MANAGEMENT DETERMINANTS AMONG THE RELATION OF CORRUPTION, ACCOUNTABILITY, AND PERFORMANCE

Haryono Umar
Perbanas Institute, Jakarta, Indonesia

Rahima Br. Purba
Universitas Pembangunan Panca Budi, Medan, Indonesia

ABSTRACT

The purpose of this research was to gather some empirical evidences and to analyze the management determinants among the relation of corruption, accountability and performance of Indonesia oil and gas industry. Due to its strategic role in government revenue and Indonesian development, oil and gas should be managed efficiently, effectively, and in accountable manner. Past implementation has witnessed that oil and gas industry faced many problems such as corruption, lack of accountability, and nonperforming. A scope of the research is focused on production sharing contract between government and commercial oil and gas companies. Beside agency cost, information asymmetry and contracting theory in the industry could decrease government income from oil and gas sector. The research objects are accounting choice, controlling, corruption, accountability, and performance variables.

Keywords: Corruption, Accountability, Performance, Accounting Choice, Control


http://www.iaeme.com/IJCIET/issues.asp?JType=IJCIET&VType=9&IType=9

1. INTRODUCTION

Indonesia became the largest oil and gas producer which produced 63 million barrels per year in the far eastern region. However, nowadays, Indonesia’s oil and gas production is significantly decreasing from 954 million barrels in 2007 to 781 million barrels in 2015. Operators of oil and gas upstream industries are PT Pertamina and Production Sharing Contract (PSC). PT Pertamina is stated owned oil and gas company while PSC is a foreign, national, or mixed corporation entity that sign a contract to produce oil and gas in Indonesia.
Management Determinants among the Relation of Corruption, Accountability, and Performance

territory area. To encourage investment, government prepares some incentives to PSCs such as tax free of imported goods, cost recovery, and investment credit that are not given to other businesses. In terms of cost recovery, the government's replacement value increased from 17.5% during long-term development (25 years) to 33.7% in 1999. Total government revenue sharing during 25 years reached US $ 152.22 billion or 83% and in 1999, it decreased to 78% from equity to be split (ETBS).

Accounting for the oil and gas industry is highly demanded for accountability and good governance of this industry in accordance with its uniqueness. The accounting implementation is intended to allow the oil and gas industry to present useful information for economic decision making. Application of a particular accounting method (SE, FC, or PSC), creates different performance. Based on what have been described earlier, this research aims to seek the answer on problems related to "Management Determinants among The Realization of Corruption, Accountability and Performance."

2. LITERATURE REVIEW

2.1. Accounting Choice

The post modern organization is the wider separation between owner and management will be. As a platform for organization accountability, accounting has developed for a long time, initially classified as an art until recognized as a science. Accounting serves to provide information on economic transactions for decision making among the various available alternatives [1]. For prepare credible accounting information, management can choose existing accounting methods which are a set of provisions used to determine about recognizing and treatment of revenues and expenses [2]. Accounting methods are all policies, techniques and procedures of accounting treatment for organization economic transactions [3] [4] Many problems may arise in the relationship between principal and agent. Management, in choosing a particular accounting method is influenced by various factors as described by positive accounting theory which discusses the attitudes and behavior of management in accounting choice [5]–[7]. Christie and Zimmerman of the University of Rochester conducted a study in 1994 [8]. They advised that accounting choice is considered efficient when it is aimed to increasing organization value while opportunistic accounting choice is shown by the increasing of management compensation.

It can be concluded that accounting choice is a decision taken by management to select and apply an accounting method with the aim to maximize the interests of the company and himself. Accounting choice either voluntarily or regulated by accounting standards will affect the value of the organization, managers, auditors, regulators, and investors [9]–[11].

2.2. Control

Accountability report is required to minimize information asymmetry between management and stakeholders. In order to increase credibility of the financial statement, stakeholders need independent third party to prepare his opinion about the report. The purpose of auditing is to prepare independent opinion about the degree of conformity of organization financial statement with the specified criteria such as the generally accepted accounting principle or other regulations [12].

The types of auditing are categorized into two, i.e. internal and external audit. The main purpose of external audit is to ensure the fairness of financial statements presented by the management. Given the imbalance of information between management and stakeholders, it
is necessary that an external audit in terms of its positions, duties and roles involves independent testing on the feasibility of management accountability information.

2.3. Corruption

Even though government or private organization has their own control agencies (internal audit) but it seems that they do not adequate influence to stop and prevent from fraud activities. Every organization has internal auditors and external auditors to ensure that organization’s goals and objectives will be successfully achieved. Auditors oblige to ensure that organization prepares qualified financial and performance information to the public [13].

Corruption is the misuse of public office for private gain. As such, it involves the improper and unlawful behavior of public-service officials, both by politicians and civil servants, whose positions create opportunities for the diversion of money and assets from government to them and their accomplices [14]. Corruption can be seen from a narrow broad views as divided it into two groups, namely a narrow legal sense and a broad sense [15]. In a narrow sense, corruption includes bribery, misappropriation of public resources, kickbacks commissions, embezzlement, and gifts beyond a certain value. Furthermore, in a broader sense, it includes what belong to the narrow sense plus nepotism/ favoritisme, dishonesty, cheating, and intellectual crime. Thus, corruption is the abuse of power and position in public organizations for personal gain, that can generate money for the interests of particular party, tribe, class, friends, family who are very secretive to other parties outside the circle itself [16]–[18].

2.4. Performance

Performance is the level of efficiency and effectiveness of objectives achievement, tasks or functions by the management and divisions. From the point of view of profit-oriented organization, the performance is divided into two perspectives. First is economic performance which emphasizes on how organization is able to generate profits. The second is the performance of management which is associated with the ability of management in planning, controlling and organizing to achieve organizational vision. Performance is level of organizational target achievement in accordance with organizational planning within a certain period of time [19]–[21].

Performance achievement information will push management to (1) manage the organization's operations effectively and efficiently; (2) assist decision-making process concerned with the operational of organizational activities; (3) identify training needs and organizational development; (4) provide feedback; and (5) provide the basis for the implementation of merit-based system. Meanwhile, economic performance demonstrates the organization's ability to generate a company profit and economic empowerment for the welfare of all members of the organization.

In this study, the company’s performance was measured by the ratio related to output achievement which includes revenues, cost recovery, profit sharing, and Indonesia tax. Meanwhile, the outcome was measured with efficiency and effectiveness.

3. RESEARCH METHODS

The research objects included accounting choice (X1), control (X2), corruption (X3), accountability (Y), and performance (Z). Meanwhile, the respondents involved in the study covered accounting, procurement, internal auditors, and production directors of 38 PSC entities, PT Pertamina, BPKP and BP Migas/ SKK Migas auditors. However, not all respondents responded to the questionnaires. Instead, out of the questionnaires sent to PSC,
Management Determinants among the Relation of Corruption, Accountability, and Performance

PT.Pertamina, BP Oil and gas, and BPKP, only 79.51% of the respondents submitted their answers. Nevertheless, the percentage of returning questionnaires has indicated to exceed the threshold of acceptability [22]. The equation model of the research structure is as follows.

\[ X_1 = \text{Accounting choice}; \quad X_2 = \text{Control}; \quad X_3 = \text{Corruption}; \quad Y = \text{Accountability}; \quad Z = \text{Performance}; \quad \epsilon_{1,2,3} = \text{other variables affecting } X_3, Y \text{ and } Z. \]

4. DISCUSSION

This study was conducted through a survey on 39 PSCs as oil and gas producing business entities. However, only 27 PSCs responded to the research questionnaire. Therefore, the results of this study is not generalized to 39 PSCs since it only applies to 27 PSCs which have provided answers to the submitted questionnaires. The data was collected, tabulated and processed using SPSS program software for analyzing and testing the research hypotheses.

4.1. First Hypothesis Evaluation

The first hypothesis states that there is a close relationship between accounting choice and control. Based on the software calculation, it shows that the correlation between accounting choice and control is 0.033 and considered not significant.

\[
\text{Correlation test of accounting choice variable and control is not significant with correlation coefficient value of 0.033 and level of confidence of 95\% which indicates negligible correlation. Thus, accounting choice has an insignificant relationship with the control on the PSC. Yet, this is not in line with the research finding that has been done by Francis [23] and Kothari [7]. Furthermore, the results of hypothesis testing show that accounting choice (SE, FC, and PSC) in PSC is not closely related to the control performed by BPKP and audit by PSC internal audit personnel. It means that accounting choice of management does not affect the audit implementation by BPKP and internal auditors. Moreover, audit does not provide recommendations whether to select SE, FC, or PSC methods. In the exhibit C contract, it is stated that the PSC accounting method is based on generally accepted accounting standards or accounting generally applicable to the oil and gas industry unless otherwise stipulated in the contract. It means that PSC management may}\]

http://www.iaeme.com/IJCIET/index.asp 771 editor@iaeme.com
choose SE, FC, or PSC method in the accumulation of oil and gas exploration costs. In fact, the main factor in accounting choice by PSC is the contract terms.

4.2. Second Hypothesis Evaluation

The hypothesis states that accounting choice and control has positive influence to corruption.

Figure 3 Substructure 2; describing influence of $X_1$ and $X_2$ on $X_3$

In this paper, hypothesis evaluation was done to determine the influence of accounting choice ($X_1$) and control ($X_2$) on corruption ($X_3$). The direct influence of accounting choice and control to corruption is $46.24\% + 29.16\% = 75.40\%$. Given accounting choice and control correlative is equal to 0.033; hence, simultaneous influence of both variable to corruption is $\{(0.680 \times 0.033x - 0.540) \times 100\% \} \times 2 = -2.20\%$.

Thus, the direct and indirect influence of $X_1$ and $X_2$ to $X_3$ is $75.40\% - 2.2\% = 73.2\%$ and the influence of the other variable is $26.8\%$. That shows that accounting choice and control significantly ($73.2\%$) influence to corruption in the PSC. It indicates that the more influential control of the PSC, the less corruption in PSC operations will have. As such, control serves to encourage management to comply with the agreement. It will also prevent or eliminate errors, deviations, lapses, waste, obstacles and injustices. Moreover, with the control, adverse actions as well as corruption will be minimized.

It explains that control is significantly critical to prevent corruption. Thus, to prevent corruption in the oil and gas industry, controls by external and internal auditor must be continuously improved. It infers that accounting choice can be exploited by PSC to look for 'loopholes' deviations to its advantage. Meanwhile, control is an effective tool to prevent and eradicate corruption in PSC.

5. CONCLUSION

According to the study research, in PSC, accounting choice is not related to the control. Rather, it is implemented by management to comply with contract terms. Meanwhile, the control is conducted by the auditor to ensure the fairness of B quarterly report. Audit is not to assess accounting choice by management as accounting choice is performed based on contract terms. Accounting choice and control positively influence corruption. Management chooses accounting method to increase cost recovery as much as they can earn in the fastest way. Audit is conducted to ensure fairness of BQR compared to Work Plan and Budget (WP & B), Authorization for Expenditures (AFE), and Plan of Development. Accountability is influenced by accounting choice – as an infrastructure for building it, control, and corruption. Power minus corruption will increase accountability. Auditor examines the accountability report to ensure the credibility of the report. Accounting choice, control, corruption, and accountability influence the performance. PSC signs a contract with government to produce oil and gas. To increase the production, government should control PSC operation especially accounting choice. Thus, government can prepare a system for PSC accountability.
REFERENCES


http://www.iaeme.com/IJCIET/index.asp 773  editor@iaeme.com