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Government Financial Management, Strategy for Preventing Corruption in Indonesia

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Editor's Note

Strengthening bilateral economic cooperation between two countries will provide significant benefits for them. For example, in the case of bilateral trade, the benefits enjoyed here are in accordance with the law of comparative advantage, which mentions that two countries will enjoy the benefits of trade between them if the relative costs of producing goods and/or services are different. In other words, since one country is more efficient in producing certain goods or services, the other country will be better off if it imports those goods and/or services from that country instead of producing them domestically.

In an effort to strengthen the bilateral economic cooperation between Indonesia and Turkey, Turkish President Abdullah Gul visited Indonesia on 4th-5th, April 2011. A year before, President Susilo Bambang Yudhoyono paid a visit to Turkey.

In welcoming the visit of President Gul, the Indonesian Chamber of Commerce and Industry held the Business Forum on 5th April, 2011 which invited Indonesian and Turkey's businessmen, experts and academics.

In his speech, President Gul said that there are some important economic cooperation between Turkey and Indonesia in terms of the bilateral trade and investment, as well as cooperation in education. Data shows that the bilateral trade value between Turkey and Indonesia increased USD1.7 billion in 2010, up from USD1.2 billion in 2009. Of the total USD1.7 billion, around USD1.4 billion was in favor of Indonesia. The two countries have set a target of bilateral trade value at around USD5 billion by 2014 and up to USD10 billion in the future, including by boosting investment cooperation. Turkey's investment in Indonesia has reached USD70 million, while Indonesian investment in Turkey is only USD600,000.

Regarding the data, Indonesia has offered the special economic zone development project to Turkish businessmen. In terms of international trade and management, this special zone could create the advantages in trade and investment sector for the Indonesia-Turkey bilateral trade; so far it is also expected to also provide the countries in the ASEAN Community with the spillover of opportunity. However, Turkey could be the gate to the European Union markets, which means that this international cooperation will help Indonesia expand its export market in the European Union.

Gul revealed at a joint press conference with Yudhoyono that the two countries are expected to sign an agreement on free trade within the framework of comprehensive and strategic cooperation in the near future. Both Gul and Yudhoyono are optimistic that the bilateral trade value target could be achieved given the two countries' huge economic potential.

Rofikoh Rokhim

Vice Editor

The South East Asian Journal of Management

Government Financial Management, Strategy for Preventing Corruption in Indonesia

Haryono Umar*

In popular view, the term accountability generally refers to a wide spectrum of public expectations dealing with organizational performance, responsiveness, good governance, and even morality of government and nonprofit organizations. These expectations often include implicit performance criteria – related to obligations and responsibilities – that are subjectively interpreted and sometimes even contradictory. And in this broader conception of accountability, the range of people and institutions to whom public and nonprofit organizations must account include not only higher authorities in the institutional chain of command but also the general public, the news media, peer agencies, donors, and many other stakeholders (Kearns, 1996). Government could build its accountability by implementing good and proper financial management. Financial management is a tool for government to show its performance and accountability to the public. Meanwhile, corruption is the misuse of public office for private gain. As such, it involves the improper and unlawful behavior of public-service officials, both politicians and civil servants, whose positions create opportunities for the diversion of money and assets from government to them and their accomplices (Langseth, 1999). The more corruption, the more far away from good governance, and the less public accountability. According to Klitgaard (1988), power minus accountability is corruption. This paper explains about the influences of implementing government financial management to corruption fighting and good governance in broadly view. Discussion will be derived to find out the understanding of financial management, corruption, and good governance terminology fits for Indonesia environment. The purpose of this paper is to achieve common knowledge that financial management should be implemented by public organization from strategic management for public organization approaches. Besides, reader will find out explanation from both theoretical approach and pragmatism approach as well.

Keywords: *Corruption, accountability, good governance, performance, financial management*

Introduction

The Republic of Indonesia is a country lies on Southeast Asia and Oceania. Indonesia comprises of 17,508 islands.

With a population of more than 240 millions inhabitants, it is the world's fourth most populous country. Indonesia has over 300 ethnic groups, each with its own unique culture. The national language

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is Indonesian, however, there are around 724 local languages. Indonesia is the largest economy in Southeast Asia and a member of the G-20 major economies. Indonesia's estimated nominal per capita GDP in 2009 was US\$2,528 (Statistic Central Board, 2010). Administratively, Indonesia consists of 33 provinces, five of which have special status and 500 districts. Indonesia's Corruption perception index was 2.3 in 2007, 2.6 in 2008 and increased again in 2009 of 2.8, and remain 2.8 in 2010 (Transparency International, 2010).

The government's commitment to improve people's prosperity is implemented by overcoming the real big problem that has been facing by the country. To prove its commitment, government agencies are working hard to improve their performance based on the set-up national development targets. By increasing performance, agencies will go forward to improve good governance with its three pillars, namely transparency, participation, and accountability.

The national goal as written in constitutional year 1945 is to achieve the prosperity of all Indonesian, anywhere, and anytime. Government should provide the best public services and prepare any programs and activities to improve economic growth and clean government. While struggling to improve the prosperity of the people by achieving the performance indicators, Indonesia has a very serious problem, corruption in almost every local and central government. During the era of President Suharto (1969–1998), corruption was practiced in any layers, such as in the government agencies, state owned enterprises, and other places. Corruption could be found anywhere, from petty corruption to big corruption. Corruption could be found during the planning, executing, reporting, and until controlling phase. Corruption is practiced from the cradle to the grave especially for the

public services. People suffered because of corruption in terms of education, health, poverty, and unemployment.

To eradicate corruption, two strategies should be practiced, namely repression and prevention strategies. According to Law Number 8 Year 1981 of Criminal Procedure Code, there are three steps in repression strategy: pre-investigation, investigation, and prosecution. Aside from conducting arrests of corruptors, prevention strategy should be implemented to stop corruption. This strategy could be implemented by improving systems and procedures in order to improve the performance of the government agencies and creating the government which is free from corruption.

In order to improve the performance of the government agencies, the government released the Presidential Instruction Number 7 Year 1999 on Government Agencies Performance Accountability. This instruction rules that every government agency must prepare strategic plan, performance measurement, and accountability report. Concerning to the government financial management, in order to be accountable, the government agencies should manage government financial efficiently, effectively, and follow the regulations.

The new public management and public services in Indonesia are being reformed by the modification of public policy, and financial management. In terms of budgeting, some improvements addressed to change in goals, mechanism, and accountability. Instead of financial control of input function, budgeting becomes a tool of economic policy. The financial reform in Indonesia shows the change of budgeting system from the Line-Item Budgeting system becomes the Performance Based Budgeting. Besides of the modification in budgeting system, the fiscal planning which is related to compiling and stipulating of annual budget has to be developed in

Medium Term Expenditure Framework. Unfortunately, corruption is still rampant even though the new government financial management is already implemented.

Literature Review

Combating corruption

Corruption has been practiced for a long time. Since 3,000 BC, corruption practices grow as knowledge and technology developed along with the human life. Power tends to corrupt, absolute power corrupts absolutely, as stated by Lord Acton (1887) in Gati (2000). The abuse of power can be found not only in the government activities but also the social organizations. Therefore, the absolute and centralized power should be minimized by the separation of power and the application of check and balance system among the power holders.

Corruption can be analyzed both from narrow and broad view. Pavarala (1996) categorized corruption in two types, namely legal or narrow view and broad view that considering moral and ethic. From the narrow view, corruption could be bribery, misappropriation of public resources, kickbacks commissions, embezzlement, and gifts beyond a certain value.

In broad view, corruption includes the legal view plus nepotism, favoritism, cheating, fraud and dishonesty, and intellectual crime. So, corruption is abusing of power or position in the public organization for self interest or the benefit of group, political party, tribe, friends, or crony. The information about corruption activities only belongs to the group and always hidden to the public (Alatas, 1987; Langseth, 1999; Pope, 2000; and Tanzi, 1998).

Corruption is some kind of the abuse of power for the benefit of the corruptor himself or his group. Corruption derived from the lack of control of the

implementation of power and there is a chance to abuse the power beside limitation of sanction. The intention to be rich, honored, luxurious life style, and pressure from relatives will cause a person to corrupt (Ackerman, 2004).

Research by Partnership for Governance Reform in 2002 discussed about the corruption in many sectors, including banking, army, judges, public servants, hajj management, public official families' business, foreign loan, private loan, state owned enterprises, etc. One of the results of the research is relating to the oil and gas management.

One of the researches in the field of corruption and economy was done by the Center for the Study of Democracy, University of California Irvine, in 50 countries, which was titled "Accounting for Corruption: Economic Structure, Democratic Norms, and Trade" (Center for the Study of Democracy, University of California Irvine, 1998). The hypothesis is: the more corruption practices in a country, the more: increasing government control to the economy, increasing norm and values, and decreasing integration of the country to the world economy.

The result of the research told us that corruption will lessen the credibility of a country, not only nationally but also internationally. The rampant of corruption in a country will push high cost economy and then will affect the national competitiveness. Hence, law enforcement agencies and the whole society should pay attention for combating corruption in every definition.

Young (2000) stated that "*fraud encompasses an array of irregularities and illegal acts characterized by intentional deception. It can be perpetrated for the benefit of or to the detriment of the organization and by persons outside as well as inside the organization*".

Fraud is some kind of false activities including purposive lying, taking office assets, false account, embezzlement, etc (Lanham et al., 1987). According to Simmons (2004), fraud will be derived by false information. Fraud will benefit individuals or organization. Individual benefit could be direct such as cash or assets, or could be indirect such as promotion or facilities. The fraud that benefits organization could be direct such as financial gain.

Fraud done by management for the benefit of a group or company is a loss for the principal. Big cases such as Enron case and Bank Bali case create big lost to the organization and the principal. Some fraudulent activities convicted by employees of the organization, in many cases the trouble makers are the top management, by manipulating financial information (financial fraud) (Moeler, 2004).

According to Treadway (1987): *“fraudulent financial reporting as intentional or reckless conduct, whether act or omission, that results in materially misleading financial statements”*. Fraudulent financial reporting could happen by (a) manipulating accounting records or financial statements, deleting some transaction or important information, applying wrong accounting method; and (b) misappropriation of assets including taking cash, stealing assets, and etc.

Manipulation of accounting records is a fraud called creative accounting. The organization conducts to financial crime or corruption by implementing their expertise to manipulate accounting information (Mulford and Comiskey, 2002).

According to the Institute of Certified Fraud Examiners (1996) fraud is *“knowingly making material misrepresentations of fact, with the intent of inducing someone to believe the falsehood and act upon it and thus suffer a loss or damage”*.

According to Eskeland and Thiele (1999), a principal could hire an auditor to make sure that the agent does his job just on behalf of the principal. But sometimes auditor does collusion with the agent for the lost of the principal.

Good governance

Governance is the system of values, policies and institutions by which a society manages its economic, political and social affairs through the interactions within and among the state, civil society and private sector. It is the way of a society organizes itself to make and implement decisions — achieving mutual understanding, agreement and action. It comprises the mechanisms and processes for citizens and groups to articulate their interests, mediate their differences, and exercise their legal rights and obligations. It is the rules, institutions and practices that set the limits and provide incentives for individuals, organizations and firms. Governance, including its social, political and economic dimensions, operates at every level of human enterprise, household, village, municipality, nation, region or globe.

Good governance is some good values which are agreed among government agencies, local government and central government, and between government and the people (society and commercial entities). The conceptual framework of the development of a good governance and includes three main components such as, systemic or policies, government institutions, and human resources.

The more modern an organization, the more separated between owner and management. Because of some limitation, the owners (steward) trust other parties (management) to manage his resources for his interest. Weston et al. (1996) stated:

“Managers are agents of shareholders, and unless incentives are provided to do otherwise

or unless they are constrained by monitoring or bonding, they will take corporate actions that maximize their own utility. These actions will not necessarily be consistent with firm value maximization. The cost of the agency relationship includes monitoring and bonding of the agent and residual loss from managerial actions are not value maximizing”.

Organization becomes more and more complex and modern. In this condition, separation of function between management (steward) and owner (principal) is a must. Although their functions are different, their goals and interests should be the same inter alia to maximize the values of organization. As a trustee party, management should do their job on behalf of the owner to improve stockholders' wealth. In fact, management has his own interest which is different from what the principal's wants. The conflict of interest between management and owner will not happen as long as the management has a sense of belonging for the organization (Donaldson and Davis, 1991).

The separation of duties between the owner and the management can be explained by the agency theory (Ariyoto et al., 2000). The agency theory is based on theory of the firm as written by Coase (1937) and Hart (2001). According to this theory, an organization is a nexus of contract between production factors (Jensen and Meckling, 1976). Relationship between the agent (management) and principal (owner) based on the trust given by the principal to his agent for managing their resources and improving their wealth. The conflict of interest could happen in this relationship because the agent has his interest for his own benefit.

Research conducted by Chow (1983) and Smith and Warner (1978) explain about the agency theory of the bondholder and stockholders. Another research in the agency theory is the analysis of the relationship between regulator and

regulatee (Watts and Zimmerman, 1978) and auditor and auditee (Chow, 1982; Watts and Zimmerman, 1978). In the agency theory, it is assumed that principal's interest is different from the agent's. To minimize the gap, the principal could prepare some incentives and implements a proper control to the agent.

A lot of efforts can be done by both parties to minimize the gap. The principal could prepare some incentives to make sure that the agent will do their job based on the principal's interest (Jensen and Meckling, 1976). Resources expensed for minimizing the gap called agency cost such as contract monitoring cost (Watts and Zimmerman, 1986).

Stewardship theory is based on the concept that the management accountable to the owner of the organization in keeping the resources save and growth. Ijiri (1975) explained that there are three parties play their roles in developing accountability. The first is accountee (steward) who obliges to accountable of the job their done (steward) to the accountor (principal). In order to increase the credibility of information of the accountability, the role of third party is needed. The third party is the accountant who is responsible to make sure that the information of accountability is credible enough for the users.

Some efforts to decrease agency cost can be prepared by each party. The principal prepares some incentives for management in order to motivate the agent to do his job only on behalf of the principal. These efforts will increase some costs such as bonding cost (Jensen and Meckling, 1976; Hopper and Schapen, 1991). Using the organization's resources to decrease the interest gap between the agent and the principal is called the contracting cost. Other cost for decreasing the interest gap between principal and agent is monitoring contract cost (Watts and Zimmerman, 1986).

Unlike in the commercial sector, the relationship between the principal and the agent in the public sector is a multiple agent relationship. Echelon II is the agent of the echelon I, and then the echelon I is the agent of the minister, and then the minister is the agent of the president, and they are agent of the residual principal or the society.

Public sector management should be improved from time to time in order to prevent corruption and improving performance. Government financial management is an important tool for implementing a good public sector management. Government financial management rules government budgets and government spending. The financial management is one phase of accountability process in public sector. The accountability process in public sector is one step of the government strategic development cycle (Umar, 2004).

Figure 1 explains about the complexity of public sector in handling its job in terms of multiple agent relationship. At the first step, the public organization should prepare envisioning for creating some new ideas to bring the organization to the future through out of the box thinking. A government agency's function is to prepare public goods and services for the entire societies.

In setting policy outcomes, the organization should set up the goals that should be achieved in the future for the benefit of the public. In performance based budgeting system, setting policy outcomes is a must. When the organization cannot show its plan and what should be achieved (ends) in the future and how to achieve it (means to the end), it will face a big problem in allocating its budget.

Next, the applicable strategic plan should be prepared in order to achieve the future success. Internal and external environment analyses should be applied for analyzing the past activities and facts for the future success.

Last, public value should be achieved by the public organization that benefited the society. When the public organization does not pay attention to the outcome achievement, it will benefit nothing to the public but the government itself.

To achieve good governance, government should implement good government financial management. Financial management is very important for every government agency for achieving its goals. So that, government agencies will struggle to get the budget. Power tends to corrupt and absolute power corrupt absolutely. Most corruption in Indonesia is related to the government

Figure 1. HR the employee champion in IT industry



Source: Umar, 2004

budget. Bad financial management will derive bad governance.

Methodology

This research is primarily focused on examining the role of government system to improve the corruption prevention activities in Indonesia. The research emphasizes on the new government financial management including budgeting and government spending for procurement.

This research will benefit Indonesia in combating corruption efforts especially in terms of prevention activities such as improving system of government's financial. This research uses the secondary data published by Corruption Eradication Commission and Ministry of Finance. The data was gathered through library research and then analyzed by the writer by using his experience as a government auditor and Vice Chairman of Corruption Eradication Commission.

The methodology of this research is qualitative research approach with the descriptive analysis. In this research, the writer provides analysis some qualitative data instead of statistical or quantitative approach.

Result and Discussion

The Indonesian legal system has recognized corruption as a crime ever since it appropriated the Dutch colonial legal system as its own. That various anti-corruption bodies were formed to combat corruption is well documented.

The war against corruption is a never ending story. This phrase is apt in describing Indonesia's spirit in combating corruption. Indonesia has combated corruption since 1957. The fall of the Suharto Regime in 1998, which was followed with severe monetary and economic crisis, provided the impetus for a national effort that primarily

involves the eradication of corruption as a prerequisite for the rehabilitation and growth of Indonesian society. The public's confidence in law enforcement efforts, especially in relation to corruption, was at its lowest ebb during Suharto's New Order regime.

Now, the people's confidence is being restored slowly, as the New Era of Reform is consolidated. This most recent anti-corruption effort coincided with a general national effort to reform Indonesia, which suffered great losses during the Asian Financial Crisis of the late 1990s.

Before the Corruption Eradication Commission (KPK) was established in the end of 2003, the previous anti-corruption bodies have failed to address corruption at all levels. The main reason for their failures is that corruption has permeated the national systems – the political will have been obliterated because everyone was implicated. The formation of KPK further amplified the people's desire to play an active role in anti-corruption efforts.

Indonesia becomes one of the most corrupt countries among the world. According to the Transparency International, Indonesia achieves 2.8 for corruption perception index in the year 2010 and it is on the position of 111 among 180 countries. Actually KPK aggressively investigates corruptions. Many big corruption cases have been already investigated by KPK during the last five years. Many untouchable people got sentenced to jail due to committed corruption. Among more than 300 big corruption cases investigated by KPK, the conviction rate is 100%. It means that all cases bring to the court by KPK, proved guilty. No defendant will be free since their cases were investigated by KPK.

As a law enforcement agency, KPK is tasked with conducting corruption eradication activities – it is authorized by law to conduct pre-investigation, inves-

tigation, and prosecution activities. These tasks are carried out by the KPK using the utmost care and professionalism, and with the public and government institution support

This conservative approach has contributed to a 100% success rate in guilty convictions made by courts in all cases processed by KPK. As of the end of year 2010 KPK has convicted:

- Eight ministers;
- 42 parliament members;
- Four ambassadors and four general counsels;
- Nine province governors;
- One governor of the central bank;
- Four deputies governor of the central bank;
- 20 mayors and head of regents/district;
- Seven commissioners of general election commission;
- One commissioners of anti-monopoly commissions;
- Senior prosecutor;
- Lawyers;
- Some high ranking government officials, such as director general, secretary general, deputy, director of government agencies;
- Some high rank state owned enterprise' CEOs;
- etc.

Corruption is abusing power and government money for individual benefit. Corruption practices are hidden activities, stealing government money for self interest or other parties such as political party, relatives, friends, family, and their business (Alatas, 1987; Langseth, 1999; Pope, 2000; and Tanzi, 1998).

Corruption is similar to a serious disease that attacks various sectors such as economy, politic, culture, ethic, moral, and religion. Publicly talked about that is corruption, collusion, and nepotism. Collusion is agreement or cooperation against the law between the state executors

or between executor and other kind of institution harming other person, people, and or state (article 1 item 4 Act Number 28 Year 1999 in Tohari et al., 2005). Nepotism is each activity of state executor against the law benefiting the interest of family and or crony beyond the interest of society, nation, and state (article 1 item 5 Act Number 28 Year 1999 in Tohari et al., 2005). Cronyism is favoritism shown to associates without regard to their merit/qualification (Khatri et al., 2006).

Research by Partnership for Governance Reform (2002) about many areas, such as banking, army, judges, public servants, government officials family business, loan, state owned enterprises etc, shows that corruption has been practiced almost in every aspect of business and government sectors.

Due to high awareness of corruption, Indonesian commitment to fight against corruption is increasing step by step. Executive and legislative commitment can be reviewed by the promulgation of some regulations as follows:

- a. Law Number 28 Year 1999 about High Ranking Government Officials who are Clean and Free from Corruption, Collusion, Nepotism;
- b. Law Number 31 Year 1999 about Corruption Erradication;
- c. Law Number 20 Year 2001 about Amandment of Law Number 31 Year 1999 about Corruption Erradication;
- d. Law Number 30 Year 2002 about Corruption Erradication Comission.

In order to accelarate the combat against corruption in Indonesia, president released the Presidential Instruction Number 5 Year 2004 on Acceleration Corruption Eradication. Following the presidential institution, President established corruption erradication coordination team.

Since 1967 until 2000, six corruption erradication teams were established in Indonesia. The teams were (a) corruption

eradication team based on Presidential Decree Number 288 Year 1967; (b) four commissions based on Presidential Decree Number 12 Year 1970; (c) anti corruption commission; (d) control operation based on Presidential Instruction Number 9 Year 1977; (e) corruption eradication team year 1982; and (f) corruption eradication team based on Law Number 31 Year 1999 and Government Decree Number 19 Year 2000.

Until 2002, all teams mentioned above did not perform well in terms of fighting corruption in Indonesia. Therefore, in order to accelerate the combat against corruption in Indonesia, in 2003 government and parliament established KPK based on Law Number 30 Year 2002.

There are two strategies to fight against corruption. The first strategy is repression strategy. This strategy practiced through three activities, such as pre-investigation activity, investigation activity, and prosecution activity. Repression activities are ruled by Law Number 8 Year 1981 about Criminal Procedure Code. Corruption Eradication Commission practices repression strategy very aggressively, which is many high ranking government officials such as ministers, ambassadors, board of directors, governors, central bank managements etc, were investigated and sent to jail by the commission. So far, commission's achievement is 100% conviction rate. All cases investigated by the commission approved guilty and the suspects got sentenced to jail.

Another strategy is the prevention strategy. Corruption exists because of the bad intention meets the chance to do it. The bad intention could be insisted by the need or by the greed. Due to under paid, most of public servants need additional income for supporting their daily life and other expenses such as for education, housing, and health. In order to earn an additional take home pay, they ask for some money to the public for services they provided. This

practice is called petty corruption. The big corruption is derived from the greedy. Even though their take home pay is more than enough, they keep stealing government money.

In order to eradicate corruption, repression activities themselves are not enough. These activities should be followed by the prevention activities. Some examples are wealth report for the government officials, gratification report, monitoring system, review some regulations, prevent government lost, etc. Fixing some government systems, such as financial management, should be handled properly. The system should be implemented through good governance by practicing transparency, accountability, and participation principles.

Implementation of the strategic development, will contribute significantly to the good governance practices in Indonesia including corporat governance, local governance, even the national governance. According to the World Bank (1992), “*good governance is an efficient public services, valid system, and government that accountable to the public*”. Good governance explains about the process of decision-making and the process by which decisions are implemented (or not implemented) concerning the laws, economic, politic and social. All efforts conducted by the Indonesian government are intended to implement the principles of good governance in government financial management as follows:

- a. *Transparency*, is an openness in government management, public services and environmental economy;
- b. *Accountability*, is an obligation to answer of every government agency activities concerning the planning, executing, and reporting of resources consumption;
- c. *Participation*, is a democratic decision making and confession of human right,

press liberty, and freedom to express any society aspiration.

Positive result that will be achieved by the public organization when they implement the strategic development is improving performance. The performance improvement is a good way for the government of Indonesia to communicate with the public. Government communication to the public is held in order to find out and overcome any problems exist in the community. The performance that should be accomplished by the government is concerning with government roles. There are three important government roles, such as execution of allocation function (allocation of production factors), distribution function (to overcome income gap in the society), and stability function (stability in areas of economy, monetary, political, social, cultural, defense and national security, etc.). To achieve all those targets, the government is trying very hard to improve its performance and mechanism.

Performance is the representation of the condition achieved by government which should be informed to certain parties. Performance is the attainment level of results of an institution associated to organization vision. The government performance is related to positive and negative impacts of implementation of the public policy. By the existence of performance information, the government will be able to make any corrections of inappropriate public policy, straightening main activities and fundamental duties of the organization, resources for the planning, determining level of institution success, and to decide an action, etc.

The government's performance that should be assessed includes financial aspects. In this sense, the government should prepare government budget based on the performance achievement. To measure its performance, the government agency is required to set-up performance

indicators. The government's performance indicators might include input indicators (such as financial, human resources, and all systems needed), process, output, and outcome indicators. In order to inform input indicators accurately, the government provides budget that shows performance targets to be achieved. In assessing the fairness of input and output indicators, the government sets-up Standard of Expense Analysis.

Improving performance of each government agency is urgently needed by the current public management and public services. To derive all efforts the government released the Presidential Instruction Number 7 Year 1999 on Government Agency Performance Accountability. Furthermore, the government of Indonesia and the parliament issued the Indonesian Act Number 17 Year 2003 on State's Finance, Act Number 1 Year 2004 on Government Treasure, Act Number 15 Year 2004 on Audit of Responsibility of State's Finance Management, and the Act Number 25 Year 2004 on System of National Development Planning. To implement those acts, the Indonesian government has also issued the Governmental Regulation Number 20 on Governmental Activity Plan, Governmental Regulation Number 21 on The Activity Plan and Budget of the Agency and Ministry, Governmental Regulation Number 58 Year 2005 on Local Government Finance Management, and Governmental Regulation Number 8 Year 2006 on Financial and Performance Reporting of Governmental Institution. All those regulations are needed for assisting and guiding government in achieving national development targets, the prosperity of the people of Indonesia.

In order to improve good governance, the state's financial management should be implemented professionally, openly, and responsibly in accordance with fundamental rules which have been specified in the Indonesian Constitution 1945. According to

Section 23C Constitution 1945, the state's finance is managed in good principles, such as “universality, unity, and excellence”. The state's financial management reflects some goods management: results, such as accountability, professionalisms, proportion, openness in state's finance management, and financial audit by the independent auditor.

The principles are needed to guarantee that governance principles are implemented in accordance to the formulation as mentioned in Chapter VI of Constitution 1945. By embracing the principles of State's Finance, government agencies treat it as a reference for the state's finance management reform and as the basis for execution of decentralization and local governmental autonomy in the Republic of Indonesia.

Act Number 17 Year 2003 and Governmental Regulation Number 58 Year 2005 rule that the government budget should be prepared according to performance based approach. To realize it, the government has developed a system which is able to provide data and information about the government's performance indicators and its achievement. Performance based budget is compiled by government agencies relied on Standard of Minimum Services which have been determined by the central government. Requirement for implementing performance based budgeting system; the government should prepare strategic planning which is compiled objectively by involving all components of the government agency. The system will be running well and function properly when the government had determined several things, such as pricing standard, performance indicators, and standard of minimum service according to the law and regulation.

By the existence of the system, the government will be able to measure its financial performance shown in the budget.

The performance based budgeting system need several requirements such as Standard of Expense Analysis, Performance Indicators, and Cost Standard.

In relation to the state's financial management, budgeting should be applied as a function of accountability, management of ongoing activities and as a tool of economic policy rather than just financing. As a means of accountability, budget expenditure shall be accountable by showing results in the form of outcome or at least output to be accomplished. As a means of management, the fairly budgeting system can assist to manage the continuing activities to improve the governmental program efficiency and effectiveness. While as a mean of economic policy, the budget has a function to realize the economic growth and decrease income gap in order to reach the state's objective that is prosperity of society.

One of the most important things of the renewal of state's finance management is the implementation of Act Number 17 Year 2003 on State's Finance. This reform is especially related to the implementation of principles of state's finance management that fits to the international best practices to improve good governance. Introduction of Result Oriented Accountability which is generally recognized as Performance Accountability and Transparency in management of state's finance represents the significant paradigm change in state's financial management.

In line with the change in state finance management, from the budget as a function of financial control of inputs become the accountability, management of ongoing activities and a tool of economic policy, Indonesia had reformed the financial management especially budgeting system. The change of budgeting system is the modification from line-Item budgeting system becomes the Performance Based Budgeting. Besides of changing budgeting system, the fiscal planning which is related

to compiling and stipulating of annual budget has to be developed in Medium Term Expenditure Framework.

Budgeting is a systematic financial plan contains resources and objectives to be achieved. Budgeting practices in Indonesia influenced by new public management and public services for central and local governments. The new budgeting system was implemented since 2003 replacing the Dutch budgeting system - *Indische Compatibiliteit Wet* (ICW) Year 1925 for the excellence of government financial management. According to Act No. 17 Year 2003 about Government Financial, budgeting should be based on new budgeting approaches are:

- Unified Budgeting System (UBS);
- Medium Term Expenditure Framework (MTEF);
- Performance Based Budgeting System (PBBS).

By implementing UBS approach, government integrates operational expenditure and development expenditures in the government budget. MTEF approach is a guide for the government to provide three years budgeting instead of only one year budget. This approach is very important to make sure that the government medium term planning will be implemented and achieved by providing money (inputs) to do that. The third approach should be applied by the government to make sure that every cent of government cash is expensed to serve the public. The government is not allowed to spend its budget for the activities which has no relation to performance.

In 2004, the government promulgated the Government Regulation No. 21 Year 2004 on Government Agencies Work Plan and Budget (GA WPB). The regulation is a guidance for government agencies in applying the budgeting approaches. By applying the new budgeting system, the government preparing surplus or deficit budget instead of balanced budget.

The budget prepared by government should be based on the existing annual plan. The budget should be prepared for achieving government performance agreement. The budget is prepared in terms of performance indicators especially outcome indicators. In applying PPBS, government agencies should have strategic plan and performance plan. Besides of strategic and performance plans, the government should also prepare expenditure standards for every organization program and activity, public services standards, and operating procedure standards. The government agencies' budget is provided for achieving national development targets, such as economic growth, decreasing of poverty, decreasing of unemployment, in order to achieve public prosperity.

There are two phases in the government budgeting process, the house of representative phase and the executive phase. In the first phase, the government hands in the budget proposal to be discussed and approved by the legislative. This phase is much more influenced by political reasons rather than management reasons. This phase is ended by issuing The Government Budget Act. Then, in the executive phase, government allocates the budget for each government agency for executing its plan to serve public. The allocation is ruled by the presidential regulation.

The Act No. 1 Year 2004 regulates about the Effective Government Financial Management, especially about cash management, efficient government financial resources, expenditures management, and financial control, to prevent fraud and embezzlement or ineffective expenditures.

The new government financial management rules that the expenditure function is divided into financial ministry (financial provider) and government agencies (financial users). This system is developed in order to create check and balances in government financial management, such as:

- obey to the regulation;
- early prevention of government expenditures;
- fits to the technical specification; and
- make sure performance targets achievement.

Budget execution is started by preparing payment proposal document (SPM). The SPM is prepared by government agency (the budget's user) that contains a volume of activities to be paid and its budget agreed. An example of budget execution is for "government procurement" that is regulated by the Presidential Decree No 80 Year 2003 about Government Goods and Services Procurement. The Presidential Decree was issued in order to guide government agencies to allocate its budget effectively, efficiently, and obey to the rules.

To make sure that the government financial statements is credible and accountable, the control function is necessarily needed. In Indonesia, there are two types of controls, external government control by Supreme Audit Board and internal government control held by the inspectorate general of government agencies (at the level of ministry). The inspectorate at the level of local government and The Financial Development Supervisory Board (BPKP) at the nation level as a whole. This is an example of implementation of the role of control to minimize agency problems (Watts and Zimmerman, 1986).

Even though some improvements in its financial management have already been implemented by government, some problems still exist and become a loophole

of corruption. Most corruption cases investigated by KPK during year 2005–2010 are related to government budget especially in government procurement. It means that some improvements should be proposed for better government performance and preventing corruption in government financial activities. A lot of public complaining to KPK about corruption are related to the government budget and government procurement, specifically to the preparation and approval. the budget.

The existing government financial management should be improved as illustrated in Table 1.

The proper performance budgeting system should be implemented so that there is no chance to make any fake payment. The existing performance budget system practiced by some government agencies actually just the old line item budgeting system, so that there is no connection between budget and performance. Parliament should not examine the proposed budget so detail to prevent any collusion for corruption. Public complaining about this bad governance is quite a lot and some corruption cases already investigated by KPK. The approval of budget revision relating to government procurement is done around July and August. This condition is not good for good procurement governance. Actually government agency is not allowed to start procurement before budget approval. But because the approval is so late, the government agency has only three months to handle the procurement

Table 1. Government financial management improvement

	Existing	Proposed
Budgeting		
• System	Not proper performance budget	Proper Performance budget
• Approval by parliament	Detailed per project/ activity	Global per program
• Approval for revise	July – August	April – May
Budget Allocation		
• Procurement system	Manual	E-procurement
• Fund allocated to local government	Through ministry/department	Directly to local government
Control	Post audit	Strategic audit

process including bidding and finishing the project. This condition will insist agencies to collusion for fraud and corruption.

Manual procurement system is not transparent and fully corrupt including mark-up and fake payment. In order to make it more transparent, electronic procurement should be implemented in government procurement system. Central government should allocate some amount of fund to the local government especially for infrastructure development. So far, fund is allocated to the local government through some ministries and agencies budget. This condition will drive no accountability and corrupt, because of neither ministry nor local government does not record the budget allocation and expenses.

The post audit is not effective to prevent and find any fraud and corruption. A lot of internal and external audit agencies did not do their audit activities for combating corruption but just the regular audit activities. As mentioned before, collusion and corruption are started since planning, preparing, approving, allocating, and using the budget. The strategic audit would be the good solution for improving the role of control in combating corruption in Indonesia.

Conclusion

Most of Indonesians are aware that corruption is a very serious disease and an extraordinary crime that affect all aspects including economy, social, politic, etc. Because of corruption is an extra ordinary crime, so that it should be handled in an extra ordinary means. To eradicate and prevent corruption in Indonesia some efforts should be:

- *Preemptive activities*, including socializing and educating government agencies concerning financial management and financial system, such as government accounting standards,

procurement system, governance system, good corporate governance system, and accountability.

- *Preventive activities*, including assisting government agencies (central and local) in terms of local government financial information system, implementation of good corporate governance, implementation of good local governance, implementation of government performance accountability system, and public services management.
- *Repressive activities* by investigating corruption cases in every sector especially that create huge damages to the society and environment.

Repression activities are needed in order to build up law certainty and justice. Besides repression, prevention activities are a must for fighting corruption. Without prevention activity, it is impossible for Indonesia to become a clean country and free from corruption. Lots of prevention activities can be implemented by Indonesia law enforcement agencies including monitoring government agencies systems and fixes the system that potentially corrupts. The systems should be monitored and fixed including government financial management. Those new approaches are developed for improving public services, accountable, transparent, and clean government.

To achieve those goals, some efforts should be implemented including improving public sector management by strategic development implementation by the government agencies. Concerning that purpose, the government of Indonesia has been applying financial management including planning, budgeting, executing, reporting, and controlling phases. The financial management system is prepared for improving government performance, accountability, and good governance.

Government financial reform started in 2003 is not enough for preventing corruption

in Indonesia. Some improvement should be implemented by government to achieve better system for preventing corruption.

The proposed government financial management is a tool to achieve better public services, credible government budget, clean government procurement process. The better public services is a must in performance budgeting system in order to improve Indonesia corruption perception index.

The commitment of executives, legislatives, and society in order to reach a better system is such a good chance for the aim of clean government. Implementation of better government financial management is very important for better combating corruption in Indonesia.

Government financial management reform as proposed is an example of improving system activity for preventing corruption.

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