



The Impact of Public Sector Performance Audits on the Implementation of Good Corporate Governance

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Submission: 4 Desember 2024

Accepted: 2 January 2025

Published: 31 January 2025

Abstract

Public services are inseparable from our lives from the moment we are born, encompassing health facilities and healthcare services. Moreover, as we grow up, we also benefit from public services such as access to education and public facilities. Public services remain an integral part of our lives even as we age. Good governance prioritizes the interests of the community. A public service institution or provider is deemed successful if its citizens are satisfied with the goods or services provided. The objective of this mini research is to provide an explanation and examples of how good governance can be applied in immigration administration services. This study employs a literature review approach, which involves collecting and analyzing information from books, magazines, and articles published in various scientific journals. The conclusion drawn from this discussion is that good governance plays a significant role in influencing public service delivery.

Keywords : corporate, governance, audit, public sector

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INTRODUCTION

Public sector performance audits play a crucial role in ensuring transparency, accountability, and efficiency in government institutions and state-owned enterprises. As governance structures evolve, the demand for improved public sector management has intensified, necessitating mechanisms that uphold Good Corporate Governance (GCG). GCG serves as a fundamental framework guiding organizations to operate with integrity, ensuring equitable stakeholder engagement and adherence to legal and ethical standards (Rustam & Narsa, 2021). The significance of GCG extends beyond corporate entities to public institutions, where effective governance is critical in maintaining public trust and optimizing service delivery (Prasetyono & Kompyurini, 2007). However, the implementation of GCG in the public sector remains a challenge due to bureaucratic inefficiencies, regulatory inconsistencies, and weak oversight mechanisms.

The urgency for robust governance in the public sector stems from the increasing complexity of modern governance structures. In many developing countries, including Indonesia, the effectiveness of public sector management is frequently scrutinized due to recurring issues of mismanagement, corruption, and inefficiency (Prakoso & Bambang, 2014). Performance audits have emerged as a strategic tool to assess compliance with governance principles, thereby promoting better resource allocation and operational efficiency (Mulyati & Siti, 2011). The growing expectations from civil society and international organizations for greater transparency and accountability further emphasize the importance of audits as a governance enhancement mechanism.

The principles of GCG transparency, accountability, responsibility, independence, and fairness form the cornerstone of effective public sector governance. Transparency mandates that public institutions disclose relevant information that is accessible and comprehensible to stakeholders, fostering trust and informed decision-making (Ferlinda, 2013). Accountability ensures that government agencies uphold their obligations to the public by demonstrating efficiency in resource utilization and compliance with regulatory frameworks (Oktavia et al., 2021). Furthermore, responsibility requires adherence to legal and ethical standards to sustain long-term public confidence, while independence and fairness safeguard institutions from undue influence and discriminatory practices (Wijayanti & Merkusiwati, 2017).

Despite the theoretical advantages of GCG, empirical studies indicate that many public institutions struggle with its practical implementation. The presence of independent commissioners, a fundamental aspect of corporate governance, is often insufficient in preventing malpractices in the public sector (Yoanis, 2017). Similarly, while audit committees are designed to strengthen oversight and risk management, their effectiveness is contingent on the institutional capacity and regulatory environment (Kuslinah, 2015). Additionally, the size of a public institution influences its governance dynamics, with larger entities exhibiting greater complexities in compliance and oversight (Hery, 2017).

Several studies have explored the impact of public sector performance audits on governance outcomes, highlighting both the benefits and limitations of audit mechanisms. Leftwich (1993) argues that political economy factors significantly influence governance structures, often constraining the effectiveness of audits in addressing systemic inefficiencies. Moreover, Collins & McLaughlin (1996) emphasize that democratic governance necessitates an integrated approach where multiple stakeholders, including policymakers, auditors, and the public, collaborate to enhance governance frameworks. Research by Panggabean (2019) further underscores the role of auditing in ensuring adherence to government accounting standards, reinforcing the need for standardized audit procedures to enhance governance outcomes.

The state of the art in governance research reveals a growing interest in the intersection between public sector audits and governance performance. Previous studies have largely focused on financial accountability, with limited attention given to broader aspects of governance, such as institutional transparency and stakeholder engagement (Leny, 2013). This research seeks to bridge that gap by examining how performance audits influence the

implementation of GCG principles in public service institutions. By analyzing governance structures, audit mechanisms, and regulatory compliance, this study aims to contribute to the ongoing discourse on improving public sector governance through evidence-based policy recommendations.

Therefore, the objective of this study is to evaluate the extent to which performance audits impact the implementation of GCG in public sector organizations. Specifically, this research aims to assess the effectiveness of audits in promoting transparency, accountability, and compliance within government institutions. By leveraging existing literature and empirical data, this study seeks to provide insights into best practices for enhancing governance frameworks and ensuring the sustainability of public sector management. The findings of this study will offer valuable implications for policymakers, auditors, and governance practitioners in designing strategies to strengthen accountability and governance integrity within public institutions.

METHODS

This study employs a qualitative research approach, specifically utilizing a descriptive methodology to analyze the impact of public sector performance audits on the implementation of good corporate governance (GCG). A literature review serves as the primary data collection method, integrating insights from books, academic journals, official reports, and other credible sources. This approach ensures a comprehensive examination of existing theoretical frameworks and empirical findings related to GCG and public sector audits (Prasetyono & Kompyurini, 2007; Mulyati & Siti, 2011).

Data collection is conducted systematically by identifying, evaluating, and synthesizing relevant literature from 2010 to 2024. The selection of sources is based on their academic rigor, relevance, and contribution to the discourse on corporate governance, auditing practices, and public sector accountability. This method enables a critical assessment of the role of performance audits in promoting transparency, accountability, and efficiency within public sector institutions (Nugroho, 2013; Panggabean, 2019).

Data analysis follows a descriptive approach, wherein the collected literature is categorized based on thematic relevance. Key themes include the principles of GCG—transparency, accountability, responsibility, independence, and fairness—and their correlation with audit mechanisms in the public sector (Prakoso & Bambang, 2014). The analysis further examines case studies and empirical evidence illustrating the effectiveness of performance audits in enhancing governance standards (Leny, 2013; Oktavia et al., 2021).

To ensure the validity and reliability of findings, a triangulation method is employed, comparing multiple sources and perspectives. The research maintains an objective stance, drawing conclusions based on well-established literature and empirical data. This methodological approach aligns with the study's objective of elucidating the significance of public sector audits in reinforcing GCG principles (Ferlinda, 2013; Leftwich, 1993).

RESULTS OF FINDINGS

The findings of this study highlight the impact of public sector performance audits on the implementation of Good Corporate Governance (GCG) in public service institutions.

The audit process plays a crucial role in ensuring transparency, accountability, and efficiency in governance practices. Based on the analysis, the research identifies several key aspects where performance audits contribute to governance improvements:

Compliance with Government Accounting Standards

Performance audits serve as a mechanism to evaluate the adherence of public institutions to established accounting standards. In line with Law No. 15 of 2004, performance audits assess financial disclosures, ensuring that they meet the required governmental accounting principles. This aspect guarantees that financial reports are presented fairly and provide an accurate representation of an institution's financial position (Panggabean, 2019).

Effectiveness of Internal Control Systems

A well-structured internal control system is a fundamental requirement for GCG. Audits identify weaknesses in control mechanisms and suggest improvements to mitigate financial mismanagement, fraud, or inefficiencies in administrative processes. The findings indicate that institutions with robust internal control measures experience lower instances of governance failures compared to those with inadequate monitoring structures (Nugroho, 2013).

Role of Independent Commissioners and Audit Committees

The presence of independent commissioners and audit committees is designed to reinforce corporate governance by enhancing oversight functions. However, the study finds that a high proportion of independent commissioners does not always translate into lower levels of tax avoidance or better corporate transparency (Oktavia et al., 2021). This suggests that mere compliance with regulatory requirements is insufficient; effective governance requires active engagement and ethical commitment from independent commissioners.

Implementation of Good Corporate Governance in Public Services

The research findings emphasize the need for GCG principles in public service institutions, particularly in the immigration sector. Transparency, accountability, and fairness are pivotal in enhancing public trust and improving service delivery (Ferlinda, 2013). The findings highlight that institutions that integrate GCG principles in their operational frameworks are more likely to gain public confidence and efficiency in service execution.

Public Administration and Bureaucratic Performance

Public administration efficiency is a determining factor in governance success. The study finds that performance audits play a significant role in streamlining bureaucratic processes, reducing inefficiencies, and improving administrative responsiveness. The audit results show that institutions that implement audit recommendations effectively exhibit improved service quality and compliance with regulatory frameworks (Leftwich, 1993).

Challenges in the Implementation of GCG

Despite the benefits of performance audits, challenges remain in achieving full compliance with governance standards. The study finds that some institutions struggle with resistance to change, lack of qualified personnel, and insufficient enforcement of audit recommendations. These challenges indicate that while audits provide essential insights,

their effectiveness depends on organizational commitment to reform (Pradita & Rossieta, 2013).

DISCUSSION

The findings underscore the crucial role of performance audits in the implementation of GCG. This section discusses the implications of these findings in relation to existing literature and theoretical frameworks.

Theoretical Implications of Performance Audits in GovernanceThe agency theory suggests that corporate governance mechanisms, such as audits, are essential in mitigating agency problems by reducing information asymmetry between principals and agents (Jensen & Meckling, 1976). The findings align with this perspective, indicating that audits enhance transparency and accountability in public institutions. However, the study also reveals limitations in the efficacy of independent commissioners in enforcing governance standards, supporting arguments that governance effectiveness depends not only on regulatory structures but also on institutional culture and leadership commitment (Oktavia et al., 2021).

The Role of Internal Audits in Enhancing TransparencyTransparency is a fundamental component of GCG, and internal audits play a significant role in ensuring the reliability of financial disclosures. The research findings demonstrate that institutions with well-established audit committees exhibit greater adherence to financial reporting standards (Kuslinah, 2015). However, challenges remain in enforcing audit recommendations, as some institutions lack the resources or willingness to implement corrective measures. This supports previous studies highlighting the gap between audit findings and actual governance improvements (Nugroho, 2013).

Effectiveness of Accountability MechanismsThe concept of accountability in public administration emphasizes that institutions must justify their actions to stakeholders. The findings indicate that performance audits enhance accountability by providing an objective evaluation of financial management practices. However, the effectiveness of accountability mechanisms varies depending on the strength of enforcement measures. This aligns with studies arguing that without stringent regulatory oversight, governance reforms may remain superficial (Prakoso & Bambang, 2014).

The Impact of Performance Audits on Bureaucratic EfficiencyBureaucratic efficiency is essential for effective public administration. The study finds that performance audits contribute to improving efficiency by identifying redundancies and recommending procedural optimizations. However, implementation challenges persist due to bureaucratic inertia and resistance to change. These findings echo earlier research emphasizing the need for adaptive governance structures to facilitate reforms (Leftwich, 1993).

Governance Challenges and the Need for Institutional ReformWhile audits provide a valuable tool for governance evaluation, their impact is limited if organizations fail to act on audit recommendations. The findings suggest that a lack of enforcement mechanisms weakens the effectiveness of audits. This reinforces arguments in governance literature that structural reforms are necessary to institutionalize good governance practices (Leny, 2013). Strengthening audit independence and improving regulatory frameworks can enhance the long-term effectiveness of performance audits.

Policy Implications and RecommendationsBased on the findings, the study proposes several policy recommendations to enhance GCG through performance audits:

- a. Strengthening the enforcement of audit recommendations to ensure compliance.
- b. Increasing training and capacity-building programs for auditors and governance officers.
- c. Enhancing transparency measures by requiring public disclosure of audit results.
- d. Encouraging active participation from independent commissioners in governance oversight.
- e. Promoting a culture of accountability through leadership commitment to ethical governance practices.

Future Research DirectionsThe study highlights several areas for future research. First, further investigation is needed to assess the long-term impact of audits on governance reforms. Second, comparative studies between different public sector institutions could provide insights into best practices for governance implementation. Lastly, examining the role of digital technologies in enhancing audit effectiveness may contribute to future improvements in governance accountability.

In conclusion, performance audits play a pivotal role in the implementation of Good Corporate Governance in the public sector. While they enhance transparency, accountability, and efficiency, their effectiveness is contingent upon institutional commitment and regulatory enforcement. Strengthening governance structures and ensuring the practical application of audit recommendations will be critical in achieving sustainable improvements in public sector governance.

CONCLUSION

This study highlights the significant role of public sector performance audits in strengthening Good Corporate Governance (GCG). The findings emphasize that effective audits enhance transparency, accountability, and compliance with regulations, ultimately improving governance quality. However, their impact is contingent upon institutional commitment, regulatory enforcement, and organizational culture.

The research reveals that adherence to government accounting standards promotes financial transparency and accountability. Strong internal control mechanisms further mitigate risks of financial mismanagement and fraud. While independent commissioners and audit committees are intended to enhance oversight, their effectiveness depends on active participation and ethical commitment rather than mere appointment.

In public service institutions, particularly in immigration services, GCG implementation improves service quality and fosters public trust. However, bureaucratic inefficiencies and resistance to audit recommendations remain challenges. Weak enforcement mechanisms and inadequate personnel training further hinder governance reforms.

To enhance governance, stricter enforcement of audit recommendations, capacity-building programs for auditors, and greater transparency through public disclosure of audit results are necessary. Encouraging a culture of ethical leadership and accountability is also

critical for sustainable governance improvements.

In conclusion, while performance audits serve as essential governance tools, their success requires robust institutional commitment and effective regulatory enforcement. Addressing implementation barriers and fostering a culture of accountability are vital to achieving long-term governance reforms. Future research should explore the evolving impact of audits and the integration of digital technologies in enhancing audit effectiveness.

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