

## Model of Local Budgeting System Management: A Case Study in the District of Malinau, North Kalimantan

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### Abstract

Implementation of local autonomy in Indonesian government make economic decentralization becomes a part in strengthening the local government. In line with this, the local budgeting issue also becomes a strategic one in the relationship between Central and Local government in Indonesia. On its implementation, local budgeting management is facing the crucial problems, which are the managerial and operational capability of local budgeting management officer and also their low integrity level. Therefore, local budgeting management reformation is needed in forming the good governance which demanding an efficient, transparent, and accountable local budgeting management.

**Keywords:** Reform, Local Budgeting System Management

### 1. Introduction

Reformation of local government budgeting management has another consequence than supporting good governance which is applying of New Public Management (NPM) paradigm in the context of public administration. The paradigm directs the orientation of public management into the performance, and not the policy (Mardiasmo, 2002:26). NPM paradigm is one of the efforts in reformation of public management in improving its performance by applying the principles of business administration into the public administration, especially in the public services area, which called as run government like a business (Denhardt and Denhardt, 2003). The consequence of the implementation of managerial principles and business sectors corporation values into the public sectors have necessity to implement the Rational Choice Theory in the process of public policies and services, and changing orientation of services and point of view toward the public which is considered as the consumers or customers. Public management in the NPM paradigm has more oriented toward the result, and related to how many public policies could be created with the target in gaining the efficiency and customer satisfaction.

The changing of local government's budgeting management in applying performance-based budgeting principles has a direct impact toward the needs of budgeting reform. It consist of: formulation process, legitimating, implementation, and accountability. Basically, budgeting reform is directed to guarantee the realization of efficiency and accountability of the public sectors in public management. According to Setiawan (2003), the reformation of local government budgeting management at the public sector are based on numbers of strategic considerations, there are (1) Low level of effectiveness and efficiency of government's budget spending (2) There is no clear priority scale (3) Lots of deviations in the nation's budgeting management, both in the form of budgeting mark-up and others corrupt behavior (4) Low level of professionalism of the government officials in managing the public finance as what happened at the private sector.

To support the realization of good governance through local government budgeting management, the reformation of local budgeting system management should be directed into the implementation of participatory budgeting system. The system involves the society in negotiating public resources distribution during budgeting process (Bhanu, 2007). At the level of local government in Indonesia, practice of participatory budgeting is implemented through the participatory planning which start at the level village/sub-district, known as *musyawarah pembangunan desa* (Musrenbangdes), and at the level of district/city --- known as *musyawarah pembangunan kabupaten/kota* (Musrenbang). In addition, in order to realize public-based budgeting, there is also a mechanism to hear community aspiration which is done by the local government legislative members (DPRD).

By doing this mechanism, it can be expected that the formulation of local government budgeting policy could be realized in order to support good governance.

## 2. Problems Statement

Based on the description above, the research problem can be formulated as follow:

- (1) How was the implementation of the principles of participatory, transparency, and accountability become the main principles in the reformation of local budgeting management?
- (2) How were the processes in budgeting, which are include budgeting arrangement, legitimation, implementation and accountability of local budgeting management?
- (3) How was the model for the local budgeting management system?

## 3. Materials and Methods

This research is qualitative research, conducted in the area of the district of Malinau, East Kalimantan province. There are several reasons in choosing this area, first, District of Malinau is a relatively new region, as a result of region enfoldment in 2000, and its local government has been working in restoring its financial management system. Second, as a new district, there is a strong motivation to speed up their development. Therefore reformation in various subjects has been conducted to achieve that progress. The process of this data analysis followed the Interactive Data Analysis proposed by Miles and Hubberman (1992). Data analysis consists of three components, which are data reduction, data display, and drawing conclusions

As one of the new district in this province, Malinau faces some problems in its budgeting management system. First, the skill of its human resources is relatively low, whereas local budgeting management demands a more autonomic management with supporting a competent and better skilled human resources. There are 2.890 employees that consist of 1.380 employees or 47.75% with last educational level of senior high school, junior high school, and even elementary. Second, there are only few employees who have technical skill in budget planning. It can be seen from the whole 49 employees at the Financial Management Bureau, there are 36 employees or about 73.47% are employees of *Golongan II* who have never been in a special training for budgeting management. Third, the internal auditing skill of the local government inspectorate are still relatively low, from total 55 employees only 4 employees or 7.27% who's functioned as internal auditor. Forth, the geographical condition of the Malinau district is difficult to access and make counseling process in empowering the village's and municipal officials in the budget planning through Musrenbangdes became difficult too. There are 83 underdeveloped villages or about 76% from the total villages and most of them are difficult to reach by land transportations. Fifth, the local capability to make income from tax sector and local retributions is still low. In 2010, PAD's contribution to the APBD of the district of Malinau is about 5.35% from the total APBD. From total 62.84 billion, taxes and retributions gave about 39.21% from the total amount of PAD. In 2012, PAD gives 126,818 billion rupiah or about 9.51% from the total amount of APBD as much as 1,333 trillion rupiah. Even though there is an increase in contributions, but it is still considered low. In sort, the local government of Malinau is still depending on their traditional sectors' incomes, which are coal and mining sector that gave a contribution for about 35.83%.

## 4. Literature Reviews

Implementation of local budgeting management will be consisted of arrangement, determination, implementation of supervision and the counting of regional revenues and spending budgeting area (Domai,2002). Halim (2001) stated that local budgeting management is an integral part of the discussion on regional revenues and budgeting areas. Therefore, regional revenues and spending is a development program of a region in the form of numbers for a whole year.

According to Domai (2002), the purposes of local budgeting management are:

- (1) Maximizing the use of incomes' sources of an area;
- (2) Every arranged local budgeting should be an improved one from the previous;
- (3) As the formal base of a more directed program and more organized and easy to be supervised one;
- (4) Facilitate the easiness of coordination from each institution and could be directed to the program that

has been prioritized and aimed by the Local Government;

- (5) To accommodate and analyze, and also to ease in making a decision about the allocation of the budget for funding projects and other needs proposed by each institutions.

#### 4.1 Concept of Public Sector Budgeting Management

Viewed from management aspects, the budgeting is the process of management, convention, supply, and spending of money in every cooperation work of group of people in achieving a certain purpose. This process is arranged from the application of accounting of budgeting functions and balance checking, or operationally for local municipality then budgeting management will consist of arrangement, determination, supervision implementation and the counting of regional revenues and spending (Domai,2002).

In managing local finance, there are two kind of management, *firstly*, General Management in which the Head of the Regional area is the general stakeholder of the local financial. *Second*, Special Management in which General Regional Treasurer is the one that has responsibility to receive, keep, pay or spend the money and goods and should accounted for to the Head of Regional (Halim, 2011). Then the Head of Regional should accounted the whole revenue and spend of the regional budget to DPRD.

According to Dedy (2001) there are some principles that should be followed in the regional budgeting management. Regional budgeting management should be done in order, follow the regulations, effective, efficient, transparent, and responsible by considering the principle of justice and propriety. While Halim (2001) stated that the principles of regional budgeting management are as follow: (a) accountable; (b) value for money; (c) honesty in regional budgeting management; (d) transparency; (e) control; (f) budgeting disciplinary; (g) efficient and effective budget; and (h) follow the format of the budget. Domai (2002) said that there are some principles in managing the regional budgeting, which are: (1) Accountable (2) Transparency (3) Openness in giving information and both accepting advices and critics (4) Obey the law which regulates the regional budgeting management.

#### 4.2. Public Sector Budgeting Management Reform

The reformation of ideally Public Sectors financial management is not only about reforming its financial management, but it is something fundamental for the regional budgeting management. Substantively, this reformation means to manage regional resources economically, efficiently, effectively, accountable, and transparently in order to raise the regional wealth and empowerment.

In order to achieve good governance in local government budgeting management area, Shafritz and Russell (2002:403) stated that numbers of principles that should be covered in the public sector budgeting management are:

- (1) Democratic consent, which is the presence of explicit approval from the stakeholder as through the discussion with the representatives;
- (2) Equity, which is a balance in the implementation of budgeting policy;
- (3) Transparency, which is being transparent in the state budgeting management where public have a right to know about the use of the taxes that they paid for;
- (4) Probity, it is when the transactions of the state budgeting expenses should be done honestly and wisely;
- (5) Prudence, it is when the management of state budgeting should be wisely and addressed for the needs of public service;
- (6) Accountability, there should be a responsibility for the use of public budgeting through the rigorous and transparent auditing process.

Later, those principles are framed in Good Financial Governance, which has characters as follow: Participation (participatory); Rule of Law (Based on law); Transparency; Responsiveness; Consensus orientation; Equity (justice or fairness); Effectiveness and efficiency; Accountability (Soekarwo, 2005).

In the regulations of Public Sectors Financial, it is clearly and strictly stated how the government manage their governmental system, especially in financial matters. These regulations regulate the general basis of state treasury, the authority of the Financial Public Sector's officials, the implementation of state/regional budgeting revenues and spending, state/regional finance, debts, and credits, management of investments and goods that

belongs to the state/regional government, management and responsibility of APBN and APBD, government internal control, the completion of the regional/state deficits, and also the financial management of public services' institutions. The arrangement of RAPBD with the approach on working performance, application of Regional Financial Accounting System, presentation of regional Balance Sheets and Cash Flow as a form of accountability of the Regional Head of Government are some new things that mandated in those regulations.

Transparent and accountable financial system management has become a need in creating good governance and clean government that becomes a general symbol of government reformation. Therefore, the accelerating effort toward the achievement of financial management reformation for the regional government should be seriously taken for granted.

## 5. Implementation of Public Sector Budgeting Management Principles

### 5.1. Participatory Principle

The stakeholders participation in the local budgeting management can be seen on proposing of their activities and its funding through the available official institutions (DPRD and LMPMD), and through *Musrenbang Desa*, also through *Musrenbang Kecamatan*. Participation in arranging the budget was done through the aspiration's hearing (called as *jaring asmara*) which is conducted by the members of Regional House of Representatives (DPRD) District of Malinau, that in line with their functions and main duties. As stated in the Article 45 UU No.32 Year of 2004, one of the duties of the members of DPRD is to absorb, to accommodate, to assemble, and to articulate public aspiration. In performing this duty, community has actively given their aspiration, as what has been shown in the collected data. Members of DPRD have responsibility to absorb the public aspiration in order to convey it as a progression in discussing the drafting of APBD with the Local Government.

Public participation in the drafting process of budgeting could also be seen through their active participation in *Lembaga Pemberdayaan Partisipasi Pembangunan Masyarakat Desa* (LP3MD). Members of this organization are professionals, academic practitioners, volunteers ---both from civil servants and non-civil servants--- and act as the liaisons whose role is to review or to formulate the village community's needs and interests in the form of program's proposal and developmental activities. The existence of this organization is a form of reformation in the drafting process of budgeting, especially related to public participation in arranging the program and developmental activities, and also the its funding. Afterward, proposal of the programs, activities, and its funding are discussed in the *Forum Perencanaan Partisipasi Pembangunan Desa* (FP3D-Village Development Participation Planning Forum). This forum consists of the elements of LP3MD which has the role in planning the proposal of program and developmental actions. Together with LPMD, they will discuss and review various problems and potency that has been discussed through LP3MD mechanism. The discussion also becomes the mechanism of LPMD who has responsibility as the official organization for the village developmental planning in doing their task. Another thing, the existence of liaisons in the implementation process of budgeting plan also becomes distinguishing factors between local budgeting management systems in the past with what is applied nowadays. Nowadays, Village's government has an autonomous right to plan and execute developmental program in their village together with the community, while before, SKPD was more dominant in execute program and activities in the village.

Other than participation in budget planning through the mechanism of *Musyawahar Pembangunan* (developmental discussion) in every level, public participation in the budget management also can be seen both in executing activities or spending the budget. The form of the activity is being active in socialization activities, executing activities, and active in finding workers or contractor to execute activities.

Public participation also becomes obvious in the process of implementing supervision of APBDes and APBD (Sectoral development). Budgeting supervision was conducted by the public through various ways, such as: (a) to keep that the arranged budget is spent as what it should be; (b) to control the implementation of APBD as planned in the budget; and (c) to keep the implementation of APBD always can be authorized.

Based on those explanation, it could be said that a reformation has been done in the budgeting process arrangement from the low level, which shown by the existence of two new institutions that established outside the formal organizational structures in the village, and also there is active participation from the whole components of community in the planning process of the budgeting in that organization.

## 5.2. Transparency Principle

The effort of Malinau's Local Government in forming new institutions in the process of village's development plan, including the process of village's budget arrangement has altogether shown the effort to do transparency in the local budgeting management. Community are directly involved in drafting APBD, because by the participation, community could find out the developmental budget's position for their villages in the APBD. Further, Local Government also built an official site that could be easily accessed by the public. Through the site, community could find out the contents and the policies of APBD, and others matters that related to local financial. Transparency is not only important for government, but also for the community themselves. Local Government of Malinau has chose to apply transparency to response to the recent political demand, which is achieving the good governance, by still paying attention to the regulations.

An attempt to implement the transparency principle is by publishing the process of local financial management from the planning phase till the reporting phase through the Local Government's website.

What have been done by the Local Government of Malinau to implement transparency in process of compiling the budget shows that reformation on local budgeting management is not only about the result or the output, but it is also about the process or the attempt that have been done. External reformation which related to the community is to adjust the administrative system with the increased demand of the community, and the Malinau's government has made some efforts to fulfill this demand.

To increase transparency of APBD's budgeting, there are some efforts that have been conducted by Malinau's Government, which are:

- (1) Arrange the organizational structures of *Desa Membangun* (village's development), especially ones related to the allocation of the budget, in order to prevent the members of DPRD which have budgeting right to add activities into the APBD along with the budget allocation according their own will. In implementing the principle of transparency, Local Government built an organization named *Forum Perencanaan dan Partisipasi Pembangunan Desa* (FP3D) that involves various stakeholders, including members of DPRD.
- (2) Integrate the action plan process and the budgeting plan, so that the transparency is not only applied to the kind of programs and actions, but also to the amount of spending budget;
- (3) Make sure that the budgeting planning should be a breakdown of RPJD into RPJMD and RPJMD into RKPD, so that what has been transparently stated in RPJMD or in the Local Strategic Plan and, or in the institution could be used as a guidance in arranging actions plan in the bottom level;
- (4) Build coordination between SKPD in the process planning, so that the attempted activities could become transparent and synergic, in order to avoid the appearance of sector ego.

All those attempts are a proof that the implementation of the principle of transparency in the local budgeting management has been applied by Malinau's Government. Handing the planning process fully to the village community and budget allocation from APBD to APBDes to implement the Gerderma Program is one form of structural reformation which is differentiated and done by the Government of Malinau.

An aspect that has been done by the government of Malinau is changing the order of budgeting plan, which is previously dominated by the bureaucracy (work of SKPD) to community oriented one..

## 5.3. Principle of Accountability

In order to make the drafting plan could be accounted for in its implementation, then from the process of formulating the programs and activities, and also its budgeting, it should be done by the assist of Liaisons Team which is the experts in the process of drafting of budget planning. Especially for the budget on Gerderma which is distributed through APBDes, Village's Government should compile the accountability by themselves. Relating to accountability issue, Bappeda and Inspectorate have an important role in arranging and socializing the accountability mechanism of the budget that has been received by each village, and cashed out from the APBDes of each village. In the past, the budget accountability is more focused on the SKPS bureaucracy, but in Gerderma, the accountability mechanism will be done by Village Government and accompanied by Liaisons Team. This is the reformation which implemented in the budgeting accountability in the local budgeting management in the district of Malinau.

The implementation of accountability principle in the budgeting management also was conducted through the development of integration, consistency, and synchronization of the planning and budgeting. Normatively, the

plan and the budget should be integrated, consistent, and synchronized between each other because budgeting is a media to realize the performance targets that has been planned. Without the plan, SKPD has a tendency to being not focus and reactive which cause an inefficiency and ineffective. Whereas, the aim of reformation in the accountability mechanism is to achieve the targets as efficient and effective as what have been planned without any misappropriate authority. Based on this thought, then the bureaucracy accountability in doing their jobs is very essential.

The changing in the budgeting authority mechanism from SKPD to the Village Government shows pragmatism in the Malinau's Government point of view. It's because this changing cuts the line of bureaucracy which tends to be slow. In addition, since the community themselves stand as the subject, then they could understand better what they have been spent for on certain activities.

Another way to guarantee the accountability is by giving role to the Monitoring and Evaluation Team to report their supervision on the Gerderma program that has been conducted in every villages, while the role of Inspectorate is more directed to control the implementation of the program and activities arranged by SKPD, eventhough the final report of every monitoring and evaluation activities should be generated by the District's Inspectorate which has this authority.

Therefore, the important value of the whole budgeting process is the accountability. The main intention of the budgeting accountability is to guarantee accountability to the public as dictated by democratic system. The state officials have two forms of accountability, which are financial accountability and wise and honest decision making in financial matter. To secure honesty in the government, the power needs to be distributed between various state officials (authority, ordinance, and treasurer). Therefore, the jobs distribution between Monev Team of Gerderma with the Inspectorate is an attempt from the Malinau's Government to create accountability in the process of local budgeting management.

## 6. System Model of Local Budgeting Management

Local budgeting management system that has been done till now is relatively good because having some advantages, which are: first, budgeting process already based on community participation, especially in the process of village's budget revenues and spent (APBDes). Second, there is a separation in the budgeting management, between what is conducted by the Village's Government and SKPD. This scheme put the village in autonomy position from the budgeting management point of view. Third, the function of internal supervision conducted by the District's Inspectorate has been well conducted. Forth, village's government and its community know the numbers of the budget that they received.

Even so, that system still has some weaknesses such as: first, the mechanism of budgeting management of APBDes from the arrangement until the accountability process still needs guidance and help from the Municipal and or SKPD, especially for the villages that do not have human resources which has appropriate skills in budgeting. Second, there is a possibility of overlapping in the budget's limitation for the same activities which may be proposed both by Village's Government and SKPD. It is when the activity which is already planned in Gerderma is also planned in sector development of SKPD. Third, budget's accountability will be more complicated because APBD budget is put inside the APBDes, and APBD budget for the sectoral development that conducted by SKPD.

To overcome those weaknesses, then it is recommended that the model should be equipped with organization for coordinating to evaluate and monitor the management of the budget, in order to avoid the overlapping in the budgeting process, or by putting Bappeda to do their ad-hoc function. Besides that, the role of Village's representatives in doing the control should be developed and accommodated in the mechanism of monitoring and evaluating of the budget on *Gerakan Desa Membangun* (Gerderma), so that the corrupt actions could be prevented. That special organization could be called as Village's Monev Institution in which personnel are selected from the village's and municipal's officials, and also competent figures in the community to do evaluation and monitor. Actually, that function could also be conducted by The Regional Inspectorate of the district of Malinau (Itwilkab) as a special function to control and evaluate the use of Gerderma's budget. The inputs from these organizations could be used for the process of arranging the Gerderma's budget plan for next years, so that the process of budgeting management will always on the principles of transparency, participatory, and accountable.

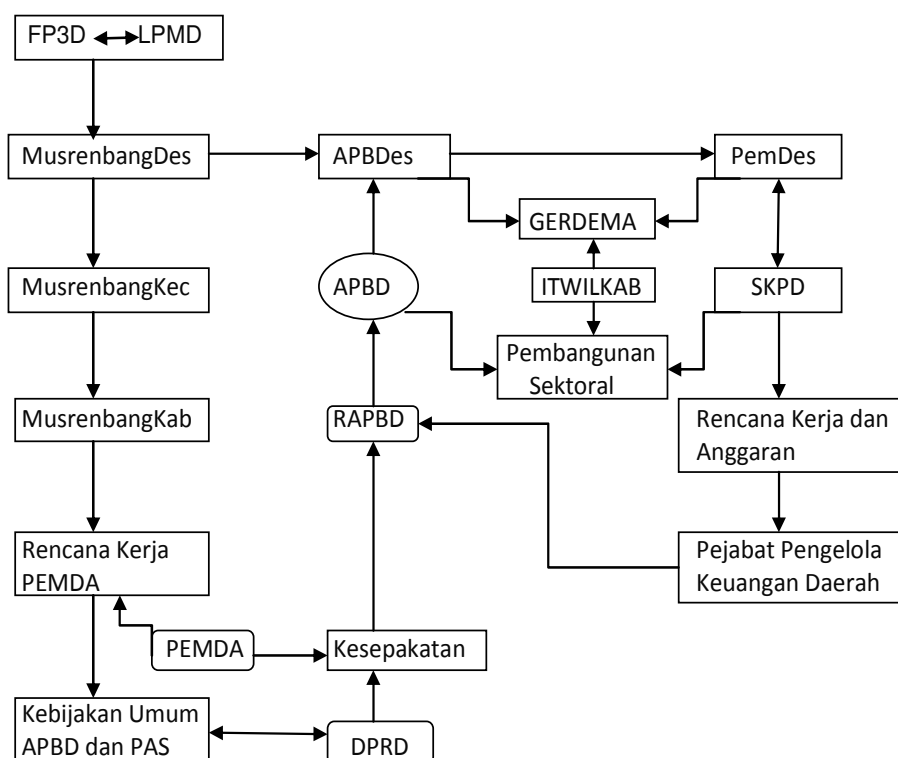


Figure 1. Empirical Model of Budgeting Management System Malinau District

**Notes:**

- FP3D : Forum Perencanaan Partisipasi Pembangunan Desa (Participation Plan of Village Development Forum)
- LPMD : Lembaga Pembangunan Masyarakat Desa (Community Village Development Organization)
- PEMDA : Pemerintah Daerah (Local Government)
- DPRD : Dewan Perwakilan Rakyat Daerah (Regional House of Representatives)
- APBD : Anggaran Pendapatan dan Belanja Daerah (Local Budgeting Revenues and Spending)
- PAS : Plafon Anggaran Sementara (Temporary Budgeting Limitation)
- PEMDES : Pemerintah Desa (Village Government)
- GERDEMA : Gerakan Desa Membangun (Village Development Movement)
- SKPD : Satuan Kerja Perangkat Daerah (Village Officials Working Unit)
- ITWILKAB : Inspektorat Wilayah Kabupaten (Distric Inspectorate)
- Bappeda : Badan Perencanaan Pembangunan Daerah (Regional Development Plan Agency)

The functions of *Itwilkab* should be more empowered in doing the supervision so that the whole process in the budgeting management system could be well implemented, and could reach the purpose of effective and efficient use of the budget. Functionalization of *Itwilkab* is very urgent, as it is related to President Act No.74 year of 2001 (About the Rules of Controlling Local Government) Article 16, which stated that the control on local government is a process that aimed to guarantee that local government has been run as the applied regulations and constitutions.

Other than *Itwilkab*, supervision should also be done by DPRD. DPRD supervision could be in the form of direct and indirect, and also preventive and repressive. Direct supervision is done in person by watching, researching, investigating, and directly checking by visiting the working place and do the inspection. While the indirect supervision is done by learning the reports received from the executor and the preventive supervision done through the pre-auditing.

Based on the above explanation, the researcher could draw a model of budgeting management as follow:





## 7.2. Suggestion

- (1) The budgeting management mechanism of APBDes from the arrangement until the accountability process still needs guidance and help from the Municipal and or SKPD, especially for the villages that do not have human resources which has appropriate skills in budgeting.
- (2) To overcome a possibility of overlapping in the budget's limitation for the same activities which may be proposed both by Village's Government and SKPD, it needs to establish a coordinating institute.
- (3) This study is not cover all aspects of local financial management reforms of good financial governance perspective, so it is expected to do further research to examine the broader aspects

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