

The Transparency of the Local Finance Management of Papua Province in the Framework of the Establishment of the Good Financial Governance

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Abstract

Transparency is one of the principles to determine any of activities and the final results of the management of budget income and expenditure area. It should be responsive to the people as the supreme sovereignty. One of the main characteristics in the management of revenue and expenditures budget areas is transparency. One of the important elements in the framework of the realization of good governance furthermore is the management of budget revenues and expenditures. Research results revealed that the Government of Papua Province in financial management areas ranging from budget planning, assignment/endorsement and implementation of budget revenue and expenditure districts have not yet to apply the principle of transparency. The transparency or openness is into something expensive, especially regarding information or data about the finances. Income and expenditure budget document areas considered State secrets so that not one can see and read the contents. If there is a publication on society are limited on the procurement of goods and services, or in the form of the announcement of the auction for physical projects. The lack of the openness towards the manufacturing process until the passage of the budget document into income and spending areas make the community cannot control the use of the money people.

Keywords: Transparency, financial areas, good financial governance.

1. Introduction

The exercise of the authority of local governance is based on the Act No. 23 of 2014 on Local Government (hereinafter referred Local Government Act); the Act No. 33 of 2004 concerning the Financial Balancing between the Government and Local Government; the Act No. 17 of 2003 on the finance of the State; the Act No. 1 of 2004 on the Treasury of the State; and the Act No. 3 of 2004 concerning the examination of the management and financial responsibility of the State. Those Acts create regional rights and obligations that arise in terms of value of the money. Therefore, it is necessary to manage the financial management system as a sub-system of the system of state financial management system and it is a primary element in implementing the local governance. In terms of it, article 283 (2) of the Local Government Act stipulates that local financial management is conducted efficient, effective, transparent, accountable, fair, order, proper, and conformed to regulations.

Transparency is the principle of openness that allows the public to know and gain access to information about the financial area. It is the principle to determine any of activities and the final results of the management of budget income and expenditure. It should be responsive to the people as the supreme sovereignty. One of the main characteristics in the management of revenue and expenditures budget areas is transparency. One of the important elements in the framework of the realization of good governance furthermore is the management of budget revenues and expenditures. The Government is required to open and ensure the access of all stakeholders towards a variety of information about the public policy process, the allocation of the budget for the implementation of the policy, and the monitoring and evaluation of the implementation of the policy.¹

In this current climate of democracy, transparency of the local government financial management is to be vital and becomes a part of human rights issues. The local government is demanded to act transparently in the financial management areas starting from the planning process, the assignment/endorsement, implementation, supervision, and accountability.

2. Decentralization of Fiscal

According to article 1 point 8 of the Local Government Act, decentralization means the transfer of Government Affairs by the central government to autonomous regions based on the principle of autonomy. The implementation of regional autonomy has led to the need for the region to develop various financial schemes to finance various shift area authority of the central government to the local government. The most frequent reason

¹Agus Dwi Yanto, *Realizing Good Governance Through Public Service*, GadjahMada University Press, Yogyakarta, 2008, p. 223.

put forward is the limitations of the allocation of funds from the the central government. Those funds are general allocation fund (hereinafter called DAU), fund for sharing (hereinafter called DBH), and fund for special allocation (hereinafter called DAK). Those fund then lead to different regions to exploit the sources of funding for the original income regions (hereinafter called PAD).

Local community as the autonomous region has the authority and responsibility of the organized interests of society based on principles of transparency, public participation, and accountability to the community. The basic principle of granting the autonomy is based on the consideration that the local community is familiar to the needs and standards of service for the community in its territory. In financial aspects, it has big change in the policy of financial allocation between the Central Government and the local government, which is reflected in the budget form of the local community and its uses in the area of fiscal decentralization.

Fiscal decentralization is a process of distribution of budget from the higher levels of Government to the lower Government to support the function or task of the Government and the public service in accordance with the authorization of delegated governance.¹ In carrying out of fiscal decentralization, the principle of money should follow function is one of the principles that should be observed and implemented. This means that any submission or assignation of the authority of the government will bring the consequences on the required budget to carry out the authority. The policy of financial balance between the central government and the local government is a derivative of the autonomous region to assign the part of the authority of the central government and the local government. It means that the more the authority assigned, the larger costs required by the region. However, in the management of financing of decentralized task, the principle of efficiency has also become a provision that must be implemented. The budget for the implementation of the tasks of the government or public services must be managed efficiently and its output must be maximally.²

According to Kadjatmiko,³ the fiscal decentralization has meaning to support the establishment of the local autonomy in broad sense, real and responsible to the local community. In this context, the local community is given the authority to make its own financial and must be supported with financial balance between the central government and the local government. The main objectives in the implementation of fiscal decentralization, in fact is to increase well-being and prosperity for all the people of Indonesia through the implementation of a broad authority, real and responsible in the framework of the Unitary State of the Republic of Indonesia, called NKRI.

In the framework of the organization and service of government to the community is based on the principle of decentralization. The local community is given to take tax assignment and grant transfer or known financial balance. In addition, it is also given the authority to do loans domestic and abroad. Such loans can be short term loans to difficulties finance of local cash flow and long-term loan used for financing expenditure in the framework of the implementation of the function of the local community to public facilities and infrastructures.

The allocation of financial balance between the central government and the local government generally is determined by 2 (two) factors, namely, fiscal capacity and fiscal needs. The fiscal capacity reflects the ability of the local community to fund the public services which should be provided by the government.⁴ While the fiscal needs show total expenditure that is needed to carry out activities in its territory. In order to implement fiscal decentralization and financial management run well, it is required the existence of a good management with attention to general principles in the state financial policies and local financial that is accountable and transparent with the aim of creating good financial governance. Therefore, the implementation of fiscal decentralization is expected to provide a positive impact against the regional economic growth based on balancing income distribution and optimalizing of local government expenditure. The fiscal policy which is conducive to the economy of the local community and the design of the allocation of funds from Central Government to local governments tend to emphasize the policy of reduction of disparities between regions.

3. Transparency of Management of Local Finance of Papua Province to Embody Good Financial Governance

3.1. Transparency in Budget Planning

Planning/budgeting is the preliminary stage of a series of activities (cycle) of local financial management. If the planning is made no good, for example the planned program/activity is not right on target, then we can not expect the output or outcome. In the planning stage, there are two known approach i.e. coercive planning (top-

¹ July P. Saragih, *Fiscal Decentralization and Local Finance in Autonomy*, Ghalia Indonesia, Jakarta, 2003, p. 83.

² Ibid.

³ Kadjatmiko, *Fiscal Decentralization Post the Act No. 33 of 2004 Concerning the Financial Balance between the Central Government and the Local Government*, General Directorate of Finance and Financial Balance between the Central Government and the Local Government, the Ministry of Finance of the Republic of Indonesia, Jakarta, 2005. p.1.

⁴ David Hyman, *Public Finance: A Contemporary Application of Theory to Policy*, Fifth Ed., the Dryden Press, FortWorthn, 1996. p. 585.

down planning) and bottom up planning. Top-down planning approach in the planning or development in Indonesia has a lot of weakness caused by centralized decisions, finance and management. The approach becomes less effective approach due to the growing of the region either in city or districts and influence of globalization era which demands of each region to be able to compete with other regions. The shift is meant to be brought together the basic idea of the community in the process of development, planning, or management. Although the shifts real is not fully achievable but at least the role of the community in the planning and construction has been started through a participatory approach.¹

The Act No. 23 of 2014 in its explanatory that:

“the granting of autonomy to the region is directed to expedite the realization of community welfare through improving service, empowerment, and participation of the community ... The region as a whole of the law society has the autonomy to regulate and administer its territory in accordance with the aspirations and interests of the people as long as is not contrary to the national law and the public interest.”

Under the Act No. 23 of 2014, public participation is very important in the establishment of local government. Therefore, in drafting and enacting of the local government policies substantively should be oriented to the improvement of people's welfare by observing the aspirations of communities in that region.

Budget is a result of the formulation and articulation of strategy and strategic planning that have been made. Budgeting stage becomes very important due to ineffective and disoriented of the budget. In this context, budget is management plan for action to facilitate the achievement of business objectives of the organization.² According to Indra Bastian,³ budget allocation effectively if balancing in demand both from the public sector organization and strategy of achievement of goals (vision). The function of the public sector budget are:

- a. the final results of the process of the preparation of the work plan;
- b. the blue print activities to be implemented in the future;
- c. an internal communication tool that connects the various work units and working mechanism between superiors and subordinates;
- d. a tool for controlling the unit's work;
- e. motivational tool and persuasion effective and efficient action in the achievement of the vision of the organization;
- f. a political instrument and
- g. fiscal policy instrument.

In the planning/budgeting of the local government should pay attention to the transparency. The budget transparency is one of the basic of local financial managements. Article 103 the Government Decree No. 13 of 2006 requires the budget of income socialization to the community (hereinafter referred in RAPBN) before to the discussion of the House of Representative (hereinafter referred in DPR) in order to the public to know the rights and obligations of each party (community or the local government) in the implementation of the budget of income and expenditure in fiscal year planned. But in fact, until now the local government of Papua have never been put into practice. This socialization can be ensured that have the local Government of Papua has never enacted yet because the local government has not seen the relevance of (its significance) socialization. As said by Andi,⁴ he stipulates that RAPBN wants to be socialized to what and how community groups? If, they can be understood? That is the problem that until now we have not seen the relevance regarding RAPBN".

The transparency of the budget can be interpreted as full disclosure on all budget related information timely and systematically.⁵ Based on this definition, the transparency of the budget can be understood as a process which the government provides, opens access, and/or disseminates information related to planning, implementation, and or its responsibility.⁶ In addition to the concerns the availability, accessibility and documents publication, the budget transparency also relates to process of the openness. The process of the openness is the existence of opportunities for the public to use the right to attend, monitor (right to observe) or even provide input (right to express) in the planning process, the deliberations or decision-making, monitoring and evaluation, or the process of accountability.⁷

The transparency basically in the wake on the basis of freedom of information means information relating to the public interest directly that may be obtained. The transparency of management of local finance is

¹ UNDP, *Participatory Planning: Community-Based Planning Solutions in the Future*, 2003, <http://pwk.undip.ac.id/d3/partisipatif.html>, (accessed 23 August 2014).

²Mardiasmo, *Public Sector Accounting*, Andi, Yogyakarta, 2005, p. 61.

³Indra Bastian, *Public Sector Accounting in BPFE*, Yogyakarta, Indonesia, 2001, p. 82

⁴Interview with Andi one of Kasubid. in BPKAD which was done on June 14, 2015.

⁵OECD, *Best Practices for Budget Transparency*. May 2001, UR <http://ngabblax.blogspot.co.id/2011/12/trips-story.html> (accessed 24 may 2014).

⁶ Ihsan and Wall, *Budget Transparency*, 2008.

⁷ Ibid.

not only being a public needs but also the needs of the entire citizens of the Republic of Indonesia. With the transparency of management of local finance, it will slowly occur strengthening accountability and professionalism of apparatus the local government work. In the transparency of budget planning of Papua, the community has the right to obtain information, for example in the form of documents or process implementation planning activities budgeting. While the local government is obliged to open and publish documents and activities planning budgeting to society as mandated in article 7 of the Act No. 14 of 2008 on the Openness of Public Information.

Research results revealed that the Government of Papua Province in budget planning has not applied the principle of transparency. The transparency or openness becomes expensive, especially regarding information or data about the finance. Income and expenditure budget document is considered as state secrets documents so that not one can see and read the contents. If there is a publication on society, it was limited on the procurement of goods and services, or in the form of the announcement of the auction for physical projects. The lack of an openness towards the manufacturing process until the passage of the budget document into income and expenditure, the community cannot control the use of the money people.

3.2. Transparency in the discussion and setting of budget

After the draft of the local government on the budget revenue and expenditure is composed, the local government submit the Draft on APBD and its explanatory and supported documents to DPRD in the first week of October to be discussed in order to gain approval. The discussion focuses on the suitability between the general budget (called KUA) and policy priorities and the budget ceiling (called PPAS) with programs and activities proposed in the draft on APBD.¹ The discussion of the draft on APBD between the local government and DPRD is conducted in accordance with the legislation which set on the arrangement and position of the regional people's representative Council (the Act No. 27 of 2009 on Assembly (called MPR), House of Representatives (called DPR), Regional Representative Council (called DPD) and Regional Representatives (DPRD).

The process of discussion in DPRD through a meeting of the agency's budget and the Commission. At the meeting of the Commission, the discussion of all program activities using the work plan budget unit working device (called RKA-SKPD). The discussion is done per digit budget activities. This of course takes in the discussion even though it is good to see the details of the budget.

Community as stakeholders has the right to access information regarding the amount of budget that is allocated to a particular activity, including the reason for the background. The community also needs to know how big the Government gives attention to the interests and needs of the community. The access information on budgetary allocations then can assess how much money the Government is used to meet the needs and interests of the community. The community can also find out if the Government spends money for the benefit of the people, or for the benefit of the officials.

The governance establishment must provide adequate information on the community and make the community ease to access various information required with regard to the budget. The easiness of the community is to gain those information on the local government's activities. Maximum control role is intended to let the question of budgeting and budget enactment not only part of mutual political agreement between local executive and DPRPapua. This is because those budgets are discussed in the form of activity or projects at the level of budgeting committee. The tendency occurred between the executive and the legislative can just deal to deal due to they have their own interests.

In the question of the interests of board members, it is basically known that the members of DRRPapua are mostly local entrepreneurs and also have a special relationship with the local entrepreneurs. So, it is no wonder when the discussion of the budget in the level of budgeting committee, both legislative and executive members have always just oriented to win the programs or projects technically and they forget to empower human resources, social, cultural, or economic welfare. Such events logically can only be resolved when more and more elements of the community is able to control the process of budgeting. It means that the formation of a system of control or supervision is needed in order to not provide opportunities to the region's political elite to commit abuses in using the existing budget.

Surveillance system will be able to run well if the elements of the community such as non-governmental organizations, educational institutions, society organizations, mass media, and the customs of the community have a valid and correct information related to use, allocate, and priorities scale of budgeting. In order to avoid the confusion and ineffectiveness in doing community control against the government and the legislative, it is due to the lack of information regarding the use of the budget.

Referring to the principle of transparency as the institution that holds the mandate of the people, the executive and legislative party must have an attitude of commitment and responsibility to the community about

¹ Article 311 the Act No. 23 of 2014 on Local Governance.

the management of the budget. The attitude of commitment and responsibility in question are the honesty to receive, manage, and deliver information about the use of the budget to the community.

In accordance with the DPRPapua Decree No. 1 of 2014 on the code of conduct of DPRPapua, the nature of the budgeting committee meeting of DPRD is closed, while the commission meeting of DPRD is disclosure and can be declared closed. However in fact the meeting of the commission has always declared closed. The closed meeting of the commission means that the community is lack of information to follow the development of the discussion of the draft budget of income and expenditure. This becomes a separate question which budget revenue and expenditure is belonging of the community, so that the community should be entitled to know the process and do not only know the end of the budgeting results. Basically, DPRPapua as representatives of the people should make the budgeting committee meetings and meetings of the commission to disclosure in order to give a chance for the community to gain accurately information in the process of discussion and determination of the budgeting. The community should be given the space to give advice and correction of document of RAPBD before and during the discussion is done.

To embody a governance transparency and able to answer the demands of change effectively, the Government of Papua Province must engage the community in the process of the budgeting started from the formulation, preparation, discussion and enactment of the implementation of APBD. However in fact, the public participation in budgeting process 2014 in Papua Province was still very small. In this situation, the community is only engaged in the planning of process development only. Ideally, the local budgeting must be seen as a power relation between the local executive, the local legislative, and the people themselves. For the local Government of Papua and DPRPapua they must formulate and enact policies with transparent communication with the people in order to create policies that is not too different to what is desired by the people. For the people point of views, they are participating and monitoring the direction of priority policies that made by the executive and legislative for one next year that will be expressed in the form of nominal in the budget.

3.3. Transparency in the Implementation of the Budget

The process of the implementation of APBD sets the implementation of the ballot, the local revenues, and APBD's management. The implementation of APBD can be distinguished on 2 (two) forms of APBD's management, as follows:

- 1) Management of administration. It authorizes to hold actions in the framework of the establishment of the DPRD household that brings some burdened local budgeting expenses.
- 2) Management of the treasure. It authorizes to receive, store, pay or spend money and goods as well as the obligation to guarantee to the responsibility of the head of the local government.

In the life of openness state, the government as the framers and implementers of APBD has obligation to open and be responsible for the entire implementation of the results of development. One of the responsibility forms is manifested by providing a comprehensive information of the local finance to the public.

APBD is an annual financial plan of the local government approved by DPRD (article 1 point 8, the Act No. 17 of 2003 concerning the State Finance). All local revenues and expenses must be recorded and maintained in APBD. Both the revenues and expenses are conducted in terms of implementation of decentralized task. While the revenue and expenses relating to the implementation of the deconcentration and assistance tasks is not recorded in APBD. APBD as we know is the basis of the management of local finance in one fiscal year. The structure of APBD is a single entity consisting of the local incomes, the local expenditure, and the finance.

Budgeting programs and activities in 2014 of the Government of Papua Province was based on APBD of Papua Province fiscal year 2014 as setting out by the Local Regulation No.1 of 2014 on 10 February 2014. To improve performance and anticipation of economic condition in 2014, then the Government of Papua Province changed its APBD as setting out by the Local Regulation No. 4 of 2014 on 30 September 2014. The transparency of the implementation of APBD of Papua Province shows that the community did not receive enough information about the activities of the construction and its quantity allocated budget before the activity is implemented. As we seen, APBD is the most concrete of development planning document that demonstrates priority and direction of the local government in one fiscal year. However, it cannot be accessed by the community.

Essentially, APBD can be said as the budget for the public sector to provide services to the community in order to create an increase in welfare of society. In the context of the establishment of the local government, APBD is mandated by the community to be implemented by the local government. It means that the community has the rights to know the stages process of making APBD. The community also must participate actively in the process of budgeting. For example of it can be seen in terms of tax revenues and levied in which the community has the rights to know it as part of check and balances function.

However, intransparency of public budgeting of the government of Papua Province approved that the government of Papua Province disregarded the instructions of the Ministry of Internal Affairs No. 188.52/1797/SJ in 2012 concerning Improvement of Transparency in Local Budget Management. The

instruction further emphasized that the local government must provide a special menu in the form of official website of the local government which must publish 12 budget documents such as: summary of RKA-SKPD; summary of RKA-PPKD; Draft of local regulations on APBD; Local regulations on APBD's change; Summary of DPA-SKPD; Summary of DKA-PPKD; Report on the realization of the entire budget for all Unit working device region (called SKPD); Report on the realization LRA-PPKD; audited of local government performance reports; and Opinions over LKPD.

Availability and accessibility documents have been a challenge for the public to supervise APBD. It is due to the paradigm especially among government authorities or public officials who argued that various documents related to the budget documents that are confidential and not accessible to the public. This paradigm is supposed to be thrown away because the transparency of the public budget information must be conducted by the community in a well-planned, purposeful, and effective manners. It means that the community must know the planning, budgeting, and the realization of the budget. The community also must know the budgeting allocation for the public purpose whether it has been conducted efficiently and effectively.

3.4. Transparency in Accountability for Implementation of the Budget

At the end of each fiscal year and period of the reign of the mandatory of Head of the government, it must convey reporting accountability that is submitted to DPRD as a representative of the community to manage the local resources. Article 320 (1) the Act No. 23 of 2014 states that "Head of the area submitted a draft Regulation on the implementation of the budget accountability to Parliament with the attached financial statements, audited by the Audit Board no later than 6 (six) months after the fiscal year ends". Article 320 (2) furthermore stipulates that "The financial statements referred to in paragraph (1) shall at least include:

- a. report the realization of the budget;
- b. statement of changes in the budget balance over;
- c. balance sheet;
- d. operational reports;
- e. statement of cash flows;
- f. statement of changes in equity; and
- g. notes to the financial statements are accompanied by a summary of the financial statements of enterprises.

The Act No. 17 of 2003 states that "in order to support the realization of good governance in the states's establishment, state financial management needs to be professionally organized, opened and be accountable in accordance with the basic rules have been laid down in the Constitution. One of the important points of the Act No. 17 of 2003 is that the accountability is one of the essential elements in supporting the attainment of good governance in Indonesia. Financial accountability has a major focus in reporting accurate and timely use of public funds, which is usually done through reports that have been professionally audited by the financial reviewer. Its main purpose is to ensure that public funds have been used for the purposes specified in an efficient and effective manner.

Local financial management accountability report is a form of accountability as mandated in article 31 and 32 of the Act No. 17 of 2003. It is an obligation for every financial manager to deliver the report on accountability financial management. It is a concrete of an attempt of the Government to embody transparency and accountability. The meeting (trial) of the head of the local government to report his responsibility on organizing the development and use of local finance has published directly by the electronic mass media. The public can follow the trial through the media.

In the discussion of the draft of the local government on the liability of budget (APBD) implementation in Papua Province (fiscal year 2014) on July 2015, the meeting of plenary council was declared open to the public. The plenary meeting was attended by invitation from organizations representing youth, women, religious figures, custom figures, the press and community organizations such as NGOs. So, only people who obtain an invitation can fit in the courtroom. In accordance with the established schedule, the invitation person (the community) should only attend the meeting at the opening and closing plenary meetings of the board. In the context of the proceedings, the community must follow the meeting through a live broadcast electronic media. There is no DPRPapua mekanisme to give a chance for the community to convey his complain oven the content of the accountability of the head of the local government.

4. Conclusion

Transparency is the openness of the Government towards the community to gain access to the right, fair, non-discrimination, and timely information on the establishment of the Government starting from the process of policy, planning, implementation, accountability, supervision and control.

The transparency in the local finance management of Papua Province is not optimal. It is because the government tend to close the information about finance. The financial documents such as KUA, PPAS, RAPBD

for the year planned have never been communicated to the public either through electronic media (through the official government site) or through print media before bringing to the Board to discuss. Article 103 of the Ministry Internal Affairs Decree stipulates that RAPBD should be socialied to the community before the discussion conducted by DPRD. The socialization is intended to give the community their rights to get information they need.

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