

Performance Audit Transformation in Supporting Organizational Performance and Corporate Policy Improvement at Bank Sumut

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ABSTRACT

This research aims to analyze the transformation of performance audit as a strategic instrument to improve organizational performance and improve corporate policies at Bank Sumut as one of the Regionally Owned Enterprises (BUMD) in North Sumatra Province. The research uses a qualitative approach with a case study design supported by a literature review. The results of the study show that performance audits at Bank Sumut are still dominated by a compliance approach and have not been optimally integrated in strategic decision-making. These findings contribute to strengthening the accountability, governance, and performance of BUMD organizations in a sustainable manner.

INTRODUCTION

Performance audits are increasingly occupying an important position in public sector governance as demands for transparency, accountability, and effectiveness of public resource management increase. In its development, performance audits are no longer understood solely as a supervisory instrument that focuses on administrative compliance, but have evolved into an evaluative mechanism used to assess the achievement of organizational goals based on the principles of economy, efficiency, and effectiveness (3E) (Bracci et al., 2021; Rethlefsen et al., 2021). Through this approach, performance audits are expected to be able to produce relevant information for decision-making, improve the quality of public services, and strengthen organizational accountability to stakeholders (Lapsley et al., 2022). This paradigm shift has encouraged the development of a more outcome-based audit approach. In this perspective, audit success is not only measured by the level of compliance with procedures and regulations, but also by its ability to produce real improvements in organizational performance, governance quality, and the effectiveness of policies implemented (Pierre & de Fine Licht, 2023). Performance audits are seen as a strategic instrument that is able to create added value (value creation) through identifying organizational weaknesses, strengthening internal control systems, improving business processes, and drafting recommendations that support organizational sustainability (Hay & Cordery, 2021). Thus, performance audits have an increasingly important role in encouraging the realization of good governance and performance-oriented public organizations (Akbar, 2018).

Conceptually, performance audits can be explained through the perspective of public accountability and public value creation. The public accountability perspective places audit as a mechanism that ensures that organizations are accountable for the use of resources, the achievement of goals, and the quality of services provided to the community. Meanwhile, the public value perspective asserts that an organization's success is determined not only by compliance with formal rules, but also by its ability to generate tangible benefits for stakeholders. Within this framework, performance audits function as an organizational learning instrument that provides strategic information to increase program effectiveness, strengthen governance, better manage risk, and support evidence-based decision-making processes (Elisabeth & Roseliana, 2023; Gozali, et al, 2022; Nabila & Maulina, 2025). Therefore, the value of an audit lies not only in its oversight function, but also in its ability to drive organizational change and produce continuous policy improvement.

Nonetheless, various studies show that the implementation of performance audits in the public sector still faces a number of challenges. In many cases, audits are more often used as a means of fulfilling formal obligations than as an instrument of organizational transformation (Sudrajat, 2023). This condition shows a tendency for audit practices to be ceremonial, namely when the audit process is carried out to meet the demands of institutional legitimacy, but is not followed by substantive changes to governance and organizational performance (Pierre & de Fine Licht, 2023). As a result, audit recommendations often stop at administrative improvements, while fundamental issues related to

organizational effectiveness, risk management, and policy quality have not been optimally resolved (Putri & Hendaris, 2025). This phenomenon shows that there is a gap between the normative function of performance auditing and its implementation practice in the field. Ideally, performance audits act as a means of organizational learning that is able to encourage continuous improvement. However, in practice, the effectiveness of audits is greatly influenced by the quality of the internal control system, auditor capacity, management's commitment to following up on recommendations, and the integration of audit results into the organization's planning and decision-making processes (Indarti & Aljufri, 2026; Anjani, & Fadly, 2023). When these factors do not run effectively, audits tend to lose their strategic function and only serve as a formal oversight mechanism.

These problems can also be found in the management of Regionally Owned Enterprises (BUMD), including Bank Sumut as one of the strategic BUMDs in North Sumatra Province. As an institution that manages public resources while operating in a competitive business environment, Bank Sumut is required to implement good governance, effective risk management, and a supervisory system that is able to support the achievement of organizational goals. However, various audit findings and performance evaluations still show challenges related to internal control, credit risk management, supervisory effectiveness, and follow-up audit recommendations. This condition indicates that performance audits have not been fully utilized as a strategic instrument in supporting the improvement of organizational performance and the continuous improvement of company policies (Mökander & Floridi, 2022). On the other hand, the development of the literature shows that performance audits can have a more significant impact when integrated with risk-based governance approaches, strong follow-up mechanisms, and the use of digital technology in the supervisory process (Pierre & de Fine Licht, 2023). The transformation of audits towards a more participatory, outcome-oriented, and value-creation-oriented approach is considered to be able to improve the quality of accountability, strengthen risk management, and produce recommendations that are more relevant to organizational needs (Rismayanti et al., 2022). However, studies that specifically discuss how performance audit transformation can be applied in the context of BUMDs, especially the regional banking sector, are still relatively limited.

Based on these conditions, there is a research gap that lies in the limited understanding of how performance audits can be transformed from an administrative supervisory instrument to a strategic instrument that is able to encourage organizational performance improvement and policy reform. Most previous research has focused on the supervisory and compliance functions, while studies on the role of audit as a driver of organizational change and policy improvement have not been widely explored, especially in the context of BUMDs. Therefore, this study aims to analyze the characteristics of performance audit practices at Bank Sumut, identify factors that hinder the transformation of audits towards a more strategic approach, and explain the role of performance audit in supporting organizational performance improvement and improvement

of company policies. This research is expected to make a conceptual contribution to the development of the public sector performance audit literature, especially related to the transformation of audits from a compliance-oriented approach to an approach oriented towards public value creation and improving organizational performance. In addition, the results of this study are expected to be practical inputs for strengthening governance, accountability, and the effectiveness of supervision in BUMDs in Indonesia.

THEORETICAL REVIEW

Public Sector Performance Audit

Public sector performance audit is an evaluative instrument that aims to assess economic aspects, efficiency, and effectiveness in the management of public resources. These audits focus not only on regulatory compliance, but also on achieving public policy outcomes and impacts. According to Bracci et al. (2021), public sector audits are developing as a mechanism to ensure that the use of state resources is carried out in the public interest and provides added value to society. This is reinforced by Hay and Cordery (2021) who emphasize that performance audits play a role in increasing the transparency and legitimacy of public institutions. In the Indonesian context, performance audits have a strategic role in increasing local government accountability through structured and results-based performance measurement (Akbar, 2018). Empirical research also shows that performance audits have a significant effect on improving public accountability (Anjani & Fadly, 2023; Faizal & Nugrahanti, 2026). Thus, performance audits serve not only as a supervisory tool, but also as an instrument of continuous improvement in public sector governance.

Public Accountability and Public Value

Public accountability is the obligation of government institutions to account for resource management and policy implementation to the community. Accountability is not only administrative, but also reflects the quality of performance and integrity of public institutions. Akbar (2018) explained that public accountability in Indonesia still faces challenges in terms of performance measurement that is not fully outcome-based. Therefore, performance audits are one of the important mechanisms in strengthening this accountability. In addition, the concept of public value emphasizes that the success of the public sector is not only measured by efficiency, but also by the real benefits felt by the community. Lapsley et al. (2022) state that modern accounting and auditing practices should be able to reflect the creation of public value within a broader governance framework. Research by Putri and Hendaris (2025) shows that public accountability is influenced by various institutional factors, including legislative oversight and audit results. This confirms that accountability is the result of a complex interaction between control mechanisms and organizational performance.

Good Governance in the Public Sector

Good governance is a conceptual framework that emphasizes the principles of transparency, accountability, participation, and the rule of law in the

management of public organizations. In practice, the implementation of good governance is closely related to the effectiveness of the supervision and audit system. Elisabeth and Roseliana (2023) and Gozali et al. (2022) show that the application of good governance principles has an effect on improving organizational performance. Although such research is largely conducted in the private sector, the same principle is relevant in the public sector. In the context of government, performance audits are one of the main instruments in realizing good governance through increasing accountability and transparency in public financial management (Nabila & Maulina, 2025; Nst et al., 2026). Thus, good governance cannot be separated from the audit function and an effective control system.

Internal Control and Risk Management System

Internal control systems (SPIs) and risk management are critical elements in ensuring operational effectiveness and reporting reliability in public sector organizations. SPI serves to prevent irregularities, while risk management assists organizations in identifying and managing uncertainties. Rismayanti et al. (2022) show that the implementation of good internal controls contributes to the effectiveness of enterprise risk management. In addition, the quality of internal audits is also an important factor in strengthening the control system (Sihombing, 2023; Rajafi et al., 2024). Indarti and Aljufri (2026) added that the governance, risk, and compliance (GRC) mechanism has a significant relationship with organizational performance, especially when supported by the role of the audit committee. Thus, SPI and risk management are important foundations that support the effectiveness of performance audits and increased public accountability.

Performance Audits and Public Accountability: A Critical Perspective

Although performance audits are theoretically able to improve accountability, in practice there are various challenges. Cordery and Hay (2023) highlight that public sector audits face complex pressures, including resource constraints and high public expectations. Reichborn-Kjennerud et al. (2022) show that the effectiveness of performance audits in improving accountability is highly dependent on the institutional context and the quality of its implementation. In addition, the quality of the audit itself is a crucial factor in determining its impact on the organization (Sudrajat, 2023). From a broader perspective, audits must also be able to adapt to technological developments and the complexity of modern governance, including in the context of technology-based governance (Mökander & Floridi, 2022). Thus, the relationship between performance audits and public accountability is not linear, but rather is influenced by various moderation factors such as audit quality, control systems, and institutional context.

Conceptual Framework

Based on the theoretical studies that have been described, it can be concluded that public sector performance audits play a role as the main variable that affects public accountability. This relationship is strengthened by the

implementation of good governance and supported by an effective internal control and risk management system. Conceptually, performance audits serve as an evaluation mechanism that generates performance information, which is then used to improve transparency and accountability. Within this framework, audit quality, internal control systems, and governance practices can serve as supporting or moderation variables that affect the strength of the relationship. Thus, this study departs from the assumption that the more effective the performance audit is carried out, the higher the level of public accountability that can be achieved. The following is the conceptual framework of this research:



Figure 1. Research Conceptual Framework

METHODOLOGY

Research Design

This research uses a qualitative approach with a case study design on Bank Sumut as one of the strategic Regionally Owned Enterprises (BUMD) in North Sumatra Province. The case study approach was chosen because it allows researchers to deeply understand the dynamics of performance audit transformation in a real organizational context, especially related to the role of audit as an instrument to improve organizational performance and improve company policies. Through this approach, research focuses not only on audit procedures, but also on how audit results are integrated into governance, decision-making, internal control, and organizational reform. To strengthen the conceptual and analytical foundation, this research is also supported by a systematic literature review (SLR) which is used as a source of synthesis of theories, concepts, and empirical findings related to public sector performance audits. The literature review is not positioned as the main research method, but as a supporting strategy to enrich the interpretation of the results of the case study and compare the empirical findings of Bank Sumut with the development

of performance audit research at the national and international levels. This approach allows research to produce a more comprehensive analysis because it integrates the organization's empirical evidence with a synthesis of relevant scientific literature. The study adopted the PRISMA 2020 guidelines developed by Page *et al.*, (2021) as a reference in the process of identifying, screening, evaluating, and selecting the scientific literature used in the research. These guidelines help improve the transparency, traceability, and consistency of the literature review process so as to support methodological research quality. In this study, empirical evidence derived from Bank of North Sumatra documents and audit reports is positioned as the main data source, while the results of the literature review are used as a source of supporting data to strengthen interpretation, explain findings, and build academic arguments in the discussion.

Data Collection Sources and Techniques

The research uses secondary data derived from various organizational documents and relevant scientific sources. Organizational data includes Bank Sumut's annual report, *Good Corporate Governance Report*, risk management report, audit report of the Audit Board (BPK), internal audit report, financial statement, and policy documents related to the organization's supervision and management system. In addition, the research also utilizes scientific articles obtained through a systematic search process on academic databases such as Google Scholar, Scopus, ScienceDirect, Emerald Insight, Taylor & Francis, and SINTA-accredited national journals. The use of these various sources aims to expand the scope of information, reduce database bias, and strengthen the validity of research synthesis.

Literature Search Strategy

A systematic literature search was conducted to identify research related to performance audits, organizational governance, public accountability, and policy reform in public sector and BUMD organizations. The publication range is limited to the period 2020–2026 so that the literature used is able to represent the development of modern performance audits and changes in organizational governance that have taken place in recent years. The search process uses the following keyword combinations: "performance audit", "performance audit", "public accountability", "public value", "governance", "BUMD", "regional owned enterprise", "policy reform", and "organizational performance". In addition to database-based search, the research also applied backward citation searching and forward citation searching techniques to identify important articles that are directly related to the focus of the research.

Table 1. Literature Search Strategy

Components	Description
Database	Google Scholar, Scopus, ScienceDirect, Emerald Insight, Taylor & Francis, SINTA
Publication Period	2020–2026
Study Focus	Performance audits, governance, public accountability, policy reform, BUMD
Language	Indonesia and the UK
Additional Techniques	Backward citation and forward citation

Literature Selection and Evaluation

Article selection is carried out through four stages according to the PRISMA 2020 flow, namely identification, screening, feasibility evaluation, and inclusion. Selected articles must meet the criteria: (1) published in peer-reviewed scientific journals; (2) has relevance to performance audits, organizational governance, or policy reforms; (3) available in full text; and (4) contain information that supports the focus of the research. On the other hand, articles that only discuss financial audits unrelated to performance audits, non-scientific documents, duplicate articles, and publications with unclear methodologies are excluded from the selection process. The methodological quality of articles that passed the screening stage was evaluated using *the Critical Appraisal Skills Programme (CASP)* and *the Joanna Briggs Institute Critical Appraisal Tool (JBI)* to ensure that the literature used was of adequate academic quality.

Data Analysis Techniques

Data were analyzed using a thematic analysis approach developed by Virginia Braun and Victoria Clarke. This approach was chosen because it allows researchers to identify the main patterns, relationships, and themes that emerge from various organizational documents and scientific literature in a systematic manner. The analysis process is carried out through six stages, namely: (1) data familiarization; (2) initial code development; (3) grouping the code into temporary themes; (4) theme review; (5) the determination of the final theme; and (6) the preparation of narrative synthesis. The entire analysis process is supported using NVivo 12 Plus software to help with data encoding, theme grouping, and visualization of relationships between research findings.

In addition to being used to identify themes that emerge from organizational documents and audit reports, thematic analysis in this study also applies pattern matching and explanation building strategies that are commonly used in case study research. The empirical findings obtained from Bank Sumut were systematically compared with theoretical concepts and previous research results obtained through literature review. This process aims to identify suitability, differences, and new patterns that emerge in the context of the implementation of performance audits in BUMDs. Thus, the literature is not used as the main source of data for research, but rather as an analytical framework to

explain and interpret the empirical findings obtained from the case study of Bank Sumut. The approach allows research to produce more in-depth analysis while improving interpretive validity through comparisons between empirical evidence and pre-developed scientific knowledge.

Validity and Credibility of Findings

The credibility of the research is maintained through triangulation of sources and triangulation of theories. Source triangulation is carried out by comparing information derived from organizational documents, audit reports, governance reports, and relevant scientific articles. Meanwhile, the triangulation of the theory was carried out using the perspectives of *Public Accountability Theory*, *Public Value Theory*, and *Governance Theory* to strengthen the interpretation of the research results. To improve the consistency of the analysis, the coding process was carried out independently by two reviewers. Differences in interpretation results are discussed until a mutual agreement is reached so that it can reduce subjectivity and increase the dependability of the research. In addition to triangulating sources and theories, this study also applies validation through theoretical triangulation techniques. The findings obtained from organizational documents are analyzed using various theoretical perspectives, such as *Public Accountability Theory*, *Public Value Theory*, *Governance Theory*, and contemporary literature on performance auditing. This approach is carried out to avoid interpretations that rely only on one theoretical point of view and to strengthen the argument in explaining the relationship between performance audits, organizational governance, and public policy reform.

Research Ethics and Reliability

This study uses all data sourced from public documents and scientific literature that can be accessed legally, so it does not involve direct intervention on the research subject or the collection of personal data. All data sources are clearly listed to maintain academic transparency and accountability. The reliability of the research is maintained through the application of systematic data collection and analysis procedures, the use of various relevant data sources, and the triangulation of sources and theories in the process of interpreting findings. In addition, the literature selection process is carried out transparently following the PRISMA 2020 guidelines so as to increase the traceability and credibility of research results.

RESULTS

Performance Audit Practices at Bank Sumut

The results of the study show that the implementation of performance audits at Bank Sumut is still dominated by a *compliance-oriented approach compared to a strategic approach* that focuses on improving organizational performance. Audits in general have been carried out in accordance with the provisions of applicable regulations and supervisory standards, but the use of audit results as a strategic evaluation instrument to support governance improvements, risk management strengthening, and increased organizational effectiveness is still not optimal. In practice, audit follow-up is more manifested in the form of improving

documents, fulfilling administrative obligations, and procedural improvements that are technical rather than reforms that touch on the root of organizational problems.

This condition is reflected in various audit findings that show recurring problems in the aspects of credit management, internal control, and implementation of audit recommendations. Based on the BPK Audit Report (LHP) Number 97/LHP/VIII.MDN/12/2023, a number of non-performing loans are still found that have the potential to cause financial losses to the company and local governments as shareholders. One of the prominent findings was bad loans at PT MIM Tebing Tinggi Branch Office of IDR 15.34 billion, consisting of principal loans of around IDR 15.3 billion and interest arrears of IDR 36.9 million. In addition, it was also found that the case of PT Pangripta's Working Capital Loan with a potential loss of up to IDR 23 billion has not been resolved for decades. The audit also revealed the existence of non-performing loans with a much larger value, including financing cases that indicated that there were elements of irregularities in the credit granting process.

These findings show that the various supervisory mechanisms that have been available have not been fully able to prevent credit risks or detect potential problems early. The recurrence of relatively similar problems in different periods indicates that the audit results have not been fully integrated into the *organizational learning process*. In other words, audits still serve as a tool to identify weaknesses after problems have occurred, but they have not been fully utilized as a prevention instrument capable of continuously improving business processes and organizational governance. From the perspective of organizational performance, these conditions show a gap between the normative objectives of performance audits and their implementation in the field. Conceptually, performance audits are designed to assess the economy, efficiency, and effectiveness of the organization while producing recommendations that can improve the quality of decision-making. However, the results of the study show that the focus of the audit is still more directed towards the aspect of compliance with procedures and regulations. As a result, the contribution of audits to improving the quality of governance and reforming organizational policies has not been fully realized. These findings show that the main challenge of performance auditing at Bank Sumut does not lie in the existence of an audit system, but in the lack of optimal use of audit results as an organizational strategic instrument. Therefore, the effectiveness of performance audits needs to be measured not only by the number of findings or the level of compliance with applicable regulations, but also by their ability to produce real changes to the control system, risk management, and overall performance of the organization.

Weaknesses of Internal Control and Risk Management Systems

The results of the study show that the effectiveness of performance audits at Bank Sumut is greatly influenced by the quality of the Internal Control System (SPI) and organizational risk management. Although formally Bank Sumut already has an internal control structure, internal audit unit, and Risk Management Division, the implementation of these three functions has not been

fully integrated. This condition causes various potential risks that have been identified to be not always adequately responded to in the organizational decision-making process. Based on the results of document analysis, it was found that a number of recommendations and risk assessment results prepared by the Risk Management Division have not been consistently used as the main basis in the credit approval process and financing evaluation. In some cases, business decisions are still made despite indications of high risk. This situation shows that there is a gap between the risk identification function and the decision-making process that takes place at the operational and managerial levels.

In addition, the study found that the available internal control regulations and procedures are not fully able to guarantee the effectiveness of supervision of business activities that have a high level of risk. The existence of adequate policies and procedures administratively has not automatically resulted in effective quality control in practice. This can be seen from the discovery of various cases of non-performing loans that show that the preventive supervision mechanism has not functioned optimally. Another problem is related to the quality of human resources involved in the supervision and risk management function. The results of the study show that there are still employees who handle the credit process but do not have risk management certification according to banking industry standards. In addition, training specific to the management of high-risk credit and project-based financing is still relatively limited. These conditions have the potential to affect the quality of risk analysis, the accuracy of decision-making, and the effectiveness of the implementation of audit recommendations.

In terms of organizational governance, these findings show that weaknesses in internal control are not only caused by system limitations, but also influenced by organizational culture factors and human resource capacity. In many cases, the success of an internal control system is largely determined by the level of management's compliance with the results of supervision and the organization's ability to build a strong *risk culture*. When the risk culture has not developed optimally, the supervisory function tends to be just an administrative mechanism that has less influence on the organization's strategic decisions. Overall, the results of the study show that the transformation of performance audits at Bank Sumut cannot be carried out only through the improvement of audit procedures. These efforts must also be followed by strengthening the internal control system, improving the quality of risk management, and developing human resource competencies so that audits can make a greater contribution to improving organizational performance.

Factors Inhibiting Performance Audit Transformation

Based on the results of thematic analysis of various research documents, audit reports, and other supporting sources, it was found that the transformation of performance audits at Bank Sumut faces a number of multidimensional obstacles. These obstacles not only come from the technical aspects of the audit implementation, but are also influenced by institutional, organizational, and human resource factors. These three factors are interrelated and together affect the effectiveness of audits in driving organizational change. At the institutional level, the main obstacle is related to the lack of optimal implementation of

strategic audit recommendations. Most audit recommendations can be followed up in the form of administrative improvements, but recommendations that require policy changes, business process restructuring, or strengthening control systems often take longer to realize. As a result, a number of problems that have been identified through audits have the potential to reappear in the next period because the root causes have not been fully resolved.

At the organizational level, research found that a growing compliance culture still emphasizes fulfilling formal obligations more than achieving sustainable performance improvements. Audits are often seen as routine supervisory activities aimed at meeting the demands of regulators and shareholders, rather than as a means of organizational learning. This perception causes the audit results to be used more to show compliance with the rules than to encourage innovation and reform of organizational governance. The next obstacle is related to the limited coordination between work units. The effectiveness of audits is highly dependent on the organization's ability to integrate internal audit, risk management, compliance, and operational unit functions. However, the results of the study show that the relationship between these units has not been fully synergistic. In some cases, information about risks and audit results has not been effectively translated into the organization's operational policies and business strategy.

From the technical aspect, the research found that the audit follow-up monitoring system still has limitations in supervising the implementation of recommendations on an ongoing basis. The monitoring process is still mostly carried out through periodic reporting mechanisms so that it has not been able to provide real-time information on the progress of follow-up carried out by the relevant units. These limitations cause management to have difficulties in evaluating the effectiveness of the implementation of audit recommendations as a whole. In addition, the indicators used in performance audits still tend to focus on achieving output and procedural compliance. This approach causes the audit to not fully measure the impact of policies on improving organizational performance and the quality of services produced. As a result, audit recommendations are often oriented towards improving administrative procedures without touching on strategic aspects related to organizational value creation.

The results of the study show that the successful transformation of performance audits requires systemic changes. Improvements are not enough to be made in the procedural aspect alone, but must include institutional strengthening, changes in organizational culture, improved coordination between units, and the development of a supervisory system that is more adaptive to the needs of modern organizations.

Transformation Strategy Towards Outcome-Based Audits

The results of the study show that increasing the effectiveness of performance audits at Bank Sumut requires a paradigm shift from a compliance-based audit approach to outcome-based auditing. In this new approach, audits not only serve to ensure compliance with regulations, but also serve as a strategic

instrument that is able to support the achievement of organizational goals, improve the quality of governance, and strengthen corporate accountability. The first strategy identified is to strengthen the follow-up mechanism for audit recommendations. Research shows that the effectiveness of audits is largely determined by the organization's ability to implement the resulting recommendations. Therefore, a more integrated monitoring system is needed and is able to supervise the development of follow-up on an ongoing basis. Strengthening such mechanisms will help ensure that audit recommendations do not stop at the documentation stage, but are actually translated into concrete corrective actions. The second strategy is the development of audit indicators that are oriented to organizational outcomes. So far, the audit has assessed compliance with procedures and the achievement of administrative targets. The approach needs to be expanded to include indicators that are able to measure the impact of policies on organizational effectiveness, quality of risk management, operational efficiency, and contribution to the company's strategic goals. Thus, audits can produce more relevant information for managerial decision-making. The third strategy is the use of digital technology in the audit and supervision process. The development of information technology provides an opportunity for organizations to improve the effectiveness of surveillance through the use of data analytics, digital-based monitoring systems, and integrated reporting mechanisms. The use of technology allows the risk identification process to be carried out faster and more accurately so that organizations can take corrective action before the risk develops into a bigger problem.

In addition, the research also shows the importance of strengthening the capacity of human resources as part of audit transformation. Internal auditors, risk managers, and management need to be equipped with adequate competencies to be able to understand the complexity of organizational risks and produce strategic recommendations. Competency development through professional certification, continuous training, and case-based learning is an important factor in supporting the success of this transformation. Overall, the results of the study show that the transformation of performance audit at Bank Sumut must be understood as a comprehensive change process. The transformation is not only related to changes in audit methods, but also includes strengthening governance, increasing organizational capacity, utilizing digital technology, and developing an organizational culture that is more performance-oriented and value creation. With this approach, performance audits have the potential to evolve from just a formal oversight mechanism to a strategic instrument that is able to support organizational performance improvement and corporate policy reform in a sustainable manner.

DISCUSSION

Performance Audit and Decoupling Audit Phenomenon in Bank Sumut

The results of the study show that performance audits at Bank Sumut still face a gap between normative functions and practical implementation. Conceptually, performance audits are designed to assess the economic level, efficiency, and effectiveness of the organization while generating recommendations that can be used as a basis for governance improvements and

performance improvements. However, the findings of the study show that most audit follow-ups still focus on fulfilling administrative aspects and procedural compliance. This condition shows that audit has not fully functioned as a strategic instrument that is able to drive organizational transformation.

This phenomenon can be explained through the concept of audit decoupling, which is a condition when the organization carries out the audit process in accordance with formal provisions, but the audit results are not fully integrated into the organizational change process. According to Kari Reichborn-Kjennerud and colleagues, public sector audits often result in formal compliance without substantive changes to organizational governance. Organizations tend to demonstrate compliance with audit procedures as a form of institutional legitimacy, while strategic recommendations are not always optimally implemented (Reichborn-Kjennerud *et al.*, 2022). The findings of this study show a relatively similar pattern. The recurrence of non-performing credit cases and the discovery of weaknesses in internal control indicate that the audit mechanism is not fully able to produce organizational learning. Although the audit process has successfully identified various governance risks and weaknesses, the implementation of the resulting recommendations has not been able to prevent similar problems from arising in the following period.

From the perspective of institutional theory, these conditions reflect the existence of regulatory pressures that encourage organizations to meet formal compliance demands without always being accompanied by substantive changes in organizational behavior. Pierre and de Fine Licht (2023) explain that public audits are often used as an instrument of legitimacy to show that the organization has lived up to the principles of accountability, even though its impact on performance improvement is not necessarily significant. Therefore, the success of an audit cannot be measured solely by the number of findings or the level of administrative completion, but must be seen from the extent to which the audit is able to produce real changes to the governance system and decision-making process of the organization. In the context of Bank Sumut, these findings indicate the need to reposition performance audits from just a formal supervisory instrument to a strategic learning mechanism that is able to encourage sustainable organizational change. Audits should be placed as an integral part of the management process, not just as an audit activity that is carried out after a risk has occurred.

Internal Controls, Risk Management, and Performance Audit Effectiveness

The findings of the study show that the effectiveness of performance audits at Bank Sumut is greatly influenced by the quality of the organization's internal control and risk management systems. The various cases of non-performing loans found in the audit report show that the process of identifying, controlling, and mitigating risks has not been running optimally. Although oversight structures and risk management units are in place, the integration between audit, internal control, and business decision-making functions still faces various limitations. The results of this study are in line with the view of Faizal & Nugrahanti (2026) who stated that the value of public sector audits is not only determined by the quality

of the audit process, but also by the organization's ability to integrate audit results into risk control and management systems. Stand-alone audits without strong governance support tend to result in recommendations that are difficult to implement effectively. From a corporate governance perspective, internal control is the main foundation in ensuring that every organizational activity runs according to the goals that have been set. When internal controls do not function effectively, operational risks and financial risks will increase. The findings regarding the suboptimal use of risk analysis in the credit approval process show that there is a gap between the supervisory function and the decision-making process. This condition can reduce the organization's ability to detect risks early and increase the potential for financial losses.

In addition to the system aspect, this study also found that the quality of human resources is a factor that greatly determines the effectiveness of audits and risk management. The presence of employees who do not have risk management certification shows that the transformation of performance audits requires greater investment in professional competency development. Cordery and Hay (2023) emphasized that human resource capacity is one of the main factors that determine the success of public sector audit reform. Auditors and risk managers who have high competence will be better able to identify the root of organizational problems and produce recommendations that are of strategic value. Therefore, strengthening performance audits cannot be done only through improving audit procedures. These efforts must be accompanied by strengthening the internal control system, building a risk culture, and increasing the capacity of human resources so that audits can make a greater contribution to achieving organizational goals.

Contradiction between Financial Performance Growth and Governance Quality

One of the important findings in this study is the contradiction between the achievement of Bank Sumut's financial performance and the quality of risk governance which still faces various challenges. From a financial perspective, Bank Sumut shows relatively positive growth and is one of the largest Regional Development Banks in Indonesia. However, various audit findings show that organizations still face problems related to non-performing loans, the effectiveness of internal controls, and the implementation of risk management. This condition shows that financial success does not always reflect the quality of organizational governance as a whole. In many cases, organizations can demonstrate good financial performance in the short term despite still having structural weaknesses in their supervisory and risk management systems. If these weaknesses are not immediately corrected, the accumulated risks can affect the sustainability of the organization's performance in the future.

Rajafi *et al*, (2024) explained that modern public organizations are required not only to achieve financial targets, but also to ensure that the process of achieving these targets is supported by accountable and sustainable governance. Thus, indicators of organizational success should not only focus on asset growth, profits, or contribution to regional revenues, but should also consider the quality of internal control and the effectiveness of risk management. The findings of this study show that performance audits have an important role in identifying

contradictions between financial performance and the quality of governance. Audits not only serve to find errors, but also act as an *early warning system* that helps organizations recognize risks before they develop into more serious problems.

Transformation of Performance Audits to Outcome-Based Performance Audits

The results of the study show that increasing the effectiveness of performance audits at Bank Sumut requires a paradigm transformation from compliance-based audit to *outcome-based performance audit*. Traditional approaches that focus on compliance with procedures and regulations still have an important role to play in maintaining organizational accountability. However, such approaches are no longer adequate to address the complexity of modern governance challenges that demand organizations to generate public value and sustainable performance. In an outcome-based approach, audits not only evaluate whether an activity has been implemented according to procedures, but also assess the resulting impact on the achievement of organizational goals. Thus, the focus of the audit shifted from the question of "has the organization complied with the rules?" to "has the organization managed to achieve the expected results effectively and efficiently?". This approach is considered more relevant in supporting organizational reform because it is able to connect the audit process with real performance achievements.

The research findings suggest that such transformation requires at least four key prerequisites. First, strengthening the audit recommendation follow-up system so that the audit results are really used as a basis for strategic decision-making. Second, the development of audit indicators that are oriented towards organizational impact and not just administrative output. Third, the integration of digital technology to support risk monitoring and audit implementation more effectively. Fourth, improving the competence of auditors and risk managers to be able to produce strategic and implementable recommendations. This view is in line with Sihombing (2023) who emphasizes that performance audits will provide greater benefits when positioned as an organizational learning instrument. In addition, Nst *et al.* (2026) explains that audits that are oriented towards creating *public value* have a more significant contribution to improving the quality of governance than audits that only focus on administrative compliance. Thus, the transformation of performance audits at Bank Sumut is not only related to changes in audit methods, but also concerns changes in the paradigm of organizational governance as a whole. Audit needs to be positioned as a strategic instrument that is able to connect accountability, risk management, organizational performance, and policy reform in an integrated manner.

Based on the results of the analysis of organizational documents and literature synthesis, this study proposes a Performance Audit Transformation Model in BUMD which explains the relationship between administrative audit characteristics and the need for transformation towards outcome-based audits to produce governance improvements and organizational performance improvement as follows:



Figure 2. Performance Audit Transformation Model in BUMD

CONCLUSIONS AND RECOMMENDATIONS

This research shows that performance audits at Bank Sumut are still dominated by administrative compliance orientation and have not fully functioned as a strategic instrument that is able to encourage organizational performance improvement and corporate policy reform. Although the audit mechanism has been formally implemented and has produced various findings related to internal control, risk management, and organizational governance, the use of audit results in the strategic decision-making process is still relatively limited. This condition indicates a gap between the ideal function of performance auditing as a tool for creating organizational value and its implementation practices that still focus on fulfilling procedural aspects. The results of the study also identified that the transformation of performance audits at Bank Sumut faces a number of obstacles stemming from institutional, organizational, and technical factors. At the institutional level, the implementation of audit recommendations is often influenced by organizational interests and the limitations of ongoing oversight mechanisms. At the organizational level, a compliance culture that emphasizes administrative completion rather than substantive improvement causes audit results to not be fully integrated into the organizational learning process. Meanwhile, at the technical level, various limitations are still found related to the effectiveness of the internal control system, the quality of risk management, the capacity of human resources, and the audit follow-up monitoring mechanism.

The research findings confirm that the effectiveness of performance audits is not only determined by the quality of the audit process, but also by the organization's ability to integrate audit recommendations into governance, risk management, and policy-making processes. In this context, performance audits need to be repositioned from just a compliance-based supervision instrument to a strategic instrument oriented towards achieving results (outcome-based performance audit). This transformation requires strengthening the audit recommendation follow-up system, increasing the capacity of auditors and risk managers, developing audit indicators that are oriented to organizational impact, and utilizing digital technology to support the effectiveness of supervision and risk detection more quickly and accurately. Theoretically, this study strengthens the

argument that the success of performance audits is strongly influenced by its connection with organizational governance systems, public accountability, and public value creation. This research also contributes to the development of public sector audit literature by showing that the phenomenon of ceremonial audits can still be found in public organizations and BUMDs in Indonesia if the audit results have not been able to produce substantive changes in organizational governance. Therefore, the transformation of performance audits needs to be understood as part of broader governance reforms, not just changes in audit procedures.

Practically, this study recommends that Bank Sumut and other BUMDs strengthen the integration between audit functions, internal control systems, and risk management through a more collaborative, data-based, and results-oriented approach to governance. Thus, performance audits can play a role not only as a supervisory tool, but also as a strategic instrument that supports the improvement of organizational performance, business sustainability, and policy reform in an ongoing manner. This study has limitations because it uses a case study approach on one BUMD so that the results of the research cannot be generalized widely to all public sector organizations. Therefore, further research is recommended to conduct a comparative study on several BUMDs or other public organizations, as well as combine document analysis with in-depth interviews with auditors, management, and stakeholders to gain a more comprehensive understanding of the dynamics of performance audit transformation in Indonesia.

FURTHER STUDY

Future studies are recommended to examine the long-term impact of performance audit transformation on organizational sustainability, governance effectiveness, and strategic decision-making across different banking institutions.

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