

THE EFFECT OF HUMAN RESOURCES DEVELOPMENT, REGULATORY UNDERSTAND AND FINANCIAL MANAGEMENT MECHANISM ON PERFORMANCE OF FINANCIAL MANAGEMENT OF LOCAL GOVERNMENT

(Study On Local Government In East Nusa Tenggara Province, Indonesia)

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ABSTRACT

One aspect of local governance that must be carefully regulated is the issue of local budget management. In general it can be seen that the regional budget is the work plan of local government in the form of money (rupiah) in one year. Regional budgets or local budgets of revenue and expenditure are the main policy instruments for local governments. The population in this study is all the leaders of regional apparatus organization (OPD) that existed at the Regional Government of Regency and City in Timor Province of East Nusa Tenggara. The number of samples used as respondents in this study as many as 148 people, analytical approach Partial Least Square (PLS). Thus, this study provides a concept of the level of understanding of both the regulation and local financial management mechanisms by itself will be able to improve the performance of government financial management scattered in every organization of the regional (OPD) in the existing local governments and districts, for the achievement of performance clean financial management of the region (clean government) and authoritative.

Introduction

Decentralization is an effort made by the central government, to give the local government the freedom to self-manage their own local households in order to reduce dependence on the central government. The basic implementation of decentralization is the issuance by the government Law number 22 of 1999 on regional autonomy and Law number 25 of 1999 on financial balancing of central government and local governments hence, the status of regional autonomy is applied to all provincial, regency and municipal governments in Indonesia. The expectation of the central government with the enactment of regional autonomy can provide widespread opportunities to local governments to implement the system of governance, budget management, supervision and can provide effective and efficient services to all citizens in their respective regions.

Regional autonomy is the right, authority, and obligation to the regions to regulate and manage their own governmental affairs and the interests of the local community in accordance with the laws and regulations. The purpose of granting autonomy to local governments is to improve community welfare, provide optimal public services, increase the potential and competitiveness of the region. With autonomy, the central government provides full regional financial management reforms in which regions are given a larger portion of financial management compared to a previously implemented centralized system whereby the entire process of financial management lies with the central government as decision makers and budget utilization policies for the development process of the Provincial Government, Regency and City in Indonesia.

To achieve a good financial management process must start from the process of financial management planning, implementation, monitoring and evaluation, improvement planning. In the implementation stage of financial management must be supported with the proper administration, accounting system, transparent reporting, and timely. Monitoring needs to be done continuously to know the development of financial management, so it can know the truth of management in accordance with applicable legislation. Monitoring results form the basis for evaluation of any work program that has been done either, short and long term work program. The results of the evaluation can be determined planning improvement if found problems that hamper the implementation of local government financial management process, for future improvement plan in the future.

To achieve a proper local financial management system it must be supported by regulations issued by the local government on local government financial management systems and procedures referring to regulations issued by the central government. Regulations governing the management of regional finances, among others; Government Regulation No. 58/2005 on regional financial management, Permendagri number 21 of 2011 on guidelines for the

management of regional finances and local government regulations number 11 of 2008 on the principalities of regional financial management. In the application of all the regulations, the local government can issue regulations such as the regulations of the Governor (Pergub), the Regents (Perbup), the Mayor Regulations (Perwali) in their respective regions, while still guided by the financial management regulations set by the central government.

Performance in local government financial management is determined by the number and quality of human resources placed in each regional apparatus organization (OPD), with competence as per the standards set by the Civil Service Board. If each OPD places personnel according to their respective areas of expertise, the regional financial management process will be well implemented as mandated by Government Regulation No. 105 of 2000 (4) and (5) which affirms that regional financial management must be conducted in an orderly, applicable, efficient, effective, economical, transparent and accountable legislation with due regard to fairness and decency principles. The financial management mechanism encourages every individual in implementing the work program always adhere to the correct work procedures and strive to prioritize the interests of the organization rather than personal interests so as to produce quality performance. Mechanism is a process that must be passed by every user and local financial manager that is, starting from planning until the process of control (Permendagri No. 21 of 2011 about guidance of management of regional finance).

To achieve optimal financial management performance, management functions should be a guideline in managing management systems and procedures, starting from planning activities along with the budget that will be needed. Furthermore, the implementation of work programs and budgets should refer to the planning that has been set. To ensure that between planning and execution runs in the same direction then in need of internal controls and supervision that must be done to avoid or minimize unwanted risks, then conducted an overall evaluation to determine whether all that has been determined to run accordingly or not, if not appropriate then it is necessary to plan for future improvements. To achieve success in the management of regional finance, it takes the role of qualified human resources. According to Choirul et al. (2013: 15) government agencies as public sector organizations in performing duties as public servants, then every apparatus must be professional and have good competence in terms of mastery of science, skill, moral and good mentality. For the sake of the creation of public services and financial management of local government quality depends on the conditions inherent in human resources, because human resources play a major role in the process of public service and improving the performance of local government financial management. The better the development of Human Resources, the better understanding of the regulation and local financial management mechanisms, so that financial management performance can achieve the expected goals.

Interpreting institutional theory are rules that can be used as guidance in limiting human's actions and behavior as individuals (Humanly devised) to be able to build structure, political, economic, and social interaction (Yustika, 2002: 26). Empirical research on the effect of regulation on the performance of local government financial management Nurkholis et.,al, (2014), found that the regulation has no significant positive effect on the financial management performance of local government of East Java Province. The results of this study illustrate that awareness and adherence to regulations that set will lead to changes in improving the performance of local governments as a whole both in the areas of health, education, financial management, infrastructure. The same study conducted by Ivan et.,al (2011) found that the implementation of the regulation had a significant positive effect on financial performance, on the market environment focused on the integrated market in Europe.

From the results of this empirical research can provide the view that the availability and implementation of the right regulation will give a significant positive effect on the performance of local government financial management as budget manager, the sense of security, the certainty of rules and justice so that organizational performance can be optimized. Regulation will affect the compliance of State civil servants (ASN) in the long term because there is a binding legal certainty that may affect the performance of the government.

Empirical research on financial management mechanisms to financial performance is done by Eugen, (2005); Theodore et.,al, (2012); found that the mechanism had a significant positive effect on financial performance. The results of empirical research on human resources conducted by Dev Raj Adhikari (2009) found that human resources have a positive and significant impact on organizational performance. This research is conducted to analyze more about human resource development, regulatory understanding and management mechanism and financial management performance of regency and city government in Timor Island of East Nusa Tenggara. Furthermore, analysis of the effect of human resources development on the performance of local government financial management, the influence of regulatory understanding and financial management mechanisms on the performance of local government financial management. Empirical research is analyzed separately each variable.

Renewal of this research; (1) variables of regulatory comprehension and local financial management mechanism are used as intervening variable or intermediate variable, meaning that to achieve optimal performance of local government financial management must be well understood by regulation and local financial management mechanism by government apparatus as manager and user of budget. Similarly, the analysis of the effect of human resources development on the understanding of regulation and local financial management mechanisms, with the continuous development of human resources in the field of regional financial management, the existing apparatus will understand the regulations and local financial management mechanisms well. (2) understanding of regulation and financial management mechanism is used as endogeny variable or dependent variable.

THEORITICAL FRAMEWORK

1. Local Government Financial Management

In local government financial management may refer to the basic principles of budgeting and regional financial management, among others as follows (World Bank in Mardiasmo, 2002: 106):

1. Comprehensive and disciplined

Regional budgets are the only mechanism that will ensure the creation of disciplinary decision-making. Therefore, local budgets should be formulated comprehensively, ie using a holistic approach is the diagnosis of problems encountered.

2. Flexibility

To a certain extent, local governments should be provided with sufficient flexibility in accordance with the availability of relevant information held.

3. Predictable

Predicted policy is an important factor in improving the quality of local budget implementation. Conversely, if policies change frequently, such as unclear allocation of allocation funds (DAU), for example, regions will face huge uncertainties so that economic principles, efficiency, and effectiveness of a program funded by local budgets tend to be ignored.

4. Honesty

Honesty is not only about human morals and ethics but also concerns the existence of a projected revenue and expenditure bias. The source of bias that gives rise to this dishonesty can come from the technical and political aspects.

5. Information

Information is the basis of honesty and good decision making process. Therefore, an orderly reporting system of costs, the output of a work program.

6. Transparency and Accountability

Transparency requires that policy formulation be knowledgeable about issues and relevant information before the policy is implemented.

2. The Study of Contingency Theory in Regional Financial Management

The process of regional financial management starts from the preparation, determination and implementation in accordance with the local budget process. Contour theory is a probable theory underlying this research. In principle, this theory reveals that the process or the development of human resources, understanding the regulations and financial management mechanisms and financial management performance of local governments depends on the many factors inside and outside the organization.

3. Standard of Spending Analysis (SAB)

Standard of Spending Analysis (SAB) is one of the components that should be guided as a standard for measuring financial performance in the preparation of the State Budget (APBN) / Budget Revenue and Expenditure (APBD) with a performance approach. The Shopping Analysis Standard may be used as the basis for the analysis of program spending from each of regional apparatus organization (OPD) within a budget year. The benefits of the Standard for Spending Analysis (MAS) are as follows: (1) encouraging each of regional apparatus organization (OPD) to be more careful in making plans and work programs and their implementation; (2) avoiding spending not included in the work program, (3) avoid overlapping expenditure in each of regional apparatus organization (OPD).

4. Benchmark Performance

Performance benchmarks (Mardiasmo, 2002: 196) is an action taken to measure the success rate of each regional apparatus organization (OPD) in implementing the program within a budget year. This is intended to determine the level of budget absorption of each work program, especially assessing the reasonableness of budget usage of each work program. The scope of performance benchmarks are two things: (1) the elements of success (output), (2) the achievement of each element of success (outcome).

5. Standard Cost

Standard cost (Mardiasmo, 2002: 196), is the price of each cost unit assigned and applied to each region. The established cost standards can be made as the basis or guidance in the preparation of the State Budget (APBN) / Budget Revenue and Expenditure (APBD) for one fiscal year in the future. In the implementation if in a single budget goes the price change it is necessary to change according to prevailing prices.

Public Sector Performance Measurement

According to (Mahsun, 2006: 25) Performance (performance) is a description of the level of achievement of the implementation of an activity / program / policy in realizing organizational goals, goals, mission and vision contained in organizational planning. While the performance measurement (performance measurement) is a process of progress assessment of work against objectives and targets set previously, including information on; efficient use of resources in producing products; quality; results of activities compared to those set out; and the effectiveness of action in achieving goals.

Definition of Regional Financial Management

In accordance with the general provisions of Government Regulation No. 105/2000 Article 1 Paragraph (1) and Kepmendagri Number 29 of 2002 Article 1 Paragraph (1), it is affirmed that Regional Finance is the right and obligation of the regions to implement the process of administering local government which can be assessed by money including all forms of local wealth within the framework of the Regional Revenue and Expenditure Budget (APBD).

Objectives of Regional Financial Management

The main objectives of local financial management (Halim, 2001: 88), among others;

a. Responsible

Local governments must account for their financial tasks to legitimate agencies or interested persons. The institution or person in question is including the central government, the DPRD, the regional head and the general public.

b. Able to meet financial obligations

Local finance should be arranged in such a way as to be able to pay off all financial, short-term and long-term ties (including long-term loans).

Honesty

Financial affairs must be left to honest employees, and opportunities to cheat are minimized.

Results

This means that the procedures for managing regional finances should be such as to enable work programs to be planned and implemented to achieve local government goals at the lowest possible cost and in the shortest possible time.

Control

Local government, parliament and oversight bodies must exercise control so that all these objectives can be achieved.

Major Elements of Regional Financial Management

The main elements of the local government financial management system (Halim, 2001: 89), can be classified in two parts, among others:

1. Periodic Elements And Legal Elements

Periodic elements include elements that are part of the regular activities of the year, which compose programs and budgets, budget expenditures and receipts, cash in flow and cash out flow affairs, record and report financial transactions. The legal elements include the regulatory and monitoring elements of the regular activities, such as the laws and financial regulations, transactions and financial audits of each regional apparatus organization (OPD).

2. Outside and Inside Elements

External elements include oversight carried out for local government by central government officials, the Inspectorate at their respective local governments. The internal element is the internal control and reporting element of each regional apparatus organization (OPD).

Local Government Financial Management Performance

(Halim, 2004) Regional financial performance or regional capability is one measure that can be used to look at regional capabilities. The form of performance appraisal is formed from the element of accountability report of regional head in the form of calculation of regional budget and expenditure (APBD). In the assessment of performance indicators, there are at least four benchmarks for performance evaluation of local government financial management, such as: (1) deviations between budget realization and targets set in the Regional Revenue and Expenditure Budget (APBD); (2) Cost efficiency; (3) Program effectiveness; (4) Equity and Justice.

Development of Human Resource Management

Human resources is one component that plays an important role in all organizational activities both, public sector organizations and business sectors. Organizations can explore and utilize all the potential of human resources owned so as to bring a positive impact in developing the organization. Organizational human resources must be developed through education, training and commitment to continuously provide a direct impact to the organization directly in improving the organization's financial performance (Skagg et al., 2004: 86). Referring to research (Wood, Bhuian and Kiecker, 2000: 219), Choirul et al. (2013: 16), this research focuses on Human Resources development aspect as an effort to increase professionalism, that is education, training, and empowerment.

Institutional Theory

Institutions can also be interpreted as rules of the game in society, the rules of the game include regulations that establish the community in interacting (Yeager, 1999: 9). While (North, 1994: 360) defines institutions as rules that can limit each individual's actions from deviant behavior in the hope of building a structure of political, economic and social interaction within the community.

The Relationship of Institutional Theory With Management

Institutional theories of regulation and mechanisms have an important role because they can help achieve the objectives through management in the process of making the right decision in this case the financial performance of local government. Besides, institutional theory can be used to measure the financial capacity of the regions, to set policy direction, to regulate their own households and to finance various programs with the principle of value for money that is to apply the three principles in the process of regional financial management, namely economic, efficiency and effectiveness (Mardiasmo, 2009: 231).

Financial Management Regulation

Understanding the regulations set by State institutions will have a positive impact on the performance of individual and short-term and long-term duties and responsibilities so that the desired goal can be achieved by Dunford, (2000: 6). Regulation is a regulation such as the Law established by the legislative / governmental institution (Williamson, 2000: 69). Based on the opinions of experts as mentioned above it can be said that the regulation is a regulation that can limit and control the behavior of each individual community in the act so that any action is not arbitrarily made according to his personal desires. Forms of regulation are carried out such as legal restrictions issued by the government, regulations issued by industry through trade associations, social regulations issued by the public (norms).

Financial Management Mechanism

The management mechanism is a clear operational rule, procedure and relationship between the decision maker and the party who will supervise the implementation of the decision. The actual mechanism of directing and overseeing the government for local financial management system runs well Andrei, (2004: 9). The Government of Indonesia adoption a dual board system in the internal organizational structure, where the separation of functions of the board include the functions of policy making and supervisory functions.

Based on the results of previous research can be seen that the development of human resources, understanding the regulations and local financial management mechanisms need to continue to be improved so that local government financial management performance can be optimized. Here the results of previous research can be summarized in table 1.

Table 1. Grouping Interrelationship between Variables Research Previous

No	Relationship between Variables Research	Research Findings
1	Regulatory relationship of PKD and financial performance	Implementation of good regulation has significant effect to financial performance of organization Ce'Cile <i>et.,al</i> (2005) Ivan <i>et.,al</i> , (2011).
		The implementation of the regulation has no significant positive effect on the financial performance of the government. Mohamad (2013), Nurkholis <i>et al</i> (2014), Azhar (2007)
2	The relationship of PKD mechanism and financial performance	Mechanisms have significant effect on government financial management Eugen Nicolaecu (2005), Theodore <i>et al</i> , 2012).
		The mechanism has no significant positive effect on government financial management. Tuasikal (2013), Sugeng (2014), Augusto J et al (2014), Ahmadu <i>et al</i> (2005)
		Financial management mechanism has a negative effect on financial performance. Georgeta <i>et al</i> (2012), Mohamad (2013)
3	Relationship of human resources development and financial performance	Human Resource Development has a significant effect on financial performance. Edelman <i>et al</i> ,(2005), Simson <i>et al</i> (2007) Nelly (2010), Dev Raj A (2009), Rosalina (2012), Tehmina <i>et al</i> (2015)
		Competence of human resources negatively affect the financial management of local governmentsPriono (2011)

Sources: Review results from previous research, 2017

Based on the theory of local financial management, public sector management, human resource development, regulatory understanding and local financial management mechanisms indicate the support of theory about the concept of this research. From these theories, there are several factors that can affect the performance of local financial management, among others; human resource development, regulatory of PKD, understanding of management mechanisms. Conceptually the relationship between variables can be poured in the form of research conceptual framework as follows:

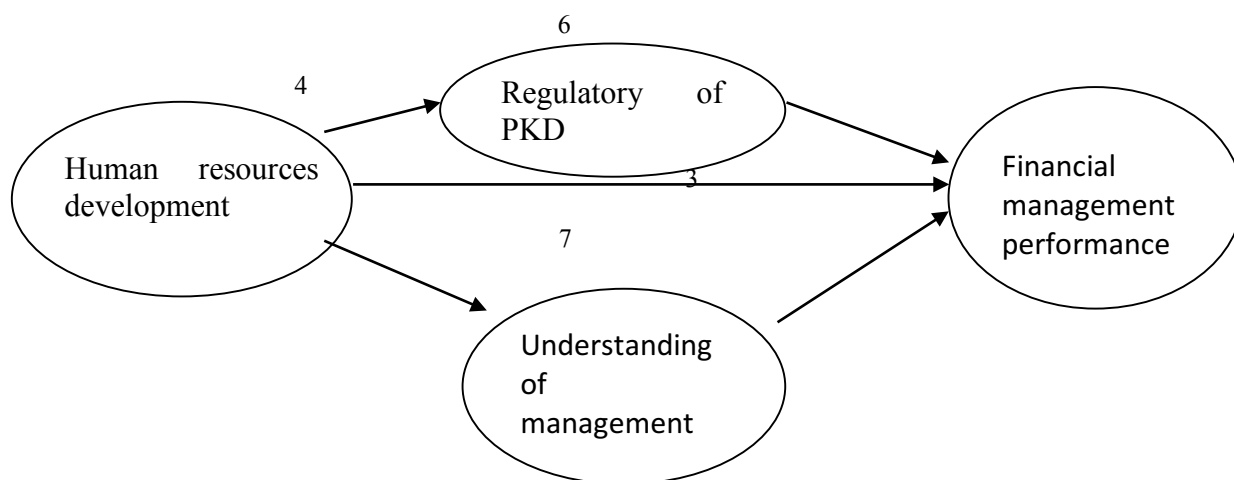


Figure 1. Conceptual framework
Sources: Acuan Hubungan Antar Variabel Penelitian:

1. Dev Raj Adhikari,(2009), Edelman *et al* (2005), Nelly (2010),Tehmina *et al*,(2015).
2. Ce'Cile (2005),Ivan *et al*. (2011) Eugen Nicolaecu (2005), Theodore *et al*, (2012)
3. 4,5 Azhar (2007), Simson *et al* (2007), Rosalina (2012)
4. 6,7 Mardiasmo (2002)

METHODOLOGY

This research uses variable of human resource development, regulation, mechanism and performance of financial management. Based on the objectives to be achieved, this research uses the paradigm of Positivism with explanatory research typology because of the relationship between the variables and testing the research hypothesis (Maholtra, 1999: 84). The research design used is a survey, to investigate facts about the phenomena of the study population, the relationship between variables based on theoretical and empirical studies.

This study aims to analyze and explain the influence of human resource development, understanding of financial management regulations, understanding of financial management mechanisms on the financial management performance of LG and NTT provincial governments. The current research is research in the field of regional financial management.

The object of this research is the performance of local government financial management, human resource development, regulation understanding and local financial management mechanism. The place of study (observation unit) in this study was regional apparatus organization (OPD) leaders in each region of the local government in Timor NTT Province. The population in this study is all the leaders of the regional apparatus organization (OPD) that existed at the District and City Governments in East Nusa Tenggara Province, as in table 2 below:

Table 2. Number of Respondents at Regency and City Government In East NTT Province

No	Regency / City	Total of regional apparatus organization (OPD)	Sample of regional apparatus organization (OPD)
1	Kupang City	29	29
2	Kupang Regency	30	30
3	TTS Regency	28	28

4	TTU Regency	30	30
5	Belu Regency	31	31
Total of Respondents			148

Sources :Primary data processed, 2017

The sampling technique in this study used saturated sampling method, where 148 units of regional apparatus organization (OPD) at Regency and City Government in Timor Province of East Nusa Tenggara were taken as sample. According to (Sugiono, 2010: 96), the saturated sample is a sampling technique when all members of the population are made as research samples. The number of samples used as respondents in this study as many as 148 people. The unit of analysis in this study is the regional government organization of the Regency and City in Timor NTT Province.

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