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Public Sector Financial Performance in Indonesia: Concepts and Regulations

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A B S T R A C T

Improving the public sector's financial performance is crucial to encouraging rapid economic growth throughout Indonesia. This paper aims to understand the essentials of the concepts and regulations of the public sector financial performance management in Indonesia. This study examines the performance of public sector organizations in Indonesia, especially looking at the definitions and regulations that form the basis of implementing this performance. The identification of the performance of the public sector in this paper seeks to see the basic concepts that serve as guidelines and the laws and regulations that form the background of the achievements of public organizations in Indonesia. In conclusion, it is revealed that the financial performance of the public sector in Indonesia refers to the applicable laws and regulations starting from the fundamental law, namely the 1945 Constitution, especially Article 23C, followed by several laws, government regulations, presidential regulations, and ministerial finance regulations. The measurement of public sector financial performance is regulated and determined by the Ministry of Finance through budget implementation performance indicators, which are seen from four aspects and twelve main indicators.

1. Introduction

Public sector organizations are organizations managed and controlled by the government that aims to provide services to the public or citizens through funding from taxes from the community itself. With the development of new public management (NPM), the role of public sector organizations is becoming increasingly important and crucial, one of which is improving the public sector's financial performance (Sarker, 2006).

In Indonesia, improving the financial performance of the public sector has an impact on encouraging and increasing economic growth throughout the vast territory of Indonesia (Mahmudi, 2013). Since the era of regional autonomy in Indonesia, there has been a reform of state and regional financial management regulated by Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments and Law Number 23 of 2014 concerning Regional Government (Tirayoh et al., 2021). The two laws are primarily aimed at encouraging the improvement of the financial performance of the public sector with authority to local governments in Indonesia to improve their financial performance in the form of autonomy in regulating resources, directions, goals, and targets for using the budget for the benefit of the people in each region.

This understanding of improving the performance of public organizations needs to be studied and discussed more intensely by understanding the concepts surrounding the performance management of public sector organizations. In addition to the concepts, it is also necessary to understand the regulations governing governance in achieving optimal, efficient, and effective organizational performance.

This paper aims to understand the essentials of the concepts and regulations of the public sector financial performance management in Indonesia. This understanding of the achievement of the performance of public organizations can help develop concepts and theories of public sector performance management and have an impact on insight into the concepts and rules that govern this in Indonesia. This understanding can be an insight for experts in the field of public sector organizations about the comparison of concepts and regulations regarding the achievement of the performance of public organizations in various countries, especially in the Republic of Indonesia.

New public management (NPM)

New public management (NPM) was created in response to the first bureaucratic model described by Max Weber, which was highly hierarchical (Islam, 2015). New public management is a new public philosophy as a step toward a governance approach that emphasizes transparency, performance management, and accountability of public sector employees and managers (Cope et al., 1997). NPM implies that the public sector differs from the private sector (Gruening, 2001). Public managers are assumed to be "rational actors" because entrepreneurial practices, in pursuing their interests, make the public play many roles as actors in the private market (Osborne et al., 2003). The assumption of NPM is to introduce incentives such as market competition and benefits commensurate with performance and result in better accountability for bureaucratic rules than in the old public administration (Kikutadze, 2015).

Public sector financial management (PSFM)

Public sector financial management (PSFM) can be defined as a system for generating and controlling public financial resources for effective and efficient public services (Mir et al., 2013). Public financial management includes planning and budgeting, accounting and reporting, internal control, external auditing, and monitoring, among others, intending to increase the availability of benefits to the most significant number of citizens; support good governance; and facilitate the achievement of the three budget objectives of the fiscal aggregate discipline, effective allocation of resources for priorities and efficient services (Yilmaz, 2018). Another study sees public financial management as a link between people's aspirations, resources, and the present/present and future (Premchand, 1999).

Financial management in public organizations is crucial (Kendie, 2018). Since the public sector is not like the private sector, it has moral sentiments and a responsibility to provide various segments of the economy, including assistance to the underprivileged. Therefore, the role of the public sector becomes significant. Spending on public services and public goods accounts for more than a third of the GDP in most countries (Said et al., 2015). Therefore, the affairs and expectations of public sector services are very high, so the management of public funds must be able to conduct and maintain careful examinations or observations from all directions. The four main objectives of effective public sector financial management should include; (1) financial aggregation management - fiscal sustainability, resource mobilization, and allocation; (2) operational management - performance, value for money, and planning, as well as strategic financial management; (3)

governance - transparency and accountability; (4) fiduciary risk management (delegation of money processing authority from the money owner to the delegated party) - control, compliance, and supervision (Agustiawan, 2019).

Public sector performance

Mardiasmo (2014) argues that public sector performance measurement is a system that aims to help public managers assess the achievement of a strategy through financial and non-financial measuring tools. The performance measurement system can be used as an organizational control tool because performance measurement can be strengthened by establishing a reward and punishment system. According to Mahmudi (2013), the objectives of measuring the performance of the public sector are: (a) Knowing the level of achievement of organizational goals; (b) Providing employee learning facilities; (c) Improving the performance of the next period; (d) Provide systematic consideration in making decisions on the provision of rewards and punishments; (e) Motivate employees and create public accountability. Direct benefits from the performance of public sector organizations (a) Provide an understanding of the measures used to assess management performance; (b) Provide direction to achieve the set performance targets; (c) To monitor and evaluate performance achievements and compare them with performance targets and take corrective actions to improve performance (Sujarweni, 2016).

Performance measurement of public sector organizations is a non-financial measurement that tends to assess the effectiveness of regional financial management. Therefore, the measurement of public sector performance divides nine strategic areas as keys to the effectiveness of regional financial management, the framework developed by the world bank and the Indonesian government can assess the effectiveness of financial management performance. This framework is divided into nine strategic areas, which are the effectiveness of financial management at the government level, namely: (1) regulatory framework; (2) planning and budgeting; (3) cash management; (4) procurement; (5) accounting and reporting; (6) internal audits; (7) public debt and investment; (8) asset management; and (9) external audit and oversight (Shah et al., 2007).

State financial policy in Indonesia

State financial policy is a vital component in new public management in Indonesia to achieve a welfare state. Government administration regularly has much to do with finance, especially development planning. Sources of state finance are obtained from within and outside the country, which the Indonesian government manages. Conceptually, the financial management of the public sector, especially in Article 23C Chapter VIII of the 1945 Constitution, is the regulation of State Finances, especially in Indonesia.

Some of the main objectives of state finance in Indonesia are (Tjandra 2008): encouraging economic growth, maintaining economic stability, reallocating economic resources, and increasing revenue from user fees and taxes. The implementation of state government to realize the state's goals give rise to state rights and obligations that can be valued in money. As referred to in letter a, the management of state rights and obligations has been regulated in Chapter VIII of the 1945 Constitution. Article 23C of Chapter VIII of the 1945 Constitution mandates other matters concerning state finances to be regulated by law. Based on such considerations, it is necessary to enact a Law on State Finance.

The legal basis of this law is Article 4, Article 5 paragraph (1), Article 11 paragraph (2), Article 17, Article 18, Article 18A, Article 20, Article 20A, Article 21, Article 22D, Article 23, Article 23A, Article 23B, Article 23C, Article 23D, Article 23E, and Article 33 paragraph (2), paragraph (3) and paragraph (4) of the 1945 Constitution as amended by the Fourth Amendment to the 1945 Constitution.

This law regulates the definition and scope of state finances, general principles of state financial management, the position of the President as the holder of the power to manage state finances, the delegation of the President's powers to the Minister of Finance and the Minister/Head of Institutions, the composition of the State Revenue and Expenditure Budget. (SREB or APBN in Indonesia)/Regional Revenue and Expenditure Budget (RREB or APBD in Indonesia), provisions regarding the preparation and determination of SREB and RREB, regulation of financial relations between the central government and the central bank, regional governments and foreign governments/institutions, regulation of relations between the government and state companies, regional companies and private companies, and public fund management bodies, as well as determining the form and deadline for submitting accountability reports on the implementation of SREB and RREB. This law has also anticipated changes in accounting standards in Indonesia's government environment, which refers to the international development of accounting standards in the government environment.

Referring to Article 23C Chapter VIII of the 1945 Constitution, the concept of public sector finance in Indonesia provides a high philosophical understanding, especially on the position of state finances determined by the SREB as a form of incarnation of sovereignty. Management of public sector financial revenues and expenditures in the Indonesian State Budget is sovereign. This case is in line with Rene Stourm (Browne, 1949) that the ratification of state financial management is not based on payment contributions but on a higher right, namely sovereign rights.

Public sector financial management in Indonesia is regulated by a package of laws in the field of state finance, which consists of (1) the state finance law (UU No. 17/2003); (2) The State Treasury Law (UU No. 1/2004) which is the highlight of CHAPTER VII (Implementation of SREB and RREB) of Law no. 17/2003; (3) Act on Auditing the Management and Responsibility of State Finances (Law No. 15/2004).

Table 1. Public sector finance regulations in the Republic of Indonesia.

No.	Laws	Topics
1	Law No. 17 of 2003	About state finance
2	Law Number 1 Year 2004	About the state treasury
3	Law Number 15 Year 2004	About audit of state finance management and responsibility
4	Law Number 33 of 2004	About the financial balance between the central government and regional governments
5	Government Regulation Number 23 of 2005	About public service agency financial management
6	Government Regulation Number 27 of 2014	About management of state/regional property
7	Government Regulation Number 39 of 2007	About state and regional money management
8	Government Regulation Number 90 of 2010	Regarding the preparation of work plans and budgets of state ministries/agencies
9	Government Regulation Number 71 of 2010	About government accounting standards
10	Government Regulation Number 43 of 2013	Regarding procedures for the implementation of the state revenue and expenditure budget
11	Presidential Regulation Number 29 of 2014	About government performance accountability system (SAKIP)
12	Minister of Finance Regulation Number 190/KMK.05/2012	Regarding payment procedures for the implementation of the state revenue and expenditure budget
13	Minister of Finance Regulation Number 71/PMK.02/2013	About guidelines for cost standards, cost structure standards, and indexation in the preparation of work plans and budgets of state ministries/agencies
14	Minister of Finance Regulation No. 213/KMK.05/2013	About the central government accounting and financial reporting system
15	Minister of Finance Regulation No. 113/KMK.05/2012	Regarding official domestic travel for state officials, civil servants, and non-permanent employees
16	Minister of Finance Regulation Number 81/PMK.05/2012	About social aid expenditures at state ministries/agencies
17	Minister of Finance Regulation Number 190-PMK06-2011	About the government investment accounting system

18	Minister of Finance Regulation Number 214/PMK.05/2013	About the Standard Chart of Accounts
19	Minister of Finance Regulation Number 215/PMK.05/2013	About the Government Accounting Journal at the Central Government
20	Minister of Finance Regulation Number 216/PMK.05/2013 concerning the Second Amendment of PMK-190-PMK06-2011	About the government investment accounting system
21	Minister of Finance Regulation Number 225/PMK.05/2012	Regarding the First Amendment of PMK-190-PMK06-2011 concerning the Government Investment Accounting System
22	Minister of Finance Regulation Number 233/PMK.05/2011 concerning Amendments to PMK 171/PMK05/2007	About accounting and financial reporting system
23	Minister of Finance Regulation Number 238/PMK.05/2011	About general guidelines for government accounting system
24	Regulation of the Director General of the Treasury Number PER 80/PB/2011	About adding and changing income, spending, and transfer accounts on the standard chart of accounts
25	Minister of Finance Regulation No. 120/PMK.05/2009	About the accounting system and reporting transfers to regions
26	Minister of Finance Regulation Number 51/PMK.02/2014	About guidelines for cost standards, cost structure standards, and indexation in the preparation of work plans and budgets of ministries/agencies
27	Minister of Finance Regulation Number 83/PMK.02/2022	About standard input fees for the fiscal year 2023
28	Amendment to the Regulation of the Minister of Finance Number 7/PMK02/2014	About budget revision procedure
29	Minister of Finance Regulation No. 171/PMK.02/2013	About Instructions for Preparation and Ratification of DIPA

Source: From various regulations in the Republic of Indonesia.

Referring to Law Number 17 of 2003 in Article 1 Paragraph 1, the concept of state finances is defined as all rights and obligations of the state that can be valued in money, as well as everything in the form of money or anger that can be used as state property in connection with the implementation of these rights and obligations. Meanwhile, based on the law in Article 3 Paragraph 1, it is emphasized that state finances are managed in an orderly manner, obeying the laws and regulations, efficient, economical, effective, transparent, and responsible with due regard to a sense of justice and property.

The concept of public sector financial performance can also be seen in the duties of ministers and institutional leaders as budget users/users of goods for state ministries/agencies, which are regulated in Law Number 17 of 2003 in Article 9 points (a) to point (h), namely preparing ministerial/institutional budget drafts, compiling budget implementation documents, implementing budgets, carrying out a collection of non-tax state revenues and depositing them into the state treasury, managing state receivables and debts that are their responsibility, compiling and submitting financial reports of ministries/agencies, and carrying out tasks other responsibilities under the provisions of the law. This concept also applies to acting financial managers and heads of regional work units in the regions in managing and achieving public sector financial performance in Indonesia effectively and efficiently in accordance with applicable regulations.

The Ministry of Finance (MOF), as the General State Treasurer (GST), determines public sector financial performance in Indonesia. Performance measures are realized through performance indicators of budget implementation (PIBI or IKPA in Indonesia) with a function to measure the quality of performance in the implementation of state ministries/agencies' budget expenditures (work units or satkers in Indonesia) viewed from four aspects and twelve indicators.

The first aspect is the plan's suitability for implementing the budget. In effective and efficient planning, starting from preparing the Ministry/Agency Work Plan and Budget (MAWPB) that can be implemented. This applicable work plan and budget are made according to needs and can be carried out. Any deviation from MAWPB will impact the Budget

Execution List (BEL or DIPA in Indonesia) regarding the budget allocation and fund withdrawal plans. The formulation of an effective MAWPB will impact increasing the effectiveness of PIBI planning. The first aspect is the plan's suitability, which has three main indicators: revision of the BEL, the deviation of page III of the BEL, and the allocation of the minus ceiling to the ceiling.

The first indicator revision of BEL. This indicator weighs five percent. This weight is calculated based on the number of revisions to the satker budget. The revised BEL data is shifting (in the case of a fixed ceiling). It can be said that the fewer BEL revisions, the better the PIBI.

The second indicator is the deviation of Page III BEL. Has a weight of five percent. This weight is calculated based on the average gap between the realization and the planned withdrawal of funds. This situation means that the smaller the deviation of page III BEL, the better the PIBI. Moreover, the third indicator is the minus ceiling allocation, with a weight of four percent. This weight is calculated based on the percentage of the minus ceiling against the ceiling. The minus ceiling is something that should not happen in the implementation of the budget, including in personnel expenditures. The minus ceiling indicates the ineffectiveness of planning. If there is a minus ceiling, the PIBI of a work unit (Satker in Indonesia) will be reduced. In addition, the minus ceiling also affects the quality of the financial reports of the satker up to the level of the Ministry/Agency. Therefore, the minus ceiling must be followed up or revised immediately.

The second aspect of measuring the financial performance of the public sector in Indonesia is the management of money supply (IM or UP in Indonesia). The weight is ten percent. The Expenditure Treasurer of the work unit that manages IM must submit IM's accountability no later than thirty calendar days after the last IM Payment Order (PO or SPM in Indonesia) was received. The work unit treasurer who is late in submitting a PO will reduce the PIBI value.

The next indicator in the second aspect is the recon of the Treasurer's Accountability Report (AR or LPJ in Indonesia). The weight is five percent. AR Treasurer is submitted to the State Treasury Service Office (STSO or KPPN in Indonesia) no later than the tenth day after the end of the month. If the work unit treasurer is late submitting AR, the work unit PIBI value will decrease.

The next indicator is a dispensation for submission of PO. The weight is four percent. Dispensation for submission of PO is a condition when a work unit submits a PO in accordance with the provisions and must submit a Withdrawal Plan (WP or RPD in Indonesia), but due to certain conditions, it does not submit a WP so that it submits a letter of dispensation for submission of PO. The more dispensation letters for submitting PO submitted by work units, the value of the PIBI for work units will be reduced.

The third aspect of public financial performance is the aspect of the effectiveness of budget implementation. In this third aspect, the effectiveness of budget implementation is related to implementing activities and processes for procuring goods/services that impact budget absorption. Effective budget execution if the process of procuring goods/services to processing payments to third parties is carried out in a timely manner. This third aspect has three main indicators: the realization of budget absorption, settlement of bills, and returns for Disbursement Orders (DO or SP2D in Indonesia).

The first indicator is the realization of budget absorption. The weight is twenty percent. This weight is calculated based on the percentage of budget realization to the ceiling. The absorption target is carried out quarterly. The level of budget absorption is low or below the target, and the lower the PIBI.

The second indicator is bill settlement. The billing settlement weight is fifteen percent. Under the provisions, the bill settlement process starts from the third party submitting the invoice or the date of the handover of the goods/works until the delivery of the PO to STSO no later than seventeen working days. If the bill settlement process is late, the PIBI value will be reduced.

The third indicator is Disbursement Order returns (DO or SP2D in Indonesia). The weight is six percent. DO returns occur due to an error in the payee's account, which causes the payment transfer process to a third party to be delayed. The existence of DO returns will reduce the achievement of the PIBI work unit. This weight is calculated based on the number of DO returns divided by the number of DOs issued.

The fourth or final aspect of the financial performance of the public sector is the aspect of efficiency in the implementation of activities. This aspect relates to the process of submitting a PO to STSO. It has two indicators: work unit cash planning and PO errors.

The first indicator of the fourth aspect is the work unit cash planning. The weight is five percent. This calculation is based on the ratio of the cash plan (CP or Renkas in Indonesia), which was submitted to STSO on time with the number of CP submitted to STSO.

The second indicator in the fourth aspect is the PO error, with a weight of six percent. This weight is calculated based on the ratio of returns of POs to POs issued (including POs returned). PO errors have an impact on the PO submission process being repeated. This concept means that the PO submission process becomes inefficient.

These are the twelve indicators that are currently a measure of financial performance in the public sector in Indonesia. The system calculates the work unit PIBI value objectively and publishes it quarterly. Work units can look at the Online Monitoring of the State Budget Treasury System (OM SBTS or OM SPAN in Indonesia).

The achievement of public sector financial performance in Indonesia is significant and has several objectives, namely: to provide information used in making economic, social, and political decisions as well as evidence of accountability and stewardship of both the central and local governments, provide information used to evaluate the performance of managerial governance and organization based on good corporate governance (GCG). In addition, there are several specific objectives for evaluating the financial performance of the public sector in Indonesia, such as: determining program costs, functions, and activities to facilitate analysis and comparison with predetermined criteria, comparing with the performance of the previous period and the performance of other government units; evaluate the economic level and efficiency of certain operations, programs, activities and functions in government units; evaluate the results of programs, activities, and functions as well as their effectiveness towards the achievement of goals and targets; and evaluate the level of equity from the center to the regions throughout Indonesia.

The development of the financial system, especially related to the public sector financial performance system in Indonesia, has undergone fundamental changes, especially since the deregulation era on October 27, 1988, as well as the reform and autonomy era in the early 2000s (ADB, 2018). Meta-analysis of the financial performance of the public sector plays a key role, especially in the accountability and evaluation functions (Helden et al., 2013).

2. Conclusion

Based on the study of this paper, it is revealed that the financial performance of the public sector in Indonesia refers to the applicable laws and regulations starting from the fundamental law, namely the 1945 Constitution, especially Article 23C, followed by several laws, government regulations, presidential regulations, and ministerial finance regulations. Furthermore, the measurement of public sector financial performance is regulated and determined by the Ministry of Finance through budget implementation performance indicators, which are seen from four aspects and twelve main indicators.

Some of the challenges faced in the implementation and measurement of public sector financial performance include the DPRD's budget right intervention is too strong; the participatory approach in planning through the mechanism of development planning deliberation is still in the form of rhetoric; a separate activity planning process from budgeting; untimely availability of funds; breakdown of the cycle of long-term, medium-term plans, and work plans that do not match and are not optimal, many requests are subjective, and interest in the planning process, coordination between work units (SKPD) in the planning process is still weak, regional revenue and expenditure budgets must be evaluated by the provincial government, the low quality of development planning deliberation at the village level and the lack of facilitators, guidelines for complicated planning deliberations. This paper provides an initial view regarding understanding the public sector financial management in Indonesia from the perspective of basic concepts and regulations. In addition, challenges are faced in achieving effective, efficient, and efficient public sector financial performance and achieving economies of scale.

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