parliament (DPR), where politicians from political parties assemble. The state audit law is already good in requiring that the board members should not be members of political parties. But the law does not regulate that they should not come from political parties. This interpretation can be different. It might be true that a selected board member is not a member of a political party, but it is possible that the person ('messenger') is from a political party.

Furthermore, when they are in ISAI and become a board member, nominally they release any "attributes of their party". But in reality they do not. In practice, I'm sure you understand what I mean? (the inspector reiterated). For example, there is a board member, who is doing his duties in the ISAI, but in fact he still meets his constituents or carries out other activities like social activities, such as 'planting a million trees'. But this activity is actually an activity of a political party, and the budget is also ISAI's, like that. In my opinion, this has an impact

on integrity. The next problem is the financial problem in our budget. The board member does not bother to think about finances, while those who manage our finances and budgets think it becomes a technical problem. His activities are not listed in the budget of his activities, so it becomes a problem for them.

Meanwhile, for the management, such as the head of regional offices, at that time they were in a difficult situation. Although it was said that they did not have to go along [with this board member], they would suffer the consequences later. You can imagine what the consequences would be. It is because the leader who comes to their working area must be treated as a 'guest of honour'. So, this is a dilemma for the head of the regional office (A8).

However, according to one interviewee, a high official of ISAI, the fact that a politician becomes a board member of ISAI is not a big problem, as long as they are competent and capable.

I consider their competency and experience, track record, and so on, regardless of the political party background. However, they must leave the political party if they are selected as members (A5).

This was not a general view; most interviewees confirmed that political influence, specifically in the board selection process of the board, is a serious problem that threatens the organisational integrity of ISAI. An audit manager at the DKI Jakarta regional office also admitted the challenge of political interests in ISAI. This interviewee is an experienced auditor, having handled many audit cases and understands the real situation in terms of the challenges from political interests. The following comment shows the respondent's feelings as an audit manager:

At the level of board members, it is rather difficult because they are politicians. Meanwhile, our political system also causes difficulties. On the surface, what seems yes, but under the table is a 'different story'. That is what I feel after almost 30 years here. In official forums, they look OK, but, in fact, there are specific cases that indicate that there are political people in ISAI (A21).

By this statement, this audit manager wanted to emphasise that the nominal system is sometimes difficult to implement. The respondent's experience in dealing with many conditions indicates this difficulty. In particular, when a case relates to a political interest, the phenomenon of political interest emerges more clearly. Although the audit manager did not give an actual example, her statement that 'there are political people in the ISAI, shown the existence of political interests in ISAI.

Another audit manager, in the East Java regional office, also gave the same opinion on the risk of political interests in ISAI. He faced the same issue as his colleague in DKI Jakarta. He shared his story in the following statement:

> Many regional heads are former party leaders and heads of commissions in the legislature, such as Commission XI and Commission VIII. The conditions in ISAI seem that it contains political parties. Meanwhile, the mechanism for selecting ISAI members, as stated in the Law, is still dominated by politics. I did not relate it to independence. Meanwhile, some of our members also formerly worked in commissions in the House of Representatives, [such as] Mr. A was in Commission XI, Mr. B was in Commission VIII, Mr. C was in Commission IX, etc.
>
> So, we are afraid that they may exchange information since they are friends. It is undeniable because it is the reality. At present, almost all regional heads in East Java are former commissions members.
>
> For me, as management, this condition is quite troublesome, including for my colleagues in the field. When we meet with our leaders, oh ... friend. So, it is troublesome too. There are no restrictions and instructions on that matter so far. But for example, Mr. A calls Mr. B in DKI Jakarta. Then Mr. B calls X [us] here, asking what the problem is? (just asking about the problem). Sometimes, we become distraught. Therefore, political factors are a big influence (A33).

8.2.4 The Current Political Process Produces Good Leaders Only by Chance

Finally, as indicated in Table 8.1, the fourth problem with political influence is that it produces good leaders only by chance because politicians tend to be pragmatic rather than idealistic during the process of selecting ISAI's leaders.

In every selection period, when Parliament has announced the candidates' names for the board, the public has criticised the results for various reasons such as lack of commitment to integrity, potential conflicts of interest, and low competency (Bramastha, 2019; TEMPO.CO, 2019).

Similarly, most of my interviewees expressed concern that the current process will not generate good leaders for the ISAI. They stated that ideally ISAI requires highly-qualified persons with integrity for its board positions as the organisation faces many challenges because of the corrupt environment of its daily operational duties (Hasan, 2019). Therefore, the selected board members should have sound technical knowledge, honesty, and integrity.

One of my interviewees, a lecturer, has extensive practical experience as an expert in state finance law and was a candidate for an ISAI board position a few years ago. This interviewee commented as follows:

> In my opinion, ISAI's integrity as an institution … focuses on two things; first, the auditors (staff members) and the second the leaders. An auditor is easily shaped since they are dependent on the institution. Besides, the auditor recruitment process is much better compared with the second component, (that is the leaders/board members). The second recruitment process is through a 'political process', hence this process often ignores problems of integrity due to political appointments in that

selection process. In addition, the blueprint of the constitution allows some space for that direction. There are no integrity assessments and competency-based assessments. Perhaps, this is the 'loophole' the constitution's provisions on the ISAI (D2).

The statement argues that the current political appointment of board members, is not 'perceptive' enough about the candidates' qualifications, including their integrity. In addition, if the regulations do not change, the result will remain the same and, in turn, ISAI will continue to have difficulty in getting good leaders.

Another interviewee, a director of an anti-corruption research centre, agreed that the current method is a full political judgement, that is, the system focuses more on political aspects than others, such as technical skills and integrity. He elaborated with the following comment:

> ..., the current mechanism in the DPR is not regulated at all…The appointment is processed through registration, verification of administrative requirements, and then there is a series of tests, and at the end of the process, there is a fit and proper test. They can all pass this process because they regard it as a "formality". The point is, the last step is the most important. It is when they vote and the usual way of voting is a package system. Usually, it is called as 'a sharing system'. If this [selection] period goes to the Golkar Party, the next period is for PDI-P, and then other parties, so the model is representativeness. That is the pattern (C2).

A similar comment was made by a (former) senior official who had observed the same shortcomings in the selection process. As a person who handled many issues of integrity in ISAI over many years, he linked the recruitment process and integrity. This interviewee gave his views as follows:

> Yes, recruitment. Integrity is sacrificed because of this current ISAI members' recruitment. It needs great effort, both in 'material and non-material'. In general, the economic law says, people who have spent

> 'ten' will expect to get 'ten' or even more. This situation undermines integrity, and it is real. Some people (leaders) will drive the auditors to operate as they wish, through assignments and trading influence. These cases happen a lot. 'Trading influence' to get something is not a secret anymore. Therefore, I am deeply concerned at how to enforce integrity in trivial matters in the ISAI (A6).

This view is consistent with the strong impression that the recruitment process, has a negative impact on ISAI. The selection process has failed to produce good leaders (Gunarwanto, 2014; Madril, 2013). There is currently no data on what someone should offer to be reasonably certain of being selected. However, considering the selection results so far, it is clear that relationships, both direct and indirect, with politicians in Parliament, win the competition.

An audit manager in the East Java regional office explained his belief that the selection process sometimes influences the habits of the resulting leaders and commented on negative feedback. Therefore, it is important to improve the current selection process to minimise political interference (Nasution, 2009) as it negatively affects leaders' behaviour in terms of their integrity as well (Embu, 2019, October 4). An audit manager commented as follows.

> Up until now, we realise that the DPR selects ISAI board members, thus MPs (Members of Parliament) and ISAI board members are politicians. When politicians meet other politicians, it will affect politics. When the mass media reports on 'a rumour about the selection process', I think their report is not wrong. Sometimes, there is a leader with 'a certain characteristic.' That is the fact, and it influences our work performance. When we perform our work and discuss a sensitive issue with the entity, sometimes the entity interrupts by saying that ISAI acts negatively. It seems, the entity wants to say that before judging it, the ISAI must know its board members' behaviour (A36).

8.3 The Problem of Weak Ethical Leaderships

Table 8.1 indicates the second main problem for the implementation of integrity is weak ethical leadership in ISAI (Treviño et al., 2000). My interview findings confirm that there are significant leadership problems in relation to weak commitment and support, role model, tone at the top, the board and collegiality model, and pressure from leaders. The interviewees said that these problems are a serious barrier to the implementation of integrity in ISAI.

8.3.1 Weak Commitment and Support

Most interviewees, across different groups, said they were not convinced that the strategic leaders, the board members, have good intentions and a strong commitment to support a reform agenda including integrity management in ISAI. In other words, they were a little pessimistic because the board's commitment is unproven although their commitment and support are absolute prerequisites to achieving successful implementation of integrity programmes.

One interviewee, an anti-corruption activist, expressed doubts that the strategic leaders' commitment was strong enough. For example, when the Panama Papers scandal made headlines in the mass media around the world in 2016, including in Indonesia, one of the ISAI board members' was recorded as having a shell company, Sheng Yue International Limited, in the British Virgin Islands (Lazuardi, 2017a; Sawitri, 2016b). However, he had not declared this business interest when he applied for the board position. Yet a full declaration of previous activities is necessary to show transparency and is a requirement in the law governing the ISAI

("Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). In addition, the code of ethics prohibits board members from having a job other than in ISAI (see Appendix 1).

The public and civil society expected the ISAI to take decisive action to restore integrity, such as dismissing the member from the board or that he would offer to voluntarily step down from his board position, as this case is categorised as a code of ethics violation. However, he remained on the board and the MKKE only gave him a light penalty, that is, a written warning (Lazuardi, 2017b). Therefore, this event was perceived to be a poor signal of the strategic leaders' commitment to implement integrity. This activist expressed his disappointment in the following comment:

> It means the reformation agenda in the ISAI is not taken seriously. For instance, the case of Mr. […] who was revealed in the Panama Papers. Instead of resigning from ISAI, he gave more excuses to survive. The case also indicates how an organisation's integrity is represented by its leaders. Therefore, sometimes it is not fair ISAI's employees probably have seriously attempted to show that they are committed to integrity however they may be disappointed because their leaders do not show the same commitment [as they have] (C1).

A member of the MKKE also shared his doubt about this strategic leader's commitment:

> In my opinion, [the board member who is] the Chairman of MKKE is good. Of the others [board members], some of them are good, and some of them are 'so-so'… But there are also some members who do not support [integrity] clearly, but they don't disrupt. I do not know the dynamic at the board Member council. So maybe it is a 50:50 (A3).

The whole board consists of nine people, but only two of them are part of MKKE. Based on his statement, this interviewee only trusted the MKKE Board members to be committed to integrity. He did not fully believe that the rest of them had a deep commitment because they did not seem to have strong intentions towards improving integrity in ISAI.

8.3.2 Lack of Examples (Role Models)

As shown in Table 8.1, lack of examples (Role Models), is the second problem of weak ethical leadership. Most interviewees agreed that to achieve effective implementation of integrity requires exemplary attitudes (role models) from the leaders. In other words, the leaders, especially the board members as the strategic leaders in ISAI, should show good behaviour to inspire all auditors and other employees. By providing exemplary behaviours and attitudes, the leaders can strengthen the commitment of all organisational members to have integrity. However, the existing situation still poses a significant challenge for ISAI. The following statement by an integrity auditor, who frequently acts as an instructor of ethics at the training centre, describes what auditors expect from role models:

> Generally speaking, if we discuss personal gains, the code of ethics, and other programmes of integrity, all auditors need examples. We once conducted a survey in a training session. We used a simple method using Google Survey that shows the resulting chart immediately. The result showed that most participants saw a lack of role models. Thus, the implementation of integrity in the organisation might not be that effective (A11).

The statement shows that most auditors considered role models important, because behaviour consistent with being a role model provides real examples and proof that the leaders are committed to integrity.

The former high-ranking official also admitted that ISAI faces a problem in leadership because of the lack of role models. He particularly observed this problem during the more than four years he was active as a high-ranking official inspector at the ISAI's principal inspectorate. He elaborated his observation in the following statement:

> Nevertheless, sometimes, the leaders (the board) cannot be good role models. This is my observation when I was at principal inspectorate. There are still instructions or tasks beyond the auditors' capacity, making them compromise their integrity. As leaders, they should be good role models to enforce integrity, shouldn't they?
>
> As long as such conditions still occur, even though an auditor is a good person, what if he is given an 'opportunity' like this: The order is to handle A and B, but the auditor also takes other subjects C and D, so ABCD in total. He only reports on A and B, keeping C and D for his personal gain. That is the reality. Meaning, if there is an opportunity, there is a fraud triangle, namely opportunity, pressure, and rationalisation. This condition makes it difficult for us to enforce integrity. How can we enforce integrity, independence and professionalism? Is it right if the leaders ask "Do not audit this project!" In fact, they have an interest in this project. The latest cases are like that, do you know that? (A6).

This high-ranking official admitted that sometimes the leaders, such as board members, commanded that auditors to follow their 'special order' although this command would cause an integrity violation. For instance, the auditors might be prohibited from including certain projects in their audit sampling procedure because board members had a conflict of interest in these projects. Such practices indicate that the board is not a good role model for the auditors. In addition, by observing

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such actions, auditors will themselves flout integrity on the basis that, if it is acceptable for the leaders it is also OK for them. In that instance, integrity becomes impossible to enforce.

One of the board members also commented on the challenge of having a good role model. Based on his experience of serving on the ISAI board for two terms, he recognised there is a problem of leaderships in ISAI as the leaders sometimes do not behave properly, thus displaying a bad example to the auditors. He shared his experience in the following statement:

> An improper leader will affect the subordinates. This condition has occurred for a long time, and has become a culture. Yet, we still can change it. We must be committed to doing it. The board must give examples. Sometimes the board does not open and not giving suitable examples. Sometimes, I satirized my colleagues, "Do not only make your own travel but not managing your internal unit. It is not a good way to be seen by the kids (the auditors)". Again, it depends on the personality of the board members.
>
> "Have you interviewed the other board Members?" (He emphasised that I had to interview other board members). Did you ask the other board Members' opinion? What are their ideas to improve ISAI? Try to interview Mr. X [He referred to a board Member]. But I am not sure you can get into him. Try to interview Mr. Y (He referred again to another board member). You can see whether he is honest or not (A1).

This statement shows clearly that the behaviour of some of his colleagues on the board does not represent a good model for auditors and employees. Therefore, he worried that the board's attitudes can create a negative image of the spirit of integrity. In addition, he also seemed unsure about his colleagues' commitment to integrity. His doubt over one colleague's commitment is apparent at the end of his statement when he says, *'You can see whether he is honest or not'*.

8.3.3 Lack of Tone at the Top

Tone at the top is the third aspect of the leadership problems stated in Table 8.1. This problem is closely intertwined with the previous problems of commitment and role models. As indicated earlier in Chapter Two, each of the strategic leaders, the board members, leads a specific audit directorate with several audit portfolios (cf. Chapter Two, Section 2.4.1). Therefore, most interviewees believed the leaders should set the tone at the top clearly to foster the programme of integrity.

However, in the case of ISAI, because some leaders seem to have a weak commitment to integrity and do not provide a good role model for auditors, the interviewees felt that the leaders have not adopted the right tone at the top. As a senior official in the training centre, who deals with training of auditors, including in integrity, opined:

> The tone and application system [in ISAI] are not strong yet (A16).

A senior official at the DKI Jakarta Regional Office also emphasised how important tone at the top is. According to his experience in managing the regional office, the tone at the top assists in establishing a strong basis for implementing integrity at the regional level. He commented as follows:

> Lead by example. That is number one. We need support from the tone at the top. If the tone at the top hesitates, we will hesitate too. If the tone at the top has a conflict, we will have a conflict too (A20).

His statement also identified that, in addition to the tone at the top, unity among the leaders is required, especially in an organisation like ISAI where top leadership comprises a group of members. It is important that they have the same way of

thinking about integrity as this is necessary to foster harmony among staff at the operational level.

The member of MKKE also pointed out that the tone at the top is important for the ISAI leaders. As, the only external auditor for the entire set of government agencies in Indonesia, ISAI needs to make integrity a high priority and thus merit public trust. However, over the last three years, audit scandals in several public sector institutions have been traced to ISAI auditors and leaders (see Appendix 1).

The MKKE member stated his opinion in the following statement:

> Talking about ISAI, actually the tone at the top is the most important. I do not know whether it has been implemented or not (A3).

As a person who has served in MKKE, he observed that ISAI needs leaders who have a strong tone at the top but he was not sure that all the leaders had the same attitude. The following statement from an inspector of ISAI, who always handles integrity cases in ISAI, indicates that the tone at the top is still problematic.

> From what I have personally observed, the commitment of all the board members, including the chair and vice chair, is clear. When we have a personal discussion with them, they all have the same goal. They want this institution to be clean, [which is] good. [But] this is what we have not been able to prove: when there are violations committed by auditors, for example, and they [the auditors] acted in the name of leaders. Whether this is true or not, we don't understand (A8).

8.3.4 The Challenge of the board Model

Table 8.1 states the next challenge of leadership in ISAI is the board Model. Most developing countries apply one of three systems to their supreme audit bodies, namely: Napoleonic, Westminster, or board systems (World Bank, 2001). The

government of Indonesia decided to use the board model for ISAI. This means a group of people become board members and lead the institution. The state audit law states that ISAI contains nine board members including a chair and a vice chair (ISAI, 2019e; "Undang Undang Nomor 15 Tahun 2006 Tentang Badan Pemeriksa Keuangan (*Law Number 15 Year 2006 concerning Indonesian Supreme Audit Institution*)," 2006). These board members have the same status as state officials.

In terms of leadership problems, my interviews indicated that some challenges arise from this board model. First, the large number of people sitting on the board impacts on the leadership style. In fact, every person on the board has a different personality and their own style of leadership. Consequently, this may affect what people infer as being the board's commitment to integrity because they may extrapolate from just one member. If one person on the board has a problem with integrity, this will negatively affect the others. One of the board members explained this problem of the board model in the following comment:

> A board Member is basically a 'leader.' So, as a board member, we must be able to guide our followers (auditors and employees) …The board member has an important role. Therefore, "we have to be smart about the direction we take the ISAI in". If one person violates integrity, the impact will affect everybody. So, we cannot think just as a single person only (A1).

Therefore, if all the board members have a deep awareness of the need for integrity, their intention will foster the implementation of integrity programmes. However, if there is no harmony among them, auditors will perceive that there is no solid leadership and direction from the board members.

Concern for unity is another way of expressing this. Effective implementation of an integrity programme requires full backing from all the board members. If one board member does not show total support, the implementation will not cover all working units in ISAI. In particular, the integrity programmes will not run very well in that area because followers will probably be cynical.

An experience audit manager at the East Java regional office was concerned about some leaders' behaviour. He thought that there is no uniform perspective among the board members regarding the implementation of integrity. The following comment represents his worries:

> In my opinion, legal regulation is sufficient. However, the practice depends on each leader. It could be that when the leader says A, the practice may not be A. The problem is, when there are certain interests, such as political interests, it could be on the record and off the record too, even though the rule is clear. When a leader gives a briefing, especially if there is a specific case, sometimes I hear colleagues' comments, "the person who gave us the briefing, I know their cards, now they give us the briefing, even though, they are the violator."
>
> Actually, I wonder what enforcement means from the leaders' point of view? Because I see that the leaders have their own ways. Is this because of the collective collegiality principle? Several cases in the head office suggest they had their own agendas. The chair cannot control the board members. So, each of them moves on their own. "This is my own portfolio, so do not interfere with my businesses." Sometimes, I think, "Oh my God, how is our office managing?" I am sure many outsiders have concerns. Even when I was at the Ministry of Finance, some of them also commented, "Yesterday this board member, I got the news there. Really?" [His expression looked shocked], I said, "So, oh my god." [He laughed] (A31)

The comment identifies the existence of cynical views about the seriousness of some leaders promoting integrity.

8.3.5 Leaders' Pressure and 'Contradictory Instructions'

The fifth and last leadership problem listed in Table 8.1 relates to leaders' pressure and instructions. The interview results show that sometimes leaders put pressure on auditors and instruct them to break the regulation. An integrity instructor, who regularly interacts with auditors, identified this phenomenon. This instructor revealed that during the discussion sessions in class, most of the time the auditors *curhat* (confided in him) about their feelings. They admitted it is hard for them to have integrity if leaders give 'a contradictory instruction' that is against their conscience and leads to an integrity violation, as shown in this statement:

> The leaders' pressure. How can we work properly, if it [the audit result] has been 'decided' from the beginning? If they [auditors] start talking like that in the class, it seems they are free to speak. It looks like they want to report on many things to the instructors. They have a time to heal themselves. I guess, based on my training participants' comments, what could be yes or not. Some of these people are auditors, who violate integrity because of pressure…(A18)

Another instructor described the same pressure as he had also had the experience of interacting with auditors in the class. The instructor confirmed that pressure contributes to integrity violations, as indicated in the following statement:

> There are two things [that cause violations], although I do not have the data yet. They are whose capability in dealing with pressure and the applicable system. Again,…, but the system is combined with the incapability of dealing with pressure, so they choose to violate ethics.
>
> *Could you give me an example? (I asked)*
>
> The first aspect is the pressure. They understand that ethical violation is wrong, but because of concerns, such as being transferred, not being trusted, and not being given responsibility, they choose to violate ethics. So, the pressure is internal. In the psychology, [originally] pressures are external, but people [also] process them within themselves into internal pressures. For example: 'Please, can you adjust this?. So, those words 'you adjust this' are a pressure, but it is a common [instruction]. Meaning that, 'you adjust' does not contain

> precise commands, but individuals think that it is dangerous to ignore it. So, they feel bad and uncomfortable. They regard it as a pressure. Initially, it is external pressure but then changes into internal pressure. This is the biggest problem (A19).

The term 'adjustment' in this context means to change from a real audit finding to something more 'favourable to the auditee's interest'. After the auditee makes a deal with the leader, the leader attempts to 'instruct' the auditor by using the term 'adjustment'. This 'soft instruction' becomes a specific pressure for the auditors who are afraid of not heeding the instruction although they realise doing so might violate integrity. This situation makes them uncomfortable. On the one hand, they understand this action is not appropriate. On the other hand, they also think about the repercussions for themselves if they refuse the instruction. Therefore, the instruction is 'a pressure' for them to commit a violation.

These statements of the two instructors indicate that pressures exist in ISAI and it is one of the factors that causes integrity violations by auditors. The statements are the same as the experience noted by the high-ranking official in the principal inspectorate. He also found that an auditor sometimes receives a 'special order or message' from the leaders to violate integrity. Such instructions and pressures are a serious leadership problem.

8.4 How to Deal with Traditions and Organisational Culture

In addition to politics and leadership, my interview results indicated that tradition and organisational culture are challenges to implementing integrity in ISAI. These challenges related to what I discussed earlier in Chapter Two regarding the special issues of Indonesian society and culture, namely the principles of *rukun* and

kekeluargaan (cf. Chapter Two, Section 2.6.2). Table 8.1 lists five aspects of tradition and the organisational culture that the interviewees commented on during our discussions. These aspects are the attitude of respecting seniors and avoiding conflicts, communal relations and extended family, traditions of serving food and giving a gift, the challenge of being 'impartial', and the culture of the 'yes man'.

8.4.1 The Problem of Respecting Leaders, Senior Colleagues, and Avoiding Conflicts.

My interview results show that respect for the leaders (bosses), senior colleagues, and avoidance of conflict are part of the organisational culture that exists in ISAI and affects the implementation of integrity. This situation also applies in most other bureaucratic offices in Indonesia. The influence and controls of the leaders are not just limited to aspects of daily work activities, but also can involve non-technical programmes, such as sports and leisure activities.

Seniority has a special status not only in terms of being prioritised for promotion but also in the common relationships among colleagues in ISAI. People who have served in their career for a relatively long time in an organisation are perceived to hold a senior status. Usually, their seniority is reflected in their position in the organisation but this is not always the case. Occasionally a person has been in ISAI for a long time but his career has not advanced, although this rarely happens.

Respect for both leaders and senior colleagues is an ingrained habit in the culture of civil servants in public sector institutions, including ISAI. However, this culture

can jeopardise integrity implementation if not managed properly. An audit supervisor at the DKI Jakarta regional office stated that the tradition of honouring the boss is an unwritten rule in ISAI and commented as follows:

> …You can see it yourself, as a part of ISAI, how our leaders (board members) are treated. They are treated like kings. Nobody dares to critique them. If [you] critique [them], non-job directly. This is dangerous. If their boss 'is different', they are not brave. In this case, [if] we still perceive this as good integrity, it does not make any sense (A28).

By using the terminology "as kings", this supervisor wanted to explain that the decisions and behaviour of the leaders is almost unconstrained. In other words, whatever they do is always perceived as right even though it is possibly wrong. However, no one dares to challenge the board members, including the top bureaucrat leaders just below the board. This extends to all leaders below the board within the line of management, such as Echelon I and II, and other leaders.

Similarly, one of the board members revealed that during his two terms of serving on the board he could feel directly ISAI's organisational culture of respecting leaders. He warned of the risk of this tradition, as it could have a negative impact on ISAI. He made the following statement,

> My experience in ISAI for almost ten years was that, because it is a tradition, the climate built is to be "happy to serve, and ISAI's people only serve" (A1).

The term 'serve' is consistent with the analogy of 'kings'. In general, a king always receives 'the best service' from his subjects. These two statements thus support each other that serving the leaders seems to be a common practice in ISAI. Moreover, part of the "service" is not to go against the leaders, even though what they may be

suggesting is unethical. Therefore, this practice can threaten the implementation of integrity in ISAI.

Regarding seniority, senior figures are almost the same as the leaders in terms of people respecting them within employee-to-employee relationships. The difference is that the leaders have formal power in the official organisational structure, while senior auditors have informal power in their daily relationship with auditors or employees. Thus, people in ISAI effectively also respect seniority.

Excessive respect for leaders and seniors may cause a serious barrier to the implementation of integrity. A member of MKKE provided an example of the influence of seniors. In this particular example, the senior was an audit team leader. This is the excerpt:

> I'll give you an example: the team that we conducted a hearing with. We asked them who had invited them. They said it was the team leader. Their audit team members were asked to participate. I asked, "Why didn't you refuse?" and they answered, "I am new, Sir, I am afraid." I further asked them, "And you came? For example, if you were invited to karaoke and provided with entertainers and so on." They said, "Yes, but I just stayed outside." I asked, "Did you never report?" and they responded, "No, Sir." That is the fact. Power distance or what? The power of seniors is so strong over their subordinates, that the subordinate is afraid 'Power distance.' Try to look it up (A3).

The example shows how the employees, especially newcomer auditors, respect their seniors even if the seniors show inappropriate behaviour, the newcomer auditors would not show their disagreement openly. During the induction programme, the training centre gives them material about integrity and the code of ethics including, in this context, assertiveness training. However, in reality, it is not

easy to apply the acquired assertiveness skill because of the senior's influence and pressure.

An integrity auditor at the principal inspectorate also explained the same phenomenon of seniority in ISAI. His experience in handling many integrity violations indicated that seniors can influence their juniors' behaviour. This statement describes this situation:

> If we look at the cluster based on employee profiling in ISAI, most of our employees are 'accommodative people'. Of course, this will automatically depend on who the team leader (senior) is and it is very important. For example, the team leader will influence team members, especially the 'new kids'. They (the new employees) will observe what is happening in practice. So many fraud incidents occur in ISAI and regrettably the violators learn from their seniors. They had not been violators beforehand, but afterwards they 'enjoy' it, they imitate their seniors' styles, and when they are moved to another team, they even become 'players' there (A11).

This integrity auditor's illustration shows us the reality that being respectful to seniors can have a negative impact on integrity, if this respect is not managed correctly. In other words, the role of seniors' auditors (employees) is important to assist the programme to implement integrity in ISAI.

Moreover, according to this integrity auditor's observation, because the majority of ISAI's employees are accommodating people, most of them tend to avoid conflict in their workplace. They will feel 'insecure', if they have a conflict in their relationship with co-workers or with their bosses. Therefore, they prefer not to criticise other people's attitudes, although sometimes they know unethical behaviour is involved. Even worse, this adopted ignorance is not only at the staff

level, but unfortunately also at the management level. He gave further information as follows:

> Most ISAI' employees are 'phlegmatic' people who are shy and do not dare to look different from others. So, they do not want to have a conflict with their colleagues, especially with the leaders (A11).

Reflecting on this phenomenon of adopted ignorance in ISAI, an audit manager in the East Java regional office, shared his observations in the following statement:

> Frankly speaking, I once spoke with one of the audit managers who was behaving like that. But it did not occur in the East Java regional office. For example, the audit team falsified hotel receipts. The audit manager did not care about it. He said, "It is not my business, the important thing is I did not do it". Such things are deeply rooted in my colleagues at ISAI. Sometimes the manager does not care about it. Many people are afraid of being hated. If the manager reminds A, B about their bad attitude, their staffers will hate him. Such incidents occur widely. ("So they do not want to be a 'public enemy?" I confirmed). "Yes". (He agreed) (A33).

The statement confirms that adopted ignorance behaviour about integrity violation in the workplace exists in ISAI. This ignorance contributes to the difficulty of implementing integrity, because integrity also needs people who are concerned about their environment, and have the courage to speak out if they see an integrity violation. However, it is not easy because sometimes reporting such violations may create a conflict in the workplace and create disharmony or even a threat to the person who reported it. Therefore, many people tend to look the other way. A member of the MKKE also observed this phenomenon and commented as follows:

> Look, for example, one audit team consists of seven people. There is a person in charge, and so on. If there is an insolent person, everyone else will inevitably notice him. He is just looking for safety. He keeps silent. Is it a culture? Maybe, there might be another factor. We are linear (A3).

8.4.2 Communal Relations and Extended Family Cause Social Pressure

The second problem of local tradition stated in Table 8.1 is that of communal relations and extended family in Indonesia, which is known to be a collectivist society, and means that usually someone belongs to a certain society or group (Hofstede Insights, 2019). In other words, they connect with one another in this group and are interdependent. In addition, the purpose of connecting with a group is to build many relationships outside the nuclear family. These relationships could extend to the same tribe, hometown, school, religion, or other bases. Their relationships lead to communal relations and an extended family.

My interviewees agreed it is very common for people to interact within a wider relationship network and there are close interconnections among them within these particular relations. This closeness may sometimes be useful in overcoming their various problems in daily life. However, to some extent, this practice could also become a 'pressure' and cause integrity problems. A CEO of an anti-corruption NGO described the principle of communal society as follows:

> I am Javanese. In our Javanese culture, a family is an 'extended family'. It means that the family is not only the nuclear family but also siblings, nieces, and others. So, when they are in trouble, we must help them. Nevertheless, 'helping' here can have a negative meaning, such as helping him [our brothers/sisters] to be recruited as a PNS[20]. This is actually negative, because normally they should take part in the competition [to be a PNS]. But this is common (C1).

This comment illustrates that helping other people, especially those perceived as 'our own family', is a common practice in Indonesia. This kind of help could relate

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[20] PNS (*Pegawai Negeri Sipil*, Civil Servant)

to many aspects, such as distributing projects, giving jobs, or promotion to a special position. Therefore, the positive meaning of helping has transformed into a negative one because sometimes it means circumventing the normal process such as selection. Being part of a certain family with a close connection to a decision maker, could avoid a selection process. Therefore, some people could be put under pressure in this situation and this could cause them to violate integrity.

A member of MKKE felt the same challenge arising from communal relations and family. He is expected to enforce integrity in everyone without excuse but he realises that the influence of communality may be a threat to integrity in behaviour. The following statement describes this situation.

> …, in these duties, sometimes we face the fact that, "A is a nephew of this person, B is a relative of C" Well, that is the fact. In Indonesia, we uphold kinship, which is a common practice in Indonesia. Sometimes, we also interfere with our neighbours' life. That is our culture. But, as a Member of MKKE, we must state "what is right or what is wrong." That is the challenge I face as a member of MKKE (A2).

The tradition of communality may have a positive effect, but practising it thoughtlessly could impact adversely on integrity. An audit manager in the East Java regional office also shared a comment on the difficulty of this practice. He noted that kinship or friendship can be a serious challenge to implementing integrity. For instance, he said if we found something relating to inappropriate accounting treatment, normally this would result in a qualified 'audit opinion'. However, because the person involve in this unprofessional treatment is related to us, we do not pay special attention to it. Therefore, the implementation of integrity faces a challenge. He made the following statement to express his feelings:

> Let me give you an example (he explained). There is a broken chair (he made an analogy). It was not explained beforehand because it could affect the financial statement. However, [currently] we realised that the chair is still broken. But we feel uneasy to bring up that issue because it is the same as judging our own friend. This kind of situation can ruin integrity (A33).

The statement illustrates that communality may influence professionalism of ISAI auditors, even threatening their integrity.

8.4.3 The Challenging Tradition of Serving and Giving 'Something' to Show Respect to Someone

The third problem stated in Table 8.1 is the common tradition in society of providing a good service and giving 'something' like a gift to show respect. This tradition is a common way to give 'special attention' to someone who supposedly needs to be 'honoured' because of their social status or position in the government. ISAI perceives this tradition as a serious challenge to the organisation's integrity. In reality, it is common for ISAI's personnel, both auditors and leaders, to be offered and served by auditees with food or gifts during their fieldwork. The ISAI is aware that this tradition could threaten their programme to promote integrity within the organisation.

Previous chapters, such as Chapter Two and Chapter Three, have also identified and discussed this tradition as a potential threat to implementing integrity. Even the discussion on the real system in Chapter Seven, especially Section 7.4.3.2, has identified the difficulty of implementing ISAI's code of ethics in the face of local tradition such as serving food and giving gifts. Therefore, both the ideal system of

OECD's IMS and the nominal system of ISAI anticipate integrity problems that might arise from this tradition thorough a specific instrument.

In a similar vein, this section underlines the previous discussion relating to this common tradition of serving and giving something to others as a way of giving respect. In fact, the tradition creates a 'pressure' that could lead to integrity problems. A CEO of an anti-corruption NGO described his view of this tradition in the following comment:

> Gratification[21] reflects a social phenomenon that has been practised for a long time. Maybe we also do it, for instance in the context of school. At the end of the semester, usually parents come up with 'an initiative' to give a gift to the teacher as appreciation because their children will move up to the next grade. In western culture, this practice does not exist since it is perceived that the teacher has already been paid for it (C1).

The statement indicates that gift-giving as a symbol of respecting someone because of their position is believed to be a common tradition in eastern cultures such as Indonesia and people have practised it in their daily lives for many years. Therefore, this tradition is not perceived of itself as having anything to do with integrity.

That giving 'something' like gifts is part of Indonesian culture is also acknowledged by the inspector at the principal inspectorate. He recognised that the tradition has some consequences that need to be considered wisely, as stated in his following

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[21] ISAI defines gratification as personal gain including gratuities as "giving in a wide context, such as money, goods, discount, commission, loan without interest, travelling ticket, tour facility, free medical check-up, and other facilities which can be received in both the domestic area and abroad through either electronic media or non-electronic media" (cf. Chapter Six, Section 6.3.1.6)

statement:

> I see a problem in our culture. We like to give something, and we also feel bad about refusing gifts from people who we consider sincere. However, this habit becomes excessive [when not controlled] (A8).

The statement emphasises that a control mechanism on this tradition is required to ensure that the practice stays within a tolerable range. Otherwise, the tradition of serving and gift-giving could harm the practice of integrity in ISAI.

8.4.4 The Challenge of Implementing 'Impartiality' within an Indonesian Context

The fourth problem stated in Table 8.1 relates to the principle of impartiality. Integrity requires that the principles of fairness, objectivity and equality should be applied to everybody. The application of these principles is also known as impartiality, which recognises not giving special treatment to someone because of friendship, kinship, or any other relationship which can betray fair and objective principles. Moreover, this principle should be implemented both internally and externally.

In the internal context, ISAI should give the same treatment to all organisational members, whether they are board members, management, auditors or other employees. For example, in terms of reward and punishment, there should be no differences for all, whether they are the board, management, auditors or other employees. In the external context, especially for auditors when they conduct an audit, they must be assertive but avoid making a biased judgment on any auditee.

However, the interview results show that sometimes it is a challenge for the auditors to behave 'impartially' because of cultural problems. In particular, most auditors who are from the Javanese ethnic group are expected to understand how to behave according to *tata krama*[22] and respect for other people. In the context of Javanese culture, *tata krama* applies when dealing with people who have a certain social status or are senior in age. Therefore, in dealing with these two types of people, Javanese are expected to practice *tata krama.* For this reason, these local norms and traditions need to be understood properly as these can determines one's acceptability by society.

However, in terms of the necessity to behave impartially and to maintain integrity, the cultural norm makes it difficult for auditors to do both. To act or declare as they should makes auditors feel uncomfortable. This situation pushes them to 'accommodate and tolerate' faults they have discovered, although this is against the regulations. As an audit manager in the East Java regional office explained in the following response:

> I think it is quite dominant (the culture). Because Javanese people still uphold *tata krama* (norms), *ewuh pakewuh* in the Indonesian language *sungkan*. It means feel uncomfortable to 'inquire' about something or someone more seriously because we respect certain people or know them very well. It is an obstacle. Especially, if the person we are dealing with is polite. It causes us to feel discomfort. Javanese people (I am a Javanese) '*dipangku kalah'*, that is, can easily melt or be kind when they are approached politely. It also affects the situation in the East Java representative area. Around 80% of East Java representative staffers, are local people. Nevertheless, Sumatra also has the same situation (A33).

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[22] *Tata krama* means politeness

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His explanation illustrates that the local norms cause difficulty for auditors to practice impartiality. Auditors should make an objective judgement on any problem they are handling and on anybody who they are dealing with, without exception. However, it seems that auditors realise that, to some extent, Javanese culture affects their behaviour and, even impedes them from behaving impartially. This is especially true when people have treated them politely and have a higher social status in society. Therefore, sometimes they tend to 'tolerate' these people's behaviour although this behaviour is an integrity violation.

Another interviewee, a professor in ethical studies, confirmed the challenge of being impartial in society. Sometimes, people in our society find it difficult to behave impartially to certain persons because of their position or emotional relationship with them. When these persons commit a violation, people tend not to be too worried about their offence. They perceive that this offence is not intended, so they simply try to forget it. This professor explained the phenomenon in the following statement:

> Our society is very tolerant. It is also tolerant of those who have obviously compromised integrity. They think "*ya wis dimaklumi ae, iku kan ora karepe dewe sakjane*" (Javanese for "let's understand it. It is probably not something they wanted to do though,") or along those lines. So, with the pressure from the superior to fulfil his political concern or else, sometimes this kind of understanding appears. However, we have to reduce it. Integrity is a key to making this nation advance. We cannot drift away from this goal with any kind of tolerance for integrity violations (D1).

In addition, another interviewee, an academic and practitioner in public finance, worried that the difficulty to behave impartially also exists in bureaucracies. He is

of the view that currently politics has spread through many sectors in Indonesia, especially bureaucracies, and politics tends to be more patronage-based, especially among its sympathisers and followers. If bureaucracies become a patronage because of politics, this threatens most civil servants by building patronage relationships and consequently hindering them from behaving impartially. The academic explained this in the following statement:

> In my opinion, to have a good bureaucracy, we must build a culture that is not patronage. Patronage leads to personality and partiality. Especially now, this patronage is politically institutionalised. The political system depends on patronage. Political parties, in general, use patronage, especially religion-based parties,…
>
> To prevent this patronage, in my opinion, we should ban civil servants from being active in any organisation. KORPRI[23] is enough. No need to be active in other organisations. They should focus on their work because the organization is the trap. Bureaucratic impartiality starts from civil servant's impartiality towards anything (D2).

Based on these statements, there is a challenge to implementing the principle of impartiality, which is recommended in western models.

8.4.5 People in the ISAI are Comfortable being "A Yes Man"

Finally, Table 8.1 shows that the last problem is phenomenon of the 'yes man' in ISAI which can be a threat to implementing integrity. This problem relates to people in ISAI who are comfortable being a yes man rather than a 'critical person'. A 'yes man' is assumed to have strong loyalty to the organisation (especially in the eyes of the leaders) and ISAI seems to prefer people who follow whatever directions are given by the leaders, even if the direction might sometimes violate integrity.

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[23] KORPRI (Korps Pegawai Republik Indonesia, Indonesian Civil Servants Corps)

The problem was described by an audit manager at the East Java regional office who had worked for ISAI in several places across Indonesia and therefore has a good understanding of the organisation's culture. He explained this phenomenon as follows:

> It (ISAI's organisational culture) is certainly influential. I see that the important thing within our organisation just wants to 'ABS[24].' Whatever *bapak* (boss) orders, I will do it so that I will regarded as loyal although this loyalty could function in a negative way. According to my observation and much information that I've obtained from my colleagues, that matter (ABS) strongly affects promotion. To get promotion, the important thing is you are loyal to the boss, even though this loyalty includes the wrong thing. It is very troublesome. In fact, people who are known for their excellent integrity are disliked by the leaders. It makes me think: when will our organisation be good, if good people are marginalised and troublesome people have a bright career? (A31).

The audit manager's statement confirms that the phenomenon of the 'yes man' exists in ISAI. However, it seems that this type of person is popular among the leaders. The threat from this type of person is that sometimes they do not care whether the leaders' command is consistent with the rules and regulations or not. Their loyalty is relatively 'blind'; that is, as long as the leaders are happy, and they think this blind loyalty will have a good impact on their career, they will follow the command. Another explanation is from a board member, who described an example of blind loyalty as follows:

> …for example, a board Member orders the principal auditor (tortama) [to do something]. Then they [principal auditor] ask their subordinates. It is a continuous practice. The culture is very common in ISAI (A1).

The board member's statement suggests that the tradition of loyalty to the leaders

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[24] ABS (*Asal Bapak Senang*, '*Pleasing the Boss*' attitude)

is widely practised in the ISAI. It is practiced at all levels, from the top to the bottom, as part of the organisation's culture. In addition, his statement confirms the audit manager's previous explanation about the principle of loyalty in ISAI. However, this loyalty can lead to integrity violations. A former senior official at the principal inspectorate stated that in his experience this practice of loyalty to the leaders is a threat to the implementation of integrity in ISAI, as he said in the following statement:

> The latest integrity violation involved board Members. It had been long a time ago. We even called the auditors. [I reminded them] 'Be careful, I reviewed your work and it did not comply with the standard.' I said it like that. '[The work] must be completed [because] one day you will find it hard to prove, you will be difficult to defend.' I called them, so the principal inspectorate knew it. 'If this is the leaders' instruction, as an auditor, you should be smart, and clever. Do not kill yourself.' The problem is usually the order is just spoken. So how does an auditor get the evidence? It is a must. An auditor must be critical of evidence and have a professional scepticism towards it (A6).

The statement illustrates how the auditors behaved as 'yes men', following whatever instruction came from the leaders.

An instructor of integrity, who by educational background is a psychologist, explained another form of the 'yes man' phenomenon in ISAI. Based on his observation of many participants at the training centre, he identified the characteristics of management in ISAI, as follows:

> On average, our leaders (management) are split in two: very obedient people--ask them to do anything and they will say okay--and creative people. At ISAI, Echelon I and Echelon II are categorises of obedient and creative people; in Echelon II, many of them are creative. So, next, the source (of the problem) is here [he points to senior group]. The key is here, those who have worked for 10 to 20 years or more. This group have also become the team leaders, senior [team leaders], and have reached Echelon III. Now this is the key: the level of middle

management. They begin to learn integrity violations, and so on. That is where the process of '*kawah candradimuka*[25]' takes place, where they are learning to deviate, at that level (A19).

The instructor's observation provides additional understanding of the yes man phenomenon in ISAI. The choice to become a yes man is a pragmatic decision for auditors and management. They think that by saying yes to (obeying) the leaders they show their loyalty. Consequently, they expect that the leaders will consider and support their careers in the future because of such loyalty. However, this type of loyalty is dangerous because it can lead to integrity violations. Thus, the organisation should maintain loyalty but aim to ensure that it is applied for the right purposes.

8.5 Chapter Summary

This chapter reviews the participants' comments from the interviews and focuses on political influence, lack of ethical leadership, and culture as barrier and challenges to implementation of the nominal ISAI IMS. These factors result in an implementation deficit in form and in substance. The chapter thus addresses the third research question of the study.

Political influence is a barrier to achievement of a high-quality real IMS for the ISAI. It arises through operation of the mechanism for selection of board members

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[25] *Kawah candradimuka* refers to a cauldron shaped like a cow into which according to Buddhist teaching a man was thrown to be 'boiled' in scalding water for supernatural powers and strength. It is a popular Indonesian expression used to describe a place where someone can seriously learn to become an expert.

of ISAI. The members of Commission XI effectively make the selection, and there is an absence of appointment criteria relevant to the audit function of the ISAI, technical competence and a high level of integrity.

The selection mechanism also leads to the risk that the successful candidates for the board may not be persons capable of providing ethical leadership in ISAI. Furthermore, given that the board appoints the senior bureaucratic leaders of ISAI this risk is also likely to impact on the selection of these leaders. Political influence is thus a serious shortcoming in the intermediate agency relationships between MPs as the principal and the board as the agent, and in turn, the board as the principal and the bureaucracy of ISAI as the agent.

Finally, there is the factor of cultural values that are common to Indonesia but may be regarded as a weak link in an integrity management system if viewed through western eyes. However, most would agree that values, such as respect, gratitude, and loyalty are actually positive qualities. The risk is that unethical persons may capitalise on them, resulting in an integrity violation. The challenge is to devise rules to guide auditors to, for example, differentiate between a present and a bribe when offered a gift.

CHAPTER NINE
CONCLUSION AND SUMMARY

9.1 Introduction

This chapter concludes the study. The chapter starts with an overview of the study and then summarises the study's findings. The chapter recommends changes that could improve integrity management in the ISAI. The chapter notes the strengths and limitations of the study, and finally makes some suggestions for further research.

9.2 Overview of the study

The study uses agency theory as the theoretical framework for the role of integrity management in promoting value and benefits for the people of Indonesia from the public sector. Analysis based on agency theory reveals structural weaknesses in the indirect relationship between citizens and the ISAI management and auditors. One source of weakness is the agency relationship from citizens to Parliament. Mitigation for this is likely to come from media and NGOs. The other source of weakness stems from political influence in the selection of ISAI board members and manifests in the agency relationships from Parliament to the board and in turn the board to ISAI management and auditors. Effective integrity management is seen as mitigation for these weaknesses, that is, for the agency costs. Thus, in using agency theory to analyse integrity management in a public sector entity, the study provides a further example of the application of agency theory to explain social phenomena in the public sector (Jensen & Meckling, 1976). This is in contrast to the use of agency theory in financial reporting and auditing issues which have

tended to be the common of areas of application (Baber, 1983; Bradbury & Scott, 2015; Jensen, 2005).

The overarching research question thus addressed in this study is *What is the quality and the adequacy of the ISAI IMS?* This leads to three specific research questions:

1. *How does the nominal ISAI IMS compare with the ideal OECD IMS and what does this comparison show about the quality of the nominal ISAI IMS?*

2. *How does the real ISAI IMS compare with both the nominal ISAI IMS and the ideal OECD IMS, that is, what is the implementation deficit?*

3. *What are the barriers and challenges that result in the implementation deficit?*

Data collection to address the research questions proceeded in three stages: document analysis and semi-structured interviews, first at the head office of the ISAI (stage one) and then at two branches of the ISAI (stage two). Finally, semi-structured interviews were conducted with relevant external parties to ISAI (stage three).

To assess the quality of the ISAI IMS and address the three research questions I used the OECD IMS as the ideal system.

9.3 Findings and conclusions from the study

Figure 9.1 below illustrates the comparisons made across the OECD IMS, the nominal ISAI IMS, and the real ISAI IMS, to address the research questions and the result of the comparisons. The comparisons were made using both quantitative and descriptive approaches. The IMSs were compared on an instrument by

instrument basis according to the OECD IMS. In the quantitative approach subjective weights were assigned to each instrument for layer, approach, function, sub function and presence or not in the ISAI IMS. It was thus determined that the nominal ISAI IMS has 83% of the instruments included in the OECD IMS.

However, not all instruments have been implemented to the same degree. Therefore, the instrument weights were adjusted for degree of implementation, and this provided the estimate that the ISAI IMS has implemented 55% of the OECD IMS instruments.

The descriptive approach, supplemented by comments from participants in the interviews, considered the instruments on the basis of four groupings, those in the OECD IMS but not in the ISAI IMS, those included in the ISAI IMS but with uncertain effectiveness, those in the ISAI IMS but in most cases with less than optimal implementation, and finally those not in the OECD IMS but in the ISAI IMS.

The instruments in the first classification are post-employment arrangements, integrity testing, early warning systems, integrating integrity in the regular discourse, survey measures of integrity dilemmas, informal probing for ethical dilemmas and issues among staff and assessing the fairness of reward and promotion systems. With the exception of all but post-employment arrangements these instruments are not formally included in the nominal ISAI IMS but they are actually applied in a number of ways in ISAI. The absence of post-employment

arrangements leaves significant potential for conflicts of interest. Instruments in the second classification are the rotation programme, the oath and signing of the integrity declaration. These operate in ISAI but their effectiveness is uncertain.

The third classification includes all the other OECD instruments. Among these, the instruments with significant shortcomings were the risk management policy, policy on conflict of interest, control of gifts and gratuities, training in ethics, whistle blower system, and sanction and punishment. In respect of sanction and punishment the MKKE and ITAMA both have problems.

Finally, the fourth classification is religious events, an instrument not included in the ideal system, but conducted by the ISAI for employees of a number of different faiths.

Thus, in response to the research questions, the findings of the study are that the ISAI IMS is adequate in terms of the instruments, processes, and structures included, but there is a significant implementation deficit in form and substance. Nearly all participants with real user experience of the ISAI IMS commented that in their view the instruments were adequate to ensure that auditors would act with integrity. This suggests that, in terms of form, the implementation deficit could be eliminated. However, in terms of substance, there are barriers and challenges to elimination to the deficit, namely, political influence, lack of ethical leadership, and culture.

Figure 9.1: An Overview of Comparison between the Three Systems
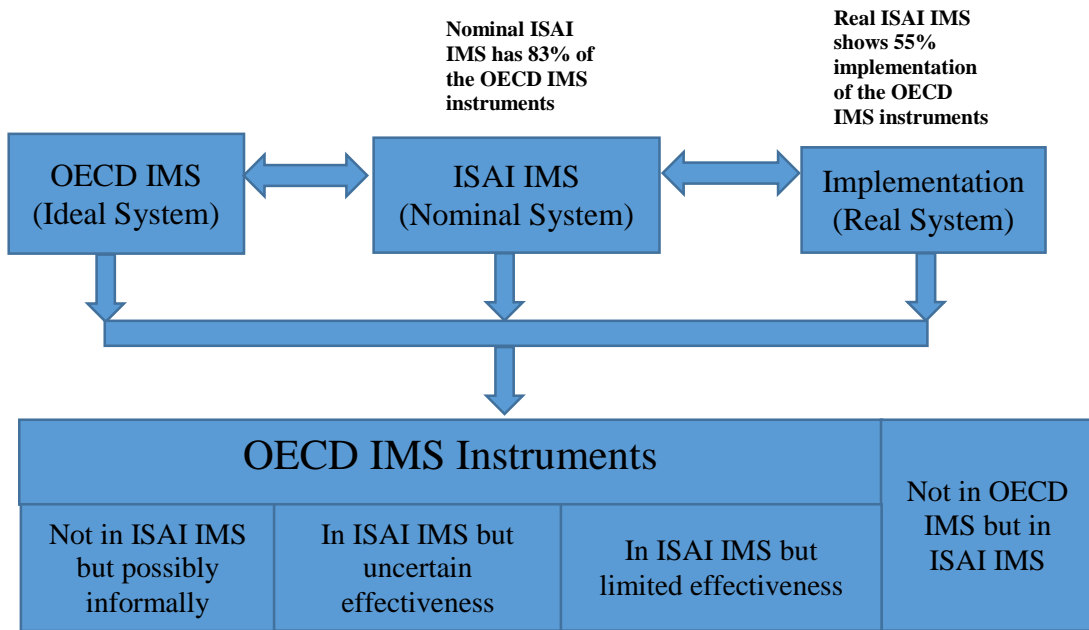
Political influence is a barrier to achievement of a high-quality real IMS for the ISAI. It arises through operation of the mechanism for selection of the board members of ISAI. There is an absence of appointment criteria relevant to the audit function of the ISAI, namely, technical competence and a high level of integrity.

The selection mechanism also leads to the risk that the successful candidates for the board may not be persons capable of providing ethical leadership in ISAI. Furthermore, given that the board appoints the senior bureaucratic leaders of ISAI this risk is likely to extend to those leaders. Political influence is thus a serious shortcoming in the intermediate agency relationships between MPs as the principal and the board as the agent, and in turn, the board as the principal and the bureaucracy of ISAI as the agent.

Finally, the presence of cultural values customary to Indonesia is likely to be regarded as a weak link in an integrity management system viewed through western eyes. This is the problem of cultural bias. However, most would agree that values, such as respect, gratitude, and loyalty are actually positive qualities. The risk is that senior persons may capitalise on these values with the intention to commit an integrity violation. The challenge is to devise rules that offer guidance on application of these values. For example, guidance on when to withdraw respect and loyalty to a senior person, or guidance on the difference between a gift that is a present and one that is intended as a bribe.

9.4 Recommendations

My recommendations focus on the system level as my research has shown that the most significant weaknesses exist primarily at that level. Therefore, I offer the following recommendations to achieve an improved IMS for the ISAI.

1) The ISAI should move to full implementation of all the existing instruments so as to achieve a real IMS with a set of integrity instruments equivalent to the instruments of the OECD IMS. This would include introduction of a policy on post-employment arrangements.

2) The ISAI should develop policies to ensure that the cultural values customary to Indonesia do not become open to abuse by persons intent on integrity violations. For example, there should be a policy to guide auditors

on the acceptable line between a gift that is a present and one that could be intended as a bribe[26].

3) The law covering selection of the members of the ISAI board should be amended to require pre-selection of a field of candidates by an independent body. Parliament would then select their preferred sub-set of candidates. The criteria for inclusion in the field would include technical competence and demonstrated high integrity in behaviour. The independent body should include representatives from the accounting profession, *Ikatan Akuntan Indonesia* (IAI, Institute of Indonesia Chartered Accountants,), NGOs, academia, and the media.

4) The membership of MKKE should be amended to include only one ISAI board member, and the chair should not be that ISAI board member. The powers of MKKE should be strengthened to include jurisdiction over the ISAI board. Furthermore, MKKE should become active in initiating investigations and the decision to investigate should be made by a majority of the members of MKKE. The body should have full access to the investigation services of ITAMA.

5) Appointment of the senior management of ISAI should continue to be made by the ISAI board but the preferred candidates for appointment should be selected from a field of candidates pre-selected by an independent body that includes representatives of the accounting profession (IAI), major public sector entities, and NGOs.

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[26] As indicated earlier, there has been a shift in the perception of such practices (Verhezen, 2014)

The most important of the above recommendations is that of selection of the members of the ISAI board. Without implementation of this recommendation, the real IMS will continue to be subject to political influence and lack ethical leadership.

9.5 Contribution of the Study

This study contributes to the existing literature on integrity management in at least four fundamental ways. Firstly, it places the value of an integrity management system in the context of minimisation of agency costs in the principal-agent relationship between citizens and the country's supreme audit institution. The study indicates that an integrity management system can be an effective strategy for a public sector institution to control the tendency of agents to pursue their own interests at the expense of the interests of the principal (Jensen & Meckling, 1976). Secondly, the study also introduces a quantitative assessment approach to allow comparison of different integrity management systems.

Thirdly, this study identifies the negative impact of political influence and the importance of leaders providing ethical leadership in maintaining integrity, especially how they face the potential for political influence. This raises the importance of ethical leadership studies that not only include public leadership but political leadership as well, especially where political interference puts public sector integrity at risk (cf. Lasthuizen, Heres, Webb, 2019). In addition, Ko et al. (2018) indicate that most current studies on ethical leadership are still dominated by the role of middle management.

Finally, by focussing on Indonesia, a developing country, the study extends the scope of the empirical literature on integrity management which is dominated by western perspectives. The study identifies three significant factors that are barriers and challenges to implementing an integrity management system in the Indonesian context, namely: political influence, ethical leadership, and culture.

9.6 Strengths and Limitations

There are two issues to discuss in this area. The first concerns my personal background as an employee of the ISAI which I feel brings both strengths and limitations to the study. I have been on leave from the ISAI while doing my PhD in New Zealand, and most recently I held the position of head of research and development for Financial Audit. This employment background has been a significant advantage for me as I doubt that otherwise I would have been given authority to conduct document analysis and interview ISAI board members, management and auditors.

Furthermore my knowledge of ISAI, derived from my employment, was an advantage in understanding the documentation for the nominal ISAI IMS, framing the questions for the interviews, and understanding the background context to the comments made by participants during the interviews. This special status thus gave me advantages in conducting the research. However, my employment background also raises the question of possible influence on my judgement and objectivity. As far as possible, I have endeavoured to minimise this possibility.

The second issue concerns the data used in the study, which is a limitation. I discuss this in the next section on suggestions for further research.

9.7 Suggestions for further research

Firstly, the issue of additional data. I am confident that the document analysis was sufficient in scope and depth to understand the nominal system. However, the scope of the interviews could be extended to include not only additional participants from each of the categories of participants interviewed, but also extended to include MPs. The qualitative data could be supplemented by quantitative data from a structured postal or email based survey. This would allow gathering of data not just from more management and audit personnel at the ISAI's head office and the two branches, but also from such personnel at all the other ISAI branches. This would provide more in-depth data on the issues explored in this study but might also raise new issues.

Secondly, I have noted religious events as an instrument applied by the ISAI. I did not discuss this instrument during the interviews but, with the benefit of hindsight, I think it would have been of interest to explore this issue in depth with participants. My expectation is that this instrument has significant potential for impact on integrity in behaviour. The topic of religiosity and integrity might also be explored in a cross-country study.

Thirdly, the impact of the accounting profession: I discussed in Chapter Six the ISAI technical guidance on the conduct of an audit. However, many of ISAI's auditors are members of the IAI and the accounting profession not only has similar technical standards but also a code of ethics. The impact of these standards and codes on the integrity of auditors could be a topic of further study.

Finally, my study has been confined to integrity management in the ISAI. However, from the perspective of the people of Indonesia, the ISAI exists to promote the likelihood of them receiving value and benefits from public sector entities, whereas those entities exist to actually provide the value and benefits. Therefore, it would be of interest to study the role of integrity management in those public sector entities.

APPENDIX 1: SUSPECTED INTEGRITY VIOLATION CASES INVOLVING ISAI AUDITORS AND BOARD MEMBERS FROM 2003 TO 2020

No	Descriptions	Year
1.	The Corruption Eradication Commission (KPK) has named Rizal Djalil, a board member of the Indonesian Supreme Audit Institution (*ISAI*), as a suspect in a case of bribery on a drinking water treatment system (SPAM-Sistem Penyediaan Air Minum) project at the Public Works and Housing Ministry in the 2017 – 2018 budget year. KPK declared that Rizal received 100,000 SGD from President Commissioner of PT. Minarta Dutahutama, Leonardo Jusminarta Prasetyo to recommend his company in one of SPAM projects. Currently KPK has detained Rizal Djalil for further investigation Reference: (Aji, 2020, December 3; "BPK Commissioner named bribery suspect, slapped with travel ban," 2019, September 26; "Massive conflict of interest," 2019, October 11)	2019-2020
2.	Yaya Purnomo, a former official in the Ministry of Finance, was sentenced to 6.5 years in jail on February 4, 2019 because of taking bribes from some local governments. In the corruption court, Yaya and his colleague, Rifa Surya, were found guilty of receiving bribes from some local governments. In this case, Yaya received gratification Rp3.74 billion, Sin$ 325, and US$53,200 for his service to assist some local governments. Based on his trial documents, Yaya Purnomo declared the name of a vice chairperson of ISAI, as a person who was suspected of recommending Yaya Purnomo, a former official in the Ministry of Finance. At that time, Dewa was instructed by the Tabanan Regent to find the way of getting a special fund from the Ministry of Finance. Yaya was the vice chairperson student at his doctoral program in Padjajaran University. In addition, this case also declared the involvement of Fitra Infitar, an audit manager of ISAI at East Kalimantan Regional Office. Fitra was suspected of assisting Balikpapan city and Karimun region to get an incentive fund from the Ministry of Finance. Reference: (Gabrillin, 2018a; Silalahi & Trianita, 2019; Trianita & Argana, 2019)	2019
3.	During a corruption trial regarding a bribe for auditors, three audit team members admitted to receiving 2 million rupiah (approximately NZ $200) per person from the audit team leader. This money was suspected to come from the auditee. In addition, eight auditors received free hotel accommodation in Bandung and other colleagues received free entertainment from the auditee. Their testimonies were given at the Corruption Court when they were called as witnesses for the audit team leader who became a positive suspect for receiving a Harley Davidson motorbike as a bribe on Thursday, March 1st, 2018 in Jakarta. This bribe related to a special purposes audit which was conducted for a construction state-owned enterprise in 2017. Reference: (Gabrillin, 2018b)	2018
4.	At the Corruption Court on Thursday 22nd February, 2018, prosecutors presented a voice recording of a dialogue between two suspects in a corruption case involving electronic ID. They declared that the former speaker of the House of Representative was involved in the case as well. According to the recording, he replaced one of the Indonesian SAI board members to protect them in the event of an ISAI audit of this particular case. Reference: (Pratiwi, 2018)	2018

5.	At the Corruption Court on Monday December 18th, 2017, the former directorate general of Sea Transport who became a corruption suspect revealed that an audit team from ISAI asked for a fee of one percent from every project in his directorate. He declared that the fee related to favourable audit opinions at his institution. Reference: (Gabrillin, 2017)	2017
6.	On Thursday March 9th, 2017, two high-ranking suspects from the official ministries which handle the electronic ID project appeared in the Corruption Court. This project became a big corruption scandal involving many parties. They also declared they had given money to an auditor who conducted the financial audit in 2010. The money was a bribe for a favourable audit opinion. Reference: (Gabrillin, 2017)	2017
7.	Bribery to change audit opinion from qualified to unqualified at *Kementerian Desa, Pembangunan Daerah Tertinggal, dan Transmigrasi* (Kemendes, the Villages, Disadvantaged Regions and Transmigration Ministry) Reference: ("Editorial: Supreme auditors sell opinions," 2017, May 29; "Penangkapan dalam kasus Kemendes: Ada apa dengan BPK? (Arrest in the case of Kemendes: What is wrong with ISAI?)," 2017; TEMPO.CO, 2017)	2017
8.	On Wednesday, May 18th 2016, the Committee of Honour on Code of Ethics (*Majelis Kehormatan Kode Etik*-MKKE) held a trial to decide the case of the chairperson of the Indonesian SAI. He was suspected of being the founder of a shell company called Sheng Yue International Limited in the British Virgin Islands and was reported in the Panama Papers scandal. According to the Papers, he established the company in February 2010 when he was a member of the House of Representatives. MKKE finally gave him a light punishment and asked him to step down as chairperson. Reference: (Sawitri, 2016a)	2016
9.	The auditors were bribed to give an unqualified audit opinion at *Direktorat Jenderal Kependudukan dan Catatan Sipil Kementerian Dalam Negeri* 2010 (Directorate General Population and Civil Registration at Ministry of Home Affairs Reference: (TEMPO.CO, 2017)	2011
10.	Two auditors of ISAI, "Bahar and Munzir" were punished with jail for 4.5 years and 4 years consecutively because they received 600 million rupiahs from the Mayor of *Kota Tomohon* (City of Tomohon), "Jefferson Rumajar" to change from a disclaimer to an unqualified audit opinion at Pemerintah Kota Tomohon. Reference: (Suhendra, 2017; TEMPO.CO, 2017)	2011
11.	Two auditors at *Kantor Perwakilan di Jawa Barat* (West Java Regional Office), "Enang Hernawan and Suharto" were punished with 4 years' jail because they took a bribe of 400 million rupiahs to give an unqualified audit opinion for *Kota Bekasi* (City of Bekasi) Financial Statement 2009 Reference: (Suhendra, 2017; TEMPO.CO, 2017)	2010
12.	Three ISAI board Members in the period 2004-2009, Uju Djuhaeri, Baharuddin Aritonang, Tengku Muhammad Nurlif became suspects in the 'travel cheque', bribery case involving the Senior Deputy Governor – Miranda Swaray Goeltom. They were both former MPs and members of the Commission IX (Finance and Banking) in the period 1999-2004. At that time, Miranda was a candidate to be a deputy governor at the Central Bank. However, during the process she was suspected of giving a travel cheque of 500 million rupiahs per person in order to select her. Among MPs who received the cheque were the board Members of ISAI. Therefore, they should be processed at the corruption court. Reference: (ICW, 2009a, 2009b; "ICW Desak BPK Berhentikan Nurlif (ICW asked BPK to dismiss Nurlif)," 2010, November 18; "TM Nurlif Nonaktif jika jadi tersangka (TM Nurlif is nonactive if he becomes suspect)," 2010, March 24)	2009-2010

13.	An auditor of ISAI, "Bagindo Quirino" was punished with 3 years in jail because it was proved that an official from *Kementerian Tenaga Kerja* (Ministry of Manpower) gave him 500 million rupiahs to change an audit finding of a workshops project at the Ministry of Power Reference: (Suhendra, 2017; TEMPO.CO, 2017)	2009
14.	Bribery was given to make the audit report of *Kabupaten Minahasa Selatan* (Region of South Minahasa) 2006 "smooth" Reference: (TEMPO.CO, 2017)	2007
15.	14 Auditors were proven to receive *"uang lelah"* (tired money) when they audited the financial report of *Komisi Pemilihan Umum* (KPU, General Commission). The auditors were bribed to skip 40 audit findings at KPU Reference: (Suhendra, 2017; TEMPO.CO, 2017)	2004 & 2005
16.	The auditor received various facilities when they audited *Dana Abadi Umat di Kementerian Agama* (Eternal Fund at Ministry of Religious Affairs) Reference: (TEMPO.CO, 2017)	2003

APPENDIX 2: CONTINUOUS DEVELOPMENT PROCESSES OF INDIVIDUAL INSTRUMENTS

	Instrument present inside the organisation?	Instrument present outside the organisation?	Plan	Do	Check	Act
Determining and defining integrity						
Analysis of risks to integrity						
Analysis of ethical dilemmas						
Consultation of staff and stakeholders						
Code of conduct/code of ethics						
Conflict of interest policy						
Gifts and gratuities policy						
Post-employment arrangements						
Non-written standard setting						
Structural measures in the core of the framework						
- Separating functions: four-eyes principle						
- Rotating functions						
-Other structural measures						
Measures in personnel management						
- Integrity emphasised in recruitment						
- Integrity as criterion for selection (e.g. background checks)						
-Ensuring sufficient diversity among staff						
-Providing employees with clear job descriptions						
-Integrity as criterion for evaluation and promotion						
-Integrity as competency in competency management						
Measures in financial management (e.g. appropriate procedures for procurement and contract management)						
Measures in information management (e.g. protecting automated databases)						
Measures in quality management (e.g. reviewing the quality assessment tool						

	Instrument present inside the organisation?	Instrument present outside the organisation?	Plan	Do	Check	Act
Guiding towards integrity						
Exemplary behaviour by management						
integrity training						
Oath, signing an *"integrity declaration"*						
Integrating integrity in the regular discourse						
- Announcing the integrity policy through channels of internal and external communication						
- Regular discussions of ethical dilemmas in the official internal communication channels of the organisation						
- Institutionalising regular discussions of ethical issues in staff meetings or in individual supervisor/employee meetings						
- Creating an open culture of communication where integrity issues can be raised easily						
Coaching and counselling for integrity						
Assessing the fairness of personnel management processes						
- Fairness of recruitment and selection						
- Fairness of promotion and reward						

Source: OECD (2009, pp. 82-84)

APPENDIX 3: LIST OF INTEGRITY DOCUMENTS WITHIN THE INDONESIAN SAI

No	Documents	Regulation	Approach
1.	Declaring explicitly the general standard that *integrity is the core value for auditors*. The general standard is part of State Financial Audit Standards (*Standar Pemeriksaan Keuangan Negara*-SPKN).	State Audit Regulation Number 1 the Year 2017 Regarding SPKN	Values-Based
2.	Stating *code of ethics* and integrity as one of the three core values, along with independence and professionalism.	State Audit Regulation Number 3 the Year 2016 Regarding Code of Ethics	Compliance-Based
3.	Building the ad hoc structure namely *Committee of Honour on Code of Ethics* (Majelis Kehormatan Kode Etik-MKKE). This committee is a supervisory unit which makes decisions regarding integrity violations and breach of ethics.	State Audit Regulation Number 4 the Year 2016, Regarding MKKE	Compliance-Based
4.	*Conflict of Interest Declaration*. Based on Audit Management Guidance (*Panduan Manajemen Pemeriksaan*-PMP), every auditor is required to declare any risk regarding conflict of interest before conducting any audit engagement	State Audit Decision Number 5 the Year 2015, Regarding PMP	Compliance-Based
5.	Creating *integrity culture* as the core value of an organisation. Ethical training is an initial stage for recognising integrity among auditors and staff within the organisation	State Audit Decision Number 7 the Year 2015, Regarding the Strategic Plan from 2016 to 2020	Values-Based
6.	Building the specific unit in organisational structure, namely *Inspectorate of Integrity Enforcement*, which addresses any integrity violations and code of conduct issues.	State Audit Decision Number 2 the Year 2014, Regarding Organisational Structure within the Indonesian SAI	Compliance-Based
7.	Building *Integrity Zone* Towards Free Corruption Area. This initiative is a commitment of leaders and members of public institutions to build their working area as an integrity zone.	Regulation of Ministry Utilization of State Apparatus Number 52 the Year 2014, Regarding Integrity Zone	Values-Based
8.	*The Control Programme for the Risk of Personal Gains*. This is a preventive programme for auditors to be aware of the risk of personal gains during their duties	Secretariat General Decision Number 305a Year 2014, Regarding the Control Programme for the Risk of Personal Gains	Compliance-Based
9.	Implementing *Whistle Blower System* (WBS). This is a platform for auditors who want to report incidents of integrity violations	Secretariat General Decision Number 507 the Year 2011, Regarding the Handling of WBS Reports	Compliance-Based
10.	*Personal Asset Report Programme*. This programme requires the SAI employees who are in middle and top-level management and also auditors to report their own assets before and after their position within the SAI	Article 5, the Law Number 28 the Year 1999, Regarding Clean Government and Free from Corruption and Nepotism	Compliance-Based

APPENDIX 4: INTERVIEWEE CONSENT FORM

School of Management
Victoria Business School, Faculty of Commerce
Victoria University of Wellington
PO Box 600, Wellington, New Zealand 6140

Researcher   : Dedy Eryanto (Dedy.Eryanto@vuw.ac.nz)
Supervisors   : Prof Karin Lasthuizen (Karin.lasthuizen@vuw.ac.nz)
                          Prof Tony van Zijl (Tony.vanzijl@vuw.ac.nz)

Topic of the study: Integrity Management in the Supreme Audit Institution (SAI): A Case study in Indonesia

INTERVIEWEE CONSENT FORM

Please tick one of the following choices:

❑   I have read **the Information Sheet** in both English and *Bahasa Indonesia* and I have understood what will be required of me if I participate in this study.

❑   I have been given the opportunity to ask and have had my questions about this study answered to my satisfaction.

❑   I understand that my participation in this study is entirely voluntary and I may choose to withdraw my participation no longer than two (2) weeks after I attend the final session of the data collections.

❑   I understand that I have the right to ask further questions at any time.

❑   I understand that the data collections will be audio- and/or video-taped.

❑   I understand that any information I give and my identity will be kept under the conditions of strict confidentiality. Initials and pseudonyms will be used.

❑   I agree to participate in this study and to provide any relevant information needed by I.

Interviewee's Name   : _____

Interviewee's Signature : _____

Date   :   /   /

If you would like to receive a copy of a written summary of this study at the end of this study, please tick here [ ] and provide me with your e-mail address to which this summary can be sent. Otherwise, you may leave it blank.

Note: Participant shall retain a completed and signed copy of this form

- Indonesian version

School of Management
Victoria Business School, Faculty of Commerce
Victoria University of Wellington
PO Box 600, Wellington, New Zealand 6140

Peneliti : Dedy Eryanto (Dedy.Eryanto@vuw.ac.nz)
Pembimbing   : Prof Karin Lasthuizen (Karin.lasthuizen@vuw.ac.nz)
                Prof Tony van Zijl (Tony.vanzijl@vuw.ac.nz)

Topik riset: *Integrity Management in the Supreme Audit Institution (SAI): A Case study in Indonesia*

FORMULIR PERSETUJUAN PIHAK YANG DI WAWANCARA

Mohon beri tanda √ pada kotak di bawah ini:

❑   Saya telah membaca **Lembar Informasi** baik dalam bahasa Inggris maupun bahasa Indonesia dan saya memahami apa yang perlu saya lakukan jika saya berpartisipasi dalam riset ini.

❑   Saya telah diberi kesempatan bertanya dan pertanyaan-pertanyaan saya telah dijawab dengan memuaskan.

❑   Saya memahami bahwa partisipasi dalam riset ini sepenuhnya sukarela dan saya boleh menarik partisipasi saya dalam riset ini dalam jangka tidak lebih dari dua (2) minggu setelah sesi pengumpulan data yang saya ikuti.

❑   Saya memahami bahwa saya berhak untuk mengajukan pertanyaan pada tahap apapun.

❑   Saya memahami bahwa pengumpulan data ini akan direkam secara audio dan/atau visual.

❑   Saya memahami bahwa informasi apapun yang saya sampaikan dan identitas saya akan dijamin kerahasiaannya. Inisial dan nama samaran akan digunakan.

❑   Saya bersedia untuk berpartisipasi dalam riset ini dan memberikan informasi apapun yang sesuai dan dibutuhkan oleh peneliti.

Nama Pihak yang diwawancara   : _____

Tanda tangan Pihak yang diwawancara : _____

Tanggal   :   /   /

Jika Anda berminat menerima salinan ringkasan riset ini setelah riset selesai, silakan contreng kotak berikut ini ⬜ dan tuliskan alamat surel Anda di kotak di bawah ini. Jika tidak, biarkan kosong.

APPENDIX 5: GUIDING QUESTIONS FOR INTERVIEWS

These primary and guiding questions may change to suit the participant and context

The quality of the Indonesia Supreme Audit Institution integrity management system

1. How do you perceive the quality of current integrity system, and why?
2. Based on your experience, to what extent does this organisation have a good structure of integrity management?
3. Based on your experience, have the mechanism of punishment impacted on protecting the tendency of integrity violation behaviours?

The instruments, processes and structures of integrity management system within the Indonesian Supreme Audit Institution

1. In your opinion, does the organisation have enough mechanism/tools/programmes to control integrity violations? If yes, what are these? To what extent is this mechanism effective?
2. Do you think, currently ethical committee has enough capacity (e.g. people and time) to oversight ethics and integrity in ISAI?
3. Do you think that leadership has a good impact on employees' integrity? If yes, can you give some current examples about leadership? If no, why not?
4. If you are familiar with the training processes within this organisation, to what extent are ethics and integrity addressed in the training programme?
5. Based on your observation, does ISAI have a good management for maintaining the human resources, specifically for guiding the integrity of employee. For instance, from employee recruitment, posting, and even retirement? What are your comments?

The nominal system compare with the OECD integrity management system as a benchmark system?

1. In your opinion, what is the pre-requisite to establish integrity management?
2. Based on the preliminary assessment for integrity instrument. ISAI has most of main instrument as recommended by OECD, for example: code of ethics, WBS, etc. Only a small part which is not exist at the moment (e.g: *post-employment arrangement*). What is your view?
3. How does the training centre develop a training curriculum for ethics and integrity?

The nominal system compare to the real system

1. How is the challenge in field so far for promoting and enforcing integrity in ISAI?
2. Based on your experiences, do employees feel they get the *"fair treatment"*? for example regarding rotation and promotion?
3. What do you think about the role of leaders within ISAI in terms of promoting integrity, for instance, head of branches and some other leaders?

4. To what extent was the integrity management programmes succeeded? What are the challenges frequently encountered in the field?

5. Based on your experience, what are ISAI approaches for implementing integrity management, is it formal or informal approach?

6. Based on your observation, is there any gap, between integrity policy and practice in branch office. For example, is there any "difficult policy to be implemented" in reality? If any, please give examples.

Cultural influences in promoting integrity
1. "Hospitality and congeniality" is very popular as an Indonesia culture, based on your experience, to what extent can the context of that culture be accommodate and not disturb the principle of integrity? (e.g: offering of food and drink)
2. In your opinion, does ISAI have a good organisational culture which can support the implementation of integrity management?

Integrity Violation
1. What is the example of integrity violation which usually happen in ISAI?

2. Based on the current facts, what factors cause of integrity violations?

3. In the last two years, there were news in media regarding integrity violation for some auditors and it becomes public news. What is your comment for this phenomena? Is there anything that ISAI needs improvement for integrity system?

APPENDIX 6: LIST OF INTERVIEWEES

List Interview Number	Group of Interviewee	Role	Date
A	**The Indonesian Supreme Audit Institution (ISAI)**		
A1	Board Member	Strategic Leader	21/05/2019
A2	Board Member	MKKE (Member)	17/05/2019
A3	Honorary Board of Ethics Code	MKKE (Member)	25/04/2019
A4	Secretariat General	(former) High Official	25/04/2019
A5	Secretariat General	High Official	14/04/2019
A6	Principal Inspectorate	(former) High Official	08/05/2019
A7	Principal Inspectorate	High Official	10/05/2019
A8	Principal Inspectorate	Inspector	09/05/2019
A9	Principal Inspectorate	Integrity Manager	23/07/2019
A10	Principal Inspectorate	Integrity Manager	22/05/2019
A11	Principal Inspectorate	Integrity Auditor	17/07/2019
A12	Human Resource Bureau	Rotation Manager	15/04/2019
A13	Human Resource Bureau	Performance Manager	16/04/2019
A14	Human Resource Bureau	Assessment Manager	08/05/2019
A15	Human Resource Bureau	Counsellor	16/04/2019
A16	Training and Education Centre	Head of Training Centre	13/05/2019
A17	Training and Education Centre	Curriculum Manager	25/07/2019
A18	Training and Education Centre	Trainer	20/05/2019
A19	Training and Education Centre	Trainer	20/05/2019
A20	DKI Jakarta Regional Office	Head of Regional Office	24/04/2019
A21	DKI Jakarta Regional Office	Audit Manager	24/04/2019
A22	DKI Jakarta Regional Office	Audit Manager	22/05/2019
A23	DKI Jakarta Regional Office	Audit Manager	23/05/2019
A24	DKI Jakarta Regional Office	Audit Manager	22/05/2019
A25	DKI Jakarta Regional Office	Auditor	16/04/2019
A26	DKI Jakarta Regional Office	Auditor	23/05/2019

A27	DKI Jakarta Regional Office	Senior Auditor	23/05/2019
A28	DKI Jakarta Regional Office	Audit Supervisor	22/05/2019
A29	East Java Regional Office	Head of Regional Office	28/05/2019
A30	East Java Regional Office	Audit Manager	31/05/2019
A31	East Java Regional Office	Audit Manager	28/06/2019
A32	East Java Regional Office	Audit Manager	28/05/2019
A33	East Java Regional Office	Audit Manager	03/05/2019
A34	East Java Regional Office	Senior Auditor	27/05/2019
A35	East Java Regional Office	Auditor	28/05/2019
A36	East Java Regional Office	Audit Supervisor	28/06/2019
A37	East Java Regional Office	Auditor	30/04/2019
B	**DKI Jakarta Province**		
B1	DKI Jakarta Province	Inspector	26/07/2019
C	**NGO**		
C1	Indonesian Corruption Watch (ICW)	CEO	21/05/2019
C2	Centre for Anti-Corruption Studies (PUKAT)	Director	15/09/2019
D	**Academics**		
D1	Brawijaya University	Professor	08/07/2019
D2	Pancasila University	Lecturer and (Former Candidate) of Board Member	04/09/2019

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