

CHAPTER I

BACKGROUND

A. Research Background

In a country, it is important to have a government system to organize an orderly state life to create stability in social life and maintain the sovereignty and strength of a country. As a public sector organization, the government is required to perform well in carrying out its duties and responsibilities that are centred on the interests of the public. So that in running the wheels of government, it is necessary to apply the principles of Good Government Governance to improve local government. According to UNDP (1997) on Pratolo and Jatmiko (2020), Good Government Governance is an implementation of solid and responsible governance that is in line with the principles of democracy and an efficient market, avoiding misallocation of investment funds and preventing corruption, both politically and administratively carrying out budget discipline and legal creation. and a good political framework for the growth of business activities.

The public certainly has very high expectations for the performance carried out by the government. Over time, the demands for good government performance from the community will increase. Indonesia has a wide and diverse area. Hence it is not possible to rely solely on the performance of the Central government. Therefore, Law of Republic Indonesia Number 32 of 2004 concerning regional administration and Law of Republic Indonesia Number 33 of 2004 concerning the financial balance between the Central government and regional governments which is the regional autonomy law which was perfected from the enactment of the previous law in the New Order era, namely Law of Republic Indonesia Number 5 of 1974.

In one of the Surah in the Holy Qur'an, Allah has commanded man to work and be responsible for everything they do in order to gain many righteous deeds.

وَقُلِ اعْمَلُوا فَسَيَرَى اللَّهُ عَمَلَكُمْ وَرَسُولُهُ وَالْمُؤْمِنُونَ وَسَتُرَدُّونَ إِلَىٰ
عَلَمِ الْغَيْبِ وَالشَّهَادَةِ فَيُنشِرُكُم بِمَا كُنتُمْ تَعْمَلُونَ ﴿١٠٥﴾

“And say: “Work; so, Allah will see your work and (so will) His Apostle and the believers: and you shall be brought back to the Knower of the Unseen and the seen, then He will inform you of what you did” (Q.S. At-Taubah: 105)”

Based on the verse of Holy Qur'an above it can be concluded that Allah SWT has commanded human to work to gain as much as possible righteous deeds. When doing their job, local government officers must be aware that every single action of a person is monitored or being watched by Allah. Allah Almighty knows everything that exists in the world even the smallest thing that a human being intentionally hides. In the end, human will return to Allah SWT and will be judged for everything they do. Those who do righteous deeds will be rewarded and those who have evil intentions will be tormented for their action. Therefore, every human being should offer their best effort in doing their job and must pay the fullest attention to their movement and action because everything they do will be monitored and accountable.

According to Law of Republic Indonesia Number 32 of 2004, regional autonomy is the right, authority, and obligation of an autonomous region to regulate and manage government affairs and the interests of local communities in accordance with statutory regulations. Regional autonomy is carried out with the aim a region can regulate its own regional households. The existence of regional autonomy can reduce

the accumulation of jobs owned by the Central government, thereby creating a more efficient and orderly form of services provided by local governments to the public which is believed to be in accordance with the culture, laws, and conditions of each different region (Pratolo and Jatmiko, 2020).

In running the government, local governments are given the authority to manage their own regional finances. Good regional financial management can improve the financial performance of a local government and vice versa, the more effective and efficient regional financial management is, the better the regional financial performance will be (Nasution, 2018). Regional financial performance is the result of activities or programs of a financial management system that has been achieved in accordance with the objectives of the local government.

The aspect of authority given by the Central government to local governments is given the opportunity to seek their own sources of income from various sources within a certain area, thereby Regional Original Revenue appears. The Central government does not necessarily give up the sovereignty it grants to local governments, therefore in each period of one year the Regional Revenue and Expenditure Budget (APBD) the local government will get a flow of aid funds provided by the Central government as stated in Law of Republic Indonesia Number 33 of 2004 and Government Regulation Number 55 of 2005 concerning balance funds.

The granting of this authority is not without risks. Large authority is at risk of being followed by acts of abuse of power such as corruption, collusion, and nepotism or often referred to as KKN (Pratolo and Jatmiko, 2020). Therefore, many people have trust issue to the public sector and demand good accountability and transparency from the government. An important problem that causes this deviation of authority is the lack of accountability and transparency in the management of government finances

(Yahya, 2006). Regional Financial Management is all activities that include planning, budgeting, implementation, administration, reporting, accountability, and supervision of regional finance (Government Regulation Number 12 of 2019 concerning regional financial management)

Accountability is an element of clarity in the organization's function and how to account for it, where every state organizer must carry out the role honestly and measurably in accordance with the provisions of applicable legislation as well public policy and not misuse the authority (*Komite Nasional Kebijakan Governance*, 2010). Accountability is very important for governance; with good accountability it will be easy for the public to know the extent of the accountability of the Government's performance in carrying out its duties and authorities. Accountability and transparency in good governance are two things that cannot be separated.

Transparency is an element of disclosure and provision of information that is adequate and easily accessible to interested persons (*Komite Nasional Kebijakan Governance*, 2010). The disclosure of information provided by the local government will make it easier for the local community to monitor and evaluate the performance results that have been carried out by the local government. Through transparency and accountability in government processes, the community is given the opportunity to take part and participate in knowing all regional governance processes and policies that will affect people's lives, in this case the community investigates regional financial reports and the performance of local governments.

If the transparency and accountability of a local government is low, there will be many irregularities which will lead to inefficiency in resource allocation, fraudulent practices, and abuse of duties for individual employees and officials in the regional government. Moreover, during the Covid-19 pandemic, which is believed to be

lowering the performance of the Central government which will later affect the local government.

The period of the Covid-19 pandemic broke out in Indonesia around the beginning of 2020. Pandemic Covid-19 affects almost all activities such as economic, government, health, social and other activities. The government as an agency whose job is to provide the best service to the local people must be able to cope with unexpected events in the form of the Covid-19 pandemic so that it does not increasingly have a major impact on society and other sectors. The urgency of handling the Covid-19 pandemic causes the Government to immediately take active steps to tackle the Covid-19 pandemic (Basri and Gusnardi, 2021). In answering the problems that have occurred, the Central government has carried out several regulations in handling covid-19 which of course will also be carried out by the regional government. In truth, neither Central government nor local government are ready for the unexpected events of pandemic Covid-19.

The government has provided a number of policy relaxation in handling Covid-19 from budgeting, procurement of goods and services, the distribution and use of Revenue Sharing Fund, General Allocation Fund, and Regional Incentive Funds and distribution of Special Allocation Funds for the Health Sector and Health Operational Assistance Funds in the Context of Corona Prevention and / or Management Virus Disease 2019 (Dan et al., 2020). Both Revenue Sharing Fund and Special Allocation Fund are funds allocated from the income of State Revenue and Expenditure Budget (APBN) that distributed by Central Government to Local Government to meet regional needs as the part of decentralization system. On Law of Republic Indonesia Number 14 of 2015 concerning state revenue and expenditure budget fiscal year 2016(*UU Nomor 14 Tahun 2015 Tentang Anggaran Pendapatan dan Belanja Negara Tahun*

Anggaran 2016), Regional incentive fund is a fund that allocated in State Revenue and Expenditure Budget to specific regions based on certain criteria to reward the achievement of certain performance.

The large Covid-19 Handling Fund and a relatively fast mechanism are expected to restore the health and economic condition of the Indonesian people, but this is accompanied by the vulnerability of fraudulent practices and corruption (Sianipar and Ardini, 2020). It is feared that the aid funds provided by the Central government to regional governments will open the door for corruption fraud because in a disaster situation it results in weak supervision and transparency of the distribution of funds. So that it can be ascertained that the management of regional funds during the pandemic will be abuse.

In the policy of reallocating and refocusing the budget during a pandemic, a supervisory role both internally and externally is very much needed. The supervisory role of the Regional House of Representative (DPRD) in a regional government is important to supervise and monitor performance along with regional financial reports.

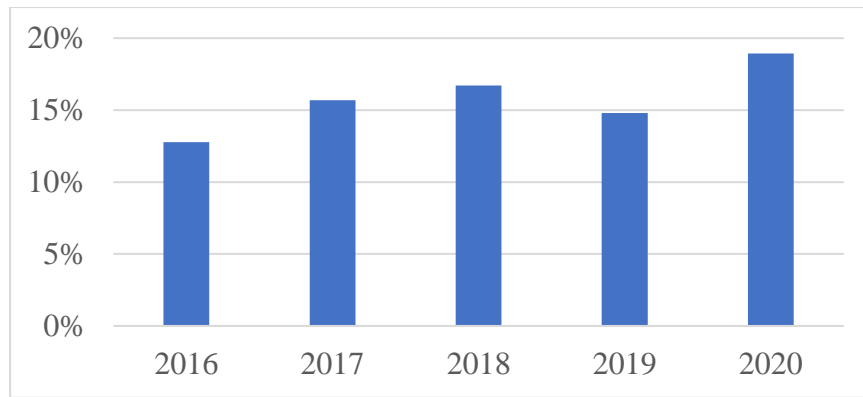
According to Hasthoro and Sunardi (2016), Local government accountability can be seen through the quality of financial report based on Indonesia Audit Board (BPK-RI). Based on the opinion report of Indonesia Audit Board (BPK-RI) on the financial statements for the 2018 fiscal year in the regional government of West Kotawaringin Regency, there were weaknesses in the internal control system in the preparation of financial reports in the form of inadequate fixed asset management, local revenue from service fees of Public Health Centre which were late to be deposited to the regional treasury, and several recipients of grants and Early Childhood Education (PAUD) operational assistance which have not submitted an accountability report for the use of assistance. Although the opinion on the results of the examination

on the financial performance report of the West Kotawaringin Regency in 2018 stated an unqualified opinion, in fact there are still some weaknesses in internal control that occur. This can be a benchmark that can later be compared to how the state of the financial performance of West Kotawaringin Regency during the pandemic.

Financial performance is a measure of performance that uses finance as an indicator. Financial performance analysis is conducted to assess past performance by conducting various analyses so that the obtained financial position representing the reality of the entity and the potential for the next performance (Hasthoro and Sunardi, 2016). The government is expected to be able to report the results of programs and policies that have been implemented to be assessed economically, effectively, and efficiently.

To analyse the financial performance of local government in managing their regional finances is by doing financial analysis of Regional Revenue and Expenditure Budget (APBD) that has been established and implemented. Regional Financial Independence Ratio shows the level of capability of a local government in self-financing their own activities, development, and service to the local people without any interference of Central Government and is obtained by comparing regional original income to transfer income. RFIR also describes the level of local's participation in its regional development which is indicated through paying tax and retribution. The higher the ratio of RFIR means that the level of regional dependence on external assistance is lower and vice versa, as well to indicate that the higher participation of local. RFIR was obtained by comparing regional original income to transfer income.

Table 1. 1
Regional Financial Independence Ratio of
West Kotawaringin Regency



Source:

Primary Data Processed, 2021

The table above shows the graphic of the regional financial independence ratio of West Kotawaringin Regency from 2016 – 2020. The pattern of ratio is significantly increasing each year but unfortunately in 2019, the ratio is shrunk to 14% which means that in that year West Kotawaringin Regency is more dependent on the transfer income from Central Government and Province Government than the previous year. According to Fathah (2017) , the level of dependency around 0% – 25% describes an instructive model which is the role of Central Government is more dominant than the local government and have awful financial capabilities. As can be seen from the table above, from 2016 – 2020 shows that the level of RFIR is below 25%, which is concluded the average independence ratio of West Kotawaringin Regency is in instructive model and having awful financial capabilities. This implies that the level of dependency on assistance from external parties especially from the Central Government and Province Government is still high and dominant. West Kotawaringin Regency is included in the category of local governments which has not been able to optimize Regional Original Income (PAD) especially from taxes and levy and not yet able to cultivate the regional potential to help lowering the level of dependency on external parties.

Based on the background description above, this undergraduate thesis will conduct research with the title "**The Influence of Accountability, Transparency,**

Internal Control, and Regional Financial Management on Regional Financial Performance during The Covid-19 Pandemic (A Study on Local Government Work Units in West Kotawaringin Regency)". This research is replication research conducted by Nasution (2018) who examined "The Influence of Regional Financial Management, Accountability, and Transparency on Government Financial Performance Analysis". The differences between this research and previous research are that the researcher adding internal control variable conducted by Karim & Mursalim (2019) and other differences are in the object and the circumstances or situations when the research was carried out. The researcher adding internal control variable with the assumption of the need of internal control during pandemic can be lower and ineffective. The object of this research is Local Government Work Unit (LGWU) or in Bahasa called as Organisasi Pemerintah Daerah (OPD) in West Kotawaringin Regency and refers to the situation during the Pandemic Covid-19.

B. Research Scope

The limitations of this research are:

1. This research focusses on the study towards regional financial performance based on the independent variables, namely: accountability, transparency, internal control, and regional financial management during pandemic covid-19.
2. The sample of this research is local government work unit especially financial department in West Kotawaringin Regency.

C. Research Question

Based on the background above, the formulated questions are:

1. Does accountability have influence on regional financial performance during Covid-19 pandemic?
2. Does transparency have influence on regional financial performance during Covid-19 pandemic?
3. Does internal control have influence on regional financial performance during Covid-19 pandemic?
4. Does regional financial management have influence on regional financial performance during Covid-19 pandemic?

D. Research Objectives

1. To obtain information about the influence of accountability on regional financial performance during Covid-19 pandemic.
2. To obtain information about the influence of transparency on regional financial performance Covid-19 pandemic.
3. To obtain information about the influence of internal control on regional financial performance Covid-19 pandemic.
4. To obtain information about the influence of regional financial management on regional financial performance Covid-19 pandemic.

E. Research Benefit

The expected results from the conducted research are as follows:

a. Theoretical

This research is expected to be able to contribute give more explanation as a reference source for the next research for topics related to the public sector in

Indonesia, especially accountability, transparency, internal control, and regional financial management on regional financial performance during pandemic Covid-19.

b. Practical

a. Central Government

This research is expected to be able to give some information for the Central government in measuring whether the new regulations affect the performance of local governments while in Pandemic Covid-19. This search provides an overview as feedback for the Central government of how accountability, transparency, internal control, and financial management on financial performance run in a local government during Covid-19 pandemic.

b. Local Government

This research is expected to be able to provide some information that can be considered as feedback input about the local situation of its accountability, transparency, internal control, and regional financial management on regional financial performance during an unexpected event which is Pandemic Covid-19. Local government is expected to know their performance especially for the result of regional financial performance and more concern in running good governance.

