

The Reformation of Local and National Financial Management in Indonesia

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ABSTRACT

The weakness of legislation in the field of state finances became one of the causes of some forms of irregularities in the management of state finances. In an effort to eliminate such irregularities and create a sustainable fiscal management system (sustainable) in accordance with the rules stipulated in the principal Act to the Constitution and the general principles that apply universally. Broadly speaking, the fundamental change in the State Financial Management Provisions set forth in this Law is: 1) Definition and scope of public finance. 2) the general principles of financial management of the state. 3) Position of the president as the holder of power of state financial management. 4) Delegation of power of President to the Minister of Finance and the Minister / Head of Institutions. 5) The composition of the state budget and regional budgets. The scope of the State Reform and Local Government Financial Management include: 1) Reform of Financing. 2) Reform of Accounting. 3) Reform of Budgeting. 4) Regional Financial Management Reform. 5) Auditing Reform.

KEYWORDS: Irregularities, financial management, state reformation

INTRODUCTION

Being a country having people's sovereignty and law-based and hold the national government based on constitution, Indonesian government must have the financial management that must be in accordance with Constitution. In chapter VII regarding finance in 1945 constitution, it has been stated that National Budget must be legalized on the annual basis based on constitution and the rule of taxation and other insistent charges/levy for the sake of the country as well as the money currency are determined by the constitution. Others regarding national finance in accordance with 23C letter is also regulated by the constitution.

So far, the implementation of the national financial management, the laws which was made during the colonialization are still used which prevailed based on 1945 tentative constitution which was *Indische Camptabiliteitswet* known as ICW Stbl. 1925 No. 448 which was then changed into and legalized in the government sheet No. 6, 1955 no. 49 and was finalized in the law no. 9 in the year 1968 which was firstly legalized in the year 1864 and started in 1867, *Indische Bedrijvemwet (IBW)* Stbl. 1927 No. 419 jo Stbl. 1963 No. 445 and *Reglement voor het Administratief Beheer (RAB)* Stbl. 1933 No. 381.

In implementing the auditing and the responsibility of national finance, *Instructie en verdure bepalingen voor de algemeene Rekenkamer (IAR)* Stbl. 1933 No.320 is still used. The Law regulation stated above could not accommodate a wide range of development occurring in the government institutions and the management of government finance of Indonesian republic. Consequently, despite a formal prevalence of the regulation, some of the regulations in the law regulations cannot be implemented.

The weakness of the constitution in the area of national Finance has been the primary causes of all misconducts in managing the national finance. In an effort to eliminate and create the sustainable fiscal management, it must be in accordance with the fixed primary regulations based on Constitution and universally accepted general principle.

In an effort to set Laws managing the National Financial management, It, in fact, has started since the first establishment of Indonesian government (see the detailed note of Law 17/2003 regarding National Finance). Consequently, The Law no, 17 in the year 2003 regarding National Finance was legalized which was then formalized dated 5 April 2003 in the Indonesian Government Sheet in the year 2003 number 47.

This law is, indeed, the fundamental ground of the reformation of national and local financial management. What are being reformed??? It will be thoroughly explained in the following chapter.

Overall, the basic changes concerning with the Regulations of managing the national finance regulated by Laws is:

1. The definition and the limitation scope of the national Finance
2. The general principles of the management of national finance
3. The presidential position as a the holder of the authority of national financial management
4. The delegation of president's authority to the financial Ministry and Ministries/the head of the institution
5. APBN and APBN structures (National and Local Budget)

MATERIALS AND METHODS

The definition of reformation

Etymologically, the word reformation is taken from reformation which means rearranged. The word "reform" according to *Oxford Advanced Learner's Dictionary* (1978) is "make or become better by removing obstacles or putting right what is bad or wrong". This definition illustrates that basically reformation is to change or to make something better than the pre-existing condition was.

The word reformation began in the 16th century where there was a religious revolution in Western Europe done by what was called "a protestant" group addressed to Catholic Churches which then spread in the world. This word was then used as a term to do collectively and correctively toward the misconducts, inequalities from the authorities which were opposed with to some logics/senses and was mostly done by people who felt bullied or imperialized.

It appears that the word reformation has already belonged to public, starting from political elites, governmental staff, and academics to general public. This has been popularized in Indonesia since the occurrence of the transformation leading position from Soeharto regimes or the Old Order to his substitution B.J Habibie (National Reformatory Cabinet) which is now called Reformation era. After the repeated president and its cabinet, the word reformation becomes blurred and relies on the strong will and the needs of those who use it.

For the academic society, this word is no longer new due to the newly changing perspectives according to the development occurring. The administrative science has already known and recognized this word since the 19th century or more than 100 years ago. In the study of administrative science, the word Organizational development/DO is fundamentally a reformation to conduct a change and development either related to structural change or system change. Reformation can be illustrated as a wide system change or a specific structural change [1].

The Background of the Reformation of Local and national Financial Management

Normative reasons

- **1945 Constitution Amendment**, in which it is stated that regarding the law no. 17/2003 which is about the National Finance: Law no. 1/2004 regarding the government treasure and law no 15/2004 regarding the report of the National Financial management
- **In the 4th discussion of 1945 Constitution** which implied The law regulation regarding the national Finance. Currently, the regulation of National Financial management still uses the rules of laws made in colonialization era which was changed based on the 1945 Tentative Constitution Rules which was *INDISCHE Comptabiliteitstaat – ICW Stblaad 1925 no. 448 (irrelevant with the needs and the development of Indonesian society)*

Substantive Reasons

- * **The** drawbacks of the laws in the financial matters are the causes of the misconducts in managing the National finance.
- * The effort to make the law concerning the national financial management has already been initiated since the establishment of Indonesian Republic.

RESULTS AND DISCUSSION

The reformation of the national and local financial management has the adequate and wide scope which consists of:

a. Financing reform.

The decentralization local budget especially for autonomous regions in Indonesia comes from PAD or local Income Budget which still depends on balanced budgets which are BHD, DAU and DAK. In this case, the balanced budget from this is more convinced when it was still in the form of previous autonomy form. The financing of Local Finance is regulated in law No. 33 in the year 2004 which is also regulated in some regulations which are Local regulation No. 54 in the year 2005 regarding Local Loan; Government Regulation No. 55 in the year 2005 concerning The balanced Budget, PP No.57 in the year 2005 which was about the grant to the local areas and types of other budgeting sources. The calculation of the balanced Budget can be more convinced than the previous local autonomy

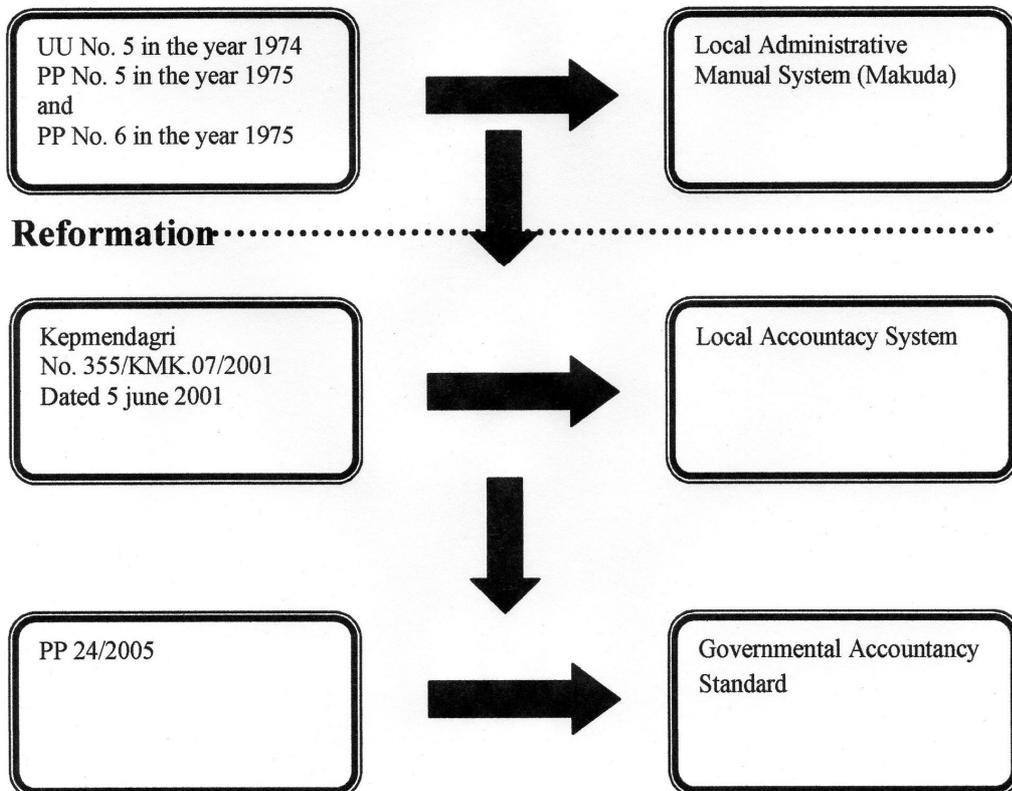
The fundamental law regulations:

- UU 33/2004
- PP 54/2005 regarding local loan
- PP 55/2005 regarding The balanced Budget
- PP 57/2005 regarding the local area grants and other funding sources.

b. Accounting reform

The government Published Governmental Accountancy Standard (SAP) by issuing PP No.4 in the year 2005. Previously, to fill the emptiness of local implementation rules, Kepmendagri (The decree of Internal Affair Ministry) number 355/KMK.07/2001 dated 5 June 2001 which was about Local Accountancy.

This Accountancy Reformation is the substitution of Local Administration manual System which is so far used as a guide and the working procedures to manage the local finance whose draft refers to UU no.5 in the year 1974 PP no. 5 in the year 1975 and PP no. 6 in the year 1975.



c. Budget Reform

It includes the reform of budget structure and national budget mechanism reform. The reform of budget structure is done to change / reform the traditional budget structure which is still line-item.

With the new budget structure, the amount of the surplus and the budget deficits will be clearer as well as the budget strategy in the condition if there is a fiscal deficit. The new format of national budget will enable the staff to calculate the balanced funding belonging to the local areas.

d. Finance management Reform

- PP 5/1975 regarding the processing, responsibility and the monitoring of Local finance
- PP 6/1975 regarding How to structure National Budget, the implementation of management of Local Finance and the structure of National Budget Calculation.
- Permendagri (Internal Affair Ministry Regulation) regarding National Budget Implementation which regulates a detailed budget implementation

REFORMATION

- PP No. 105/2000 regarding the management and and the responsibility of Local Finance
- Kepmendagri 29/2002 regarding the guidelines, responsibility and the monitoring of Local Finance as well as how to structure National Budget , the implementation of Local Finance management and National Budget Calculation Structure

REFORMATION

- PP No. 58/2005 replaces PP No. 105/200
- Permendagri No.13/2006 replaces Kepmendagri 29/2002

In 1999 some areas still referred to PP no. 5 in the year 1975 when managing their local Finance which contained The processing, the responsibility and the monitoring of the local Finance and PP no. 6 in the year 1975 regarding how to structure the income Budget and local budget, the implementation of local finance management and the structuring process of income budget and local budget.

In addition, there is Permendagri no. 2 in the year 1994 which is about the implementation of Income budget and local Budget which thoroughly regulates the budget implementation.

One reformation begins; the implementation of national budget is regulated in one regulation of financial management which is PP no. 105 in the year 2000 concerning the management and the responsibility of local Finance.

Kepmendagri 29 in the year 2002 regarding the guidelines, the responsibilities and the monitoring of local finance as well as how to structure National budget management, the implementation of local finance management and the structure of APBD calculation.

Next, both regulations are substituted with PP No. 58 in the year 2005 and Permendagri No., 13 in the year 2006 [2][3][4][5][6][7]

e. Auditing reform

Monitoring is done by society and Local legislatives

- Done in every stage of National budget application

Controlling is done by Local Government (Bawasda)

- It can guarantee/ assure the implementation of the system and the management policy
- It is done in the stage of the national budget implementation

Auditing

- The process of problem identification, analysis, and evaluation done independently, objectively and professionally based on the investigation standard to judge the truth, accuracy, credibility and the competence of the information regarding the management and the responsibility of the national Finance.
- Is conducted in the stage of reporting and some specific matters which need a further investigation/auditing

The fundamental law of auditing:

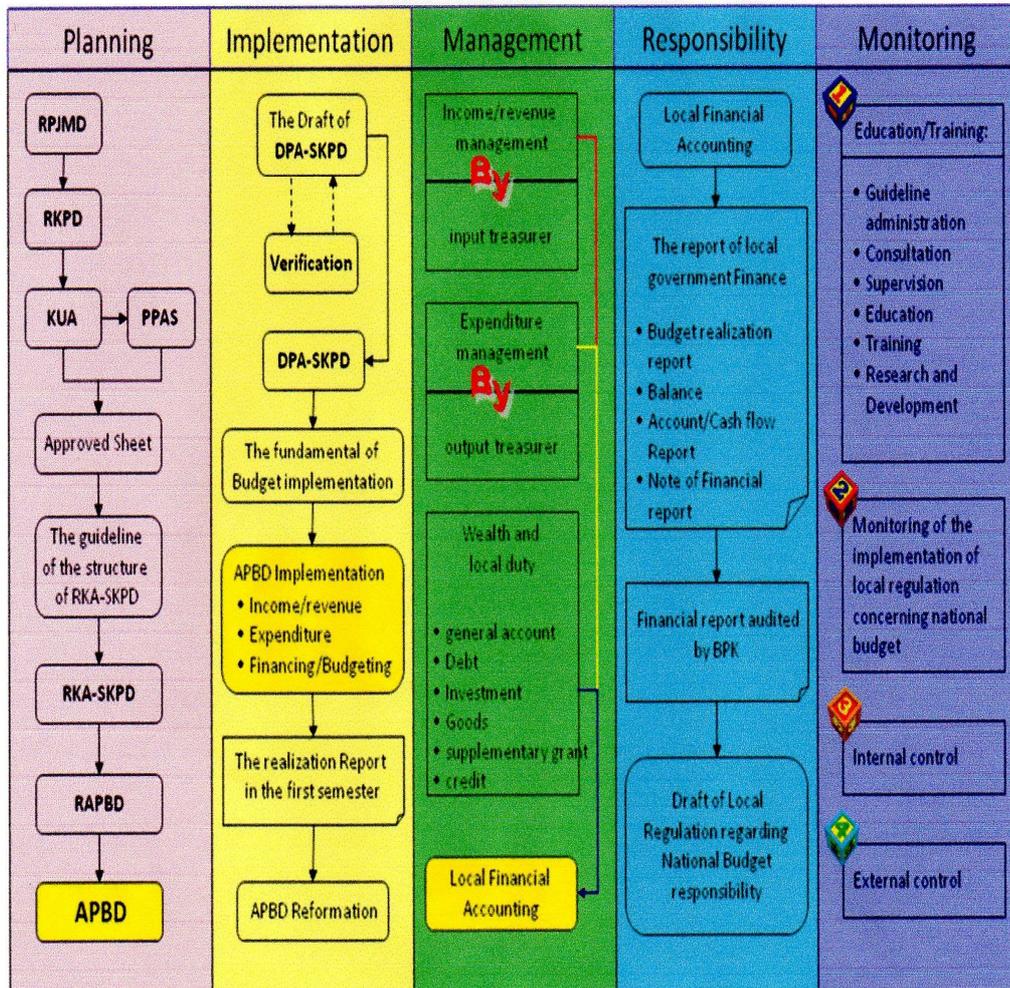
- UU 15/2004 > The auditing of the management and the responsibilities of the national finance;
- PP 56/2005 > The information system of local finance;
- PP 79/2005 > the guideline of the training and the supervision of the local government management
- PP 8/2006> The financial report and the working performance of the governmental Institution

Monitoring refers to the actions or the activities done/performed by a party out of the local government (society and local legislatives)

Controlling is the mechanism conducted by local government (done by Bawasda) to assure the implementation of the management policy

Auditing is the process of problem identification, analysis, and evaluation done independently, objectively and professionally based on the investigation standard to judge the truth, accuracy, credibility and the competence of the information regarding the management and the responsibility of the national Finance. In terms of the national budget application, the monitoring process is usually done in every stage, controlling is conducted in implementation stage and the auditing is in reporting stage and some specific matters need a further auditing. The government issues UU no. 15 in the year 2004 regarding the auditing of the management and the responsibility of the national finance: PP no. 56 in the year 2005 which is about the information system of the local finance; PP No. 79 in the year 2005 which is about the guide of Education/training and the monitoring of the implementation of the local Government: and PP no. 8 in the year 2006 which is concerning the financial report and the working performance of the government institution.

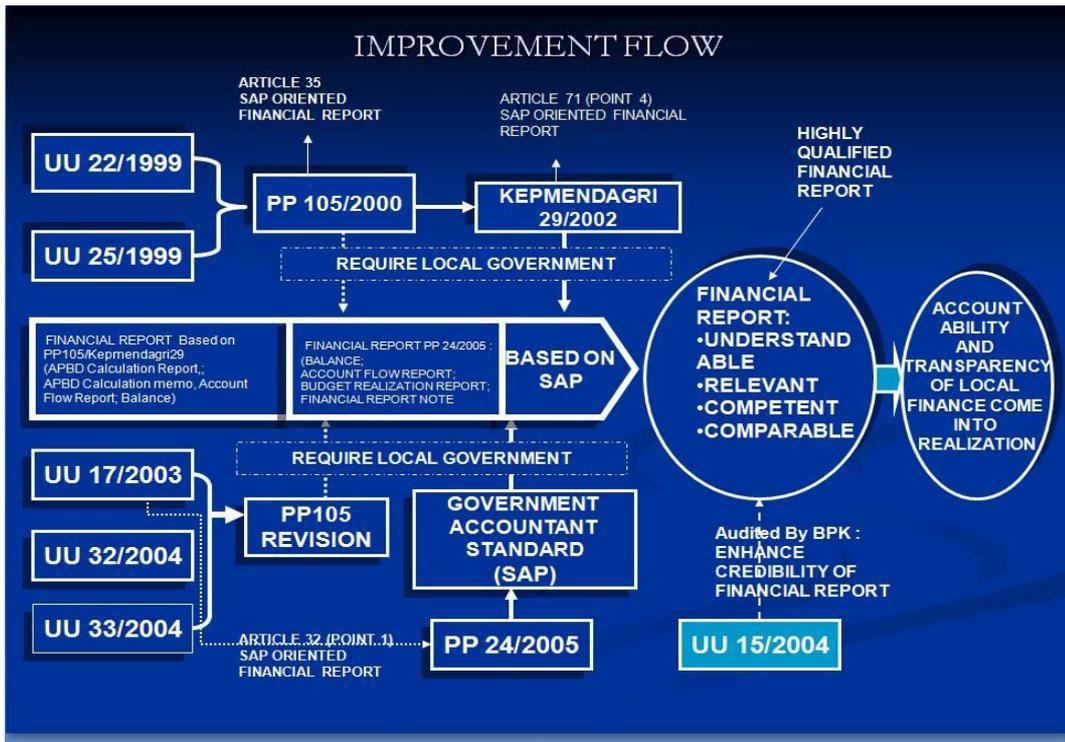
The Reformation in managing the local Finance



- RPJMD : Rencana Pembangunan Jangka Menengah Daerah (draft of the development on a short term period)
- RKPD : Rencana Kerja Pembangunan Daerah (A working plan/draft of local development/regional development)
- KUA : Kebijakan Umum APBD (national budget general policy)
- PPAS : Prioritas dan Plafon Anggaran Sementara (tentative draft & priority)
- RKA : Rencana Kerja dan Anggaran (work draft and budget)
- SKPD : Satuan Kerja Perangkat Daerah (regional staff working unit)
- RAPBD : Rencana Anggaran Penerimaan Belanja Daerah (Regional budget Revenue plan)
- DPA : Daftar Penetapan Anggaran (Budget list)
- SKPD : Satuan Kerja Pemerintah Daerah (local government working unit)
- BPK : Badan Pengawas Keuangan (Financial monitor/audit board)

The Improvement paths/flows

- **UU no22-25** in the year 1999 which is fundamentally based on PP no. 105/2000-Kepmendagri 29/2002, which obligates Local Government to make the financial report, which is previously referred from SAP
- **PP 24/2005** obligated Local government to make the financial report based on SAP which is previously not regulated in UU no 17/2003 in the letter 32 chapter one
- **Based on SAP**, it is expected that the financial report will be **QUALIFIED, UNDERSTANDABLE, RELEVANT, And COMPETENT**.
- The report is audited by **BPK** to enhance the credibility of the financial report in accordance with UU no. 15/2009 as the auditor, administrator of the national finance.



Conclusion

The effort from the Indonesian Government to improve the regulation of local and national financial management is sufficiently good but there are still some obstacles in the practice. The obstacles which hinder and fundamental problems are due to lack of human resources competence, the slow financial management following the regulation that grow faster

Recommendation:

1. The increasing competence of the human resource by pursuing into further study such as bachelor and magister holder, D3 and D4 is greatly needed.
2. Some institutions related with those fields should have active participations which can also provide scholarships, BAPENAS program, cooperation with overseas country, double degree etc.

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