

Analysis of Regional Financial Information Systems As A Media of Regional Financial Management Transparency In Indonesia

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Abstract. This study aims to analyze the transparency of local financial management as an effort to improve and accountability of regional financial information systems in Indonesia. The research method used the qualitative approach. The technique of collecting data using literature study and documentation. As for testing the validity of data using data triangulation. While the data analysis techniques used are the intensive analysis of the data that has been obtained with steps of data collection, data reduction, data classification, data presentation, and conclusion. The results show that the management of local finance in Indonesia has experienced a thorough correction of its management system. In general, local governments have applied transparency and accountability in financial management. However, in terms of accounting recording is still required the existence of coaching and further training, because it is not fully in accordance with the provisions. Regional Financial Information System (RFIS) is an information technology-based system that can provide information to the public regarding the accountability of Local Government in carrying out its duties, especially in the management of local finances. RFIS is one form of government transparency in local financial management.

1. Introduction

Regional Financial Information System is a series of procedures starting from the process of collecting data, recording, summarizing, to financial reporting that can be done manually or using computer applications [1]. In accordance with Government Regulation Number 105 of 2001, regional governments have the authority to establish systems and procedures for regional financial management in the form of Regional Regulations. The system is very necessary for fulfilling the obligations of the regional government in making the financial accountability report of the region concerned. However, what needs to be considered at the time of system development is an understanding of user needs [2], because user satisfaction is one of the important factors to measure the success or effectiveness of information systems [3].

The quality of good local governance is not only determined by accountability, transparency, community participation and the rule of law [4]. However, good quality of governance is also determined by other factors such as responsiveness, consensus orientation, equity-efficiency, and strategic vision. This is in accordance with the characteristics of the implementation of government as expected by UNDP and the World Bank. In institutional reform, financial institutions have important consequences for the performance of government spending, both in terms of expenditure levels, expenditure composition, and deficit rates. This shows that appropriate institutional design can help



reduce problems, the divergence between public preferences and what the public sector providers, as well as fiscal waste [5].

One of the performances of the local government is shown in the presentation of local government financial statements [6]. In fact, the mechanism of regional financial accountability does not work well, especially for the community. Accountability and transparency of local government financial reports are not well understood by the public as a user. Most people do not have sufficient knowledge about government activities in financial management, regional assets, and accounting [7]. Therefore, at the time of preparation of financial statements must be prepared by personnel who have competencies in the area of regional financial management and accounting systems [8].

The Regional Financial Information System is rationally needed in the provision of comprehensive regional financial information to the wider community as well as the basis for officials of fiscal policymakers in making decisions [9]. This is a form of local government responsible for all development outcomes in accordance with Law No. 14 of 2008 and Government Regulation No. 61 of 2010. Local governments need to optimize the use of information technology advancements to build network information systems and work processes [10]. This allows regional governments to work in an integrated manner by simplifying access between work units so that they can improve their capability in financial management.

The use of information technology will greatly help accelerate the processing of transaction data and presentation of government financial reports so that the financial statements do not lose the value of information [11]. Measuring the success or effectiveness of local government SIKD is very important. This is to provide an understanding of management actions regarding the value and investment of information systems to be able to support managerial decision making and the implementation of various regulations related to regional financial management.

In carrying out its duties, the Regional Government is obliged to manage regional finances in accordance with their needs to improve facilities and infrastructure in the area. But in reality, according to the results of research by several local governments, they abuse their power in managing regional finances for their interests [12]. The impact of the abuse of power is the slow pace of regional development due to reduced regional budgets and diminishing public trust in the government.

To oversee regional financial management, an application is needed that can inform the public about regional financial management [13]. However, although there is the use of information system technology, does not effect on the quality of financial management [14]. Therefore, the key to financial management is the competence of its human resources. The results of the study are in line with other studies which show that out of the 524 regional governments, 68.89% of the local governments have used financial information systems, and the remaining 31.11% have not been known for certain systems used in regional financial management [15]. However, even though as large as using financial information systems, the quality of financial reports produced is far from being an element of transparency.

2. Research Method

This study uses a qualitative approach by analyzing the transparency of local financial management as an effort to improve and accountability of regional financial information system in Indonesia. With the qualitative research design, the author will analyze the actual state of transparency in the financial management of local governments as an effort to improve and account for information systems.

Sources of data were obtained from literature study studies relating to the object under study. Data analysis is done by triangulation of source and data type. Interpretation is done refers to the theory, the results of previous research, the opinions of experts, and the sharpness of the researcher's thinking.

3. Result and Discussion

3.1. Regional Financial Management

To improve transparency and accountability of local financial management, the central government has made a thorough correction of the local financial system. The first correction is to integrate local

budgets by eliminating the distinction between routine budgets and development budgets. The budget year is now revised in accordance with the calendar year from the previous ending on March 31.

Regional financial administration and accountability are fundamentally changed. The type and format of local financial statements now enforce a paired bookkeeping system, using a computerized integrated accounting system. The second correction was to socialize Government Accounting Standards (GAS) on June 13, 2005. This GAS was the first issued by the government after sixty years of the Republic of Indonesia was established. The third correction is by issuing Law no. 15 of 2006 which restores the independence and independence of the Supreme Audit Board and at the same time expands its examination object.

Later in the Law of the Republic of Indonesia, Number 32 the Year 2004 on Regional Government requires several improvements in the management of regional finances, especially in aspects of budgeting, accounting, and examination. The series of changes leads to the management of regional finances based on the concept of money follow function, which is economical, effective, efficient, transparent and accountable for the financial management implemented in a performance-based budgeting system. The concept itself contains three elements that must be done by the local government in carrying out its public service functions, namely; can economically minimize the input resources used, efficiency achieve optimal results with minimal cost (output/input) and effectiveness to achieve the set target (outcome/output).

Based on budgeting in accordance with local financial capacity, directed and managed based on the authorization function as a basis for carrying out revenues and expenditures for the year. The functions include: (1) The function of planning, as a guide for management in planning activities in the year concerned; (2) The function of supervision, a guide to assess whether the implementation of local government activities in accordance with the stipulated provisions; (3) Allocation Functions, directing local budgets to create jobs, reducing unemployment and wasting resources, and improving economic efficiency and effectiveness; (4) Distribution function, ie the regional budget policy should pay attention to the sense of justice and properness; and (4) Stabilization Function, a tool to maintain and strive for a fundamental balance of the regional economy.

The preparation of regional budgets and expenditures shall be based several of budgetary norms and principles as guidelines and terms of reference in the preparation. A number of these norms and principles, including transparency and accountability of local budgets, budget discipline, budgetary justice, efficiency and budget effectiveness [16].

Public accountability demands local governments not only to do vertical reporting but more importantly to do horizontal reporting as a form of public accountability, covering some basic matters, namely the accountability of local regulations, process accountability, program accountability and policy accountability.

The regional accountability is related to the guarantee of compliance with other laws and regulations in the use of public resources. Accountability processes associated with the procedures used have provided fast, responsive and low-cost public services. Program accountability relates to the consideration of whether the objectives set are flexible and realistic, where the local government has considered alternative programs that can provide optimal results with minimal cost. Policy accountability relates to government accountability to political policies adopted by governments and legislatures.

Starting from the norms and principles of the budget, the budget policy in terms of income, expenditure, and financing to pay attention to the following matters:

(1). The budgetary fiscal gap in the form of deficit/surplus between income and expenditure.

The magnitude of the deficit is allowed as long as it remains below the threshold limit, which is permitted by legislation. The budget deficit contributes to the regional inflation rate.

(2). Local budget allocations illustrate the comparison between apparatus and public expenditure with direct expenditure and indirect spending.

This comparison is an indicator to measure the alignment of local government budgets to the interests of community services. Indirect spending consists of personnel expenditures, revenue-

sharing, social assistance spending, financial aid expenditures and unexpected expenditures. While direct expenditure consists of personnel expenditure, goods/services expenditures and capital expenditures which are used to finance the implementation of government affairs which become the authority of the district.

3.2. Transparency and Public Accountability

Transparency and public accountability are one of the key requirements to create a good, clean and responsible government. Transparency and accountability are also instrumental in evaluating the achievement of local government performance and responsibility in the prosperity of the people. Therefore, the Regional Revenue and Expenditure budget should be able to provide clear information about the objectives, targets, and benefits the community derives from an activity or budgeted.

The phenomenon that occurs in the development of the public sector in Indonesia today is the strengthening of accountability demands for public institutions, both at central and regional levels. Accountability can be interpreted as a form of obligation to account for the success or failure of organizational mission implementation in achieving predetermined goals and targets, through a periodic accountability media [17].

Basically, accountability is the provision of information and disclosure of financial activity and performance to interested parties [18]. Governments, both central and local, should be subject to the information given in the context of the fulfillment of public rights, namely the right to know, the right to be informed, and the right to be heard of his aspirations.

The dimensions of public accountability include legal accountability and honesty, managerial accountability, program accountability, policy accountability, and financial accountability. Managerial accountability is the most important part of creating the credibility of local government management. The non-fulfillment of the principle of accountability can have widespread implications. If the community views the local government as unacceptable, the community may demand a change of government, the replacement of officials, and so forth. Low levels of accountability also increase the risk of investing and reduce the ability to compete and perform efficiencies.

Management is responsible for the community because the funds used in the provision of services come directly from the community, or indirectly. The pattern of accountability of local governments is now more horizontal, in which local governments are accountable both to the Regional Parliament and to the wider community. However, in reality, most local governments are more concerned with accountability to the Regional Parliament than the wider community [19].

Governmental Accounting Standards Board in Concepts Statement No. 1 on Objectives of Financial Reporting states that accountability is the basis of financial reporting in government based on the right of the community to know and accept explanations for the collection of resources and their use [20]. The statement shows that accountability allows the public to assess government accountability for all activities undertaken. Concepts Statement No. 1 stressed also that government financial reports should be able to assist users in economic, social, and political decision making. It is then able to compare actual financial performance with the budgeted, assess the financial condition and results of operations, help to determine the level of compliance with laws and regulations related to financial issues and other provisions, and assist in evaluating the level of efficiency and effectiveness.

The preparation of financial statements is a form of transparency requirement which is a supporting condition of accountability in the form of government openness to public resource management activities. Transparency of information, especially financial and fiscal information, should be done in a relevant and easily understood form [18]. Transparency can be done if there is clarity of duties and authority, the availability of information to the public, an open budgeting process, and an independent party's integrity guarantee on fiscal forecasts, information and its elaboration. At present, the Government already has Government Accounting Standards which are the accounting principles applied in preparing and presenting the financial statements (Government Regulation No. 24 of 2005).

3.3. *Transparency as an Improvement of Regional Financial Information System*

The weaknesses in the local financial system in Indonesia have been in effect for a long time. These weaknesses include the design and implementation of internal control systems, non-compliance with statutory regulations, irregular state financial storage, lack of information about state assets and debts, and disclosure of more budgetary remainder.

Local governments usually do not report accurate and timely local financial position. Therefore, the people and the Regional Parliament cannot effectively use the budgetary rights. The people and the local parliament do not know exactly how much the local budget is, the spending structure and its use. Information about the contingencies of state revenue and expenditure is unknown because it is not disclosed by the local government in its revenue and expenditure budget. Such a bad system is not informative to know the local financial position so it can not be used as a basis for decision-makers and to anticipate the future.

One of the main pillars of regional autonomy is the regional authority to manage independently the regional finances. In managing regional finance, local governments need to pay attention to the principles of state financial management, especially the transparent principle [21].

The transparent principle is the principle that open to the right of the people to obtain correct, honest and non-discriminatory information about the implementation of local government while still paying attention to the protection of private rights, class, and the secret of local government.

But in reality, the principle of transparency has not been fully able to guarantee the public to obtain information on what policies are taken by the local government. The lack of transparency has led to widespread local government abuses its power, especially in the management of local finance. To minimize the increasingly widespread local government that abuse its power, through Law Number 33 the Year 2004 on Financial Balance between Central Government and Local Government mandates the support of a system to support the formulation of national fiscal policy and increase transparency and accountability in regional development.

Given the mandate of the law on the financial balance between the central government and local governments, a government regulation on the integrated application can be made available to inform the public about the management of regional finance called the Regional Financial Management Information System (RFMIS).

According to Article 1 paragraph (15) of the Government Regulation of the Republic of Indonesia Number 65 Year 2010 concerning Amendment to Government Regulation Number 56 Year 2005 concerning Regional Financial Information System, what is meant by RFMIS is a system that documents, administers and processes local financial management data and other relevant data into information presented to the community and as a decision-making material in the framework of planning, implementing and reporting local government accountability.

As meant in Article 12 letter e of the Government Regulation, the government is obliged to present the Regional Finance Information openly to the public. by presenting the report to the public through information technology-based systems, the community will be able to know the work of Local Government, especially in managing local finance.

The advantages of RFMIS is to facilitate the public to obtain information about the performance of local government in the management of state finances. This, of course, can help the community in overseeing the performance of Local Government to be better. In addition, the RFMIS can facilitate the Central Government to examine all reports of accountability made by the Regional Government.

4. Conclusion

Regional financial management in Indonesia has undergone a complete overhaul of its management system. These improvements include (1) Structure, format, and financial reporting period; (2) Accounting policies adopted by the enactment of government accounting standards, and (3) Providing the freedom and independence of the Supreme Audit Agency while expanding the object of its examination. Transparency and accountability of local government have been realized by delivering financial reports appropriately in accordance with the laws and regulations. Regional financial

information systems have been widely applied by each local government. With the information technology-based regional financial information system, the community will easily access the performance of the Regional Government both in terms of successes and failures in regional financial management. However, budget leaks still occur in some local governments because they have not been in accordance with the provisions.

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