

The Role of Government Auditing in Corruption Control and Its Impact on Government Performance and Tax Revenue

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Abstract—This study aims to examine the role of government audit in controlling corruption and examine their impact on government performance and tax revenue. Specifically, this study examines the effect of audit detection and post-audit rectification on corruption and examines the effect of corruption and government performance on tax revenue. Method of analysis used is structural equation modeling with AMOS software. The data analysis using secondary data with 108 observations from 34 provincial governments in Indonesia. The results found evidence that audit detection has significant affect on corruption. This study also found that the level of corruption and government performance have significant affect on tax revenue. However, this finding has no evidence of effect between post-audit rectification and corruption. The results of this study show implications that government must be able to strengthen the auditor's role in detecting fraud and exposing corruption activities. In addition, the government also expected to make policies that can improve real performance not only as a formality, because in the tax moral literature revealed that taxpayers partially respond to government demands for pay taxes based on their evaluation of government performance.

Keywords: *Audit Detection, Post-Audit Rectification, Corruption, Government Performance.*

I. INTRODUCTION

Tax revenue is the main source of Indonesian economy. The taxation sector contributes more than 85% of total state revenue (Kemenkeu, 2018). This means that tax revenue will be very important in carrying out a country's economic activities, such as for civil servants expenditure, infrastructure development, subsidies, education development, and other activities. However, the reality that occurs in the field of tax revenue is actually not in line with expectations. The government's efforts to realize development and economic growth that require large costs are not followed by state revenue, especially tax revenue. The realization of tax revenue over the past five years based on data from the Ministry of Finance has actually decreased. The latest data released by the Ministry of Finance as of November 2017 shows the realization of tax revenue is only 76.4% (www.kemenkeu.go.id, 2018).

Based on fiscal contract theory in a country hypothesizes that government performance influences tax collection and state institutions encourage the representation and accountability of tax relations and public services [1]. Some results of empirical studies also reveal that an increase in community control over resource allocation has impact on increasing government performance and increasing public satisfaction by government spending, thereby increasing tax revenue [1]. However, the conditions that occur in Indonesia are contradictory, where the realization of tax revenue is contrary to the government's performance which actually continues to increase. This is reflected in performance evaluation of Local Governments Management Report (Laporan Penyelenggaraan Pemerintah Daerah/ LPPD) on 475 District/Local Government showing that 93.8% of local governments score above 2.00, which means high and very high (www.kemendagri.go.id, 2018). Likewise with performance of financial management as seen from the results of audit opinions provided by the Supreme Audit Board (BPK) on the Central Government Financial Report (LKPP) for the past four years has continued to increase. In 2016 and 2017, the government obtained unqualified opinion (WTP) on its financial statements and was the highest achievement in the last ten years. This condition actually becomes a question, why is a good government performance not followed by the realization of a large tax revenue?

One of many hypothesis that might be the cause of inconsistency is problem of corruption. The results of publication submitted by Transparency International Indonesia in 2015 revealed that Indonesia was still included in a country with high level of corruption [2]. This is shown from the Corruption Perception Index (CPI) ranking in 2015, Indonesia ranks 88 out of 168 countries assessed, and is perceived as one of the corrupt countries. The low CPI score and the increase in state losses due to corruption might have an impact on state revenue. The large amount of corruption committed by state officials may erode state revenue so that the declining trend of the realization of state revenue so far can be due to high corruption.

Some research also reveals that corruption distorts economic incentives to invest, undermines various public institutions, redistributes wealth, and causes distrust in society [3]–[7]. Corruption also causes less public trust in government performance [6], [8]. This is because in politics, corruption complicates democracy and good governance by destroying the formal process [9]. To protect various forms of fraud and fight corruption, auditing is one of the pillars in national integrity system [10]. In theory, audits play two roles in fighting corruption, namely: the role of prevention and the role of detection. If the auditor detects corruption, the same thing might also serve as a deterrent so as to prevent further corruption, and if the auditor prevents corruption, then there is little chance of fraud occurring to be detected [7].

Liu and Lin [11] in their research revealed that government auditing is one of the fundamental ways that aims to monitor, ensure and assess government accountability in modern governance. With surveillance of government operational activities, especially how public resources are used, government audits can strengthen accountability and reduce abuse of power and resources. Governance practices in many countries also show that government audits can play a unique role in controlling corruption. If corruption is a "virus" that endangers economic security and social harmony, then the government audit system should be an "immune system" that can detect, reject and eliminate of the virus [11].

Many research on auditing and corruption has been carried out [12]–[14]. But there is still little research linking how the role of government auditing can help reduce corruption [7], [11]. In the context of Indonesian government system, the audit institution has a very strong role as the supreme audit institution and the only institution that have an external financial audit function and also become a reference for Corruption Eradication Commission (KPK) to assess state losses due to corruption. So with this function the role of audit should be important in reducing corruption. Therefore, this study aims to fill the gap of previous research by examining the role of government audits in controlling corruption and examining the impact of corruption on government performance and tax revenue. Specifically, this study examines the effect of audit detection and post-audit rectification on corruption, examines the effect of corruption on government performance and tax revenue, and examines government performance on tax revenue.

This research is expected to provide contribution in accounting literature and strengthen the explanation of fiscal contract theory. This research is also expected to have practical implications that government must be able to strengthen the auditor's role in detecting fraud and exposing corruption activities. The government is expected to be able to make a policy that can improve real performance not only as a formality. This is because good performance

reflects the existence of efficiency and accountability in organizational management.

II. RESEARCH METHOD

This research aims to examining the role of government audits in controlling corruption and examining the impact of corruption on government performance and tax revenue. The research framework is presented in figure 1. This study uses quantitative approach base on secondary data and were collected using purposive sample techniques. Observed data came from 34 provincial governments in Indonesia who reported: (1) Local Government Budget Realization Report in years 2013-2016; (2) Audit Reports of Local Government from BPK RI in years 2013-2016; (3) Corruption data from Kejaksaan Agung and Komisi Pemberantasan Korupsi (KPK) Report; (4) Evaluation Performance Report of Local Government (LPPD) 2013-2016. The data is time series for four years, so there are 136 observational data. However, there are 28 incomplete observational data so that only 108 data can be further analyzed.

The research variables are tax revenue and was measured by the amount of tax revenue realization reported in APBD report. Furthermore, the performance variable was measured by performance score of local government [6]. Then the audit detection variable was measured by the amount of fraud/irregularities found by BPK auditor, which is the number of findings of misused funds. While post-audit rectification variable was measured by the number of auditor findings that have been followed up by the client, which is the amount of funds returned to state treasury [11]. Finally, corruption variable was measured by the number of corruption cases that have reached prosecution [6]. This research uses Structural Equation Modeling analysis with using AMOS software. The results of hypothesis testing seen from estimated value, C.R value, and significance value (P-value).

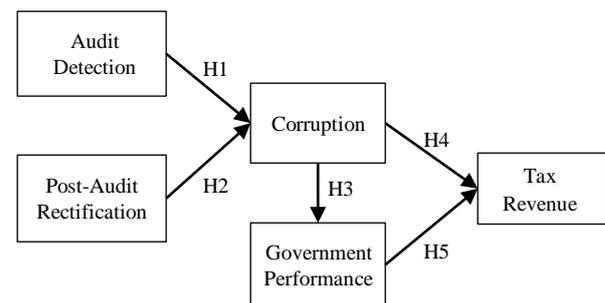


Figure 1: Research Framework

III. RESULT AND DISCUSSION

Table 1 shows the results of descriptive statistic tests that describe the data as a whole consisting of minimum, maximum, mean, and standard deviation of research variables. Based on the table, it can be seen that corruption variable has mean value of 52.6481. These results indicate that the

average number of corruption cases revealed by KPK and Kejaksaan Agung is still in low category. Furthermore, the average government performance variable is ranked "high" with mean value of 2.5872. This means that performance of local government in Indonesia has been good. Then audit detection variable has mean value of 9.4311 which means that average number of fraud which found by BPK auditors is quite a lot and indicates that there is a lot of fraud in local government. Post-audit rectification variable has mean value of 8.0596, this means that average of local governments in Indonesia have followed up the findings and recommendations submitted by BPK auditor or returned money to the state treasury for the findings of fraud that occurred. Finally, the mean value of tax revenue variable is 15.3024. This means that the average realization of tax revenues of local governments in Indonesia is still in medium category and not yet optimal in collecting taxes from the public.

Table 1: Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Corruption	108	3.00	154.00	52.6481	36.92334
Gov Performance	108	1.35	3.33	2.5872	.34508
Audit Detection	108	3.87	12.68	9.4311	1.57593
Post-Audit Rectification	108	3.87	11.20	8.0596	1.25780
Tax Revenue	108	13.86	17.14	15.3024	.77032
Valid N (listwise)	108				

A. Model Estimation Results

Hypothesis testing was conducted by using path analysis to determine the relationships of each independent and dependent variable simultaneously. From the results of data processing with structural equation modeling approach by AMOS software, it can be seen the magnitude of each path coefficient.

Table 3: Result of Hypothesis Testing

Variable	Hypothesis	Estimate	S.E.	C.R.	P	Conclusion
Corruption ← Audit Detection	H1	5,782	2,588	2,234	,025	Supported
Corruption ← Post-Audit Rectification	H2	3,925	3,243	1,210	,226	Not Supported
Gov Performance ← Corruption	H3	,000	,001	,348	,728	Not Supported
Tax Revenue ← Corruption	H4	,008	,002	5,263	***	Supported
Tax Revenue ← Gov Performance	H5	,981	,172	5,720	***	Supported

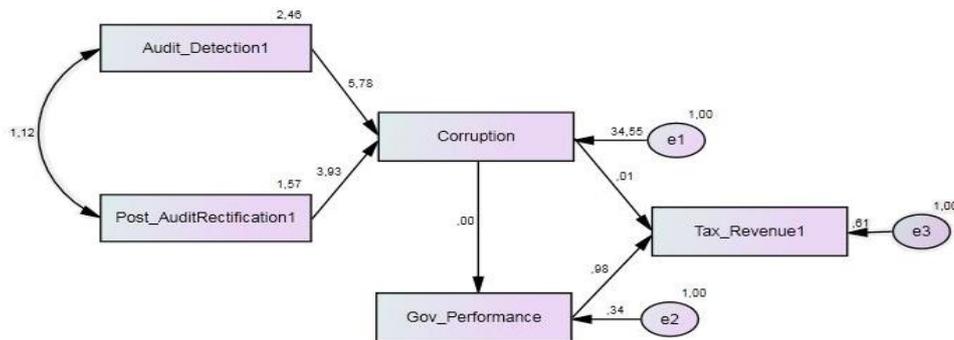


Figure 2: Research Framework

However, before testing the proposed model, we conducted model estimation to determine value of model parameters. The technique used is covariance structure technique to determine whether the data correlation matrix produced from the model prepared with the proposed parameters is same or nearly same

as empirical data correlation matrix [15]. The analysis uses maximum likelihood estimation (MLE) technique in AMOS software. These results can be seen from Chi-Square value of 7.220 and significance value (P-value) of 0.125 which means that Chi-Square value is small and significance level is greater than 0.05 so it indicates that there is no significant difference between population covariance matrix with estimated covariance matrix. In addition, we test overall Goodness of fit model and shown from the values of CMIN / DF, RMSEA, GFI, NFI, CFI, and IFI which all have met the specified criteria, so it can be concluded that the model developed was good (see table 2).

Table 2: Test of Goodness of Fit Model

Goodness of fit Index	Cut-Off Value	Test Results	Conclusion
Chi-square	Expected to be small value	7,220	Fit Model
P-value	≥ 0,05	0,125	Fit Model
CMIN/DF	≤ 2,00	1,805	Fit Model
RMSEA	≤ 0,08	0,087	Fit Model
GFI	≥ 0,90	0,974	Fit Model
NFI	≥ 0,90	0,935	Fit Model
CFI	≥ 0,95	0,968	Fit Model
IFI	≥ 0,95	0,970	Fit Model

B. Model Evaluation Results and Hypothesis Testing

The results of model evaluation using SEM analysis showed in figure 2 and the result of hypothesis testing has shown in table 3 as follows:

C. Discussion

The Effects of Audit Detection on Corruption

The results of hypothesis testing for variable audit detection on corruption shows an estimated

value 5.782, C.R value 2.234 and significance value (p) 0.025 less than 0.05. These results indicate that audit detection has a significant effect on corruption, so the first hypothesis was supported. This finding concludes that the more often auditors are able to detect irregularities in organization, the more

corruption occurs in the organization. This is in line with study by [11] which reveal that there is a strong relationship between irregularities found by audit institutions and corruption cases submitted by judicial institutions. This indicate that there are still many deviations and misappropriations in management of government organizations, especially the local government in Indonesia so that many audit findings are revealed by the auditor during audit process and can be concluded more occur corruption within an organization. Furthermore, study by [16] also revealed that government auditors have ability to detect fraud in financial statements and misuse of government assets so that they are determined to work actively in detecting corruption.

The Effect of Post-Audit Rectification on Corruption

The results of hypothesis testing for variable post-audit rectification on corruption show an estimated value 3.925, C.R value 1.210 and significance value (p) 0.226 greater than 0.05. These results indicate that the post-audit rectification does not affect on corruption, so the second hypothesis was not supported. The findings of this study indicate that the number of improvement efforts undertaken by organization (local government) to the auditor's findings and recommendations does not affect on cases of corruption that occurs in organization. This finding is not in line with study [11] which reveals that the results of corrective actions after an audit can reflect the effectiveness of government audit oversight, which means that the level of corruption can be reduced more effectively in places where rectification and follow-up efforts are made more thoroughly.

The number of cases of corruption that have occurred so far at local government may be caused by many factors, for example due to individual factors such as low morality level that cause greater opportunities for corruption [6]. In addition, corruption is also caused by discretionary power, a weak legal institutions, loose or inadequate supervision [17], and caused by provided many financial benefits in terms of taxation, budgeting, or procurement government and management of state asset [11].

The Effect of Corruption on Local Government Performance

The testing hypothesis conducted to the variable corruption on local governments performance show an estimated value 0,000, C.R value 0.348 and significance value (p) 0.728 greater than 0.05. These results indicate that corruption does not affect on performance of local governments, so the third hypothesis was not supported. These findings indicate that there is no relationship between corruption and government performance, which means that the increasing performance of local government was not due to decreased corruption and vice versa the poor performance of local government was not also due to increased corruption. This condition is possible

because good performance in local governments is not necessarily free from corruption. Many local governments have a high number of corruption cases but have good performance, and vice versa many local governments have few corruption cases but their performance remains poor. This is also in line with research findings by [9] which say that the good performance of local governments does not guarantee that it is free of corruption. However, the results of this study are not in line with the previous findings made by [6] which revealed that corruption in local government had an impact on performance of local governments.

This different result can be explained by the concept of a country that adheres to economic voting model. A country that adopts the economic voting model says that voters or people tend to give punishment to incumbents based on their economic performance. The prevalence of economic voting in all countries implies that voters can ignore corruption when the country is in good economic condition, regardless of the significance of corruption. However, when economy is in a bad situation, voters identify political corruption as the main reason for assessing regime's poor performance and punishing incumbents by not voting in elections [6], [18].

The Effect of Corruption on Tax Revenue

The results of hypothesis testing for variable corruption on tax revenue show an estimated value 0.008, C.R value 5.263 and significance value (p) 0.000 less than 0.05. These results indicate that corruption has significant effect on tax revenue, so the fourth hypothesis was supported. This finding concludes that cases of corruption that occurs in organization has impact on tax revenue. However, the results of tests carried out show positive effect. This finding was interesting to be discussed. Based on data in the field, the number of corruption cases that reached prosecution in court was still relatively low. This means that when many cases of corruption occur but are not prosecuted in court, corruptor will not return losses incurred to the state or government so that the country or local government remains disadvantaged or harmed, which in turn affects the amount of tax revenue. In the recent years, problem of corruption has indeed become serious problem for local governments in Indonesia. Corruption can distort economic incentives to invest, undermine various public institutions, redistribute wealth, and cause distrust in society [4], [19].

The Effect of Local Government Performance on Tax Revenue

The results of hypothesis testing for variable local government performance on tax revenue show an estimated value 0.981, C.R value 5.720 and significance value (p) 0.000 less than 0.05. These results indicate that local government performance has significant effect on tax revenue, so the fifth hypothesis was supported. These findings provide conclusion that increasing the performance of local

governments will have an impact on the amount of tax revenue that the local government receives. This is because good performance reflects the existence of efficiency and accountability in the management of organizations and management of public funds.

The results of this study was in line with the findings of [1] who revealed that an increase in community control over resource allocation has impact on increasing tax revenue. This study also in line with fiscal contract theory which hypothesizes that government performance influences tax collection and state institutions encourage the representation and accountability of tax relations and public services [1]. Furthermore, [20] reveal that participatory budgeting has effect on increasing health and education spending. Likewise with Schneider and Baquero (2009) in [1] who reveal that participatory budgeting was associated with high public satisfaction with the government and greater desire to pay taxes.

IV. CONCLUSION

The results of empirical testing found evidence that audit detection has a significant effect on corruption. These findings provide a conclusion that the role of government audits, especially related to detection of audits by auditors, was able to reveal existence of irregularities or fraud that occurs in an organization. This means that government auditors have ability to detect fraud in financial statements and misuse of government assets so that they are determined to work actively in detecting corruption. But on the other hand, the post-audit rectification in this study does not affect on corruption, which means that the number of improvement efforts undertaken by organization (local government) to the auditor's findings and recommendations does not affect on amount of corruption that occurs in organization. Furthermore, the results of this study also reveal that the level of corruption does not affect on local governments performance, which means that an increasing the performance of local government is not due to decreased corruption and vice versa the decreasing performance of local government is not due to increased corruption. This can be explained based on the concept of state-based economic voting model which implies that voters can ignore corruption when the country was in good economic condition, regardless of significance of corruption. However, when the economy was in a bad situation, voters identify political corruption as the main reason for assessing the regime's poor performance and punishing incumbents by not vote in elections. Then, the results of this study find empirical evidence that corruption has a positive effect on tax revenue. This finding indicates that when many corruption cases occur but are not prosecuted to the court, the corruptor will not return the losses incurred so that the state or local government will be harmed and ultimately affect the amount of tax revenue. Finally, this study finds empirical evidence that local government performance

effect on tax revenue. These findings provide conclusion that increasing performance of local governments will have an impact on the amount of tax revenue that the government receives. This is because good performance reflects the existence of efficiency and accountability in management of organizations and management of public funds.

The results of this study have implications for enrichment of accounting literature especially in area of public sector and strengthen the explanation of fiscal contract theory. The fiscal contract theory rests on the premise that the state does not have sufficient coercive power to impose its desire on society (taxpayers). Instead, the state must bargain with the society (taxpayers) to get income. In the tax moral literature said that taxpayers partially respond to government demands to pay taxes based on their evaluation of government performance. If the economic performance was good, then taxpayers will obey and follow government policies without much resistance, but if the economic performance was poor, then the people will make it difficult for the state to realize its policies (for example to increase tax compliance). In addition, this study has practical implications that government must be able to strengthen the auditor's role in detecting fraud and exposing corruption activities. The government must also be able to make a policy that can improve real performance not only limited for formality.

Finally, this study has weaknesses and limitations that require improvement and development in subsequent studies. One limitation is that this study uses secondary data from published reports of government websites and international institutions that allow the data not display the update data and not all data can be accessed fully, so this research was limited to complete data displayed on the website. Therefore, further research was recommended to use the update data and look for more complete data by going directly to the authorized agency. Further research was also recommended to use broader and comprehensive analysis method that can explain the results and findings to be more robust.

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