



Implementation of Public Sector Audit Committee Guidelines: A Case Study of the Ministry of Finance Audit Committee

Novia Ramadhan*, Lindawati Gani

Universitas Indonesia, Jalan Margonda Raya, Pondok Cina, Kota Depok, Jawa Barat, Indonesia

*novia.ramadhan11@ui.ac.id

CITATION:

Ramadhan, Novia & Gani, Lindawati. (2023). Implementation of Public Sector Audit Committee Guidelines: A Case Study of the Ministry of Finance Audit Committee. *JIA (Jurnal Ilmiah Akuntansi)*, 8 (2), 451-475.

ARTICLE HISTORY:

Received:

June 6th, 2023

Revised:

September 2nd, 2023

Accepted:

December 27th, 2023

DOI: 10.23887/jia.v8i2.61912

Abstract

This study critically examines the implementation of public sector audit committee guidelines within the MoF Audit Committee. Employing a comprehensive case study approach, the research delves into primary documents and conducts structured and semi-structured interviews with both the MoF Audit Committee and relevant stakeholders. Guided by best practices outlined in H.M. Treasury's Audit and Risk Assurance Committee Handbook and the IIA's Independent Audit Committees in Public Sector Organizations, the study establishes that the MoF has successfully instituted an audit committee in adherence to the principles and elements prescribed for public sector audit committees. While acknowledging this achievement, the research also identifies areas warranting improvement in the implementation of the audit committee. These findings underscore the importance of continual refinement to ensure optimal effectiveness and alignment with evolving best practices. The study contributes valuable insights to the discourse on public sector audit committee performance, offering practical recommendations for the MoF and other entities seeking to enhance their audit committee implementations within the broader context of public sector governance.

Keywords: audit committee; public sector; guidelines; oversight; internal audit

INTRODUCTION

Internal audit has become an essential part of the public sector control mechanism, and the effective internal audit must possess specific characteristics and be appropriately positioned with relevant

responsibilities (Cohen & Sayag, 2010). An audit committee is an independent oversight and an essential element of an organization's internal audit for adequate public sector governance (Christopher,

Sarens, & Leung, 2009; Verschoor, 2010). As a crucial part of the realization of public accountability, audit committees play a key role in assuring the governance integrity of the government (Nest, 2008).

In 2016, the Minister of Finance established an Audit Committee in Peraturan Menteri Keuangan 237/PMK.09/2016: Tata Kelola Audit Internal di Lingkungan Kementerian Keuangan to improve the independency of internal oversight. The Ministry of Finance (MoF) Audit Committee is the first public sector Audit Committee established in the Government of Indonesia in 2018 through the *Keputusan Menteri Keuangan* 252/KMK.09/2018: *Pembentukan Komite Audit dan Sekretariat Komite Audit Kementerian Keuangan*. Audit Committee is an independent oversight committee that is *ad hoc* and responsible to the MoF. Until this research completed, there are only five public sector Audit Committees in Indonesia: The MoF, Ministry of Energy and Mineral Resources, Ministry of Public Works and Public Housing, Ministry of Health, and The Audit Board of the Republic of Indonesia (BPK). Considering that the establishment of public sector Audit Committees is still relatively new, it is essential to evaluate the compatibility of the

principles and elements with the best practice guidelines for public sector Audit Committees that have been established previously.

Moreover, Magrane and Malthus (2010) recommended further research with a case study approach related to the public sector audit committees other than the New Zealand government to understand trends. Several previous studies have been conducted to examine the effectiveness of public sector audit committees, such as in South (Coetzee, Erasmus, Legodi, Pududu, & Malan, 2021), New Zealand (Rainsbury, 2012), Tanzania (Masanja, 2022). However, a study on related topics in Indonesia has yet to be conducted. Most studies of audit committees have focused on corporate/private sector entities; this is the first study on public sector audit committees in Indonesia. This study explores the new phenomenon of public sector audit committee implementation in the government sector, as the first public sector audit committee established in Indonesia.

No guidelines regulate public sector audit committees in the Indonesian government to this date. Therefore, this study evaluates the compatibility of implementing the best practice guidelines used as a reference in this study. The two

guidelines used are the Audit and Risk Assurance Committee Handbook published by H.M. Treasury (2016) and the Independence Audit Committee in Public Sector published by (IIA, 2014).

The primary purpose of this study is to explore how the MoF Audit Committee has implemented the public sector audit committee guidelines. Therefore, this study uses four analysis criteria: Mandate and Charter of the MoF Audit Committee; Membership of the MoF Audit Committee; Roles and Responsibilities of the MoF Audit Committee; and Communication & Reporting of MoF Audit Committee.

LITERATURE REVIEW

Public Sector Audit Committee

Public sector governance evolved due to the changing role of government, such as the evolution of information and the importance of role-sharing among all stakeholders (Alqooti, 2020). Therefore, public sector organizations should form an independent oversight or audit committee responsible for the independent review of the control framework and internal audit processes as an element of the governance structure (CIPFA, 2014; IIA, 2017). Audit committees assist public sector organizations in

providing oversight of governance, risk management, and internal control (Dzomira, 2020; IIA, 2014; O'Riordan, 2013).

An essential part of the internal audit support structure is the audit committee (Christopher et al., 2009), and public sector audit committees have an essential role in organizations (Armitage, 2011; Hardiman, 2006; Hegazy & Stafford, 2016; Magrane & Malthus, 2010; Williams, 1977). As an enormous element of the fulfillment of accountability to the public, audit committees play a crucial part in ensuring the governance integrity of public sector departments (Nest, 2008). The existence of an independent audit committee and an experienced internal audit element in the public service represents an optimal and effective use of the public's resources for all stakeholders, including the public as a primary stakeholder (Dzomira, 2020). While there are numerous commonalities between the nature of audit committees functioning in the public and private sectors, one noteworthy difference is the public purpose characteristic that attaches to public sector audit committees (IFAC, 2012).

The United State Government Accountability Office encourages the public sector to establish and obtain the benefits of audit committees

(George, 2005). In addition, audit committees promote stakeholder confidence (Coetzee, Preez, Msiza, & Erasmus, 2021).

Mandate

An audit committees mandate should be established in specific regulations, whose main task is to oversee the organization's governance, risk management, and internal controls. The written charter should include the audit committee's mandate; identify the roles and responsibilities of the audit committee and its members; the authority to access required information and resources; the obligations of internal and external stakeholders to interact with the audit committee; and the procedures for establishing, developing, evaluating, and updating the charter (IIA, 2014).

The government can communicate its mandate to the public with the role of all stakeholders, including the audit committee (Higgins, 2021). The charter guides the audit committee and informs the committee's role to the organization's leadership and the public (Armitage, 2011).

Membership: Composition, Independence, and Capability Requirement

The audit committee should be independent and objective; each

member should adequately comprehend the organization's objectives and role as a member of the audit committee (H.M. Treasury, 2016). The effect of the audit committee in the organization's governance system is associated with delivering independent advisory recommendations to the organization's management (IIA, 2014). Competence and independence encourage the strength of public sector audit committees (Coetzee, Erasmus, Pududu, Malan, & Legodi, 2022).

The capability requirements for public sector audit committee chairs and members include personal attributes, skills and abilities, and leadership (IIA, 2014). In addition, audit committees must have a good spread of skills and experience concerning governance, risk, and control, as well as broader skills related to the organization's core business or critical developments occurring within the organization (H.M. Treasury, 2016). The training and development requirements of all Audit Committee members, regardless of their current status or professional background (H.M. Treasury, 2016) Audit Committee members need to be recognized as having sufficient accounting experience in addition to being completely independent

(Goodwin, 2003). Other factors, such as the independence and expertise of Audit Committee members, have proven to improve previous weaknesses in audit committee arrangements (Turley & Zaman, 2007).

Roles and Responsibilities

The responsibilities of public sector audit committees consist of 1) ethics and values; 2) system of governance; 3) risk management; 4) framework of internal control; 5) activities of audit; 6) assurance of external affairs; 7) follow-up of management; and 8) finance and public accountability reporting. The audit committee's terms of reference should determine the scope of work and accommodate all assurance concerns of the organization's leadership (IIA, 2014).

Several previous studies showed that audit committees are perceived by their stakeholders as valuable tools to help organizational leaders achieve proper governance (Magrane & Malthus, 2010; Williams, 1977). They also assist organizations in achieving internal audit effectiveness (Badara, 2014) and contribute value to government organizations' financial management and overall governance (Armitage, 2011). Public sector audit committees have a substantial and

wide-ranging role beyond challenging responsibilities (Hegazy & Stafford, 2016). Most individuals who accept public sector audit committee roles are self-motivated by simply a passion for serving the public (O'Higgins, 2010).

Communication and Reporting

The audit committee should effectively engage with all the main stakeholders, e.g., the organization's board, internal audit, external audit, risk management, and other assurance partners. After each meeting, the audit committee should prepare a report for the organization's board to provide insights on any matters the audit committee considers the board should take further action on (H.M. Treasury, 2016).

Reporting performance information allow governments to communicate their mandate to the public (Higgins, 2021). Audit committee meetings are considered not open to the public due to the sensitivity involved in the discussions; however, audit committees continue to communicate reports to the organization's leadership (Magrane & Malthus, 2010; Moloji, 2015).

METHOD

This research applied a case study methodology approach using

document analysis and semi-structured and structured interviews. This research method provides a mapped yet in-depth understanding to evaluate the implementation of audit committees from the perspective of public sector organizations. The data used in this study are primary documents related to the research instruments, including Keputusan Menteri Keuangan Establishment of the Audit Committee and Audit Committee Secretariat of the Ministry of Finance, Charter of the Audit Committee of the Ministry of Finance, Code of Ethics of the Audit Committee of the Ministry of Finance, Performance Contract of the Audit Committee of the Ministry of Finance, and Semester and Annual Audit Committee of the Ministry of Finance Annual Report 2018-2022.

Besides document analysis, the evaluation in this study also included primary data from interviews. The interviews regarding the research evaluation criteria were elaborated from the principles and elements of the public sector audit committee based on the Audit and Risk Assurance Committee Handbook published by H.M. Treasury (2016) and the Independence Audit Committee in Public Sector published by IIA (2014). The four evaluation criteria in this study are 1) Mandate;

2) Membership: Independence, Objectivity, and Capability Requirements; 3) Roles and Responsibilities; and 4) Reporting and Communication.

Interviews were organized and delivered according to the intended group of participants, including Audit Committee and Audit Committee Secretariat for the period 2018-2019, 2020-2021, and 2022-2023, and Inspectors or Auditors of Echelon II Units within the MoF Inspectorate General (I.G.). The document and interview analyses' results explain the implementation of MoF Audit Committee with the guidelines for public sector audit committees.

RESULTS AND DISCUSSION

Mandate

The establishment of the MoF Audit Committee is based on PMK 237/PMK.09/2016 as amended by PMK 109/PMK.09/2021: *Tata Kelola Pengawasan Internal di Lingkungan Kementerian Keuangan*. Establishing an Audit Committee is to improve the independence of implementing internal audits by MoF I.G. Audit Committee is an independent team that is *ad hoc* and responsible to the Minister of Finance (Figure 1). In performing their duties, MoF Audit Committee is assisted by Audit Committee Secretariat. As the head of

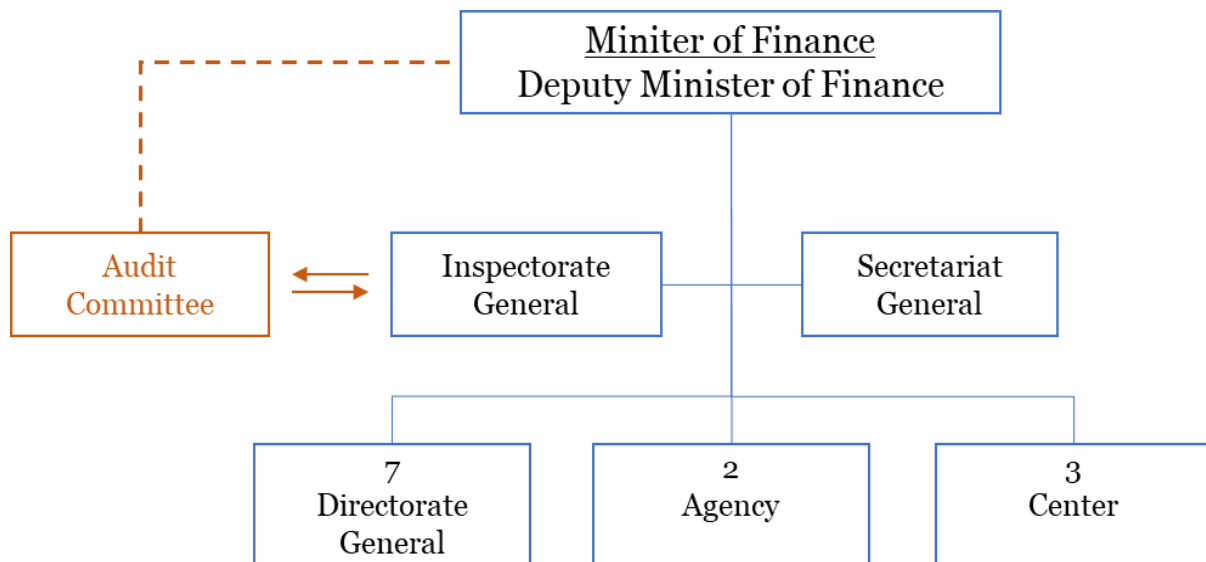


Figure 1. Organizational Structure of MoF Audit Committee

Sources: MoF, reprocessed (2023)

the organization, the Minister of Finance sets the mandate in Keputusan Menteri Keuangan 252/KMK.09/2018: *Pembentukan Komite Audit dan Sekretariat Komite Audit Kementerian Keuangan* for 2018-2019, then KMK 15/KMK.09/2020 for 2020-2021, and KMK 522/KMK.09/2021 for 2022-2023. In addition to the mandate in the form of the main tasks of the Audit Committee, the regulation also specifies the appointment of the chair and members of the Audit Committee, authority, reporting responsibilities, the appointment of the head and members of the Audit Committee Secretariat, duties of the Secretariat, working period of Audit Committee and Audit Committee Secretariat, and

general arrangements related to honorarium and budget expenses.

The primary mandate of the Audit Committee given by the Minister of Finance is to assist the Minister of Finance in overseeing the internal audit carried out by MoF I.G. Other essential functions are to provide advice and input to the Minister of Finance or Inspector General MoF to improve the implementation of internal audit by MoF I.G., to improve the quality of financial reporting at the MoF level, and to implement follow-up results of BPK or Indonesia's National Government Internal Auditor (BPKP) audits. In addition, Audit Committee provides input regarding the appointment and dismissal of the Inspector General

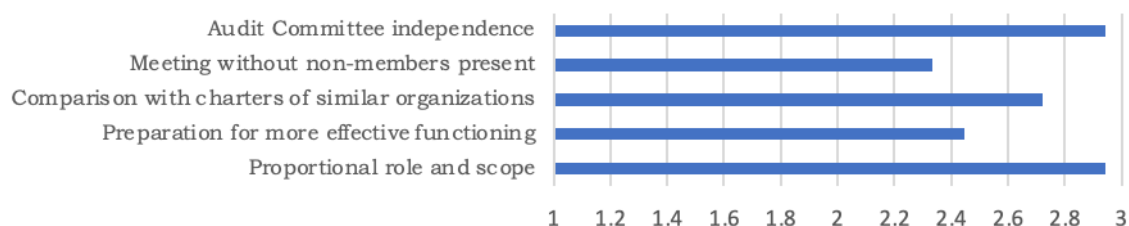


Figure 2. Implementation of Mandate

Sources: Processed Data (2023)

MoF at the request of the Minister of Finance, and carries out other tasks assigned by the Minister of Finance.

In addition to the KMK, an Audit Committee Charter is established every period of the Audit Committee. MoF Audit Committee Charter outlines the charter's legal basis, purpose, duties, details of duties, authority, membership, operational principles, operating procedures, performance evaluation, code of ethics, and closing. The Minister of Finance and the chair of the MoF Audit Committee signed the Audit Committee Charter. Audit Committee Charter regulates the duties of the Audit Committee more broadly than those stated in the KMK. In addition to the four tasks above, there are other tasks, namely providing input related to the effectiveness of implementing the assurance program and improving the quality of the MoF's internal audit. The interview responses are mapped in Figure 2 to show the

implementation of the MoF Audit Committee Mandate.

Audit Committee is outside MoF I.G. and reports directly to the Minister of Finance. This position realizes the independence in the appearance of the Audit Committee within the MoF (Figure 2). However, several things may interfere with the independence of the Audit Committee, namely related to honorariums and costs incurred in the budgeting of MoF I.G. All matters relating to the expenses of the MoF Audit Committee should be at the level of the organization's leadership in this case, the MoF. In addition, the nomination of proposals for prospective Audit Committee members is carried out by MoF I.G. Even based on interview results, the budgeting and nomination of Audit Committee members do not affect the Audit Committee's independence in overseeing MoF I.G.'s internal control.

Furthermore, Audit Committee Charter has yet to regulate the

committee's opportunity to conduct core discussions without the presence of other parties. Although it is not yet regulated and stated in the Charter, Audit Committee has conducted core meetings for members only or with the secretariat if necessary. Agenda items for core meetings include the preparation of the MoF Audit Committee Work Program or updating the MoF Audit Committee Charter.

As the first audit committee established by Indonesia government, MoF Audit Committee can be a reference for ministries or agencies. On that occasion, MoF Audit Committee Secretariat frequently shares information regarding the objectives, implementation, and governance required to establish an audit committee.

MoF Audit Committee Charter has stated that the meeting topics should be determined before the meeting is scheduled. That topic is taken from the work program of Audit Committee, which take into consideration the work program of MoF I.G. that Audit Committee approved at the end of the previous period. This work program increases the effectiveness of the Audit Committee's work. The MoF Audit Committee program is prepared at the end of every period for the following year's activities, and it is a separate

document from the Audit Committee Charter.

Membership: Composition, Independence, and Capability Requirement

Composition and Independence

Audit Committee is established by and responsible to the organization's highest leadership, namely the Minister of Finance. The MoF Audit Committee has three members: *one non-independent member and two independent members.*

The non-independent member is the Expert Staff of the Minister of Finance which the Minister of Finance appoints based on the expected improvement within the MoF. For example, the Expert Staff of the Minister for State Revenue, and the Expert Staff of the Minister for Organization Transformation and Information for 2020-2021. From 2022, the appointed expert staff is the Expert Staff for Legal Affairs. Non-independent members have easy access to communicate with the Minister of Finance as the head of the organization.

The other two Audit Committee members are independent, so most of the composition (2 from 3) consists of independent members. Independent members are appointed from outside

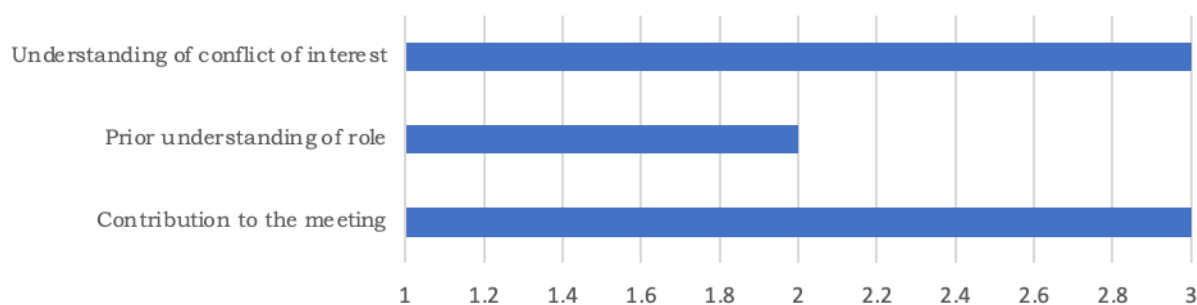


Figure 3. Implementation of Composition and Independence

Sources: Processed Data (2023)

MoF employees when serving on Audit Committee. This appointment is also confirmed by Redmayne, Bradbury, and Cahan (2011), which examined the composition and independence of the committee members and the frequency of public sector audit committee meetings.

The interview responses are mapped in Figure 3 to show the implementation of the MoF Audit Committee Composition and Independence. All members of the Audit Committee sign a charter that also regulates conflicts of interest, i.e., Audit Committee members must disclose any conflicts of interest that arise to the committee and subsequently do not provide advice and input on matters of the conflict of interest. However, if a conflict of interest is unavoidable, the chair of the Audit Committee effectively ensures and manages the associated risks and is continuously

monitored by MoF I.G.

The term of office for members of the MoF Audit Committee is two years. This is in accordance with the suggested guidelines, which state that the tenure of public sector audit committees is 2 to 8 years. However, the tenure could be increased to optimize the effectiveness of the oversight conducted by the Ministry of Finance Audit Committee.

At the beginning of their term of office, Audit Committee members receive an introductory program from the Inspector General and the Inspectors of MoF I.G. Echelon II Units. MoF I.G. presented the duties and functions and an overview of the Ministry of Finance's business processes to the Audit Committee. This overview was done primarily for independent members outside the government sector, namely academia. However, the Audit Committee need to understand the responsibilities of

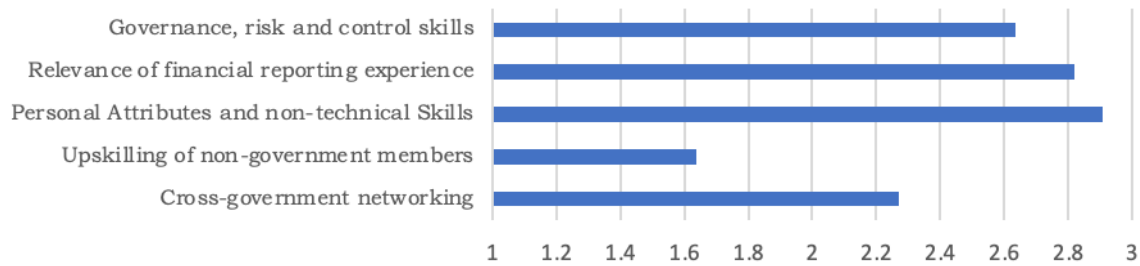


Figure 4. Implementation of Capability Requirements

Sources: Processed Data (2023)

MoF I.G. during the introductory program and during meetings.

During meetings, all Audit Committee members made adequate contributions. The Chairman of the Audit Committee usually allows members to provide their expert views and input to provide strategic and comprehensive recommendations.

Independent members consist of retired civil servants with expertise in public finance and accounting and academia with expertise in law. This composition follows the requirements set out in MoF Audit Committee Charter. In addition, Audit Committee members are willing to apply the MoF's values and improve their competencies continuously. Therefore, besides the five MoF values of integrity, professionalism, synergy, service, and excellence, Audit Committee upholds the values of *independence* and *accountability*.

Not only values, the Audit Committee has a code of ethics which

is also a reference in carrying out their duties and functions. The code of ethics of the MoF Audit Committee consists of *objectives, obligations and prohibitions, and violations*. The *obligations* of the Audit Committee related to the code of ethics are to be independent, objective, responsible, honest, professional, and accountable in the performance of duties; improve professional skills and quality of work continuously; maintain the confidentiality of data and information, obtained in the performance of duties and authorities; and identify any potential conflicts of interest arising in the implementation of duties and authorities. The *prohibition* of the Audit Committee consists of abusing authority, accepting gifts/gratuities, misusing data/information, committing disgraceful acts, defaming Audit Committee, eliminating state-owned goods/documents, being discriminatory, and becoming active

members/sympathizers of political parties.

Establishing a code of ethics ensures the smooth implementation of tasks and a conducive climate, creates, and maintains working conditions and professional behavior, and supports the maintenance of stakeholder trust.

Capability Requirements

The three members of the MoF Audit Committee have a wide range of expertise and sufficient experience concerning governance, risk management, and internal control in the organization. Although not all, at least one member has experience carrying out internal control over a broad scope and extended period (Figure 4).

Audit Committee keeps abreast of organizational governance developments through training but through experience in other professional positions and activities outside the current Audit Committee position. This training also contributes to the Audit Committee's increased knowledge of risks that may arise in the MoF organization. Currently, the three Audit Committee members consist of one member with state financial experience, so the Audit Committee can provide recommendations for improving the

internal audit of financial statements carried out by MoF I.G.

During the selection of prospective members of the Audit Committee, identifying skills required to fulfill the roles and responsibilities of MoF I.G. With the different expertise of each member, Audit Committee can adequately divide the roles when conducting meetings with MoF I.G. The members of the Audit Committee have different expertise and professional backgrounds.

One member with sufficient expertise and experience in financial reporting enables the Audit Committee to provide recommendations on improving the oversight of financial reporting by MoF I.G. In addition to technical skills, Audit Committee should also possess a professional value ethic and attitude such as transparency, willingness to learn, high integrity, commitment to the public interest, professional skepticism, and professional judgement, and professional skill such as communication skills, negotiation skills, leadership, and interpersonal.

MoF I.G must provide information related to governance in the government sector to members from outside the government specifically. For example, there are opportunities to attend training or

conferences on audit committees. In that case, Audit Committee members and the Audit Committee Secretariat should attend those activities to develop their skills and adopt audit committee practices in the government sector.

The topics discussed in meetings related but not limited to internal control, improvement of financial statements, and implementation of follow-up recommendations of external examinations within the MoF. During discussions, the Audit Committee, especially members from non-government or academia, should develop their knowledge, especially from a government perspective, to provide a better recommendation.

To this date, there is no official forum for public sector audit committees in Indonesia. As a result, communication between audit committees within the government is only done through non-formal communication channels or in private discussions outside the MoF Audit Committee meeting agenda.

Roles and Responsibilities

The mandate of the MoF Audit Committee needs to mention roles related to the implementation of oversight of values and ethics, governance, risk management, and

internal control. However, The MoF Audit Committee has supervised these four matters even though they are not stated in the charter. MoF I.G. assures that values and ethics, governance, risk management, and internal controls are adequately implemented, proven by the level of internal audit capability model of the government internal control apparatus (APIP) MoF I.G. which has reached level 4 out of 5.

Moreover, there are concerns about redundancies related to the internal audit by MoF I.G., which regulates governance, risk management, and internal control in PMK 109/PMK.09/2021. However, based on the concept of H.M. Treasury (2016), the audit committee's role consists of overseeing values and ethics, governance, risk management, internal control, internal audit, external audit, organizational plan follow-up, and financial reports and public accountability reporting. This is also confirmed by Rainsbury (2012); (Redmayne et al., 2011), which examined the role of audit committees in government.

In its implementation, Audit Committee has carried out all roles and responsibilities quite well, which is above 2,5 points (Figure 5).



Figure 5. Implementation of Roles and Responsibilities

Sources: Processed Data (2023)

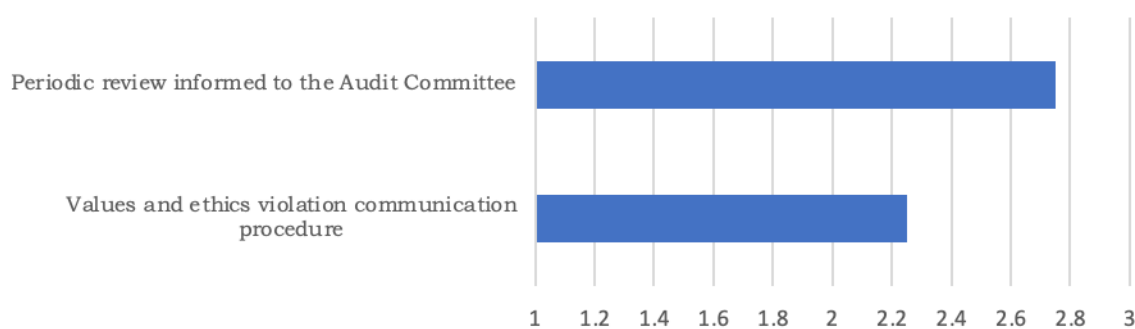


Figure 6. Implementation of Values and Ethics Oversight

Sources: Processed Data (2023)

Values and Ethics

Audit Committee has monitored the initiatives to develop values and ethics framework prepared by the MoF (Figure 6). The MoF code of ethics is regulated in PMK 190/PMK.01/2018: *Kode Etik dan Aturan Perilaku Pegawai Negeri di Lingkungan Kementerian Keuangan*. Therefore, discussions on strengthening integrity and the code of ethics within the MoF are always integrated into discussions on implementing internal audit activities. However, there is no specific policy

regarding communication of values and ethics violations.

Governance

The Audit Committee has provided oversight of the MoF's organizational governance. As a result, Audit Committee is well-versed in the governance implemented within the MoF (Figure 7). Audit Committee can also harmonize the assurance activities conducted between MoF I.G. as an internal auditor and BPK or BPKP as an external auditor. These activities also include the evaluation

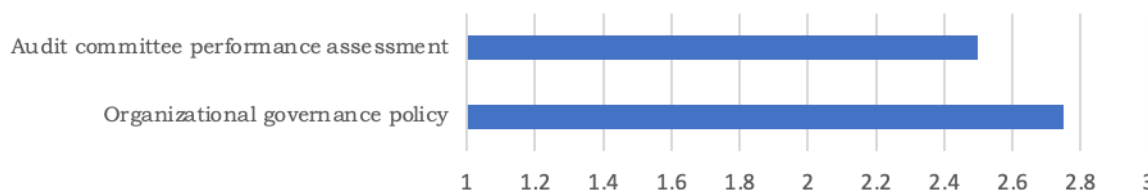


Figure 7. Implementation of Governance Oversight

Sources: Processed Data (2023)

of the adequacy of internal control and compliance, which the Internal Compliance Unit conducts.

With sufficient competencies and experience, Audit Committee was able to review the governance changes required by MoF I.G. to properly review and provide strategic recommendations for improving internal audit at the MoF. The Audit Committee provides advice and input on the MoF's governance policies.

The Audit Committee Charter of the MoF regulates the performance evaluation of the Audit Committee by the Minister of Finance or Deputy Minister of Finance. Based on the observation of documents on the achievement of these performance values, the realization value of the Average BPK Opinion Index on LK BA 15 and BA BUN is 4, the realization value of the Stakeholder Satisfaction Index is 4.75, and the realization value of the Percentage of Follow-Up on BPK Recommendations is 96.88%. Therefore, the Ministry of Finance

Audit Committee performed well and exceeded the target.

Risk Management

Audit Committee oversees the activities of the MoF's risk management process. The Audit Committee implements this oversight over the MOF's objectives, the MOF's risks in achieving those objectives, and the risk management processes in place at the MOF (Figure 8). In every meeting, Audit Committee continuously reminds MoF I.G. to anticipate strategic risks, for example, risks caused by changes in business processes due to the Covid-19 Pandemic. In addition, on the risk profile that has been prepared, Audit Committee can review and provide recommendations on the compatibility of risk identification, risk management resources, and risk evaluation implemented by the MoF.



Figure 8. Implementation of Risk Management Oversight

Sources: Processed Data (2023)

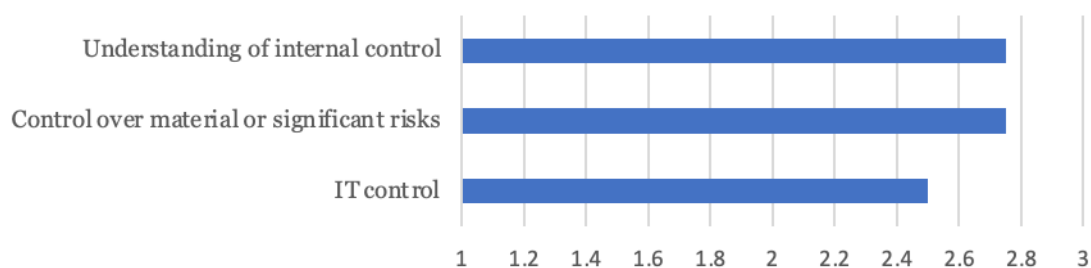


Figure 9. Implementation of Internal Control Oversight

Sources: Processed Data (2023)



Figure 10. Implementation of Internal Audit Oversight

Sources: Processed Data (2023)

Internal Control

Internal control is also part of the responsibility of the MoF Audit Committee. For internal control activities carried out by the MoF, Audit Committee reviews the effectiveness and adequacy of the control design that has been installed (Figure 8). Audit Committee has adequate information regarding how the organization runs and forms an

internal control system over each business process within the MoF. In addition, as a strategic committee, Audit Committee understands the significant risks that may hinder achieving organizational goals based on the risk level and risk category (fraud, for example).

Along with the development of information technology, Audit Committee also carries out assurance

activities on information technology controls prepared by the MoF, especially concerning all systems developed within the MoF. Regarding fraud control, Audit Committee reviews the fraud risk management that has been prepared and reported by MoF I.G. Thus, Audit Committee can provide recommendations on the results of the evaluation of controls to improve the effectiveness of risk management of fraud and errors that may occur.

Internal Audit

MoF Audit Committee has conducted adequate oversight of the internal audit activities carried out by MoF I.G. Audit Committee reviews the strategic plan of MoF I.G. as well as the work plan or program and theme of MoF I.G. audit to improve the quality of internal control planning, especially in terms of reviewing risk-based internal control planning (Figure 10).

As an integral part, MoF Audit Committee reviews governance, control, and risk management in the review of the implementation of the internal audit activities carried out by MoF I.G.. Furthermore, in conducting oversight of internal audits, MoF Audit Committee also provides the direction of competency resources used in internal audit activities, for

example, in terms of relation to the skills of auditors of MoF I.G.

MoF Audit Committee also provides opinions and inputs on the guidance of the internal compliance function, the application of current best practices on internal control, and efforts to increase the integrity of the MoF. Improving the MoF's integrity implementation is carried out to prevent corruption, collusion, and nepotism. Furthermore, in line with the implementation of internal audit activities, MoF Audit Committee has always supported and provided positive affirmation to the principal and auditors within the MoF I.G. This is because the effectiveness of internal audit implemented by MoF I.G. has been adequate.

The presence of the MoF Audit Committee provides added value to the internal audit activities carried out by the MoF I.G. MoF Audit Committee balances MoF I.G. as an auditor and the echelon I unit as an internal audit client to maintain the internal audit results' accountability. Suppose there is a difference in opinion between the MoF I.G. and the Echelon I Unit on the internal audit results, MoF Audit Committee can provide an independent opinion.

External Audit

Audit Committee also pays

attention to external audits conducted by BPK or BPKP within the MoF. Audit Committee reviews the theme and scope of the BPK or BPKP audit to synchronize the assurance function. To avoid overlapping and causing assurance fatigue in Echelon I Units within the MoF, Audit Committee also provides input on internal audit activities that may be carried out in a similar scope to external audits (Figure 11).

In addition, MoF Audit Committee also reviews the BPK or BPKP audit report and the effectiveness of the implementation of the audit follow-up by the echelon I units. Furthermore, on audit reports issued by external auditors, Audit Committee reviews the impact that may be caused. For example, on the results of the performance audit report, Audit Committee asks MoF I.G. to conduct monitoring so that the findings do not affect the opinion in the financial statements on similar business processes. Another recommendation by Audit Committee is related to the synchronization of external audit findings between MoF Financial Statements (LK-BA 15, LK-BUN) and Central Government Financial Statements (LKPP).

Based on their competencies and experiences, Audit Committee can understand the audit activities,

objectives, and scope. Considering the high percentage of findings in the external audit report for 2018-2022, Audit Committee uses the opportunity to review the significant findings that need the attention of the organization's leadership. Audit Committee also requests a progress report on the completion of follow-up on the results of external audits conducted by the MoF Echelon I Units and compiled by MoF I.G.

As an independent unit, MoF Audit Committee can also provide an independent opinion in case of a difference of opinion between MoF I.G. auditors and BPK or BPKP auditors.

Organizational Follow-up

Audit Committee is actively reviewing activities and results of the risk management by each Echelon I Unit, the internal audit carried out by MoF I.G., and the external audits by an BPK or BPKP, accompanied by related supporting documents (Figure 12). Based on these results, Audit Committee requested an update on the progress of the follow-up settlement carried out by each unit within the MoF through MoF I.G. Audit Committee also provides input regarding the proposed completion of the follow-up to the BPK or BPKP audit before the periodic discussion is held.

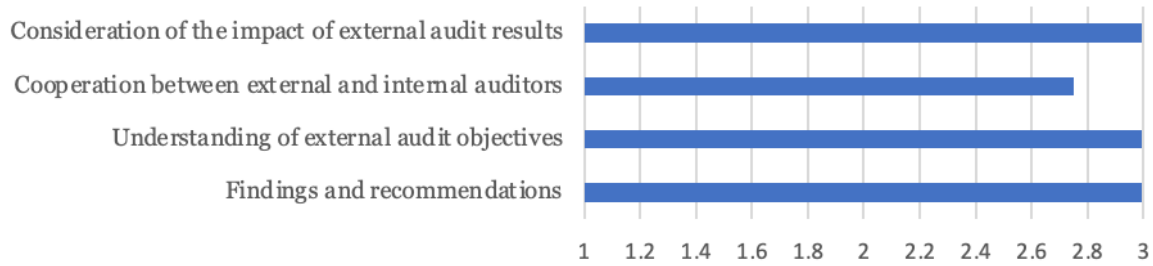


Figure 11. Implementation of External Audit Oversight

Sources: Processed Data (2023)

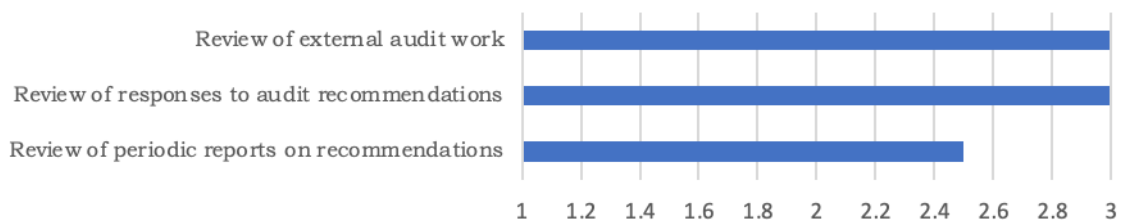


Figure 12. Implementation of Organizational Follow-Up Oversight

Sources: Processed Data (2023)

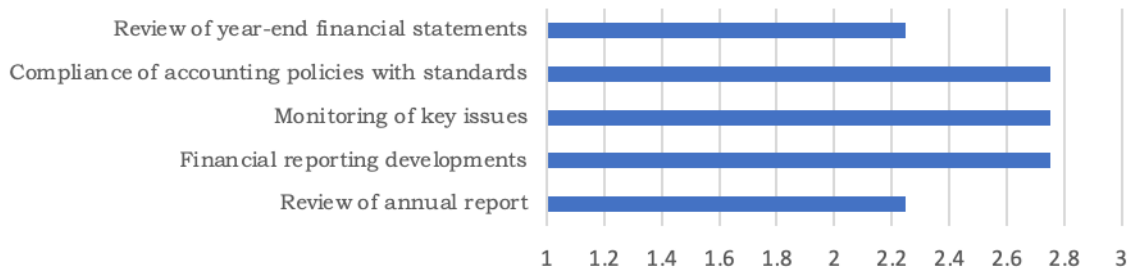


Figure 13. Implementation of Financial Reporting Oversight

Sources: Processed Data (2023)

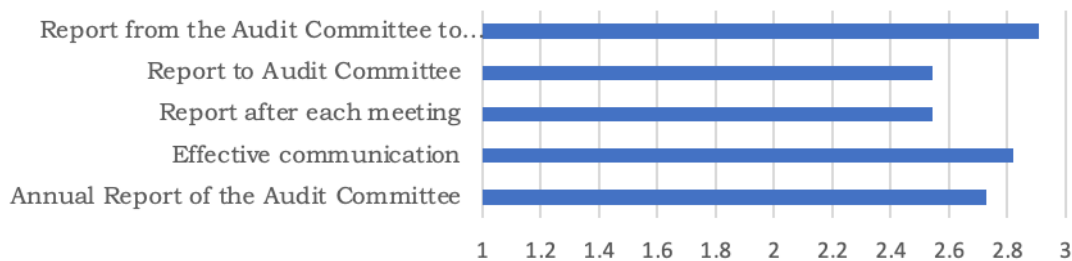


Figure 14. Implementation of Communication and Reporting

Sources: Processed Data (2023)

Audit Committee only receives strategic information compiled by MoF I.G. Thus, the reports received by

Financial Reporting

Another role and responsibility of the Audit Committee is to provide advice and input to improve the quality of financial reporting at the MoF level. In addition, Audit Committee reviews and provides input on strategic issues in presenting ministry-level financial statements, namely LK-BA 15, LK-BUN, and LKPP (Figure 13).

Audit Committee also reviews conformity with accounting standards and compliance with laws and regulations in ministry-level financial reporting. In carrying out their duties, Audit Committee reviews the completeness of disclosures in LK-BA 15 and LK-BUN. In recent years, there have been many findings in financial statements' audit is not technical but policy. So, the role of the MoF Audit Committee is significant here. Since its first establishment, Audit Committee has never held discussions with experts from outside the MoF, as public sector financial reporting experts are already in the MoF. Audit Committee can adequately and effectively oversee significant issues and risks that may arise in financial

Audit Committee are at a sufficient level of detail to provide advice and input based on its strategic authority. reporting at the MoF level. Audit Committee is also well-versed in the development of financial reporting standards within the government. However, Audit Committee has never made a particular agenda to discuss the MoF's Annual Report. The agenda needs to be prioritized to reflect the oversight role of the Audit Committee.

Communication and Reporting

PMK 109/PMK.09/2021 and KMK 522/KMK.09/2021 regulate that Audit Committee must submit a report on implementing its duties to the Minister of Finance periodically at least once every semester. Audit Committee Charter also regulates communication patterns and working relationships. Communication is conducted between the Audit Committee and Minister of Finance / Deputy Minister of Finance, MoF I.G., Echelon I Unit, and related external parties, either directly and openly or in written or verbal form.

In 2018-2019, MoF Audit Committee always submitted reports to the Minister of Finance and the Inspector General of the MoF annually. The Chair of the MoF Audit Committee submitted the report to the

Inspector General of the MoF. Since Semester II of 2020, the Chair Audit Committee has submitted a report to the Minister of Finance with a copy to the Inspector General of the MoF (Figure 14).

Before the meeting, MoF Audit Committee receives reports on the internal audit results that need guidance and direction from the Audit Committee submitted by MoF I.G. through each Inspector.

The minutes of the meeting are prepared and submitted by Audit Committee to the MoF I.G. immediately after the meeting. The minutes of the meeting contain the oversight activities carried out and the recommendations that MoF I.G. must follow up. In addition to those recommendations, some matters need MoF I.G.'s attention.

Audit Committee communicates with the Minister of Finance/Deputy Minister of Finance, the Inspector General, other Echelon I Units, and other parties such as external auditors BPK or BPKP through MoF I.G. Communication is carried out effectively through formal meetings (offline and online), official correspondence procedures, and other communications such as telephone or short messages.

Audit Committee prepares periodic, semi-annual reports to the

Minister of Finance. The reports provide information on the overview of oversight activities carried out by the MoF Audit Committee under the mandate given by the Minister of Finance during the period. In addition, the reports convey the results of oversight and views of the Audit Committee in an independent, accountable, and transparent manner.

If necessary, MoF Audit Committee may request MoF I.G. to facilitate discussions outside the routine agenda with Echelon II of I.G. to obtain more in-depth information related to matters or risks that need special attention from MoF Audit Committee.

As the first and relatively new public sector audit committee, MoF Audit Committee continues to improve governance concerning communication and performance reporting.

CONCLUSION, IMPLICATION AND LIMITATION

The Ministry of Finance has established and implemented an Audit Committee following the Public Sector Audit Committee best practice guidelines. Most elements of the Audit Committee Charter have been developed and implemented following the charter components suggested by

IIA guidelines. In addition, MoF Audit Committee has implemented appropriate composition, independence, and capability requirements to enable the audit committee members to perform their roles and responsibilities properly and deliver effective results. To maintain accountability and transparency, the MoF Audit Committee has implemented communication and reporting to the Minister of Finance, MoF I.G., and Echelon I Units within the MoF.

To improve the implementation of public sector audit committee charters, the MoF Audit Committee should consider including arrangements related to the authority to request expert opinions in the audit committee charter. In addition, the Minister of Finance may also consider extending the terms of service of the chair and members of the Audit Committee of the Ministry of Finance. At the beginning of the term of office, Audit Committee should arrange an induction program or introduction to the understanding of the roles and responsibilities of the Audit Committee, especially for independent members. The MoF Audit Committee should consider setting the budget for honorarium and activities at higher level units, such as the Planning and Finance Bureau of the Secretariat

General, to increase independence and objectivity. To improve the capability of the Audit Committee, the Indonesian Audit Committee Association should establish a forum for public sector audit committees. Even though, the roles and responsibilities as stated in Audit Charter has been carried out well by the MoF Audit Committee, it is recommended to include audit committee's role in values and ethics, governance, internal control, and risk management in the charter. Currently, The MoF Audit Committee prepares and submits all internal reports to the Minister of Finance. To enhance accountability, it is recommended that Audit Committee also prepares a report as part of I.G's Annual Report and the MoF's Annual Report.

This study only used two public sector audit committee best practice guidelines, and future researchers can use other guidelines. Some suggestions for future research may include research on audit committees of public sector organizations, comparison of the implementation of public sector audit committees with the private sector in Indonesia, and the effectiveness of public sector audit committees in improving internal audit quality in government organizations.

REFERENCES

- Alqooti, A. A. (2020). Public governance in the public sector: literature review. *International Journal of Business Ethics and Governance*, 3(3), 14-25.
- Armitage, J. (2011). Creating Effective Public Sector Audit Committees. *Journal of Leadership, Accountability and Ethics*, 8(3), 96-102. Retrieved from <https://www.proquest.com/holarly-journals/creating-effective-public-sector-audit-committees/docview/867094868/se-2?accountid=17242>
- Badara, M. S. (2014). *Empirical evidence of the moderating effect of effective audit committee on audit experience in the public sector: Perception of internal auditors* (Vol. 5).
- Christopher, J., Sarens, G., & Leung, P. (2009). A critical analysis of the independence of the internal audit function: evidence from Australia. *Accounting, auditing & accountability journal*, 22(2), 200-220. doi:10.1108/09513570910933942
- CIPFA, Chartered Institute of Public Finance and Accountancy. (2014). *The International Framework: Good Governance in the public sector*. .
- Coetzee, P., Erasmus, L., Legodi, A., Pududu, M., & Malan, S. (2021). Root influence on public sector audit committee effectiveness: revisiting methodological and theoretical research dimensions. *Public Money & Management*, 1-10.
- Coetzee, P., Erasmus, L., Pududu, M., Malan, S., & Legodi, A. (2022). The power drivers of public sector audit committee effectiveness. *South African Journal of Accounting Research*, 1-23.
- Coetzee, P., Preez, A. d., Msiza, C. D., & Erasmus, L. J. (2021). The Relationship between Audit Committee Best Practice and Good Governance. *Journal of accounting, finance and auditing studies*, 7(3), 158-183. doi:10.32602/jafas.2021.024
- Cohen, A., & Sayag, G. (2010). The Effectiveness of Internal Auditing: An Empirical Examination of its Determinants in Israeli Organisations. *Australian accounting review*, 20(3), 296-307. doi:10.1111/j.1835-2561.2010.00092.x
- Dzomira, S. (2020). Corporate governance and performance of audit committee and Internal audit functions in an emerging economy's public sector. *Indian Journal of Corporate Governance*, 13(1), 85-98.
- George, N. (2005). The role of audit committees in the public sector. *The CPA journal (1975)*, 75(8), 42.
- Goodwin, J. (2003). The relationship between the audit committee and the internal audit function: Evidence from Australia and New Zealand. *International journal of auditing*, 7(3), 263-278.
- H.M. Treasury. (2016). *Audit and risk assurance committee handbook*. In: March.
- Hardiman, P. (2006). Public Sector Audit Committees. *Government Finance Review*, 22(3), 50-53. Retrieved from

- <https://www.proquest.com/trade-journals/public-sector-audit-committees/docview/229712683/se-2?accountid=17242>
- Hegazy, K., & Stafford, A. (2016). Audit committee roles and responsibilities in two English public sector settings. *Managerial auditing journal*, 31(8/9), 848-870. doi:10.1108/MAJ-12-2015-1285
- Higgins, G. (2021). Reporting responsibilities OF PUBLIC SECTOR AUDIT COMMITTEES. *Accountancy SA*, 44-45. Retrieved from <https://www.proquest.com/trade-journals/reporting-responsibilities-public-sector-audit/docview/2544915803/se-2?accountid=17242>
- IFAC, International Federation of Accountants. (2012). A Definition of Public Interest. *Policy Position Paper*.
- IIA, The Institute of Internal Audit. (2014). Independence Audit Committee in Public Sector In.
- IIA, The Institute of Internal Audit. (2017). Internal Audit Capability Model (IA-CM) for the Public Sector.
- Magrane, J., & Malthus, S. (2010). Audit committee effectiveness: a public sector case study. *Managerial auditing journal*.
- Masanja, C. (2022). Audit Committee and Internal Control Effectiveness in Public Sector Entities. *Business Management Review*. Retrieved from <http://www.journals.udsm.ac.tz/index.php/bmr/article/view/5505>
- Moloi, T. (2015). Critical analysis of audit committee reporting in national government departments: The case of South Africa. *Int'l Pub. Admin. Rev.*, 13, 67.
- Nest, D. P. v. d. (2008). The perceived effectiveness of audit committees in the South African public service. *Meditari accountancy research*, 16(2), 175. doi:10.1108/10222529200800019
- O'Higgins, T. (2010). Audit committees in the public sector: having served as Chairman of a number of audit committees in the public sector, Tom O'Higgins is uniquely placed to give his perspective on the challenges they face. In this article he takes a detailed look at some key issues and suggests how they may be overcome. 42(1), 18.
- O'Riordan, D. (2013). The role and benefits of audit committees in Irish government departments. *International journal of government auditing*, 40(1), 32.
- Rainsbury, E. A. (2012). *The Existence and Composition of Audit Committees in the New Zealand Public Sector* (Vol. 22).
- Redmayne, N. B., Bradbury, M. E., & Cahan, S. F. (2011). The Association between Audit Committees and Audit Fees in the Public Sector. *International journal of auditing*, 15(3), 301-315. doi:10.1111/j.1099-1123.2011.00436.x
- Turley, S., & Zaman, M. (2007). Audit committee effectiveness: informal processes and behavioural effects. *Accounting, auditing & accountability*

journal, 20(5), 765-788.
doi:10.1108/09513570710779
036

Verschoor, C. C. E. C. P. A. C. M. A.
C. F. E. (2010). INTERNAL
AUDIT CAPABILITY MODEL
(IA-CM): FOR THE PUBLIC
SECTOR. *Internal Auditing*,
25(6), 45-46. Retrieved from
<https://www.proquest.com/trade-journals/internal-audit-capability-model-ia-cm-public/docview/818843969/se-2?accountid=17242>

Williams, H. M. (1977). Audit
committees--The public sector's
view. *Journal of Accountancy*
(pre-1986), 144(000003), 71.
Retrieved from
<https://www.proquest.com/trade-journals/audit-committees-public-sectors-view/docview/198239476/se-2?accountid=17242>