

Perspective of Political and Management in the Regional Financial Management Synergy

Anwar¹, Dina Suryawati², Hermanto Rohman³, Honest D Mollasy⁴, Agus Suharsono⁵

^{1, 2, 3, 4, 5}Faculty of social and Political Sciences, University of Jember, Indonesia

Abstract: *Regional financial management is a complex and multi-dimensional matter. Financial performance achieved by the regions is a reflection of the synergy of various dimensions and actors. Various problems, distortions and relations in the political and managerial dimensions in the management of regional finances are very important to be parsed scientifically. This research was conducted in Jember Regency by analyzing financial management for the 2017-2019 fiscal year. Instruments for analyzing patterns, relationship distortions in political and managerial dimensions refer to the McNabb analysis stage (McNabb, 2002). The data in this study were obtained from mass media and informants through focus group discussions. Political and managerial relations in the management of regional finances emerged especially when making memorandum of understanding in the budget discussion process. Distortion occurs when on the one hand the executive offers program plans, activities and budgets accompanied by the wishes and interests of the regional head while the legislative requirements with political and constituent interests. If we look at the pattern of discussion of budget plans, one side of the executive carries the mandate of the regional head while on the other hand the legislature does not have enough knowledge in the field of budgeting so that the process of sharing and training among actors runs tough. The power context is not only limited to normative political authority, but can be related to the competence and quality of its human resources. While on the other hand, managerial patterns and character and leadership of regional heads greatly affect the effectiveness of planning, implementation and accountability of local budgets.*

Keywords: management, finance, planning, accountability, budget

1. Introduction

Regional financial management cannot be separated from three dimensions namely the political dimension namely the regional legislative body, the managerial namely the regional head and the budget team and the legal dimension which is the legislation set by the central government. In the context of regional budgeting Rubin (Rubin, 2000), states that "public budgeting is characterized by a variety of budgetary actors who have different priorities and different levels of power over budgetary outcomes". This means that public financial management is inseparable from the condition of the many parties with different preferences and interests.

The relationship between the legislature and the executive in managing regional finances appears at the budgeting stage. Budgeting is divided into four stages (Von Hagen, 2002), namely: 1) executive planning, 2) legislative approval, 3) executive implementation and 4) ex post accountability. In the same context Mullins (2007) also divides the budget process into four stages namely preparation, approval, execution and audit and evaluation (Shah, 2007). In the first two stages, interaction between the executive and the legislature takes place. While Smith and Bertozzi (Smith & Bertozzi, 1996) held that "the application of the main agent model by practitioners offers stronger analytic tools for preparing and implementing public budgets". The interaction between the executive and the legislature in the budget process cannot be separated from agency relations (Abdullah & Asmara, 2006). In the agency the relationship between the executive and the legislature acting as the agent is the legislative and executive as the principal. In the setting of legislative decision making, a legislator as a whole acts as the principal who delegates tasks to design alternative policies to existing policies to an expert agent such as the government (Abdullah & Asmara, 2006) (Badrudin, 2012).

Principal-agent interaction starts when the agent makes a proposal and ends when the principal accepts or rejects the proposal (Abdullah & Asmara, 2006). The possibility of moral hazard occurs when each has personal interest (Johnson, 2016). The existence of discretionary power will cause violations of agency contract, therefore the greater the discretionary power possessed by the legislature, the greater their tendency to prioritize their self-interests (Abdullah & Asmara, 2006).

Regional financial management is a complex and multi-dimensional matter. Financial performance achieved by the regions is a reflection of the synergy of various dimensions in the management of regional finances. Various problems and the distortion of relations between the political, managerial and legal dimensions are very important to decipher. The synergy model of regional financial management at the planning, implementation, accountability stages of the political and managerial dimensions is needed to create effective, efficient, accountable and transparent financial management.

2. Regional Financial Management and Budget Politics

Regional financial management according to Regulation No. 58 of 2005 is the whole activity which includes planning, implementation, administration, reporting, accountability, and supervision of regional finances. When talking about regional financial management, it will not be separated from the budgeting process. The budget reflects choices about what the government will and will not do, and reflects a general consensus on what types of services the government will provide (Rubin, 2000). The budget is also the main tool of the government to carry out all obligations, promises and policies into a concrete and integrated plan, what actions

will be taken, what results will be achieved at what cost and who will pay these costs (Dobell & Ulrich, 2002).

Rubin (Rubin, 2000) states that public budgeting is a reflection of the relative strengths of various budget actors, each of which has different preferences. The budget is a performance contract and work process between the executive and the legislature (Von Hagen, 2002). Operational processes between the executive and legislative branches in the budgeting process lead to agency relations. In this agency relationship, the executive is the agent and the legislature is the principal (Halim & Kusufi, 2007). Agent-principal interaction occurs when an agent makes a proposal and ends when the principal accepts or rejects the proposal. Information asymmetry is one of the focuses of agency theory. On the one hand the agent has more information about actual performance, motivation and goals to be achieved, while the principal must spend to monitor agent performance and determine the structure of incentives and efficient monitoring (Petrie, 2002). In another dimension Johnson (Johnson, 2016) calls this executive and legislative relationship with the self-interest model. Legislators want to be re-elected, bureaucrats want to maximize their budgets and constituents want to maximize their utility.

In the budget formulation process, the legislature has the authority to accept or reject budget proposals submitted by the executive, and the bureaucracy responds to the pressure exerted by the legislature in the budget policy making process (Johnson, 2016). The important role of the legislature is to represent the interests of the community and oversee government performance (Dobell & Ulrich, 2002), but on the other hand legislative capacity and resources are still limited because they do not have enough knowledge in the field of budget (Hanida, 2010). Moral hazard and violations arise when the discretionary power possessed by the legislature increases, so that their tendency arises to prioritize the interests of themselves and their constituents (Elgie & Jones, 2000).

3. Research Methods

The research aims to design a model of regional financial management synergy from the political and managerial dimensions. To analyze patterns, distortions and relationships between political dimensions the managerial dimension refers to the McNabb analysis stage (McNabb, 2002) with five analytical procedures, namely: 1) organize the data, 2) generate categories, themes, and patterns, 3) code the data, 4) apply the ideas, search for alternative explanations and 5) write and present the report.

The polemic and the dynamics of regional financial management in Jember Regency made the main reason for researchers to take Jember Regency as a research location.

Some financial dynamics that occur in Jember Regency include: at the end of 2017 Jember Regency received a warning letter from the Governor because it had not immediately finished the 2017 Regional Budget and Revenue discussion, there was a delay in the determination of the Regional Budget for 2018 which was enough to grab the public's attention and in January 2019, the Government of Jember Regency has successfully finalized the determination of the 2019 Regional Revenue and Expenditure Budget. All phenomena of financial management that occurred in Jember Regency are very interesting dynamics to be studied from a scientific point of view.

The data needed in this study are secondary data and primary data. Secondary data was obtained from tracking of financial documents while the primary was obtained from interviews and Focus Group Discussions with informants who were competent with the aims and objectives of the study.

4. Result and Discussion

Financial Management Patterns in Jember Regency

In this research, the pattern of financial management in political and managerial perspectives in Jember Regency is analyzed based on three stages namely planning, implementation and accountability of the budget.

Budget Planning

The process of preparing local budgets is a series of activities that begin with the regional planning process. The elected regional head must pour his vision and mission into the Regional Medium Term Development Plan (RPJMD) document. It is expected that each work plan of the local government annually leads to the Regional Medium-Term Development Plan that has been prepared previously.

The dynamics of the preparation of the Regional Medium-Term Development Plan arises when the elected district head pairs then confront the planning team in Development Planning Agency at Sub-National Level (Bappeda). This is the 'normal' phenomenon when the elected district head designs a plan in accordance with his 'interests' so that this is more clearly colored in the design of the plan. The consistency between planning documents should actually start from the Regional Long-Term Development Plan (RPJPD) that is prepared in a span of 25 years. In compiling the Regional Medium-Term Development Plan the selected regional head must be based on the time line of the Regional Long-Term Development Plan that has been previously determined. The model below illustrates that regional planning documents must be built on the basis of consistency.

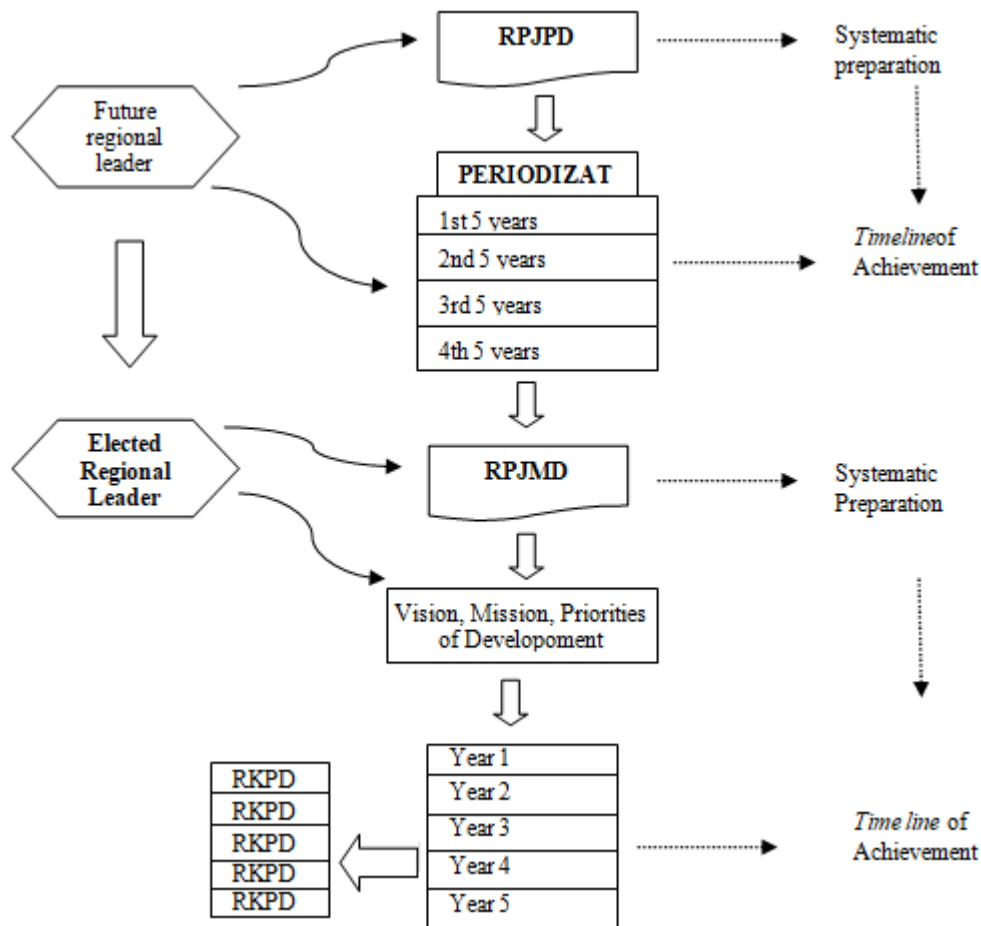


Figure 1: Consistency Model of Regional Planning Documents (Suryawati & Helpiastuti, 2016)

The elected regional head, in a period of three months at the latest must make the RPJMD. The vision created in this RPJMD must be consistent with the periodization contained in the RPJPD. For example, the elected regional head is now in the fourth period of the RPJPD period, so the vision contained in the RPJMD must be aligned with the development directions listed in the periodization (Suryawati & Helpiastuti, 2016). This medium term plan will then be implemented annually through the regional government work plan (RKPDP).

In the annual cycle, the Regional Government Work Plan will then be poured into the budget plan. Technically, the work plan is poured into the General Budget Policy and Priority and Provisional Budget Ceiling. The General Budget Policy is a meeting room to unite the government agenda consisting of vision, regional mission, strategic planning, past performance of central government policies and regional financial assumptions / estimates. General Policy The budget contains a general development agenda which is used as an umbrella to determine the direction of spending for each Regional Work Unit for one fiscal year by previously gathering the aspirations of the community.

Empirically, the discussion of the General Budget Priority-Budget Policy and Provisional Budget Ceiling in Jember District was marked by a 'difficult' of discussion, even in 2018 the Governor must intervene to facilitate both parties (the regional head and the Regional Representative Council). Based on the information in the field, this situation occurs

because of the impression of 'hostage' by the Regional House of Representatives after the corruption case of grants and social assistance involving the chairman of the House of Regional Representatives of Jember in 2018. The existence of this case seems to have the impression that the motion of legislative members is taken hostage so that what is proposed the legislature was finally approved and accepted. Apart from that problem, the discussion on the General Budget Policy - Priority and Provisional Budget Ceiling is a quite long and time-consuming discussion. Nevertheless, based on the information in the field, this long discussion did not significantly influence or change the budgeting and allocation proposed by the executive.

Empirically, the existing budget in Jember is more incremental and old style where the existing income and expenditure budget is still based on the previous year, and the discussion between the executive and the legislative is only a matter of raising or lowering the figures from the previous year. This fact justifies that the function of the legislative are not only to criticize the magnitude of the budget value but the relevance and knowledge and competency for innovation of the program proposed by the executive are also important.

Budget General Policy Discussion - Budget Priorities and Ceiling While heading to the memorandum of agreement is a process of mutual influence between various parties (both executive and legislative). So in this case there are two camps that face each other and have mutual provisions and

interests. At this stage the process occurs comparing the proposals of one agency and another including rationalizing the amount of the budget, so that the legislature must have the competence to deal with offers submitted by the executive. This becomes important when empirically fielded that in the process of discussing the General Policy Budget - Priority and Ceiling of the Provisional Budget goes tough because each one is carried away by ego and then what happens is not to change the budget composition significantly.

The executive and legislative branches must have the same competence when faced with the discussion of the Provisional Budget - Priority and Ceiling Budget Policy. While this is happening is that the executive offers program plans, activities and budgets accompanied by the wishes and interests of the regional head while the legislative requirements with political and constituent interests. This phenomenon is termed the broker phenomenon in which the

substantive interests of each actor involved turns out to slip the hidden interests of the actors themselves and by the order of external actors (HANIDA, 2010). Such phenomena are common, but academically it must be a problem that must be solved at least conceptually. The phenomenon of broker and by order occurs when the actors are not qualified enough in terms of competence, while on the other hand the legislature specifically has the authority to express opinions to approve or reject the budgeting program planned by the government.

Competence refers to behavioral dimensions so it is often called behavioral competence (Armstrong & Baron, 1998). Competence becomes an important thing in budget politics because in the budget political process it involves behaviors that affect each other between various interested parties namely the executive and legislative branches. In simple terms the competencies needed in discussing the budget are as follows:

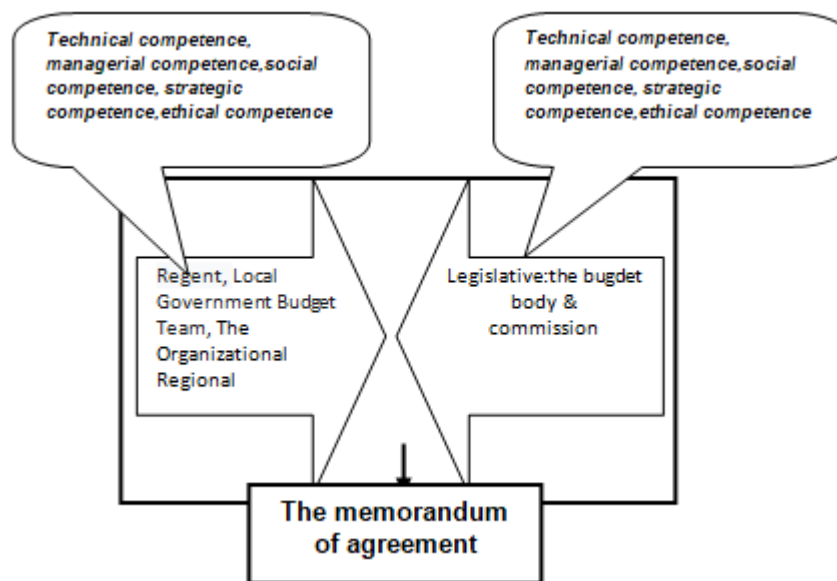


Figure 2: Actor Competency Model in APBD Discussion

The synergy between the regional head, OPD and DPRD is the key to the process of budgeting politics (Karianga, 2017). Agreement in budget discussions will be easier to achieve when the two actors (executive and legislative) have balanced competence. Rothwell (Rothwell & Sredl, 2000) identifies the competencies needed in carrying out their duties and responsibilities including: 1) technical competence is technical competence which in practice is a special skill and ability needed to carry out its tasks, 2) managerial competence related to managerial ability, namely in terms of planning, organizing, mobilizing and monitoring, 3) social competence that is the ability of a person to interact with other parties, 4) strategic competence that is the ability to see far ahead so that they can formulate policies strategically and 5) ethical competence that is the ability to carry out their duties and responsibilities with ethical and moral considerations.

The planned program of activities and budgets proposed by the executive (Regional Head, Regional Government Budget Team or Regional Apparatus Organization) is the result of a series of political, participatory and technocratic planning.

Specifically technocratic, the budget plan proposed by the executive is the result of a scientific framework of thought carried out by institutions that are functionally assigned to formulate work plans. However, on the legislative side based on empirical facts and previous studies (HANIDA, 2010), the level of ability and competence of legislative members is still weak and does not have sufficient knowledge in the field of budgeting. The level of ability of legislative members in carrying out their duties and obligations in accordance with their functions can be seen from the level of competency of each individual (Wahyuningsih & Sakti, 2010). The ability possessed must be in accordance with the fields related to the duties as legislative members. There are several factors that influence the competence of legislative members, among others (Thoha, 2002): 1) ethics and morals have not been determined, 2) member recruitment system, 3) quality of education and member experience, and 4) low motivation of members for the interests of the people. The pattern of relations between the executive and the legislature that is less harmonious is caused by several factors, namely (Wance, 2016): 1) interest, 2) ability factors which include member background, individual factors and organizational

factors. If we look at the pattern of discussion of budget plans, one side of the executive carries the mandate of the regional head while on the other hand the legislature does not have sufficient knowledge in the field of budgeting so that the process of sharing and training between actors runs strong. The context of power is not only limited to political authority normatively, but can be linked to human resources owned by the legislature, both the legislature's ability to capture the aspirations of the community and actors who discuss Regional Budget Revenues and the ability to explore data and information as well as community problems comprehensively (Wance, 2016).

Budget Execution

Based on information from www.jatimaktua.com accessed on August 24, 2019, that the hearing between the Financial Management Agency and the Assets of the Jember Regency together with the Regional Representative Council of Jember took place a lot. The meeting discussed the results of the examination of the Jember Regency Financial Examination Board for the 2018 fiscal year which received a red report card and the status of the Fair with Exception liability report. During the meeting the Deputy Chair of the Legislature asked the Regional Financial and Asset Management Agency regarding the distribution of deposits deposited in four banks at once. The amount of the deposit is more than IDR 274 billion in the East Java bank, IDR 150 billion in the *Bank Negara Indonesia*, IDR 150 billion in *Bank Tabungan Negara* and IDR 50 billion at *Bank Rakyat Indonesia*. While the amount of the saved budget reaches IDR. 624,662,748,811. The Regional Financial Management and Asset Management Agency has not been able to answer in detail the reasons for the distribution of funds.

Another problem related to budget implementation in Jember is the large amount of remaining Budget Financing. In the last three years (as accessed from <https://beritajatim.com>), the amount of Remaining Budget Funding in Jember Regency has increased. In 2016 the Remaining Budget Funding amounted to IDR 453 billion, in 2017 the amount of Remaining Over Budget Financing increased to IDR 617 billion, and in 2018 the remaining amount of Budget Financing has increased significantly to IDR 713 Billion, the amount of excess Budget Financing indicates that there are problems with financial performance and budget absorption, or because of inaccurate budget management (Accounting, 2016) There are indications that local government intentionally generate More Budget Funding to fund the next year's project budget, this relates to agency theory with the power of discretion, which is ineffective, although this practice is possible in modified cash-based financial statements (Accounting, 2016).

Empirically, the high amount of More Budget Financing in Jember is caused by several factors, among others: first, because of the high savings in banks as described previously, second, because the amount of expenditure allocation is not balanced with the management and absorption of expenditure and third is the pattern managerial is not good in the executive due to workloads that are overloaded because many officials have multiple positions and may be due to many executing officers who cannot decide on the budget due to limited authority. Over Time

Financing A high budget shows that the budgeting of the Regional Revenue and Expenditure Budget is not feasible and efficient and also means that planning and budgeting are not effective.

Budget Liability

The legislative oversight mechanism for the implementation of the Regional Revenue and Expenditure Budget by the Legislature is carried out to ensure that the implementation of the Regional Revenue and Expenditure Budget can be carried out in accordance with the stated goals and objectives. The stated objectives and targets are contained in the planning document both the Regional Medium-Term Development Plan and the Regional Government Work Plan. So in this case the context of oversight by the Legislature is to ascertain whether the decisions and programs implemented by the regional head are in accordance with the Regional Medium-Term Development Plan and the Regional Government Work Plan. Some of the technicalities carried out in relation to the mechanism of accountability of the Regional Revenue and Expenditure Budget carried out by the Legislature are: first, no later than 6 months after the fiscal year ends, the regional head submits a draft regulation on the accountability for implementing the Regional Revenue and Expenditure Budget in the form of an accountability report that has been examined by the Supreme Audit Board. Second, the intended financial statements contain the realization of the Regional Revenue and Expenditure Budget, balance sheet, and cash flow statement. Third, the head of the region and the Legislature will then discuss the draft of the Regional Regulation on Regional Revenue and Expenditures so that they get an agreement between the regional head and the legislature.

Based on the reality in the field, several factions requested that the Regional Head of Jember follow up all recommendations from the Audit Board of the Supreme Audit Board on regional government finances in 2018. The factions also requested that each Regional Apparatus Organization be more disciplined in absorbing the budget and implementing programs that had planned so that there is no more excess budget financing. This means that so that the Jember Regency Government can regain the opinion of the Fair without Exception, no longer fair with an Exception. The other faction also gave an opinion that the recommendation from the Supreme Audit Agency must be immediately followed up with a series of actions based on the principle of openness. Fair Predicate with Exception and recommendation of the Supreme Audit Board can be suggestions and input for regional heads in making policies.

5. Conclusion

- 1) Political and managerial relations in the management of regional finances arise especially when making memorandum of understanding in the budget discussion process. Distortion occurs when on the one hand the executive offers program plans, activities and budgets accompanied by the wishes and interests of the regional head while the legislative requirements with political and constituent interests.

2) If you look at the pattern of discussion of budget plans, one side of the executive carries the mandate of the regional head while on the other hand the legislature does not have enough knowledge in the field of budgeting so that finally the process of sharing and training among actors goes tough. The power context is not only limited to normative political authority, but can be related to the competence and quality of its human resources. Synergy will be created when two actors (executive and legislative) are equally competent. The competencies in question are: technical competence, managerial competence, social competence, strategic competence and ethical competence. While on the other hand, managerial patterns and character and leadership of regional heads greatly affect the effectiveness of budget execution

References

- [1] Abdullah, S., & Asmara, J. A. (2006). Perilaku oportunistik legislatif dalam penganggaran daerah. *Symposium Nasional Akuntansi*, 9, 23-26.
- [2] Akuntansi, M. M. (2016). ANALISIS BELANJA MODAL DAN FAKTOR-FAKTOR YANG MEMPENGARUHINYA PADA PEMERINTAH KABUPATEN/KOTA DI INDONESIA Sugiyanta. *Jurnal Akuntansi Universitas Jember-Vol*, 14(1).
- [3] Armstrong, M., & Baron, A. (1998). *Performance management: The new realities*: State Mutual Book & Periodical Service.
- [4] Badrudin, R. (2012). *Ekonomika Otonomi Daerah*: UPP STIM YKPN.
- [5] Dobell, P., & Ulrich, M. (2002). *Parliament's performance in the budget process: A case study*: Institute for Research on Public Policy.
- [6] Elgie, R., & Jones, E. (2000). *Agents, Principals and the Study of Institutions: Constructing a Principal-Centered Account of Delegation*: Centre for the Study of European Governance.
- [7] Halim, A., & Kusufi, M. S. (2007). Akuntansi sektor publik: akuntansi keuangan daerah. *Jakarta: Salemba Empat*.
- [8] HANIDA, R. P. (2010). *Dinamika penyusunan anggaran daerah:: Studi tentang proses penetapan dan alokasi anggaran belanja daerah di Kabupaten Sleman*. Universitas Gadjah Mada.
- [9] Johnson, G. (2016). *The dynamics of conflict between bureaucrats and legislators*: Routledge.
- [10] Karianga, H. (2017). *Carut-Marut Pengelolaan Keuangan Daerah di Era Otonomi Daerah*: Prenada Media.
- [11] McNabb, D. E. (2002). *Research methods in public administration and nonprofit management: quantitative and qualitative approaches*. New York: ME Sharpe: Inc.
- [12] Petrie, M. (2002). A framework for public sector performance contracting. *OECD Journal on Budgeting*, 1(3), 117-153.
- [13] Rothwell, W. J., & Sredl, H. J. (2000). *The ASTD reference guide to workplace learning and performance: Present and future roles and competencies* (Vol. 1): Human Resource Development Press.
- [14] Rubin, I. S. (2000). *The Politics of Public Budgeting: Getting and Spending, Borrowing and Balancing* (4th): New York: Chatham House Publishers of Seen Bridges Press.
- [15] Shah, A. (2007). *Local budgeting*: The World Bank.
- [16] Smith, R. W., & Bertozzi, M. (1996). Principals and agents: An explanatory model for public budgeting. *Journal of public budgeting, accounting & financial management*, 10(3), 325-353.
- [17] Suryawati, D., & Helpiastuti, S. B. (2016). Consistency and Reconciliation Model In Regional Development Planning. *JEJAK: Jurnal Ekonomi dan Kebijakan*, 9(2), 241-261.
- [18] Thoha, M. (2002). Efektifitas penyelenggaraan fungsi DPRD berdasarkan pendekatan kompetensi. *Makalah Diskusi Panel Profil DPRD Masa Depan. LAN. Jakarta*.
- [19] Von Hagen, J. (2002). Fiscal rules, fiscal institutions, and fiscal performance. *Vol. XX, No. XX, Issue, Year*.
- [20] Wahyuningsih, T., & Sakti, S. W. K. (2010). KAJIAN KOMPETENSI ANGGOTA DEWAN PERWAKILAN RAKYAT DAERAH KABUPATEN-KOTA SUKABUMI, PROVINSI JAWA BARAT. *Jurnal Organisasi dan Manajemen*, 6(1), 58-73.
- [21] Wance, M. (2016). Pola Relasi Eksekutif Dan Legislatif Pada Penyusunan Legislasi Daerah (Studi Di Pembahasan APBD Kabupaten Buru Selatan 2015).