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Review of Integrative Business & Economics Research

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relationship. Therefore, in the managerial aspects of organization-units of local government, it is likely they also hide information about their capacity and performance, and benefit in determining the budget ceiling.

Some researchers have explained the high existence of differences in local revenue capacity in Indonesia (World Bank, 2004, Brodoungoro, 2004). From the pattern of government spending that puts priority to the routine expenditure that does not bring impact to the local revenue, and this will only further aggravate the fiscal situation. However, the government was unable to achieve the goal with the increase of the budget allocation to the regions.

7.2 The Political Dimension

Likewise, for the political dimension, it is found that Local Government Prerogative is not significant to the budget performance. In fact, the local government prerogative and local parliament roles are contrary to one another. Local government prerogative has the right to establish the budget even there is no approval from the local legislative, and the budget can be enacted by the head of local government decree or regulation. This right can be overcome when there is a dead lock between the government and legislative in the debate session for the approval of the budget. This is to ensure that the budget is continuously available for the public.

7.3 The Public Interest Dimension

In the public interest dimension, a similar situation is found. Indonesia employs too many and complicated audit systems. Currently there are three institutions named audit offices that are National Audit Board (BPK), Board of Audit for Development (BPKP) and Local Government Audit Board. The Local Audit Board is an audit office with is established by the local government, and its function as internal audit works. National Audit Board (BPK) is mandated by law as the only a legal audit office. Board of Audit for Development (BPKP), on the other hand, is an institution or office, which is established, in the previous regime. Even though it no longer function as a legal audit office (but legal as a government institution), with no audit opinion authority, it still works as audit office without a clear work whether internal or external audit.

In addition, every ministry offices and province governments have sub-offices called inspectorate offices, which are related to audit works. When a local government employed fund from the National Budget such as de-concentration or co-administration fund, then this is subject to partial audit done by these offices. This type of audit is internal to the ministry office but external to the local government.

Similarly, if one municipality or regency employed fund that comes from the province budget, it is subject to be audited by the province government.

8 Concluding Remark

The implementation of the local government budget in Indonesia is yet to be established even though it has long been reform (SMERU, 2006, ADB 2007, World Bank, 2007). This is because both national and local governments have not been consistence with the reforms as discussed below.

Firstly, political and government environment have not developed a conducive way to sustain the autonomy functioning properly. With the changing of national regulation over time, there is no guaranty that the regulated environment will be suspended to establish the system. Since the local legislations have not satisfied with the changing requirement. This condition has been caused by highly centralized thinking of government financial reforms as described by Luder (1994), Chan (1996) and Zakaria (2008) in the setting up the regulations related to the financial management, this never truly involved the wider public and professional perspectives. Even though there is a process of public hearing before a law or regulation is stipulated, however, the process has been just like a "rubber stamps" (Niles, 2001, Thompson, 1999) or "cosmetic of political purposes" (Hogy, 2000).

Secondly, managerial aspect of a budget system underlined the moderating effect of the budget discipline. It should be considered as an important factor that mediates the local fiscal capacity, budget policy, and rule toward budget performance.

Thirdly, intergovernmental transfer, basically, is a managerial aspect of the budget because it is expected to improve the local fiscal capacity. Since the transfer creates a high dependency of local to national, this becomes a subject of political debate, not only the local with the national government, but also the local government with the legislature (Siddik and Kajatmiko, 2006).

Fourthly, complex process of budget to become legitimate may bring hindrance for the accomplishment of the budget performance. According to the World Bank (2007), Indonesian budget is too detail, thus it take time to formulate and discuss. In the formulation process, to determine the budget ceiling in the formulation process, every local working unit has to wait until there is definite information receive regarding the government transfer obtained. This is wasting of time and sometimes the information received is nearing the due date of the budget.

APPENDIX
Budget Process of Local Government in Indonesia

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ABSTRACT

It has been a decade since Indonesia started to reform the budget system in line with the implementation of local autonomy, but it still failed to satisfy the financial information needed by the majority voters. This study attempts to explain the local government budget in Indonesia in three perspectives: government, political, and public interest. Using a hierarchical multiple regression method, this study found that the local autonomy, which has long history of Indonesia reforms, still far from succeeded. This is due to the existence of violation and not complies with the commitment of implementing reliable accounting system and accountability.

Keyword: Local Fiscal Capacity, Budget Discipline, Budget Approval, and Budget Performance

1 Introduction

There have been considerably amount of studies on local government financial management, especially since Indonesia conducted the government reforms. It is not only domestic institution like Sneru (2004), Bappkepi (2006), Brojonegoro (2004), Sidik and Kajatmoko (2004), Bahi (2002), and Lewis (2005), but also international institution like World Bank (2003-2005), ADB (2006), UNDP (2005) and others.