

## The Influence of Good Governance on the Financial Performance of the Central Government

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Article Info	ABSTRACT
<p><b>Keywords:</b> Good Governance, Financial Performance, Central Government, Efficiency</p>	<p>This study examines the influence of Good Governance on the financial performance of the central government in Indonesia. Good Governance, emphasizing transparency, accountability, participation, and responsibility, is believed to enhance the effectiveness and efficiency of public financial management. The study's findings indicate that government institutions that consistently apply Good Governance principles tend to achieve better financial performance, particularly through more efficient and effective budget management. Furthermore, active public participation in decision-making processes is shown to strengthen public trust, positively influencing financial outcomes. The study highlights the critical role of Good Governance in optimizing public sector financial management. It recommends enhancing government employee competencies through training and capacity building in Good Governance practices. Additionally, it stresses the importance of formulating policies that encourage greater public involvement in governance processes. By applying these recommendations, it is expected that the financial performance of the central government will continue to improve, supporting broader objectives of accountability and public service quality. The study's findings are intended to serve as a valuable reference for policymakers committed to strengthening financial governance and ensuring more sustainable and transparent public financial management in Indonesia.</p>
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### INTRODUCTION

The establishment of a well-managed government (good governance) is the aspiration and hope of every nation (Olukoju, 2018; Aligbe & Momoh, 2024; Utazi, et al. 2021). The concept of "governance" refers to an organization that operates based on the highest authority, namely the state and the government (Fukuyama, 2016; Kooiman & Bavinck, 2005). Moreover, this concept not only involves the government and the state but also encompasses the roles of various sectors beyond them, resulting in a wide range of stakeholders involved (Rosyada, 2016).

In achieving good governance in financial management, financial reporting, and government financial accountability, several laws and regulations concerning state finance have been issued. These include Law Number 17 of 2003 on State Finance, Law Number 1 of 2004, and Law Number 15 of 2004 concerning the Audit of State Financial Accountability, along with other relevant regulations. The quality of financial reporting plays a critical role in the implementation of good governance principles, indicating that achieving good governance requires the government to produce high-quality financial reports. Such quality should consider characteristics that serve as indicators of good financial reporting, including relevance, visibility, comparability, and understandability (Azzindani & M. Irwan, 2020).

Good governance practices also necessitate transparency throughout all government processes (Johnston, 2006; Androniceanu, 2021). Transparency is a crucial concept that has become increasingly relevant with the growing desire to implement good governance practices (Saladin, 1999). By providing public access to information regarding government activities, the public can more easily assess the extent to which the government acts in the public interest. This enables the community to determine whether they will support the government or voice criticism and protests to ensure that public interests are better prioritized. Furthermore, the right to access information is a fundamental right of every citizen, enabling them to properly evaluate government performance (Rood, 2019).

## METHODS

This study employs a quantitative approach to analyze the influence of good governance on the financial performance of the central government. A quantitative method was selected because it provides an objective overview based on measurable numerical data. The data used in this research were obtained from an official source, namely the website of the Ministry of Finance of the Republic of Indonesia, which offers a wide range of information related to national financial management.

The secondary data analyzed in this study were drawn from the Central Government Financial Report (LKPP) published in 2023 by the Audit Board of Indonesia (BPK). The use of secondary data aims to ensure that the information employed has undergone rigorous verification and auditing processes by authorized institutions, thereby enhancing the validity and reliability of the study. Moreover, utilizing secondary data allows the researcher to conduct a longitudinal analysis of the government's financial performance.

This research approach fully relies on data previously collected and processed by external parties. In this context, the researcher did not gather primary data through surveys or interviews but instead utilized publicly available and published data. This strategy aligns with the characteristics of quantitative research, which emphasizes the processing and analysis of numerical data to uncover patterns and relationships between variables.

The majority of quantitative studies, including this one, apply statistical methods to analyze data. The analysis process involves the use of mathematical frameworks and theories relevant to the variables studied, such as theories of good governance and public financial performance. According to Rustamana et al. (2024), this approach enables researchers to

draw empirically-based conclusions whose validity can be tested through various statistical analysis techniques.

## RESULTS AND DISCUSSION

The characteristics of good governance, based on Presidential Regulation No. 29 of 2014 concerning the Government Agency Performance Accountability System (SAKIP), serve as a tangible manifestation of efforts to improve governance in administering state affairs. These characteristics include the following:

### Transparency

Transparency provides a channel for the public to access information regarding planning, implementation, and accountability in managing village funds. According to the Regulation of the Minister of Home Affairs No. 20 of 2018 concerning Village Financial Management, the accountability and reporting of the implementation of the Village Budget (APBDes) must be publicly disclosed using notice boards. These boards are expected to function as honest, written, and easily accessible means of disseminating information to the community (Aryani, 2021).

The central government's audit report refers to the report prepared by the Audit Board of Indonesia (BPK) following an audit of the financial statements and financial management systems at the central government level. This report aims to ensure that state financial management is conducted in accordance with applicable laws and regulations and to provide an independent opinion regarding the Central Government Financial Statements (LKPP).

**Table 1.** Development of LKKL and LKBUN Audit Opinions from 2019 to 2023

Opinion	2019	2020	2021	2022	2023
Unqualified Opinion (WTP)	85	85	84	82	81
Qualified Opinion (WDP)	2	2	4	1	4
Disclaimer of Opinion (TMP)	1	-	-	-	-
Adverse Opinion (TW)	-	-	-	-	-
Total Reporting Entities	88	87	88	83	85

In the audits conducted by the Audit Board of Indonesia (BPK) over the past five years on the Financial Statements of Ministries/Agencies (LKKL) and the Financial Statements of the State General Treasurer (LKBUN), the audit opinions of Unqualified Opinion (WTP) and Qualified Opinion (WDP) have shown annual variations.

An Unqualified Opinion (WTP) signifies that an entity's financial statements are presented fairly. This opinion is issued by BPK if the financial statements meet certain standards, such as being free from material misstatements, adhering to generally accepted accounting principles, providing complete information, and not leading to misleading interpretations. On the other hand, a Qualified Opinion (WDP) indicates that the financial statements are largely free from material misstatements, except for certain specific issues. This opinion is given when auditors encounter concerns such as insufficient audit evidence, non-compliance issues, or restrictions during the audit process. A qualified opinion reflects minor irregularities that do not materially affect the overall fairness of the financial statements.

BPK has reviewed 47 standards, resulting in 25 standards reaching the advanced level, 14 standards at the good level, and 8 standards classified at the basic level, detailed as follows:

- a. Fiscal Reporting Pillar: Out of 12 standards, 8 standards have achieved the advanced level, and 4 standards have reached the good level.
- b. Fiscal Forecasting and Budgeting Pillar: Out of 12 standards, 8 standards have achieved the advanced level, and 4 standards have reached the good level.
- c. Fiscal Risk Analysis and Management Pillar: Out of 12 standards, 8 standards have reached the advanced level, 3 standards are at the good level, and 1 standard remains at the basic level.
- d. Resource Revenue Management Pillar: Out of 11 standards, 1 standard has achieved the advanced level, 3 are at the good level, and 7 are still at the basic level.

The 2023 evaluation results showed an improvement in one standard compared to 2022, specifically in the Fiscal Reporting Pillar regarding the Coverage of Tax Expenditure Standard. This standard improved from the good level to the advanced level due to the government's adoption of a sunset provision, establishing a clear start and end date for tax incentive policies.

The Fiscal Reporting, Fiscal Forecasting, and Budgeting pillars demonstrated the best performance, with a significant proportion of standards at the advanced level. Meanwhile, the Fiscal Risk Analysis and Management pillar performed well, although one standard still remains at the basic level and requires further attention.

Based on these findings, it can be concluded that the central government's financial statements have met transparency standards by openly presenting public financial information. This includes the completeness, clarity, reliability, and timeliness of the information provided.

### **Accountability**

Accountability refers to actions that can be justified by institutions or governments authorized to make decisions and carry out activities under existing laws and regulations. Based on this principle, village heads, for example, are expected to perform their duties and report all activities related to the Village Budget (APBDes) to both the public and the government in accordance with current laws and regulations.

Accountability covers the performance of government officials throughout the process, from planning to supervising activities that utilize the budget. Every activity must be justified and regularly reported to the public and higher government institutions in accordance with applicable regulations. Public accountability specifically relates to the delivery of information regarding government activities and performance to relevant stakeholders (Garung & Ga, 2020).

The government issued Government Regulation No. 8 of 2006 concerning Financial and Performance Reporting of Government Agencies, which mandates the development of an integrated accountability system encompassing planning, budgeting, treasury, and government accounting systems. Government Regulation No. 8 of 2006 states that the

Performance Report is a summary that outlines the achievements based on the work plans established for the implementation of the State Budget (APBN) or Regional Budget (APBD).

In line with the accountability for the implementation of the 2023 State Budget, the Minister of Finance prepared the 2023 Central Government Financial Report (unaudited), accompanied by the 2023 Central Government Performance Report (LKjPP). Key Notes on the State Budget Realization Report were explained using the LKjPP methodology, summarizing the Ministries/Agencies' performance achievements for 2023 through strategic targets and performance indicators.

Regarding the reporting of budget output achievements, the Audit Report on the 2021 Central Government Financial Report (LKPP) noted issues with inadequate information systems and reporting mechanisms. BPK recommended improvements in information systems and reporting procedures to enhance accountability and financial reporting quality. However, based on the 2023 audit results, several issues were still identified, as follows:

- a. Income Tax and Value Added Tax underpayment indications totaling IDR 5.82 trillion, with potential administrative sanctions amounting to IDR 341.80 billion.
- b. Non-Tax State Revenue (PNBP) management in 42 Ministries/Agencies amounting to at least IDR 6.81 trillion and management of non-tax receivables in 17 Ministries/Agencies amounting to at least IDR 3.51 trillion were not fully compliant with regulations.
- c. Budgeting, execution, and accountability of expenditures in 81 Ministries/Agencies amounting to at least IDR 7.05 trillion were not fully in accordance with regulations.
- d. Cash and account management in Ministries/Agencies was not entirely adequate, and the SPRINT application at the Ministry of Finance did not fully support accurate cash balance reporting.
- e. The Directorate General of Taxes (DJP) had not optimally conducted active collection efforts for tax receivables.
- f. The implementation of budget expenditures for projects not completed by the end of the fiscal year, managed through the Year-End Deposit Accounts (RPATA), was not fully supported by clear regulations and adequate controls.

**Table 2.** Results of Government Follow-Up Monitoring for the Years 2017 to 2022  
*(up to the Second Semester of 2022)*

No	Years	Number of Findings	Number of Recommendations	Implemented	Follow-Up Monitoring Results		
					Not Yet Implemented/Completed	Not Yet Followed Up	Cannot Be Followed Up with Valid Reasons
1.	2021	27	54	14	40	-	-
2.	2020	26	75	67	8	-	-
3.	2019	31	84	82	2	-	-
4.	2017	18	56	55	1	-	-
Total		102	269	218	51	-	-

Based on further analysis, it was found that the performance achievement reporting format outlined in the Minister of Administrative and Bureaucratic Reform Regulation (Permen PANRB) is not fully aligned with the performance reporting requirements mandated in Government Regulation No. 8 of 2006. The format fails to depict a Logical Framework that illustrates the relationship between budget realization and the achievement of output and outcome targets, as well as performance indicators of Ministries/Agencies and Priority Programs. In addition, testing of the percentage calculation of target achievement for the National Priority (PN) indicator objectives in the 2023 Central Government Performance Report (LKjPP) also revealed inaccuracies in the calculation of target achievement percentages for several objectives.

### Expenditure Efficiency

Expenditure efficiency refers to the optimal use of funds or budgets to achieve maximum results. In the context of government, expenditure efficiency means utilizing public budgets effectively to meet the needs of the community without waste. Expenditure efficiency can also be applied in the private sector, where companies strive to maximize outputs while minimizing costs.

**Table 3.** Budget and Realization of Employee Expenditure, Goods Expenditure, Capital Expenditure, and Social Assistance Expenditure in 2023 (Audited)

No.	Type of Expenditure	State Budget (APBN)	Realization	%
1.	Employee Expenditure	Rp442,507,211,693,000.00	Rp412,711,324,466,564.00	93.27
2.	Goods Expenditure	Rp375,881,911,438,000.00	Rp432,714,969,865,127.00	115.12
3.	Capital Expenditure	Rp210,322,961,353,000.00	Rp303,041,293,068,751.00	144.08
4.	Social Assistance Expenditure	Rp148,516,872,686,000.00	Rp156,601,633,832,416.00	105.44
	Total	Rp1,177,228,957,170,000.00	Rp1,305,069,221,232,656.00	110.86

The Central Government Budget Realization Report for 2023 (Audited) presents the realization of central government expenditures amounting to Rp2,239,786,701,499,164.00, representing 97.28% of the State Budget (APBN) ceiling of Rp2,302,457,850,414,000.00. The realization of central government expenditures includes employee expenditures, goods expenditures, capital expenditures, and social assistance (bansos) expenditures totaling Rp1,305,069,221,232,660.00.

**Table 4.** Details of Issues in Employee Expenditure, Goods Expenditure, Capital Expenditure, and Social Assistance Expenditure Related to Budgeting, Implementation, and Accountability in 2023 (*in Rupiah*)

No.	Issue	Amount
1.	Employee Expenditure	

No.	Issue	Amount
a.	Issues in the implementation of employee expenditure payments	Rp12,331,849,756.10
b.	Budgeting issues related to employee expenditure	Rp42,099,837,042.00
2.	Goods Expenditure	
a.	Irregularities in official travel expenditures	Rp39,260,497,476.43
b.	Budgeting/misallocation issues in goods expenditure	Rp769,648,758,179.29
c.	Other issues	Rp3,780,572,709,619.71
3.	Capital Expenditure	
a.	Issues in contract implementation	Rp1,130,019,837,268.13
b.	Budgeting issues related to capital expenditure	Rp256,234,251,549.12
c.	Other issues related to compliance with laws and regulations	Rp64,721,088,139.75
4.	Social Assistance Expenditure	
a.	Issues in the distribution and use of social assistance funds	Rp919,191,344,852.00
b.	Budgeting/misallocation issues in social assistance expenditure	Rp44,444,763,312.90
<b>Total</b>		<b>Rp7,058,524,937,194.53</b>

The Audit Report on the 2022 Central Government Financial Statements (LKPP) revealed several issues in budgeting, implementation, and accountability of expenditures, including overpayment of employee expenditures, irregularities in official travel expenses, budgeting errors, contract issues, and the distribution and use of social assistance funds. The Audit Board of Indonesia (BPK) recommended that the Minister of Finance instruct the Director General of Budget to coordinate with the Financial and Development Supervisory Agency (BPKP) and Internal Supervisory Units (APIP) of Ministries/Agencies (K/L) to identify the root causes of recurring problems and to develop effective control systems to enhance the quality of budget performance assessments of Ministries/Agencies. In response to these recommendations, the government, through the Director General of Treasury, has taken follow-up actions, including:

- a. Coordinating with BPKP through Letter Number S-122/PB/2023 dated July 14, 2023, requesting BPKP's assistance in identifying the root causes of recurring problems in expenditure management.
- b. Coordinating with Ministries/Agencies and their APIP through Letter Number S-123/PB/2023 dated July 14, 2023, instructing them to take measures to improve the quality of budget performance assessments by addressing the identified issues in expenditure management, enhancing the quality of data underpinning the distribution of government assistance, and implementing other necessary steps. Subsequently, the relevant Ministries/Agencies have submitted follow-up reports to the Director General of Treasury.

The efficiency of Indonesia's state budget realization remains a primary concern. Effective and efficient management of the State Revenue and Expenditure Budget (APBN) is key to the success of national development. In line with the 2023 Fiscal Policy Theme, namely "Enhancing Productivity for Inclusive and Sustainable Economic Transformation," the State Expenditure Policy in the 2023 APBN was directed as follows:

- a. Supporting the improvement of Indonesia's human capital quality through education, health, and social protection programs.
- b. Continuing to strengthen spending efficiency, particularly through reducing non-priority expenditures and promoting result-based budgeting.
- c. Enhancing the effectiveness of social protection programs, including continuing subsidy and social assistance reforms to ensure better targeting.
- d. Strengthening the flexibility of expenditures to anticipate uncertainties.
- e. Increasing synergy and harmonization between central and regional government spending, especially to enhance access to and quality of public services.

## CONCLUSION

This study employs a quantitative method using data from the 2023 Central Government Financial Report published by the Audit Board of Indonesia (BPK). The data highlights that implementing elements of Good Governance, transparency, accountability, participation, and responsibility is essential for effective state financial management. Transparency enables public access to information for government evaluation, while accountability requires the government to justify its financial activities. The study analyzes the influence of Good Governance on the financial performance of the central government in Indonesia. The results demonstrate that the application of Good Governance principles contributes to improved financial performance, reflected in more efficient and effective management reports. Moreover, public participation in decision-making processes significantly enhances public trust, which positively impacts financial outcomes. Good governance remains a fundamental aspiration of all nations, involving the government, society, and various external sectors. To achieve good governance in state financial management, Indonesia has issued several regulatory frameworks, including the State Finance Law and regulations on accountability standards. The quality of financial reporting is crucial, as it must embody Good Governance principles. The analysis reveals that while the central government demonstrates a commitment to accountability, challenges remain, particularly in tax management and budgeting processes. Efficiency in state spending is also a persistent concern, prompting efforts to optimize the use of public budgets. Based on these findings, the study recommends enhanced training for government employees in Good Governance practices and the development of policies that support broader public participation. Strengthening the implementation of Good Governance principles is expected to further improve the financial performance of Indonesia's central government.

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