

Transparency and Public Accountability through Public Sector Accounting: The Use of ‘Value For Money’ Concept in Indonesia

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Abstract—Two of the most fundamentalist concepts for reshaping the regional public finance are the transparency process and the public accountability through the public sector accounting. To support the realization of both of these ideas, there is a concept that has been discussed in the term of local public accounting system recently, which is called ‘Value for Money’. By using Content Analysis method, the aim of this study is to find out more about the issue problem and the use of ‘Value For Money’ to analyze the transparency and public accountability problem in Indonesia.

Index Terms—‘Value for Maoney’, regional public finance, Government

I. INTRODUCTION

As it based on Indonesian National Law (No.22, 1999), local autonomy has defined as the authority of the Autonomous Locals to organize and manage the interests of local communities by their own initiative, based on the aspirations of the community in accordance with the laws and regulations within the framework of the principle of decentralization. Regional authorities of the powers of government are delegated to the Local Government Center. Nonetheless, certain powers such as defense powers and security, monetary and fiscal, and other authorities that are belonging to strategic areas are still controlled by the central government.

Through this law we have committed to share the authority as it declared on Indonesian National Law (No.25, 1999), that delegation of authority and submission is accompanied by a transfer of funding, facilities and infrastructure, and human resources (HR) within the framework of Fiscal Decentralization. The financing authority can be done in two ways: financial leverage the potential of the area itself and the mechanism of financial balance between the center-local and local. The authority which utilized as its own financial resources has done in container revenue (PAD), which is the main source of Taxes and Levies. While the implementation of the fiscal balance is done through Balancing Fund consisting of Revenue, General Allocation Fund, and the Special Allocation Fund (Law No. 25 of 1999).

Both of the above laws provide the basis for a series of

institutional reforms in order to create Good Governance, which is determined by UNDP as the governance system who responded to transparency, responsiveness, consensus orientation, equity, efficiency and effectiveness, and accountability. From these characteristics, at least there are three things that play such important role in public sector accounting, which are transparency, value for money, and accountability. Through the concept of Good Governance, the local public finance sector in Indonesia has been dwelling with numerous challenges that reliance on the mechanism of new Local Government which is still becomes a new local autonomy concept in Indonesia.

The history of the Autonomous Local decentralization in Indonesia has just started on 1999. There is no doubt that there are so many challenges during the earlier process of transferring the centralization power to the Local Government authority power. Two of the most fundamentalist concepts for reshaping the regional public finance are the transparency process and the public accountability through the public sector accounting. To support the realization of both of these ideas, there is a concept that has been discussed in the term of local public accounting system recently, which is called ‘Value for Money’. The purpose of this paper is to find out more about the issue problem and the use of ‘Value For Money’ to analyze the transparency and public accountability problem in Indonesia.

II. LITERATURE REVIEW

A. What is ‘Value For Money’? Why is it needed?

Based on the Audit Commission in the ITAD Final report, in the journal titled Measuring the Impact and Value For Money of Governance & Conflict Programs (Chris Barnett, et.al : 2010) ‘Value For Money’ is defined right at the below.

“VFM is about obtaining the maximum benefit over time with the resources available. It is about achieving the right local balance between economy, efficiency and effectiveness, or, spending less, spending well and spending wisely to achieve local priorities. VFM is high when there is an optimum balance between all three elements, when costs are relatively low, productivity is high and successful outcomes have been achieved.”

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CONCEPTS

Economy: Reducing the cost of resources used for an activity, with a regard for maintaining quality.

Efficiency: Increasing output for a given input, or minimizing input for a given output, with a regard for maintaining quality.

Effectiveness: Successfully achieving the intended outcomes from an activity.

Value for money: The optimum combination of whole-life cost and quality (or fitness for purpose) to meet the user's requirement. It can be assessed using the criteria of economy, efficiency and effectiveness.

TOOLS

Cost-benefit analysis: A method to evaluate the net economic impact of a project. Expected benefits are estimated and monetized with inflation accounted for, and offset against project costs. The approach is most commonly used to inform in major infrastructure investment in both developed and developing countries.

Cost-effectiveness analysis: This method is used where monetizing outcomes is not possible or appropriate, most commonly in health. Common measures include "quality-adjusted life years".

Source: Adapted from definitions from the UK National Audit Office and the EU Sourcebook on Evaluating Socio-Economic Development.

Figure 1. Concept and Tools of 'Value For Money'

As it defined by the OECD, the 'Value For Money' concept are defined in three terms, which are economy, efficiency, and also effectiveness. These three terms—economy, efficiency and effectiveness—are used to mean three different things in this context. This is slightly different from some economic theories that consider economy and efficiency as both ways to increase the goal of productivity. In examining value for money it is important to distinguish between economies, as this refers to minimizing costs, and efficiency which relates more to getting more results for those costs.

In Indonesia, especially in the local autonomy government issue, the main problem on transparency and public accountability has reflected the weakness point of human resources quality and the insufficiency data for making the best indicator or any standard of the accountability analysis. That it is way, the concept of 'Value For Money' sometimes cannot be implemented effectively especially in local autonomous region which still not have any experience either basic understanding. However some of the local government has tried to implement this concept. The basic problem on local public accounting Indonesia can be determined as below:

1. Lack of preparation on the transferring process from the centralization power to the Local Government authority power, which is strongly related on political issue that happened during the 'reformation process' on 1998-99.
2. The first issue has been compounded by the CCN (Corruption, Collusion and Nepotism) by previous

government system which caused the lack of legal certainty and political stability, and lack of direction and policy development (Mardiasmo, 2002).

3. The weakness on human resources quality and the transparency of the audit system has made the measurement of Government's work performance has become worse and need to be gradually reformed.

From the above points, it is realized that the tool for supporting the transparency and public accountability process is positively needed. Even though there are few challenges that need to be reconsidered, the concept of value for money in public sector organizations needs to be intensively conducted in line with the increasing demands of public accountability and good governance implementation. It believed that this concept can improve public sector accountability and public sector performance by increasing the effectiveness of public services, improving the quality of public services, lowering the cost of public services because of the loss of inefficiencies, and increase awareness of the use of public money (costs of public awareness) (Mardiasmo, 2002).

B. How is the 'Value For Money' concept works?

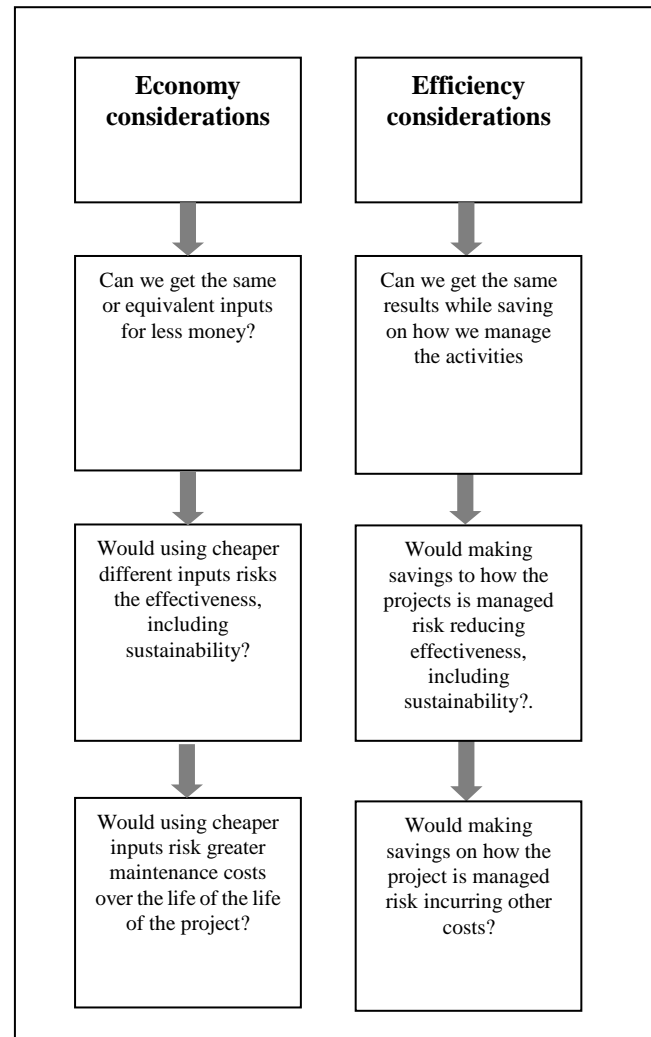


Figure 2: Economy and Efficiency Considerations as Part of Value For Money, Resource: (OECD Document, Jackson, P., 2012)

Value for money has become more prominent on the development agenda for a number of inter-related reasons.

First, the development community has in the past been driven by performance criteria that are very different from those in other areas of public spending: how much is spent sometimes overshadows the more fundamental question of what the funds achieve. Second, aid agencies are increasingly expected to understand and demonstrate the value for money of their work to those who are paying the bills, i.e. tax payers. Third, a number of aid skeptics have claimed that aid does not work, is wasteful and should be downsized or abolished. Although these claims may not always be based on evidence, strong evidence is needed in order to demonstrate that aid is valid and managed well, and that those in charge of aid are constantly seeking to make it work better. Here below the economy and efficiency concept in VFM.

Along this time, the public sector in Indonesia has often assessed as an inefficiency, waste, and source of leakage of funds. There is an emerging demand that public sector organizations should pay attention on value for money that considering the inputs, outputs, and outcomes as a jointly system. In the performance measurement of value for money, efficiency can be divided into two parts: allocation efficiency (efficiency 1), and technical or managerial efficiency (efficiency 2). Allocation efficiency is associated with the ability to manage the input resources on the optimum capacity level. Technical efficiency is associated with the ability to manage the input resources at the certain level of output level (can be seen in Figure 1). Both of the efficiencies are tools for achieving social welfare, as if implemented on the considerations of justice and partiality toward the citizens (Mardiasmo, 2002).

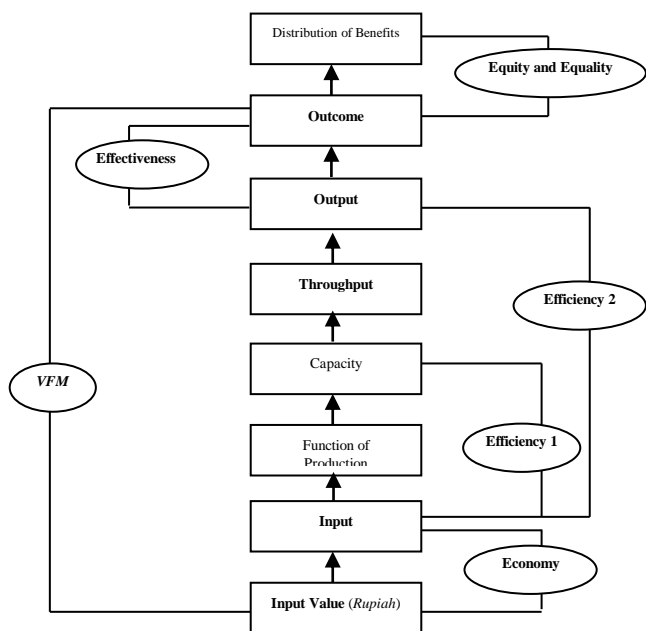


Figure 1: The Elements of Work's Performance Measurement of Value For Money, Resource: Mardiasmo (2002)

C. What is the implication by using the 'Value For Money' concept?

From a few cases in Indonesia, that has observed (Anggadini S.D., 2013; Herawati, A.F., 2013; Ramandey, J.R., 2007; Annisa D., 2011; Nugrahani, T.S., 2007), it

showed even there is a strong relation and a positive direction in how the Value For Money concept has been influencing the quality of the public service and public sector accounting, but there still also some problems that need to be reconsider enhanced.

For example, from the research which conducted for value for money in health center Pasirkaliki Bandung Health Office by using the descriptive method respondents to Value For Money. The Value For Money concept, which are economy, efficiency, and effectiveness, all of it can improve the effectiveness of public services, in the sense of providing targeted services, improving the quality of public services, and raise awareness of public money as the root of the implementation of public accountability (Anggadini S.D., 2013). It has stated by Anggadini also that the concept of Value For Money could improve the effectiveness of public services, in terms of delivering the target services, improving the quality of public services, and can be realized in line with the value for money itself. Otherwise, if the concept of Value For Money is not implemented properly, the quality of public services would be not in maximum level.

Nevertheless, even the relation between the using of Value For Money in Indonesia can be well determined as a valuable work's performance tool assessment, the case of Yogyakarta Municipal Government has showed us that there are some obstacles that need to be repair during the implementation of Value For Money concept (Ramandey, J.R., 2007). The obstacles are the lack of skill of human resources, the un-availableness of the Standard of Cost Analysis, and limited Standard of Government Institution Accountability. The preparation passage and the readiness of the government institution still become the main issue. However, the extension of inspection in implementation of Value For Money audit concept will enhance financial and obedience audit quality. The relation between readiness and participation of government institution is affected by extensive inspection factor, due to implementation of Value For Money audit concept.

Above the explanation the other problem that remains in here is, even the concept of economy and efficiency has determined in a positive view, the concept of effectiveness still facing some challenges. As the research that conducted by Annisa (2011), in determining the financial performance of the Department of Health of Makassar, through the measurement of 3E (economy, efficiency, and effectiveness) has showed that the economy and efficiency value of the Department of Health of Makassar were able to achieve fairly good results. But the level of effectiveness is still lack, since the level of community satisfaction that still not maximized yet. Nevertheless, even there are still some challenges that need to be taking reconsider in a future, the willingness to achieve the transparency process has been started through the implication of Value For Money concept, even it is still in a small number and cannot receive in optimum level. All of the above obstacles are going to be a lesson learned to build a better system indeed.

III. RESEARCH METHOD

The method of analysis that were carried in this research is

Content Analysis Method. A definition of content analysis is needs to be described in here. A range of definitions of content analysis have been articulated, from Babbie (2010) who mentioned the concept of: Who says what, why, and with what effect? to definitions such as Weber's, that assume the ability to make facile inferences ("a research method that uses a set of procedures to make valid inferences from text", 1990, p. 9). A more restrictive definition of content analysis is adopted here:

"Content analysis is a summarizing, quantitative analysis of messages that relies on the scientific method, including attention to objectivity or the intersubjectivity, a priori design, reliability, validity, generalizability, replicability, and hypothesis testing. It is not limited as to the type of messages that may be analyzed, nor as to the types of constructs that might be measured" (Neuendorf, 2002, p. 10).

Content analysis method has also been conducted based on three kind of principles in underlining the content of the reviewing process. These principles are known as Objective, Systematic Approach, Generalization. According to Klaus Krippendorff (2004), there are six questions that must be addressed in every content analysis, which are:

1. Which data is analyzed?
2. How is it defined?
3. What is the population from which they are drawn?
4. What is the context relative to which the data are analyzed?
5. What are the boundaries of the analysis?
6. What is the target of the inferences?

IV. RESULT AND DISCUSSION

Jackson P. (2012) has tried to remind us that assessing value for money is harder in the development context than elsewhere, for two key reasons. First, in some developing countries, the availability of reliable information, notably statistics, is often of too poor a quality to make any reliable assessment. There is rarely a history of investing in research or looking at cost effectiveness in public spending, so few comparators, metrics and ways of creating proxies exist. Second, there is a lack of agreement on value for money for whom, of what and by when. As the matter above, in particular, in international development, the question of value for money from whose perspective is important since the immediate beneficiaries and funders are not the same. There are limitations to value for money in development co-operation and challenges around data and accountability, but the concept is useful as part of good project management, applied pragmatically and realistically. So while different donors and organizations have achieved varying levels of progress in applying the concept of value for money—whether they call it that or something else—the focus now should be on taking the discussion further in order to raise the bar in practice and achieve as much as possible with aid funds.

In Indonesia case, as it mentioned by Mardiasmo (2002), it should be realized that there are still some weaknesses in auditing government in Indonesia. The first weakness is related to the inadequateness of performance indicators which become the basis for assessing performance. It is commonly experienced among by public sector organizations because of the output produced is a public service form that is not easily

measured. Auditing the work's performance will be easier if the predetermined performance criteria (performance indicators) by the local governments itself. In addition to the lack of adequate performance criteria, the other problem is the absence of the fixed standard of Government Financial Accounting.

In conclusion, even the limited problems still need to be reconsidered dealing with the maturing process of the local autonomy Government, the transparency and public accountability are something that can be neglected and should be the basic understanding to improve not only the local public accounting audit or in the term of public service satisfaction, but also in order to realize the Good Governance concept, focusing on local public finance sector.

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Website Resources:

- www.itad.com/staff/chris-barnett/
- <http://www.oecd.org/dac/effectiveness/49652541.pdf>
- http://ak.unikom.ac.id/admin/jurnal/Jurnal%20Riset%20Akuntansi%20-%20Vol%20I_No.1_Oktober%202009_Iman%20Santoso.pdf