

CHAPTER I

INTRODUCTION

A. BACKGROUND

Indonesia is a Unitary State that adheres to the principle of decentralization. Decentralization is the devolution of power from the central government to the local governments based on the Principle of Autonomy. In carrying out the regional autonomy system, local governments have obligation to manage their own natural resources, human resources, and financial resources optimally.

The structure and procedures for administering regional government are regulated in Law of Republic Indonesia. Law No. 23 of 2014 concerning Regional Government affirms that the implementation of regional government is to accelerate the realization of public welfare through improving services, empowerment, and community participation, as well as increasing regional competitiveness by taking into account the principles of democracy, equity, justice and distinctiveness of a region in the system of the Unitary State of the Republic Indonesia.

The main activity of the government as the public sector is related to the supply of goods or services in order to meet public needs. In carrying out its activities, the central government and regional governments certainly use public funds. Therefore, the government as the public sector is required to manage public funds economically, efficiently and effectively. In addition, the government is also required to provide a form of accountability in the use of public funds. The government should be

recorded and reported any use of public funds in the financial statements. This is in accordance with the stipulation of Law No. 17 of 2003 concerning State Finance, Law No. 1 of 2004 concerning State Treasury. Accountability is always linked to good governance, without good governance, human rights cannot be respected and protected in a sustainable manner. Government who has good governance can control and manage public funds and make sure the realization of human rights, free from abuse of power and corruption, as well as obeying the rule of law (United Nations, 2012). The implementation of good governance can be achieved through the application of accountability system that is precise, clear, measurable and legitimate so that the administration of government and development can be effective, clean and accountable (Sundari and Mulyadi, 2018). However, the current phenomenon regarding financial accountability is the finding of non-compliance with the provisions of laws and regulations that have financial impacts resulting in losses (Ichlas, Basri and Arfan, 2014).

As stakeholders, the community has the right to obtain an explanation through accountability; budgeting, reporting and disclosure of all government activities. To measure financial accountability of a region can be seen from several factors, including budgetary participation, accessibility of financial reports, transformational leaderships and internal control. In using public funds, the first stage carried out by the government is by planning and budgeting. The budget may also be regarded as statement concerning the estimation of the performance to be achieved over a certain period of time by the size of the financial institution (Kahar, Rohman and Chariri, 2016).

Budgeting in the public sector, a process that is quite complex and contains political content (Kahar *et al.*, 2016). In preparing the budget, of course not only the government is involved, but also the community as potential users is expected to be able to participate in planning and budgeting activities. With the direct interaction between the government and the community, it is expected to increase the accountability of the government. Other than that, with the participation of the community can help the government to know public needs clearly. According to Kewo (2014) there are two main reasons why participatory budgeting is necessary:

1. The corporate of superiors and subordinates in the participatory budgeting process will stimulate controlling asymmetric information and uncertainty of task.
2. Participatory in budgeting process can reduce the weight and pressure of task and the management will get the job satisfaction, the positive impact will further improve its performance.

In practice it is possible to emerge a pseudo participation process in budgeting, which is when input or opinion from subordinates is ignored or not taken into consideration in the final budget decision (Hayuwati and Halim, 2018). Aside from budgetary participation, the accessibility of financial reports is a prerequisite that can increase regional financial accountability. Financial statements are structured reports that provide information about financial position and recording all transactions carried out by an entity. Therefore, the financial statements of an entity should be easily accessible to the users of

financial statement. The inability of financial statements in carry out accountability, not only caused by financial statements that do not contain all the relevant information needed by users, but also because the report cannot be accessed easily to potential users (Steccolini, 2002). Nevertheless, in reality the ease of accessing financial statements still does not applied well. The general public still cannot access the government financial reports because there are certain conditions, such as letters of recommendation from lecturers or universities and research proposals. Submission of recommendation letters or research proposals certainly cannot be met by the general public who are not involved in the world of education or those who are not conducting research. Whereas the good application of financial accounting system and an easy access for the public to obtain the information of financial reports greatly determines the level of transparency and accountability of regional finance (Ichlas *et al.*, 2014).

Human resources play an important role in increasing regional financial accountability. The leadership of the organization takes a very important role in leading the organization to achieve the goal. Therefore, a leader is needed to be able to influence his subordinates. Through transformational leadership, leaders are expected to be able to engage their subordinates to actively participate in increasing regional financial accountability. One of the government's efforts to achieve public accountability is internal control. The internal control is regulated in Government Regulation No. 60 of 2008 concerning the government's internal control system. Internal control within government

organizations is often also termed as management control (Kewo, 2014). Control over the administration of government activities is needed in achieving effective, efficient, transparent and accountable management of the finances state (Hayuwati and Halim, 2018).

This research is a development research of Hayuwati (2018) entitled *“Pengaruh Partisipasi Penyusunan Anggaran, Aksesibilitas Laporan Keuangan, dan Pengendalian Internal Terhadap Pertanggungjawaban Keuangan Daerah Kabupaten Klaten”*. The difference between this research and previous research is existed in the research object and additional of independent variable *and the indicators of regional financial accountability used in this study was the indicators of performance accountability system of government agencies from the Ministry of Administrative Reform and Bureaucracy Reform*. Ciamis Regency is one of the regencies in West Java Province. Ciamis Regency was ranked 25th out of 26th in the independence of districts and cities of West Java Province in 2009-2013 (Asri, 2016). In addition there are several problems of regional financial accountability in Ciamis such as the ability to operate of SIPKD that has not been optimal, accordingly the public cannot access to the financial statements of the Ciamis Regency (Apip and Maesaroh, 2016). Law No. 15 of 2004 concerning the Inspection, Management and Responsibility of State Finances states that the opinion given by the Audit board of Republic Indonesia (Badan Pemeriksa Keuangan) consists of Unqualified Opinion, Qualified Opinion, Adverse Opinion and Disclaimer Opinion. The target of financial accountability proclaimed by the

government is 60% of the total number of regional governments in 2014 must obtain an Unqualified Opinion. Ciamis Regional Government's financial reports have received Unqualified Opinion since 2014. In addition, the Ciamis Regional Government has got B for the performance of Ciamis accountability since 2017 while in the previous year it was awarded as CC.

Table 1. 1
BPK's opinion on local government financial reports and predicates of SAKIP

CIAMIS		
Year	Accountability of financial statements	Performance accountability system of government agencies (SAKIP)
2014	Unqualified Opinion	CC
2015	Unqualified Opinion	CC
2016	Unqualified Opinion	CC
2017	Unqualified Opinion	B
2018	Unqualified Opinion	B

Source: *Badan Pemeriksa Keuangan* and the Ministry of Administrative Reform and Bureaucracy Reform (processed by researchers)

The Corruption Perception Index (CPI) of Indonesia is currently very low. Indonesia's Corruption Perception Index score in 2018 is 38 (Transparency International, 2018). If the CPI value is getting closer to 0, indicating that a country has a lot of corruption. On the other hand, if the CPI score is close to 100 means the country has no corruption cases. Based on the KPK annual report (2018) there was 121 people suspected of corruption. In addition, 19 regional heads have been engaged of corruption cases. Out of 19 regional heads, 5 regional heads are from West Java. This demonstrates that corruption often happens in West Java. During 2019 until the end of December (2019) the Attorney General's Office Ciamis managed to secure state funds of Rp. 426 million related to corruption cases (Nurhandoko, 2019). In the end of December

(2019) there were three corruption cases being handled by the Attorney General's Office Ciamis. The corruption case are related to the budget for food and drink at Pangandaran Regional Election Commission, fingerprint attendance machines within the Education Office, *UPTD*, community health center and Ciamis sub-districts, as well as the Situ Lengkong tourism object levy. This practice shows that the internal controls applied have not been able to guide government towards a transparent and accountable bureaucracy. From the background explanation above, the writer decided to take a title that will be examined later, namely:

“The effect of budgetary participation, accessibility of financial reports, internal control and transformational leadership on regional financial accountability in Ciamis Regency”.

B. PROBLEM LIMITATION

There are several things that can affect regional financial accountability, in this case it is limited to the factors that influence regional financial accountability in the perspective of the government. The accessibility of financial reports should be view by internal stakeholder (government) and external stakeholders (public), in this study the accessibility of financial reports was only the perspective of internal stakeholders (government). This is due to time constraints and the ability of researchers.

C. PROBLEM FORMULATION

1. Does budgetary participation has a positive effect on regional financial accountability?

2. Does accessibility of financial reports has a positive effect on regional financial accountability?
3. Does transformational leadership has a positive effect on regional financial accountability?
4. Does internal control has a positive effect on regional financial accountability?

D. RESEARCH OBJECTIVES

1. To test whether budgeting participation has a positive effect on regional financial accountability.
2. To identify a positive effect of accessibility of financial statements on regional financial accountability.
3. To examine a positive effect of transformational leadership on regional financial accountability.
4. To test whether the internal control has a positive effect on regional financial accountability.

E. RESEARCH BENEFITS

This research is expected to be a reference for subsequent studies that conduct research related to financial accountability. In addition, this research is expected to provide input or contribution in the development of economics, especially in the program of accounting. This research is also expected to contribute in improving the financial accountability in Ciamis Regency.