

# ENHANCE MAPPING POTENTIAL ABUSE OF STATE FINANCE IN REGIONAL FINANCIAL STATEMENTS IN NORTH SUMATERA

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**Abstract:** *This study aims to identify and map the potential of Abuse of State Finance seen from the Regional Government Financial Reports in North Sumatra and follow-up by the government and law enforcement officials on the financial statements. such as the Corruption Eradication Commission (KPK), the Police and Attorney General's Office and the Court. This research is very important because the topic concerns issues that are being faced by the central government, provincial government, and local government. The output of this research is designed to be an innovation in the form of a new model for the implementation of the State financial accountability which is expected to be a network tool between public institutions, research institutions and technology, universities and the private sector so that the benefits of innovative findings and products can be felt by the public. This research was conducted in 2 years. The first year was conducted a literature study by collecting written material from journals, books and others, a field study by collecting data and information on the results of audits of local government financial reports and follow-up by local governments and law enforcement as well as focus group discussions to collect opinions expert on the findings produced in this study. The results showed that based on BPK's inspection data, in 2008 to 2010 none of the district and city government financial statement opinions in North Sumatra received WTP opinion and in 2011 it had risen to 6%, whereas in 2012 none of the local governments who obtained WTP opinion again, but in 2013 there was an increase in WTP opinion to 12%, but on the other hand the percentage of local government financial reports in North Sumatra that obtained opinions other than WTP was still relatively large at more than 60%. The high percentage shows the need for local governments in North Sumatra to further optimize financial reporting efforts to be of higher quality.*

**Key Words:** *Mapping, Budget Abuse, Corruption Crime.*

## 1. INTRODUCTION:

Decentralization policy is not spared from a series of problems such as the rise of regional organization swelling, the occurrence of political oligarchy by local elites and the symptoms of regional disobedience to the central government are some of them. Putera (2007: 2) provides a note on the implementation of autonomy where the granting of authority to local governments to formulate policies and manage budgets, ultimately creating domination of power by local elites Acts of budget misuse that have the potential for corruption can be seen from the poor financial statements of local governments. Financial statements can be generated by every entity, both business entities and public entities. While financial statements in the public sector, especially government financial reports are important components to create public accountability (Mardiasmo, 2009: 159). Mardiasmo further (2009) states that the financial statements are a form of transparency that is a supporting requirement for accountability in the form of government openness to the management of public resources. The quality of financial statements can be seen from the perspective of the auditor who provides an opinion on the presentation of an organization's financial statements. According to Cohen and Kaimanakis (2011) that the audit report serves as a proxy for the quality of the accounting report, because the audit provides legitimacy for an entity that shows compliance with accounting standards. Furthermore Arens et al (2008: 11) and Boynton and Johnson (2006: 8) state that users of financial statements that rely on financial statements to make economic decisions consider that the auditor's report as an indication of the reliability of the financial statements. Quality financial reports in the public sector, especially in government according to Mardiasmo (2009: 144) is a financial statement that is able to present relevant and reliable financial information.

Based on the results of BPK's inspection from 2007 to 2016, the average opinion of district and municipal financial district government reports in North Sumatra is reasonable with exceptions (WDP), unnatural (TW) and no opinion (TMP). North Sumatra Representative Audit Board (LHP) Report as of March 17, 2016 shows that there were state losses of Rp 1.03 Trillion throughout the District and City Financial Statements throughout North Sumatra for the 2015 Fiscal Year, which was an accumulation of 2,791 findings (2016). North Sumatra Province in recent years has a bad record related to criminal acts of corruption, namely 2 governors involved in corruption cases in the Corruption Eradication Commission (KPK), therefore this study will examine several issues including: How to describe the audit results of the regional government financial reports in North Sumatra in the last 3 years, how is the follow-up done by the regional government on the results of the audit of the financial statements of the local government, and how the follow-up by the law enforcers (Police, Attorney and KPK) on the results of the audit of the financial statements of the local government.

## 2. LITERATURE REVIEW:

The quality or characteristics of useful financial information need to be considered in order to increase added value for the entity. In the opinion of Van Beest et al (2009) and the International Public Sector Accounting Standards Board (IPSASB) (2010: 29) that the quality of financial statements can be seen based on: (1) Relevance, (2) Faithful representation, (3) Understandability, (4) Comparability, (5) Timeliness, and (6) Verifiability. Furthermore, in Government Regulation Number 71 of 2010 concerning SAP, defining the qualitative characteristics of financial statements are normative measures that need to be realized in accounting information so that they can meet their objectives. These four characteristics as normative prerequisites are needed so that government financial reports can meet the desired quality, namely: relevant, reliable, comparable, and understandable. The quality of financial statements can also be seen from the perspective of the auditor who provides an opinion about the presentation of an organization's financial statements. Audit reports can serve as a proxy for the quality of accounting reports and therefore provide legitimacy for an entity that shows compliance with accounting standards (Cohen and Kaimanakis, 2011). According to Cohen and Kaimanakis (2011) that high-quality financial statements must not only comply with accounting standards but at the same time the financial statements must be accompanied by an external auditor's report regarding comments on compliance in preparing financial statements, with the audit opinion providing assurance that the reports The finances have been prepared in accordance with accounting standards, and that the financial position, results of operations, and the amount of surpluses or deficits have been fairly represented by the organization being audited. In addition, audit reports also play an important role in preventing the emergence of low quality information.

Corruption and Local Government Administration Isra (2009) in his article entitled Creative and Independent without Corruption provides notes on regional administration and its relationship with growing and developing corruption. This context can be seen from three important issues. First, the regional autonomy program is not followed by a democratization program that opens opportunities for community involvement in regional government. Therefore, this decentralization program only provides opportunities for local elites to access regional economic and political resources, which are vulnerable to corruption or abuse of authority; Secondly, the regional autonomy program has cut the structure of the government hierarchy, so that central government control to the region is no longer effective because there is no longer any structural relationship directly imposing local government compliance on the central government; and Third, the community has not been able to supervise when collusion occurs between the executive and the legislature. Corruption in terms of the ethical conduct of government activities according to A'yuni and Puspita (2012) is very unethical and violates the rights of others. There needs to be good control in efforts to fulfill and be ethical in carrying out his duties as a public servant, public servant, and community protector. To stay focused on tasks and avoid deviations, there needs to be a leader who is able to control, manage and protect his subordinates so that they do not fall into a cycle of corruption and misappropriation of funds or budget. The ideal figure of a local leader is the hope that people will be free from the word corruption. The other side of the administration of regional administration, cannot be separated from financial administration. Financial administration can be observed from the input aspects, the change process and the output aspects carried out by the government, and when viewed in terms of the implementation of regional autonomy in Indonesia, the implementation of these functions is carried out by the regional government which involves the implementation of input planning, the process of program implementation and output produced. Of the three elements, it turns out that gave birth to dimensions, namely; the input will give birth tribute which is an ordinary contribution as the will of the realization of the wishes of the authorities. Today it is often referred to as bribery.

## 2. METHOD:

This type of research includes a combination of normative legal research with Sociological Law Research and using an exploratory approach. The Exploration Study was conducted to dissect the Regional Government Financial Statements audited by the Supreme Audit Board (BPK) and examine the potential for corruption. The focus of this research is the Regional Government Financial Report in North Sumatra that has been audited by the Supreme Audit Board and Follow-up by Law Enforcement.

### 2.1. Data collection technique

**Questionnaire**, which is a list of structured questions or statements (items) addressed to the Regional Financial Management Officer (PPKD) and the regional Supervisory Agency / Regional Inspectorate of regencies and cities throughout North Sumatra Province.

**Interview**, which is a direct discussion with the Regional Financial Management Officer (PPKD) and the Regional Supervisory Agency / Regional Inspectorate in the Province of North Sumatra. This interview was conducted to complete the questionnaire, especially relating to the description of the Competency of the Regional Apparatus, and the Success of the Accounting Information System in the Regional Governments of Regencies and Cities in North Sumatra Province.

**Documentation**, namely data from existing sources obtained through the BPK RI Representative of the North Sumatra Region regarding the LKPD Inspection Results Report and the Effectiveness of the Government Internal Control System in North Sumatra Province.

### 3. Literature review:

Various literatures are studied in related to the study of corruption, and accountability of local government financial reports, books, journals, court decisions, writings in the mass media, all of which have to do with the focus of research on researchers to study and use for the purposes of discussing descriptive data obtained from exploratory study results.

#### 3.1. Focus Group Discussion:

This step is commonly used for government and non-government groups. and inviting experts consisting of legal experts and practitioners. The data analysis technique was carried out qualitatively. The reason for choosing qualitative techniques is because analysis can produce descriptive data. Qualitative analysis is used to get the meaning of the relationship between variables or to analyze the dynamics of the relationship between phenomena using scientific logic. Qualitative research seeks to answer research questions through formal and argumentative ways of thinking (Azwar, 2003: 5). Qualitative analysis in this study was conducted to find a mapping of regional financial statement problems that have the potential for criminal acts of corruption.

### 4. ANALYZE AND RESULT:

In general, financial statements are accounting information (Kieso et al, 2012: 5). Accounting information is the result of an accounting process which includes the process of recording, grouping, and summarizing the financial data of certain entities (Kieso et al, 2012: 5). In other words, the financial statements are the output of the accounting cycle, Albercht et al (2011: 1); Azhar Susanto (2008: 68). Financial statements can be generated by any entity, both business entities and public entities. Financial statements of business entities usually provide a summary of the performance and financial position of the business (Wood and Hommer, 2010: 41). Whereas financial statements in the public sector, especially government financial reports are a form of transparency as a supporting condition for accountability, namely in the form of government openness to public resource management activities (Mardiasmo, 2009: 159) The demand for transparency and accountability in public finance is regulated in the legislation package in the field of state finance, namely: Law (UU) No.17 of 2003 concerning state finance, Law No. 1 of 2004 concerning State Treasury, Law No. 15 of 2004 concerning Examination of State Financial Management and Responsibility, Government Regulation (PP) No.58 of 2005 concerning Regional Financial Management and Government Regulation No.24 of 2005 which was subsequently updated with Government Regulation No.71 of 2010 concerning Government Accounting Standards (SAP). This legislation package requires central and regional government agencies to compile financial statements consisting of Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Notes to Financial Statements in each accountability of the implementation of the State Budget / Regional Revenue and Expenditure Budget (APBN / APBD).

According to the International Public Sector Accounting Standards Board (IPSASB) (2010: 29) that the quality of accounting information in public sector entities includes the following characteristics: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Furthermore, in Government Regulation No. 71 of 2010 concerning SAP, there are four characteristics as normative prerequisites that are needed so that government financial statements can fulfill the desired quality consisting of: relevant, reliable, comparable, and understandable. The quality of financial statements can be seen from the perspective of the auditor who gives an opinion about the presentation of an organization's financial statements. According to Cohen and Kaimanakis (2011) that audit reports function as a proxy of the quality of accounting reports, because audits provide legitimacy for an entity that shows compliance with accounting standards. Furthermore Arens et al (2014: 28) stated that financial statement users who rely on financial statements to make economic decisions assume that the auditor's report is an indication of the reliability of the financial statements. In line with the opinion of Boynton and Johnson (2006: 8) that external users of financial statements rely on audited financial statements to obtain a guarantee of the reliability of the financial statements used to support their decisions. Boynton and more. Finance of the Republic of Indonesia (BPK-RI). The task of the BPK is to carry out a financial examination, then the results of BPK-RI's examination will be issued an opinion or opinion which is the examiner's professional statement on the examination of the financial statements. the quality of the Regional Financial Reports from year to year is decreasing. Musa (2009) also states that around 90 percent of the Regional Work Units (SKPD) in Indonesia have not been able to make local government financial reports (LKPD) such as APBD realization reports, balance sheets, cash flow reports and records of financial statements properly. In line with the opinion of Gamawan Fauzi (2011: 11) that although the quality of public sector financial reports, especially in regions has increased, the Ministry of Home Affairs assesses that in terms of regional financial management and reporting there are still many weaknesses.

Table 1. LKPD Opinion in 2008-2013

The Province of North Sumatera		Government				BUDGET FINANCIAL STATEMENTS	
NO		2008	2009	2010	2011	2012	2013
1	Province North Sumatera	WDP	WDP	WDP	WDP	WDP	WDP
2	District. Asahan	WDP	WDP	TMP	WDP	WDP	WDP
3	District. Batubara	WDP	TMP	TMP	TMP	WDP	WDP
4	District. Dairi	WDP	WDP	WDP	WDP	WDP	WDP
5	District. Deli Serdang	TMP	TMP	TMP	TMP	TW	TMP
6	District. Humbang Hasundutan	WDP	WDP	WDP	WTP	WTP-DPP	WTP
7	District. Karo	WDP	WDP	WDP	WDP	WDP	WDP
8	District. Labuhan batu	TMP	WDP	WDP	WDP	WDP	WDP
9	District. Labuhan batu South	*	*	WDP	WDP	WDP	WTP
10	District. Labuhan batu North	*	*	TMP	TMP	WDP	WDP
11	District. Langkat	TMP	TMP	TMP	WDP	WDP	WDP
12	District. Mandailing Natal	TMP	WDP	WDP	WDP	TMP	TMP
13	District. Nias	TMP	TMP	TMP	TMP	TMP	WDP
14	District. Nias West	*	*	TMP	TMP	TMP	TMP
15	District. Nias South	TMP	TMP	TMP	TMP	TMP	TMP
16	District. Nias North	*	*	TMP	TMP	TMP	TMP
17	District. Padang Lawas	*	TMP	TMP	TMP	TMP	TMP
18	District. Padang Lawas North	*	TMP	TMP	WDP	WDP	WDP
19	District. Pakpak Bharat	WDP	WDP	WDP	WDP	WDP	WTP

20	District. Samosir	WDP	WDP	WDP	WDP	WDP	WDP
21	District. Serdang Bedagai	WDP	WDP	WDP	WDP	WDP	WDP
22	District. Simalungun	WDP	WDP	WDP	WDP	WDP	TMP
23	District. Tapanuli South	TMP	TW	TW	WDP	WDP	WDP
24	District. Tapanuli Tengah	WDP	WDP	WDP	TMP	WDP	WDP
25	District. Tapanuli North	TMP	TMP	WDP	WDP	WDP	WDP
26	District. Toba Samosir	TMP	TMP	WDP	WDP	WDP	WDP
27	Kota Binjai	WDP	WDP	TW	WDP	WDP	WDP
28	Kota Gunung Sitoli	*	*	WDP	WDP	WDP	WDP
29	Kota Medan	TMP	TMP	WDP	WTP	WTP-DPP	WTP
30	Kota Padangsidempuan	TMP	WDP	WDP	WDP	WDP	WDP
31	Kota Pematangsiantar	TMP	TMP	WDP	WDP	WDP	WDP
32	Kota Sibolga	WDP	WDP	WDP	WTP-DPP	WDP	WDP
33	Kota Tanjungbalai	WDP	WDP	WDP	WDP	TMP	TMP
34	Kota Tebingtinggi	WDP	WDP	WDP	WDP	TMP	WDP

Based on Figure 1.1 above, the quality of LKPD opinion in North Sumatra continues to improve. In 2008 to 2010 none of the district and city government financial statements in North Sumatra received WTP opinion and in 2011 it had increased to 6%, while in 2012 none of the local governments received WTP opinion again, but in 2013 there was an increase in WTP opinion to 12%, but on the other hand the percentage of local government financial reports in North Sumatra that obtained opinions other than WTP was still relatively large at more than 60%. The high percentage shows the need for local governments in North Sumatra to further optimize financial reporting efforts to be of higher quality.

## 5. CONCLUSION:

Each organization presents accounting information (financial statements) for users both inside and outside the company to assist in making decisions in the economic field (Hansen and Mowen, 2009: 4). Quality accounting information is very important, because it will affect capital providers and other stakeholders in making investment decisions, as well as loans (Beest et al, 2009: 3), therefore, so that decisions made by users can be useful, then accounting information (reports financial) produced must be quality financial reports. Financial statements are said to be of quality if the financial statements are in accordance with financial reporting accounting standards with the aim of informing the financial position and results of operations of an entity at the end of the period, Brookson (2009). According to the International Public Sector Accounting Standards Board (IPSASB) (2010: 29) that the quality of accounting information in public sector entities includes the following characteristics: relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Furthermore, PP No. 71 of 2010 concerning SAP states that there are four

characteristics as normative prerequisites needed so that government financial reports can meet the desired quality consisting of: relevant, reliable, comparable, and understandable.

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