ACCOUNTABILITY OF LOCAL GOVERNMENT: THE CASE OF ACEH PROVINCE, INDONESIA

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Abstract

The Indonesian government has introduced various initiatives to encourage accountability from local governments. However, many local governments in Indonesia are still suffering from financial scandals. Concerns over lack of accountability, mismanagement of resources, and inefficiency and ineffectiveness of government institutions are repeatedly voiced by the media and corruption watchdog. The issue is more pertinent in the Province of Aceh given the special autonomy status which has led to massive injection of financial resource in the region. However, the institutions of local government presently do not have the capacity and capability to effectively manage their financial resources. Corruption is still a major problem in local Acehnese government. These issues of accountability, specifically with regards to the lack of financial planning and budgeting and also the deficiencies in the financial reporting system, are discussed in this paper. Several recommendations on how to improve governance and accountability of local government in Aceh are also provided.

Keywords: accountability, financial planning, budgeting, Aceh, Indonesia
1. INTRODUCTION

In the last two decades, the accountability of governmental institutions has become more complex and attracted considerable interests from both academic researchers and the general public. Issues such as financial scandals and mismanagement of resources have concerned stakeholders, since government institutions are considered agents of the public with a duty of ensuring the proper functioning of governmental organizations. The activities of government institutions are therefore scrutinized by numerous actors and stakeholders (Peter 2006).

Consequently, many governments across the globe are giving serious attention to the issue of accountability, and transparency of its agency in response to the pressure from the citizens. However, lack of enforcement or rigorous punishment for violations make public organizations suffer from low level of efficiency, corruption and many other problems (Saleh and Nabiha 2011).

In the context of Indonesia, particularly the province of Aceh, the issue needs to have more attentions. The signing of a peace agreement in Helsinki in August 2005 between the Government of Indonesia and the Aceh Independent movement led to special autonomy status and a massive injection of financial resources for the Aceh region. As a result, the local government in Aceh began receiving an unprecedented amount of financial resource from the Indonesian central government. A study conducted by World Bank (2006) indicated that institutions of local government in Aceh arguably do not have the capacity to effectively manage and spend such resources. Corruption is a major problem within Indonesian local government (Barron and Clark 2006). In a research conducted in 39 cities in Indonesia examining public satisfaction with local governments, noted that “the majority of respondents are disappointed with their local government commitment to eradicate corruption and report practices of corruption, collusion and nepotism” (Chene 2009, p.4)

Therefore, there is a need to examine governance and accountability of local government of this region. The aim of this paper is to discuss issues of accountability and governance of local government in Indonesia, particularly in the province of Aceh, Indonesia.

2. THE CONCEPT OF LOCAL GOVERNMENT IN INDONESIA

Local Government Act No 32/2004 stipulated that local government consist of executive body and local parliament. Executive body consist of a Head of Region and local apparatus, namely a local secretariat, government agencies (Dinas) and technical unit. These offices and technical units differ between regions in Indonesia since depending on different needs of each region. In Indonesia, local government has authority to determine the number of local agency based on what is needed. It has authority for all development sectors in regions. The Local Parliament (DPRD), as a legislative body with members from various political parties, is separated from the executive body. The local legislative body has the authority to establish local regulations, local revenue and expenditures budgets, to conduct investigation, to express opinion and consideration, as well as to facilitate and follow up the aspiration of citizens (UNESCAP 2013, p.11).
Under the new centralization laws from 2004, central government retains authority over six key functional areas, including international politics, justice, monetary and fiscal, defence, national security, and religion (Takeshi 2006, Savitri 2011). As such, local governments in Indonesia are not a sub unit or under the direct command of national government and the central government departments no longer has line agency offices (\textit{kanwil}) in the regions (McCarthy 2004).

The structure of local government as follows the pattern of national government which is divided into provincial and district/city levels of government. Both provincial and district/city levels of government have been granted autonomy and each level has its own government system and legislative body (UNESCAP, 2013, p. 6). General governmental structure in Indonesia is depicted in Figure 1.

There have been several studies that have identified numerous problems of regional autonomy. The media have also increasingly reported cases of corruption, intimidation, and money politics in the region, giving rise to powerful regional heads locally known as \textit{raja kecil} (small kings). However, viewed from the local government perspective, decentralization has led to various benefits. With greater autonomy, local governments are free to do what they see fit (Takeshi 2006, p. 141). The World Bank (2001) as quoted by (McCarthy 2004, p.8), has also suggested that “under appropriate condition decentralization increased the efficiency of government and its responsiveness to local needs, enhanced the accountability of public institutions”. Hence, it is essential for all local governments to overcome the gap between the theory and the practice of decentralization, in order to guarantee the successful implementation of benefits from decentralization.

2.1. The Greater Autonomy for Aceh’s Local Government

For political reasons, the system of local government cannot be implemented uniformly in all regions in Indonesia. The province of Aceh has obtained greater autonomy as part of the agreement for the conflict resolution with the central government. Law No18/2001 on Special Autonomy for Aceh Province was enacted on 9 August, 2001. This special autonomy was granted in order to address the political, economic and culture grievances of the Acehnese people. The law transferred an unprecedented level of power and resources from the central government to the province. It also give Aceh a greater share of income from its natural resources, allowed more freedom to manage internal affairs, and gave the authorities the ability to redesign the local government in line with local context and provide authority on religious matters (Gukguk 2006; Crouch 2009). However, this law was never fully implemented in Aceh, (Barron and Clark 2006, p.4) which resulted in continuation of the conflict.

In 2005, the Indonesia government and the Aceh independent movement signed a peace agreement which led to resolving of the conflict. Hence, the Peace agreement provides for autonomy of Aceh and covers a broad range, from the administrative to the political and fiscal issues and The Aceh government has the right to use its own regional symbols, to establish local political parties, and considerable right in the economic and fiscal areas. Aceh obtains greater benefits from its natural resources, as the agreement provides the province with a larger share of revenues; it retains 70% of revenues from natural resources and also an
increase in general purpose grants, which are in Indonesian termed “dana alokasi umum (DAU)” (World Bank 2006, UNDP 2012). The Aceh government can also set different interest rates from those of the Central Bank of Indonesia.

The peace agreement and the subsequent law on government of Aceh (LoGA), Law No11/2006 has considerable impact on the nature of relationship between the central government in Jakarta and Aceh’s local government, as it has led to a transfer of power and financial resources to the Aceh Region. The broad authority, of course, has allowed the Aceh local government to carry out their development activities without much central government interference. This is in direct contrast to the Soeharto Era (1966-1998), in which power was concentrated in Jakarta and the central government controlled almost all aspects of national economy and political life. That caused dissatisfaction among local people, particularly those from regions rich in natural resources, such as Aceh.

Thus, Aceh province has benefited from the decentralisation in Indonesia (World Bank 2006; and UNDP 2012). Moreover, the peace agreement has resulted in greater autonomy for the Aceh region compared to the rest of the provinces in Indonesia. This has also resulted in wide-ranging reforms in local government during the past decade and shifted more political accountability to Aceh.

2.2. Local Political Accountability

The Helsinki Agreement changed Aceh’s local government to “a local political accountability model”. Hence, the head of Aceh region is directly elected by the people and is accountable to the local parliament. Through this new reform, Aceh has been given full political and administrative independence (Kaidonis and Moerman 2007). The Aceh local government is no longer required to report the resource allocation process and its implementation to the central government. The regional parliament has the right to approve and reject the budgets as well as the accountability report of the Governor, i.e. the head of the region (Venning 2009).

However, similar to other regions in Indonesia, the Aceh local government is dependent and accountable to the central government, as there are cases in which the central government, through its line ministries, provides certain public goods and services in the region (Savitri 2011). Similarly this has been outlined by Venning (2009 p.7) and has been pointed out as follows:

“Although local governments have a considerable power and authorities in many centralised countries, local government remain accountable to the central government for adherence to its priorities, policies and laws”.

The Indonesian central government is to some extent still responsible for ensuring that citizens can access public goods and services of an acceptable quantity and quality anywhere within the country. Thus, actual government functions still overlap, since the provision of public goods and services are in fact carried out by both central and local governments. This can of course benefit society in term of availability of public goods and services, but this situation may further confuse the implementation of accountability function to whom local government should be accountable, and this may jeopardize the objective of decentralization, better public services and accountability (Savitri 2011).
Aceh local revenues now consist of local revenue (tax and charges), natural resources revenue sharing, tax revenue sharing, general purpose grants, Dana Alokasi Umum (DAU) and special allocation grant, Dana Alokasi Khusus (DAK) / as well as special autonomy fund (Law No33/2004). The Dana Alokasi Umum (DAU) is designed to equalise the fiscal capacities of regional governments to finance their expenditure needs. Hence, the purpose of the general purpose grant is to pay salaries and allowances of civil servants and reduce fiscal imbalances created by revenue sharing. Whereas, special allocation grant, Dana Alokasi Khusus (DAK) is used primarily to finance physical capital investment, aid in emergencies, and assist expenditure relate to national priorities (Kaidonis and Moerman 2007). Except for local revenue (tax and charges), revenue is regulated in the Law No 33/2004 on fiscal balance between the central and local governments and Law No 11/2006 on the government of Aceh.

It is important to note that only Aceh and Papua local governments have special autonomy funds in their revenues structure as a result of the greater share revenue of natural resource (especially oil and gas) granted to the province (see, UNDP 2012). This exception only applies to these two regions in Indonesia. The Aceh local government has the right to additional revenue up to 2% of national DAU allocation for 15 years from 2008 to the year 2022, and 1% from 2023 until 2028 (the Law of Government of Aceh (LOGA) No 11/2006). Figure 2 diagrammatically illustrates the flow of funds in Aceh.

The Indonesian central government has authority only to monitor and evaluate the implementation of specific allocation grant. The local government in Aceh has to demonstrate the accountability of implementation of this grant to the respective ministry and the ministry of finance. Other types of revenue fall under local governments’ full authority in terms of allocation and disbursement of the financial resources. Thus, the central government has an obligation to allocate funds, but not the authority in monitoring or evaluating the spending of said funds (Brojonegoro 2003 p. 294).

3. RESEARCH METHOD

This study is based on qualitative approach in which data are gathered through literature source and semi structure interviews with key informants such as internal and external auditors of government, academicians and a former government advisor for the Aceh region. The purpose of the interviews is to gain in depth understanding regarding their general view of Aceh local government, specifically regarding issues of governance and accountability.

The paper is structured as follows: Section 2 presents method used, while the next section discusses the meaning and concept of local government in the Indonesian context. The paper then proceeds with the discussion of greater autonomy for the local government and local political accountability in Aceh. Section 4 discusses the problematic issues of accountability in the Aceh local government. Section 5 provides the recommendations and conclusion from the paper.
4. RESEARCH FINDINGS - THE PROBLEMATIC ISSUES OF ACCOUNTABILITY IN THE ACEH LOCAL GOVERNMENT

There are several problematic issues of accountability of the Aceh local government, such as a lack of financial planning and budgeting, low of quality of financial reporting and the lack of transparency and accountability.

4.1. The Lack of Financial Planning and Budgeting

Financial resources are among the most important elements needed to ensure the process of development in any country. Due to this, resources must be optimally and efficiently allocated through the budgetary process in order to achieve efficient distribution of resources. Budgets are a public statement of expected government revenues and expenditures over a period of time and are deliberated and endorsed by elected legislator in national, provincial, municipal and local government (Robinson 2004) and are an important part of the relationship between citizens and government. Therefore, satisfactory budget management is a key challenge and required urgent attention for Aceh local government so that it ensures efficient and effective allocating resources so as to improve economics condition of its citizen.

The process of budgeting is subject to guidelines and procedural orders as formulated in the government regulation. The budget process begins in January of the preceding year when the regional government begins formulating a regional work plan as the basis for policy of the regional budget (APBD). The provincial government presents the budget’s general policy to the local parliament in mid-June. During the first week of October, the local government submits a draft of the budget to the local parliament. At least one month before the start of the fiscal year, the local parliament and local government must agree on the proposed budget. Figure 3 refers to a diagram in understanding the process of budget preparation more clearly.

However, previous studies have indicated that budget management system of Aceh’s local government do not work well (UNDP 2012). The budget cycle and management was not in accordance to the time or period set by the law and regulations. As an academician from Syiah Kuala University in Aceh commented, “We have the rule, we have the cycle of the budget, but we always break the rule.” (Interviewee 1, 2013).

His view is consistent with the findings of a survey of 41 local governments in Indonesia conducted by Fitra and Asia Foundation (2008 p.9) which stated that “some local governments still do not comply with the administration of the planning and budgeting processes as stipulated in laws and regulations; for example, budgets are not passed on time, and the content of the budget documents is inadequate”.

In 2010, for example, the government of Aceh was the slowest provincial government to submit the budget, which consequently seriously delayed the arrangements for obtaining budget approval. In 2011, the Aceh provincial government again failed to meet even the extended deadline. As a consequence, the central government imposed a penalty on the government of Aceh. Clearly, delay in budget submission and approval are common in Aceh in recent years at both provincial and district level. Thus, a significant amount of the
budgeted funds cannot be spent by the end of the fiscal year. The problem still persists, since no one feels responsible or was held accountable for this unsatisfactory budget management.

Even though local government administration has been a constant subject of administrative reform, there is still lack of financial planning at the local government, as explained by the interviewee who was previously involved as a special staff for Aceh Regional Development Planning Agency. He complained about the lack of integration between the process of planning and its implementation:

*From my experience, there has been no focus on the planning, that the first one, the plan, of course, we prepare, we write down it, but there was no connection between the plan, and its implementation of budget. It seems to me it was not connected at all (Interviewee 1, 2013).*

Besides the lack of integration between planning and implementation; the delay in finalising the budget are due to interference from the various parties, the executive, the politicians and also from the legislative as he further commented:

*I think the biggest problem of it (budget management) is the process itself. As I said before, there is the interference from many groups, legislative, executive and the other political parties during the budgeting process cause the delay of budget approval (Interviewee 1, 2013).*

Besides the lack of integration between planning and implementation and the interference of various parties; the problem is also exacerbated due to the lack of capacity and capability of the public officers. Consequently, there is lack of transparency and accountability on the usage of public funds. Hence, though there exist government regulations that require good financial planning and budgeting, in reality these regulations are not adhered to. As explained by another academician from Syiah Kuala University, Aceh, Indonesia who was involved in various local government activities.

*Well, they are supposed to comply with the regulation in managing the development fund, but in many cases, transparency and accountability are lacking in management of public fund. It starts from very beginning of the process of planning and reporting is not transparent. The wrong men in some cases are managing the budget, they do not have the capacity to really plan, implement, execute, and also report budget properly according to the regulation (Interviewee 2 2013).*

Similarly, a research conducted by UNDP (2012) found that the unsatisfactory budget management process in Aceh was caused by the following factors:

a. A range of institutional problems, at various levels with governments, which hamper overall management effectiveness, whether these including lack of impetus from the leadership, a lack of technical expertise or an antagonistic relationship between the local government and the local parliament.

b. Marked delays, at both the provincial and district level, in the approval of and utilization of budgets in recent years.
c. Excessive political interest and bureaucratic controls which have greatly limited managerial flexibility (UNDP 2012). They also found that this is not a problem specifically in Aceh province, but have become a problem in various parts of Indonesian in recent years at all levels of government. To cope with this problem, the government of Aceh has made several efforts to improve financial planning process. For example, the former governor of Aceh established a special budgetary unit named “Unit Percepatan dan Pengendalian Keuangan” (Financial Acceleration and Management Unit) to address the problem.

However, budget management in Aceh still remains problematic since the process of formulating and obtaining approval for the annual budget is still excessively bureaucratic and time consuming (UNDP 2012). In spite of this, the current elected local governments, particularly at provincial level have made much improvement as evidenced by the award on budgetary planning received by the Aceh province from the central government (Serambi Indonesia 2013).

4.2. The Low Quality of Financial Reporting and the Lack Transparency and Accountability

A government has an obligation to give an account of the performance of its duties. In the context of both Aceh’s local government and other parts of Indonesia, this obligation is embedded in the guidelines for the reporting of performance evaluation of government institutions (LAKIP). LAKIP requires local governments to submit performance accountability report at the end of each fiscal year. The agreed annual budgetary and revenue expenditures are to be reported to the legislature and the wider society which could, based on the information provided, do evaluation of the local government performance.

Proper financial reports have become a key component in which accountability is expected and can be demonstrated. Through financial reports, stakeholders can undertake performance assessment of the organization. It is important to note that the disclosure of all activities must be made public and not in secrecy or under the guise of confidentiality. An absence of transparency usually results in the abuse of public funds (Owe chi and Namara 2012).

In Aceh, there is a lack of financial reporting by the local government. As explained by an auditor at the “National Auditing Agency”, many local government authorities in Aceh were not able to produce financial reports in a timely manner. Besides the delay in submitting financial reports, the public officers also failed to provide reports that are in compliance with accounting standards and regulations (Interviewee 3 2013). Thus, it is not surprising that for the fiscal year 2012, only seven out of the 24 financial reports of the districts and cities government were given unqualified opinion by the auditors. More alarmingly, the provincial government has managed to submit their financial reports on time only starting in 2012. However, they have not yet received unqualified opinion. Even though various efforts were made to improve performance and accountability of public sector in Indonesia, the issue of lack of accountability still exists. The concerns about lack of accountability were also raised by an internal government auditor who noted that “accountability in Aceh local government now is not well implemented.” (Interviewee 4, 2013).
Nevertheless, there is agreement among those interviewed that the level of accountability in Aceh local government has greatly improved, particularly at the provincial level, following the introduction of an integrated financial management. This is because the new system has vastly improved the reliability of financial information and sped up the submission of financial reports.

5. RECOMMENDATIONS AND CONCLUSIONS

The local government of Aceh has undergone significant political and administrative reform due to the greater autonomy local government compared to other regions. The law on government of Aceh (LOGA), Law No 11/2006, has drastically changed the national and sub national relations by transferring power and financial resources to the Aceh region. This reform has shifted accountability of Aceh local government to a “local political accountability model”.

However, the issues of lack of accountability and low levels of efficiency are still repeatedly voiced by the media and corruption watchdogs. This issue is more significant given that Aceh is among the richest province in Indonesia; on a per capita basis Aceh is among top three regions in Indonesia after Papua and East Kalimantan. However, at the same time it remains the fourth poorest province in Indonesia. This clearly demonstrates poor financial management and accountability practices by the governmental authorities. It is also questionable whether the local government is committed in enhancing its accountability, improving efficiency and effectiveness of the program implementation, as well providing better transparency in financial matters.

In relation to this, it has been indicated that Aceh local government continues to suffer from low level of efficiency as well as corruption. Allegation of bribery and corruption are frequently raised against the local authorities as indicated from the research findings conducted by Fitra, Forum for Budget Transparency (2012), which ranked Aceh province as the second most corrupt in Indonesia after Jakarta (Aceh National Post 2012).

Even though the government of Aceh has made various efforts to enhance both performance and accountability, the process remains problematic and has not satisfactorily achieved the intended result particularly, in the areas of budget management as well as timeliness and quality of financial reporting. The budget cycle process has been developed on paper rather than being fully practiced. The process of financial planning and budgeting need to be vastly improved. There is a yearly delay in budget submission and approval, a lack of conformance to proper accounting practices and guidelines, and a lack of the disclosure of all activities. This means that accountability practices of local government does not meet the standards as set and required by the governmental regulations. However, it should be noted that problematic financial planning and budgeting are also due to interference from the various parties including the legislature, the local parliament and also the politicians. This, combined with the lack of capacity and capability of public officers, has led the problematic issues of the lack of accountability and good governance in management of public funds in Aceh.

It is important to note that accountability in public sector is not an easy matter, but it is a complicated and dependent on many issues such as the level of professional standard and
the moral, value and attitude of the government officers responsible for the management of public fund. Achieving a sound and accountable public financial management is the result of complex, interlinked factors.

In order to improve the level of government accountability at all levels of local government, a strong emphasis on assessing the government performance through a focus on outcome oriented approach need to be strengthened. Therefore, the concept of key performance indicator (KPIs) must be implemented and disseminated to all public servants. The focus on KPIs to a certain extent, if they were properly implemented, could lead to more focus on outcome oriented approach that could lead to value for money public delivery system. In addition, it is also critical to enlighten the government officers at various levels of local government about the pertinent rules and regulations and to instil ethical values as well enhancing their professionalism. Hence, internalization of ethical value is crucial in order to improve the level of government accountability. Adherence to religious and moral values as well as professional requirements is important in accountability relationships. This is consistent with the view of Robert and Scapen (1985), in which accountability as a moral order involving a system of reciprocal rights and obligation. This means that local governments are bound up not only in a narrow, calculable ways, but broader than what generally understood and must serve a moral or spiritual goals of organization. As such, ethical trainings are greatly needed for public managers in Aceh.

In addition, the use of outcome based measures can help to improve accountability since the public’s officers are held accountable for outcome of their activities. Therefore, there is a need for Aceh’s local government to measure and monitor the management of the public fund to ensure the achievement of the objectives of the various programs and activities. An increased role of the auditors and the courts are needed to ensure proper implementation of government policies. Subsequently, the head of local government must ensure that the principles of good governance are put to practice. Besides that, it is also very important to maintain the quality of democracy in the region. If basic freedoms such as access to information and freedom of expression are absent, or if criticism of government actions is treated as grounds for harassment, then pressures from the external stakeholders especially the citizen will be severely inhibited and this consequently will impact the push for better accountability and governance of the local government in Aceh.
REFERENCES


APPENDIX

Figure 1: Government Structure of Indonesia

GOVERNMENT

LEGISLATIVE

NATIONAL

PROVINCIAL COUNCILS

PROVINCE

REGENCY/CITY COUNCILS

REGENCY/CITY

COMMUNITIES

Figure 2: Flow of Fund in Aceh

![Diagram of Flow of Fund in Aceh]


Figure 3: The Process of Budget Preparation

![Diagram of Process of Budget Preparation]