

# MODEL DESIGN OF LOCAL GOVERNMENT POLICY IN CONTROLLING THE FINANCE OF THE STATE TO BUILD *GOOD GOVERNANCE*

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## ABSTRACT

*The study was aimed to find a model design in controlling the finance of the state which can be used as a reference for local governments to adopt such policies to prevent against possible acts of corruption and to encourage local governments in their efforts to realize good governance. In designing the model of the financial control policies, there are three elements that must be highly considered by the government, and they are: the institutional elements, legal elements, and behavioral elements of bureaucrats/officials. These three elements are covered in a sub-system of the government bureaucracy system and the functions are to balance the synergized funds and to provide professional services to the communities.*

**Keywords :** Governance, models, bureaucracy, control

## INTRODUCTION

The data taken from 2004 to 2012 indicated that as many as 173 chiefs of local governments in Indonesia were entangled in legal cases, especially corruption. These cases are mostly due to the poor system of the financial control in Indonesia. Of the 3480 local government financial reports investigated by BPK, as many as 3179 cases indicated some financial mismanagements and legal violations. Weak supervision and poor coordination are also the significant factors resulting in a such bad condition like this.

These complicated problems require an alternative approach to find the best solution involving an institutional analysis. The right approach to be implemented for these cases is called *functionally distributed system*. Act No.15/2004: Article 1 paragraph 6 on the Financial Management of the State states that the Financial Management of the State must be in accordance with the position and authority including planning, implementation, supervision, and accountability. The controlling functions are to prevent and suppress the budget leakage, and facilitate the implementation of the programs and policies that have already been determined. Administrative law takes care of this kind of issues related with the legality of the government acts.

The study is aimed to find a model design of a financial control of the State that can be used as a reference for the local governments to adopt some policies to implement the early prevention against possible acts of corruption and to encourage the local governments in their efforts to build *good governance*.

This study is important to carry out for its deep, comprehensive analysis related with the financial control of the State. The implementation of non normative approaches, such as administrative and management approaches, is necessary to consider. They are closely connected to Administrative Law. One of the determinants to assess the effectiveness of the financial control of the State is the synergy of the institutions or agencies having the

authorities to control or to supervise. It is highly expected the the results of this study can be used as a reference in making policies in the areas of financial supervision to build *good governance* .

## REVIEW OF LITERATURE

There are several studies related with the title of this study. The first one was conducted by Nur Basuki Minarno. The conclusion of the study was that the potential of power abuse in the management of state finances occurred due to poor supervision, control, and inspection and thus resulted in corruption.

Another study conducted by Herini found that there were three main things hampering the supervision and the guidance of the financial management in the era of the regional autonomy, namely : (1) Lack of Synergic Supervision and Development; (2) Lack of Internal Control; (3) Lack of Policy Control. Basically, the mechanisms of the financial control of the State can be divided into two: the internal and external controls. Indonesia implements the line budgeting system or the so-called traditional budget system. This system focuses only on the terms of implementation and budget control .

Government Regulation No. 79 the year 2005 article 5 states that the provision of guidelines and standards of the implementation of the government affairs as defined in Article 2 paragraph (1) letter b covers all aspects of planning, implementation, governance, funding, quality, control and supervision. In the implementation of supervision or controlling, the it is necessary to develop synergy among the competent institutions so that each of them can complement each other and also work optimally. The internal control is implemented in stages and it is expected that violation can be detected earlier or it can be considered as early warning system.

Policies of the local governments are in the forms of two government actions. They are in the form of regulation and policy making of the local governments in the form of Decision Making. The control is conducted under the provisions of Article 28 paragraph (1) of the Government Regulation No. 79 the year 2005, stating that: the officials of Internal government to supervise Supervisor are in accordance with the functions and the authorities through: (a) testing/analyzing the periodical reports of the units/working units at any time, (b) investigating the accuracy of reports on the indication of corruption, collusion and nepotism, (c) Assessment on the benefits and the successes of the implementation of programs and activities.

In making the policies of the financial control of the state, the characteristics of the principles of good governance, as quoted in the *United Nations Development Programme* (UNDP), should be highly considered. Public Administration Institution includes participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability, strategic vision. In line with the principles of *good governance*, the financial management is within the framework of modern *good financial governance*, and it should legally be stated in the regulations containing the principles of transparency and public participation.

## RESEARCH METHOD

Socio Legal Research approach was applied in this qualitative study to be able to perform a comprehensive and holistic analysis. Normative (dogmatic) and field approaches are also implemented to analyze and examine the legal issues. Regulatory approach studies the form

of the legislation and its content, the basic ontology (reason for the existency) and the r XDXSatio of legislation of the the legal determinants. The conceptual approach is based on some views and doctrines which develop in the science of law. They learn the views of the legal schlar. The field research is conducted throung in-depth interviews, document review, and Focus Group Discussion.

## RESULTS AND DISCUSSIONS

### The Authority of Local Governments in Financial Control of the State

The management and the responsibility of the finance of the local government has changed fundamentally with the enactment of Act No. 32 the year 2004 on Regional Government and Act No. 33 the year 2004 on the Balance of the Finance between the Central and Local Governments. Both of the Acts have given broader authority to local governments. Government Regulation No. 58 the year 2005 on The Financial Management of Local Government Article 1 number 10 states that authority holder of the Financial Management is the chief of the local government and the position has the full range of authority of financial management.

The liability of the budget can refer to article 53 of Act no. 1 the year 2004 stating that essentially the Treasurer of the Revenue/Expenditure is functionally responsible for the financial management and that they are responsible to the State Treasurer Authority/ Local Government Treasurer. While the General Treasurer of the local government is responsible to the governor/ regent/mayor in terms of rights and adherence to the rules for the implementation of revenue and expenditures he/she does.

Government Regulation No. 79 the year 2005 Article 23 on the Guidelines for Development and Control of Local Government states that the implementation of the government affairs include: a. guidance on the implementation of government affairs at the levels of province, regency/city and village, and b. the implementation of government affairs at the levels of province, regency/city, and village. Article 24 states that: 1. Supervision of the affairs of the local government is conducted by officials of Internal Control of the Government in accordance with the function and authority. 2. Government officials of Internal Control as referred to paragraph (1) are the Inspectorate General of the Department, Supervision Unit of Non- Department Institutions, Provincial Inspectorate, Inspectorate of Regency/City. Article 26 mentions that:

1. General Inspectorate of Department and Controlling Unit of the Department of Non-Government Institutions are to supervise:
  - a. implementation of deconcentration and supporting tasks;
  - b. foreign loans and grants, and
  - c. guidance on the implementation of Local Government in accordance with the functions and authority.
2. General Inspectorate of the Ministry of Internal Affairs performs the supervision as referred to paragraph (1) and also monitors the implementation of Local Government in the levels of province, regency/city .

### Barriers in the Financial Supervision of Local Government

Solly Lubis said that *good governance* is sometimes translated to Good Administration (UK) or *Behoorlijk Bestuur* (Netherlands) or Good Government, Governance or Government itself can be interpreted as a "system or mechanism or process of the execution of the power or

authority within the framework of the State life which involves components of the supra-political structures and infrastructures. Good governance is essentially the implementation of clean, organized, orderly, authoritative governance without any defects.

Herlambang Perdana stated that the characteristic of neo - liberalism of *good governance* can be seen from its goals which are always focused on the efficiency of the resource management and the support of free market. The key elements are accountability, rule of law, transparency, and participation. Indeed, these elements are also highly required by the Indonesian people in the era of the reform euphoria. In fact there are some big plans inside them to disarm the state roles in the public sector and replace it with the dominant role of the private sector.

A problem in the protection of the human rights is not an important matter in the scheme of good governance, although the mandate of human rights responsibility is rested on the primary role of the state (see: Article 28 paragraph (4) of the Constitution of 1945 After the Amendment). A contrario means good governance and it is only placed dominantly in a market position, and the public affairs meant are already selected (read: cut) on the basis of market liberalization climate. Soekarwo stated that following the principles embodied in the concept of good governance as defined by UNDP can be seen in the area of financial management within the framework of Good Financial Governance.

It is also expected the financial management process have specific characters, such as: Participation, Rule of Law, Transparency, Responsiveness, Consensus orientation, equity, Effectiveness and Efficiency, Accountability, and Strategic vision. The fieldstudy indicated that the bottlenecks or the barriers in financial supervision to achieve good governance are: human resources, systems, legal and political cultures.

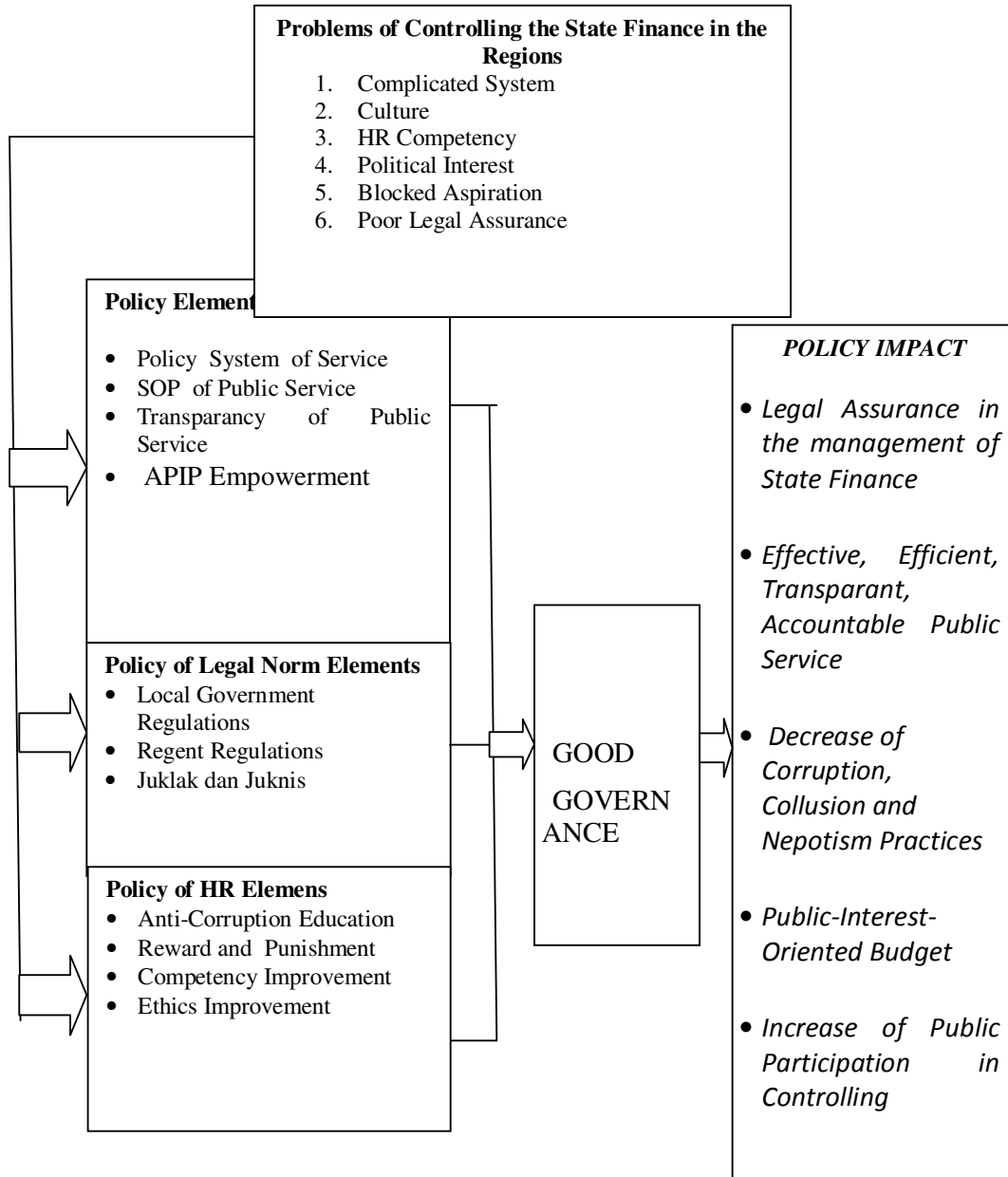
### **Policy Model Design of Financial Control of the State in Local Government**

The local government policies are in the forms: (1) creation of local government regulations, (2) decision-making of the local government. The design of the model presented in this study is the design of models of local government policies that are expected to improve the effectiveness and efficiency of state finance managed by the local governments. The goal is to encourage good governance. In the design of this model there are three elements that must be highly considered by the local governments in establishing the policies of the financial control: the institutional elements, normative elements and HR elements; these three elements are covered in a sub system of bureaucratic government system.

There must be a sbalance in synergized funds to provide professional services to the people. Each policy must be able to increase the capacity and performance of these institutions which are supported by the various regulations which are expected to provide legal assurance for each public service. The two elements can run well if they are also supported by the behavior of the government officials who are competent in the fields and have high ethical and moral values in providing public services. When effectiveness and efficiency, transparency and accountability of public services are achieved, and the communities actively participate in monitoring the use of the state budget, corruptions, collusions and nepotism can be reduced. Empowering human resources can avoid violating the state law and waste the budget.

The policies of the local government is also expected to encourage public confidence in the bureaucracy so that public participation in the financial control or supervision in particular and the development in general increases. It is hoped that the financial control is considered as a part of the management function which is integral with management activities to accelerate the achievement of good governance so the development goals in every region of Indonesia are achieved.

Model Design Of Local Government Policy In Controlling The State Finance To Achieve Good Governance



**CONCLUSIONS**

1. The local government has a strategic role to be able to build good governance through the policies on financial control or supervision to encourage the achievement of good governance indicators. Thus the autonomous regions really perform the authorities independently and widely, and are responsible for the public welfare. Supervision over the implementation of local governments is conducted by the Internal general inspectorate including government ministries,

Controlling Unit of government institutions oo non-minitries, provincial inspectorate non- governmental organizations and the inspectorate of regency/city according to the function and authority.

2. Factors hampering the supervision to build *good governance* in the management of the State Finance in the local government are: Human Resources, legal and political culture, democracy siatem still looking for patterns and complexities of the controlling systems.
3. In the design model of the results of the study, there are three elements that must be highly considered by the local government in determining the policies of the financial control and they are elements of institution, law, and behavior of bureaucrats/officials. The three elements are in a sub-system of the bureaucratic system of the government that systematically improve the competency of the bureaucracy so that the financial supervision is started earlier so that the possibility of wastage and leakage of the budget can be prevented.

### RECOMMENDATIONS

1. The local governments have a strategic role in controlling the finance of the State. The State is expected to eliminate the violations of the finance so that financial management can be optimized to be in favor of the public interest.
2. To speed up the good governance, the government should focus on the policy of the local government in contolling the State finance comprehensively and it is expected it can improve the role of the bureaucracy in the administrative, legal , and social and cultural political sectors. The bureaucrats must be the agents of the development to achieve prosperity and justice.
3. To be able to implement the model design presented in the study requires goodwill from all executive and legislative parties. It is necessary to involve judicative institution to improve the competency of government HR, especially the officials of the legal fields. While those related to institutional strengthening in regency inspectorate, it can involve BPK to improve the controlling systems.

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