

Supervision And Guidance In Financial Management Of Local Government

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Abstract: *This aim of the study is to determine the regulations related to the supervision and guidance of the financial management of the local government in Indonesia. Qualitative approach of Socio Legal Research is applied in the study. Supervision and guidance of the financial management of the local government cannot be said to be effective yet due to the multi layered and tiered steps of controlling resulting in overlapping examinations performed by both internal and external auditors. It can occur because of several factors and they are as follows: (1) Internal and external audits have the duties and authorities to audit the financial responsibility of the state/local agency over any institutional activities with the relatively same objectives and scopes of the examination; (2) Coordination to avoid the overlapping between the internal and external audits is relatively difficult to do since it can result in the restrictions of the supervisions; (3) The results of the internal audit shall not be mutually used by both internal and external audits.*

Keywords : *management, finance, supervision.*

I. Introduction

The power abuse in the financial management of the local governments is very high. In his dissertation (Nur Basuki Minarno 2006 : 263), Minarno concluded that the potential for power abuse in the financial management of the local government occurred because of several weaknesses in supervision, control, and inspection. In fact, from the total number of 480 financial reports, only three local governments deserved the highest qualification. (Nuryanto, <http://hdn.zamrudtechnology.com>)

While the Supreme Audit Agency (BPK) indicates that the quality of the financial management in the local governments is still very poor reflected from a lot of findings over the financial mismanagements in most regions. (<http://www.ti.or.id/news>). Such conditions are caused by the complexity of the rules, the lack of qualified human resources, poor coordination and inadequate technology supporting the implementation of the auditing system. (<http://kepriprov.go.id>). The basic concept of *good financial governance* has got to be applied in the arrangement of the design of the Regional Budget to improve the financial management and accountability system. (Soekarwo, 2005, 267).

Some functional institutions for financial supervision, control, and inspections such as BPKP, Department of Inspectorate General (Itjen Departemen), Irjenbang, Regional Inspectorate can cause the overlap in performing the duties. Act No.15/2004 : Article 1 paragraph 6 states that the Financial Management of the State should be in accordance with the position and authority, which includes planning, implementation, supervision, and accountability. (Boediono, 2002). All the affairs of governance in the form of better public policies concerning public services should also apply the principles of accountability in relation to the community/public. (<http://good-governance.bappenas>). If the management of the financial administration is well done, it will make all the activities run more neatly, effectively and efficiently. (<http://banjarkab.go.id>). The problem of the research is what kind of system should be implemented for guiding and monitoring the financial management of the local government in order to improve the effectiveness, efficiency, transparency and accountability in the financial management of the region.

II. Review Of Literature

Basically the supervision of the financial management in Indonesia is divided into two systems, namely: Internal Audit conducted by the Financial and Development Supervisory Agency (BPKP) and External Audit conducted by the Supreme Audit Agency (BPK). BPKP is an internal audit agency under the executive. As an internal audit, it has the duty to audit under the request of the chiefs of any institutions under the executive. BPKP cannot do its job before there is a request from the chief of the institution and the report is just submitted to the chief of the audited institution so that the BPKP report cannot be accessed by the public.

The duties and authorities of BPKP are set forth in Article 52 of Presidential Decree No. 103 of 2001 BPKP stating that the task of BPKP is carrying out the government duties in the field of financial supervision and development in accordance with the legislation in force. It is stated in Article 53 that in carrying out the tasks referred to Article 52, BPKP performs its functions: Assessing and formulating the national policies in

the field of financial supervision and development; Formulating and implementing the policies in the field of financial supervision and development; Coordinating any functional activities in the implementation of tasks of BPKP; Monitoring, mentoring and guiding the financial supervision and development. Article 54 states that in carrying out its functions, BPKP has the authorities to: Design/Arrange the national macro -plan in its field; Formulate some policies to support the macro development; Determine the information system in its field; Guide and supervise the implementation of the regional autonomy which includes the provision of guidelines, guidance, training, guidance and supervision in its field; Determine the requirements for accreditation of educational institutions and certification of professional experts in their field as well as the valid terms. Another authority in accordance with the provisions of the legislation in force, namely : Entering all offices, workshops, warehouses, buildings, places of accumulation, and so on; Investigating all electronic records, documents, books, calculations, letters of evidence, proceedings of committee meetings and so on, survey management reports and other documents required in the supervision; Supervising cash securities and warehouse supplies etc. ; Requesting some information and about the results of follow-up.

While the external auditing is conducted by the BPK. Article 1 paragraph 1 of Act No. 15 of 2006, states that BPK is referred to the Supreme Audit Agency (BPK) and it is a state agency whose job is to examine the management and financial responsibility of the state as defined in the Constitution of the State of the Republic of Indonesia the Year 1945. The position of the Government Audit Agency is as one of the State institutions as stipulated in Article 2 of Act no. 15 of 2006 which stipulates that the BPK is a state agency that is free and independent in examining/supervising the financial management and responsibility of the state.

Under Article 6 of Act no. 15/2006, BPK has the task of examining the financial management and responsibility of the state which is conducted by the Central Government, Local Governments, other State Institutions, Bank Indonesia, State Enterprises, Public Service Board, Provincial enterprises, and institutions or other bodies managing the state finances. Then, under Article 7, paragraph (1), BPK shall submit the results of the examination of the financial management and responsibility to the state House of Representatives, Board of Local Representatives and the Parliament in accordance with the authority. All of these reflect the BPK has its function as an External Control Instrument of the Government. As the auditor, they have to report the results of the examination/supervision to the Parliament which is the symbol of the people's representative institution that have its functions of supervision, legislation and budgeting.

The arrangement of the financial management of the local government is postulated in Act No. 17 the Year 2003 jo . Act No. 1 of 2004 jo. Act No. 32 of 2004 is not comprehensive. The regulations of Unforeseen Expenses are not found in all three Acts mentioned above, but can be found in Article 27, paragraph (7) of the Government Regulation No. 58 Year 2005 jo . S.E. Minister of Home Affairs Number 903/2429/SJ/2005 September 21, 2005 . Such a condition like this, in terms of the political side of the legal aspects, is not fixed. One thing that can be done is the materials existing in the acts only regulating the basic things (*kadre wet*), of which the principal is then followed up by way of delegated regulation / legislation.

Research Methods

The study was examined comprehensively and holistically by using the *Socio Legal Research* qualitative (afdol, 2008), the normative approach (Philip M. Hadjon) and also field approach. In-depth interviews and focus group discussion (FGD) were also applied to obtain the field data.

III. Results and Discussion

The arrangement of the financial management of the local government is a part of the financial management of the state because the principles, the basis, the functions and the objectives of it cannot be separated from those of the state finance.

The financial matters of the state are set in:

1. Act No. 17 of 2003 (State Gazette of Republic Indonesia of 2003 No. 47) on State Finance.
2. Act No. 1 of 2004 (State Gazette of Republic Indonesia of 2004 No. 5) on the State Treasury .
3. Act No. 15 of 2004 (State Gazette of Republic Indonesia of 2004 No. 66) on Audit, Management and Accountability of the State Finance.

The finance of the local government is set in:

1. Act No. 17 of 2003 (State Gazette of Republic Indonesia of 2003 No. 47) on the Finance of the State.
2. Act No. 1 of 2004 (State Gazette of Republic Indonesia of 2004 No. 5) on the Treasury of the State.
3. Act No. 32 of 2004 (State Gazette of Republic Indonesia 2004 No. 125) on the Local Government.
4. Government Regulation No. 58 Yof 2005 (State Gazette of Republic Indonesia of 2005 No. 140) on Financial Management of the local government.
5. S.E. Minister of Home Affairs No. 903/2429/SJ/2005 concerning the Guidelines for Budgeting and Accountability of the Implementation of 2006 budget for Fiscal Year 2005 .

The system applied in Indonesia is still weak so that some deviations occur frequently. Many people are trapped in legal snares for their ignorance. The condition must be improved. Some improvements for the better audit results can be done under the supervision of BPKP by conducting some trainings based on the nationally standardized audit and bookkeeping. BPKP has its function as the corrector – it does not mean that if something goes wrong, it will then be corrected, but some mistakes in bookkeeping must be avoided. When BPKP has done its coaching, training and guidance, but there are still no significant improvements, so the errors identified in the finance statements are not the responsibility of BPKP. Coaching, training and guidance are aimed for the civil servants not to be harmed by their ignorance. The President in the cabinet meeting always asks some opinions from BPKP, because it is a functional apparatus in the central government and assigned to go to some regions for the enlightenment. One task of BPKP as stated in Government Regulation no 60 of 2008 is that BPKP has its role as the coach of SPP. The key of the basic good governance is the SPP trainer/coach, in order to achieve *good and clean government*.

BPKP conducts the audit under request and deviations. It entitled to present the results of the investigation to the authorities. It can also save some amount of the state finance against the bad execution of the work under the request of the police or the prosecutor. BPKP is coordinated by deputy of Polsoskam, works toward the improvement of the opinion of the police investigations, and checks whether the presentation of its financial statements have been relevant with the national standards. BPKP only gives a good accounting guidance appropriate with the national standards. It cannot guarantee the truth when there is financial expenditure in the balance, because it does not test it, and there is an inspectorate agency which has the authority concerned – it is BPK.

The more transparent and accountable systems in the guidance and control of the financial management of the local government are set in regulatory legislation including the Act No. 32 of 2004 on Regional Government, Government Regulation No. 20 of 2001 on the guidance and supervision of Local Government, Government Regulation No. 79 of 2005 on the Guidelines of the Development and Control of Local Government, which are entirely in the forms of some enhancing activities (providing some Guidelines, Guidance, Supervision, Consultation, Education, Training, Research and Developments). The Government Regulation No. 20 of 2001 concerning the development and supervision of the Local Government Article 2 states that (1) the Government shall provide assistance for the operation of the organization of Local Government. (2) In order to develop the Government as it is referred to paragraph (1) the Ministers and Chiefs of the Non-Departments Institutions shall perform some guidance in accordance with their respective authorities. Article 3 on guidance and development referred to Article 2 paragraph (2) shall include the provision of guidance, counseling, training, and supervision. Article 4 states that the government can bestow some guidance for the implementation of the County and Municipal Governments to the Governor as the representative of the Regional Government in accordance with laws and regulations. Therefore, intensive guidance and development are necessary to conduct for the policy makers and managers/executives of the financial management so that it can be directed to focus on the rights tracks and the accountability is much higher. In addition during the planning and discussion of the Regional Budget each party (both executive and parliament) should be focused on the embodiment of the budgetary priority leading to the well-being of society. However, the multi layered and tiered examinations of the internal audit lead to some overlaps between the internal audit itself and BPK. It can occur because of several factors and they are as follows: (1) Internal and external audits have their duties and authorities to audit the financial responsibility of the state/local agency over any institutional activities with the relatively same objectives and scopes of the examination; (2) Coordination to avoid the overlapping between the internal audits and BPK is relatively difficult to do since it can result in the restrictions of the supervisions; (3) The results of the internal audit shall not be mutually used by both internal audits and BPK.

Article 16 Paragraph (1) of the Act No. 15 of 2004 concerning the examination of the management and responsibility of the State Finance explains that an opinion is a statement of a professional examiner about the fairness of the financial information presented in the financial statement/report based on the criteria of (i) the compliance with the standards of the government accounting, (ii) the adequate disclosures, (iii) the compliance with the acts and regulations, and (iv) the effectiveness of the internal control systems. There are four (4) types of opinions that can be given by the examiner, namely: an unqualified opinion, a qualified opinion, an adversed opinion, and a disclaimer of opinion.

In terms of the results examination there is no indication of corruption, BPK can submit them to the law enforcement agencies (police, prosecutors, Coordination Team of Corruption Eradication (Timtastipikor), or Corruption Eradication Commission (KPK). Beside that an overview of the results of the examination is to be submitted to the House of Representatives (DPR), the President and the Governor/ Regent/ Mayor in order to obtain comprehensive information about the results of the examination. In practice, the Parliament serves as an institution of supervisory and controller and only sees the opinions on the financial statements extended by BPK. The examination/investifation conducted by BPK based on Act No. 15 of 2004 produces only an opinion on the financial statements alone. The matters relating to the deviations due to the

non-compliance with the laws and regulations, causing some loss to the state/the region are not the portions of the examination/investigation of the financial statements, but they are the portions of the examination type with a particular purpose (audit investigation). BPK investigation/examination conducted prior to the Act No. 15 of 2004, which is based on Article 2 paragraph (1) of Act No. 5 of 1973 stating that: "*The duty of BPK is to examine/investigate the financial accountability of the Government of the State Finance*". The two systems of the financial supervision and guidance of the local government by BPKP and BPK are systemically independent in accordance with the authority held by each institution and expected to improve the supervision and guidance of the financial management of the State Finance effectively and efficiently. However, its implementation took place very slowly (Anwar Nasution, 2009: 6-15) due to the lack of a concerted effort from the government to run a package of three Acts on state finance of 2003-2004; various Acts and government regulations in the financial sector of the State are still conflicting one another and not in tune with the spirit of a package of three Acts of 2003-2004. Meanwhile, the actual budget has not been able to be realized because of several factors: information technology is still not integrated, the human resources are away from what they are expected, and the internal control system is not functioning.

IV. Conclusion

Although various acts and regulations have been issued in the reform era in Indonesia, they do not guarantee the effectiveness of the supervision and guidance of the financial management even it can be contra productive due to their overlappings and vagues of each supervisory authority of the institution to run the existing legislations properly. For example: the internal and external audits have the duty and authority to audit the financial responsibility of the state/local government over any intituational activities (audited) with the relatively same objectives and scope of the examination or. Up to now, the treasury systems have not been consolidated, the general accounting system is not aligned with the agency or institution accounting systems, and administration of assets and debts of the State is not well ordered, the actual budget has not been materialized, the information technology is still not integrated while the human resources are not as they are expected, and internal control system can be not functioning optimally. When the Government Regulation No. 105 of 2000 was run, the control was conducted by Parliament. It led to some weaknesses because there were some possibilities of collusion between the local Parliament members and the Chiefs of the local governments. It could be observed from what was happening in many areas over the years. The political considerations of the interests of the related parties in the legislative and the executive institutions have been proven to secure each other rather than perform the substance of the supervision.

V. Suggestions

To improve the efficiency and effectivity on the supervision and management of the finance of the local government, it is necessary to have a kind of coordination and synchronization of any findings under the supervision of BPK, BPKP, the Local Parliament, and further actions or follow up to handle any related problems so that the financial management of the local governmnet can be well monitored, and systematically and comprehensively handled and followed up. There are some ways to achieve the expected improvements and they are as follows: (1) It is essential to have such kind of a vertical and horizontal inter-agency coordination; (2) It is important for the local government to improve any tactical and technical matters related to the administration, management, information, human resources (HR) especially to support the achievement of the effective, efficient, transparent and accountable finance management of the local government; (3) It is critical to conduct such a strict supervision and guidance on the implemented systems of management and accounting under the regulations of the local budget system so that some deviations will be easily detected, anticipated and corrected, and followed up systematically and comprehensively.

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