Good Corporate Governance Approach to the Budget Identification of Medan City Government

[1] Ayu Kurnia Sari, [2] Hendra Saputra, [3] Andysah Putera Utama Siahaan
Universitas Pembangunan Panca Budi, Medan, Indonesia
Email: [1] ayukurniasari@ymail.com, [2] hendrasaputra@dosen.pancabudi.ac.id, [3] andiesiahaan@gmail.com

Abstract: *The importance of this research to be done is to identify the leakage of the Medan city government budget, can minimize and prevent the level of budget leakage to increase the development of the city of Medan. The formulation of the problem is whether the identification of the principles of good corporate governance which includes transparency, accountability, responsibility, independence, and fairness can affect the leakage of the Medan city government budget and find out which variables are most able to prevent leakage of the Medan city government budget. The hypothesis in this study is the identification of the principles of Good Corporate Governance which include transparency, accountability, responsibility, independence and fairness which have a significant influence on the budget leakage of the Medan city government. Moreover, the variables that are most capable of preventing budget leakage are transparency and responsibility. The purpose of this study is to analyze the identification of leakages in the Medan city government budget. Also, analyze which variables most influence the leakage of the Medan city government budget. The type of research conducted is descriptive analytical. The population and sample used were all Medan city government services with the 2016 study year to 2017. The analysis technique used was multiple linear regression using SPSS software.*

Keywords: *budget leakage, good corporate governance.*

1. INTRODUCTION:

Along with the development of regional autonomy the district/city government has a significant role in regional development. The development of the city of Medan has been very advanced, so it is not surprising that the city of Medan is called the "Metropolitan" city. In achieving this development, the local government of Medan city prepares the local revenue and expenditure budget that is used for the interests of Medan city development. According to the Constitution No. 32 of 2003 concerning the definition of Regional Revenue and Expenditure Budget is as an annual financial plan of the regional government which is discussed and agreed upon jointly by the regional government and the House of Representatives and stipulated in the regional regulations. The aim is to be used as a guideline by the regional government in regulating revenue and expenditure for the implementation of regional development so that mistakes, waste, and serious fraud can be avoided. The other Regional Revenue and Expenditure Budget objectives include: assisting the government in this case the local government achieving the objectives to increase the regulation or coordination of each part of the local government environment, helping to present and create efficiency and fairness in the provision of public and ration goods and services, creating the priority of spending or the integrity of local government spending and presenting and increasing transparency of local government towards the wider community and local governments can be accountable to the House of Representatives.

The functions of the Regional Revenue and Expenditure Budget is divided into five functions, such as the authorization function, planning function, supervision function, allocation function, distribution function [1]. Each function has a different role including the authority function as a guide to carry out regional revenues and expenditures in the year concerned, planning function as a guide to plan activities in the year concerned, then is a supervisory function as a guide to assess the performance of local governments, functions allocation is as in its division must be directed in accordance with the aim to reduce unemployment, waste of resources and improve economic efficiency/effectiveness, and the last is the distribution function which is functioning in its distribution must pay attention to the sense of justice and propriety. From the above objectives and functions, it is clear that the purpose of the government budget is to prosper the people, but this does not have a significant impact on the people in general. Many cases occurred and were revealed by the Corruption Eradication Commission institutions; there were several names revealed after serving as North Sumatra Mayor. It is clear that leadership is the leader's way of satisfying. Many factors cause this to occur, including economic, political, organizational factors and so on. In this case, the researcher did not detail about corruption; this study will discuss the identification of the causes of the Medan city government budget leak.

The principles contained in Good Corporate Governance (GCG) which include transparency, accountability, responsibility, independence, and fairness, have a unique approach with the identification of budget leakages [2]. This is because if the GCG revenue is actually carried out by the government in the city of Medan, it will create a clean government and free from budget leakage. The principles contained in GCG have already been practiced in private

companies so that private companies can do clean practices in the company. Government agencies in the city of Medan consist of, population, education, transportation, sanitation, plantation, social and labor, health, tourism, plantation, industry and trade, agriculture, livestock, income services, and so on [3]. If there is a budget leak, the Medan city government cannot be maximized in realizing the budget; the impact is very significant for the people in the city of Medan. So this research is fundamental to do so that the community and government can find out the causes of budget leakages in the city of Medan. It can reduce the level of budget leakage in the Medan city government services to increase the development of Medan.

2. THEORIES:

2.1 Good Corporate Governance (GCG)

Good corporate governance is a means to achieve goals and objectives and regarding monitoring activities carried out in a company [4]. GCG implementation is also expected to support the government's efforts to uphold good corporate governance in general in Indonesia. At present, the Government is trying to implement good corporate governance in its bureaucracy in order to create a clean and authoritative Government [5]. Corporate governance is as a relationship that participants determine where direction and policy. It can be concluded that Good Corporate Governance is:

a. A structure that regulates the pattern of harmonious relations about the role of the board of commissioners, directors, shareholders and other stakeholders.
b. A system of checking and balancing authority over corporate control that can limit the appearance of two opportunities: mismanagement and misuse of company assets.
c. A transparent process for determining company objectives, achievement, following performance measurement.

The principles that exist in Good Corporate Governance consist of [6];

a. Transparency (disclosure of information), such as openness in carrying out the retrieval process in expressing material and relevant information about the company.
b. Accountability, such as the clarity of the functions, structures, systems, and accountability of the company's organs so that the management of the company is carried out effectively.
c. Responsibility (compliance), such as conformity (compliance) in the management of the company against sound corporate principles and applicable laws and regulations.
d. Independence is a condition where the company is managed professionally without conflict of interest and influence/pressure from management that is not by the applicable laws and regulations and strong corporate principles.
e. Fairness, which is fair and equal treatment in fulfilling the rights of stakeholders that arise based on the agreement and applicable laws and regulations.

2.2 Budget Leaks

The public sector budget is a breakdown of all aspects of the activities to be carried out which are composed of plans for revenues and expenditures to be carried out within one year [7]–[10] The public sector budget is made to assist the government in determining the level of community needs such as electricity, clean water, quality of health, education and so on so that it is adequately guaranteed and the level of community welfare will be guaranteed and its use and allocation more efficient. Mardiasmo [11] reveals the importance of the Budget sector for the following reasons:

a. The budget is a government tool to direct socio-economic development, ensure sustainability, and improve the quality of life of the community.
b. The budget is needed because of the unlimited needs and desires of the community and continues to grow, while the available resources are limited. Budget is needed because of the problem of limited resources (scarcity of resources), choice (choice), and trade-offs.
c. The budget is needed to ensure that the government is responsible for the people. "The government uses the budget as a tool to design all work programs or steps to be taken so that each activity can be directed and appropriately controlled.

Budget leaks pose problems for urban development in Medan. The budget is the most critical point for the sustainability of the company and development. By minimizing and preventing budget leakage, the government can be more efficient in managing company needs. Many causes of budget leakage include leakage of government budget due to erroneous policies, budget theft and collection of local taxes is not optimal and regional realization is not optimal Policy is an action taken either by a person, group or government in a situation or environment related to certain obstacles. The wrong policy is a step taken by someone or group outside the limits or violates the law [12]–[14] Regarding the budget leakage, the head of the department or leadership must be able to account for the cause of the budget leakage, in other words sometimes the budget leak is caused by a lack of government control and supervision. Budget theft is a criminal form that causes a person to be a suspect and responsible for his actions. Budget theft is an activity carried out by people who are not responsible for the authority of their position. Sometimes this budget theft

occurs by involving private interests, even though it is for personal gain. Not optimal tax collection many causes include the lack of tax collection capacity in achieving the targets set, the amount of tax revenue planned is not by the reality in the field. Tax collection is not optimal causing a government budget leak. So there needs to be socialization to the public about the effectiveness of tax collection, and the community also needs transparency from this tax itself, so there is no misunderstanding with the community [15].

3. METHODOLOGY:

The model used to identify budget leaks in the Medan city administration uses the Good Corporate Governance (GCG) approach. This type of research uses a type of analytical descriptive with a case study approach. It is a method that looks at and describes the environment and real conditions that appear in the company by collecting, presenting and analyzing data so that it can provide a clear enough picture of the object under study, so that conclusions and made suggestions in the future based on research conducted.

3.1 Data Analysis

The statistical analysis technique used to test the hypothesis in this study is multiple regression analysis that is to determine the extent of the influence of the independent variable on the dependent variable. Multiple regression analysis is a tool of forecasting analysis of the effect of two or more independent variables on the dependent variable to prove whether or not there is a relationship of functions or causal relationships between two independent variables or more (X1), (X2), (X3) …… Xn) with one dependent variable Rusiadi (2012). In order to test the effect of several independent variables with the dependent variable can be used the following equation:

$$Y = a + b1X1 + b2X2 + b3X3 + b4X4 + b5X5\varepsilon$$

Where:

Y	=	dependent variable (budget leak)
a	=	intercept (intersection point in Y-axis)
b1, b2, b3	=	regression coefficient
X1	=	transparency
X2	=	accountability
X3	=	responsibility
X4	=	independence
X5	=	fairness
ε	=	standard error

3.2 Data Quality Test

It is to test the validity of the data by looking at the value of Corrected Items

Aiming to see the data disseminated can be declared valid with a value above 0.3 and can be continued to continue the next data test. It tests the reliability of data by looking at the value of Conbranch Alpha

Aiming to know the data can be declared reliable or can be trusted by seeing the value of Conbranch Alpha above 0.6. moreover, can proceed to continue the next data test

3.3 Classic Assumption Test

Several classic assumption test are:

a. Normality Test using the Normal P-Plot Test
   It aims to find out the distribution of data in a variable that is good and feasible to use has a normal distribution, with a significant value of each variable > 0.05, that means normal data distribution.
b. Multicollinearity Test using Variance Inflation Factor (VIF)
   It aims to determine whether there is a high correlation between independent variables in a multiple linear regression model, with VIF value < 10 and tolerance value > 0.1 so that the model can be said to be free of multicollinearity.
c. Autocorrelation Test
   It aims to find out whether there is a correlation between data in time series or data space (cross-section), if the value is between -2 to 2, it means there is no autocorrelation.
d. Heteroscedasticity Test
   It aims to examine whether there is a difference in residual variance in an observation period to another observation period or a description of the relationship between values predicted by Studentized Delete Residual values. The spread of data points should not be patterned and the points spread above and below the number 0 on the Y-axis, there will be no heteroscedasticity.

4. RESULT AND DISCUSSION:

4.1 Data Quality Test

Data quality testing is done by looking at the validity and reliability of an instrument. Validity test is used to give an overview of the answer whether the question item has measured what will be measured. Question items will be declared valid if the score of r counts >= r table; r table = 0.279 while reliability testing is used to show how far a measuring device can be trusted or reliable. Question items will be declared reliable if they have a Cronbach's Alpha value above 0.6. The results of the validity and reliability test are seen using the SPSS V.23 program by looking at the value of the Corrected Item-Total Correlation presented in the following table.

Table 1. Transparency Data Quality

Variable	Cronbach's Alpha	Item	r count	r critical	Remark
Transparancy	0.47361111	P_1	0.28194444	0.19375	valid
		P_2	0.39097222	0.19375	valid
		P_3	0.35555556	0.19375	valid
		P_4	0.28263889	0.19375	valid

Based on the results of the data processing above, the results show that all obedience pressure variables are valid and reliable because they have a value of r > 0.279 and an alpha value> 0.60. Data quality for the transparency variable can be seen in the following table.

Table 2. Accountability Data Quality

Variable	Cronbach's Alpha	Item	r count	r critical	Remark
Accountability	0,54166667	P_1	0,25833333	0,19375	Valid
		P_2	0,41527778	0,19375	Valid
		P_3	0,54791667	0,19375	Valid
		P_4	0,45	0,19375	Valid
		P_5	0,28819444	0,19375	Valid

Based on the results of the data processing above, the results show that all obedience pressure variables are valid and reliable because they have a value of r > 0.279 and an alpha value> 0.60. Next will be the next data quality testing.

4.2 Normality test

Data distribution normality is not only one of the classic assumption tests that must be tested in regression analysis, but it is also an essential requirement to determine the test tool that will be used to answer the hypothesis. For this reason, then in this study, the normality test was carried out by looking at the diagonal drawing line spread near the diagonal line. Then it can be stated that the data is typically distributed.

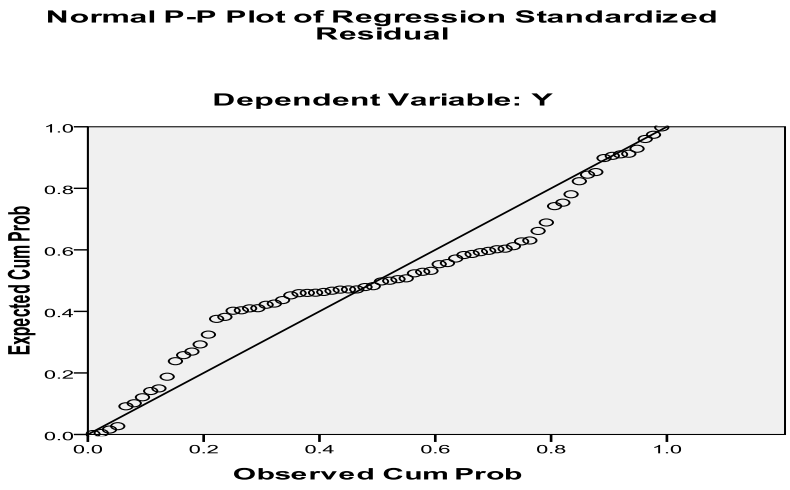

Figure 1. Normality Test

4.3 Multicollinearity Test

Multicollinearity tests are conducted to test whether there is a correlation among independent variables. Multicollinearity is tested by looking at tolerance values and Variance Inflation Factor (VIF).

Table 3. Multicollinearity Test

Independent Variable	*Collinearity Statistic*	
	Tolerance	***VIF***
Residual	0.685416667	1,632

In the results of data processing carried out with the SPSS V.23 program shows that the tolerance value of all variables is greater than 0.1 and the VIF value is smaller 10. The results of this calculation indicate that there is no problem of multicollinearity among variables independent variable.

4.4 Heteroscedasticity Test

Heteroscedasticity test results conducted through the scatterplot test can be seen in the following figure.

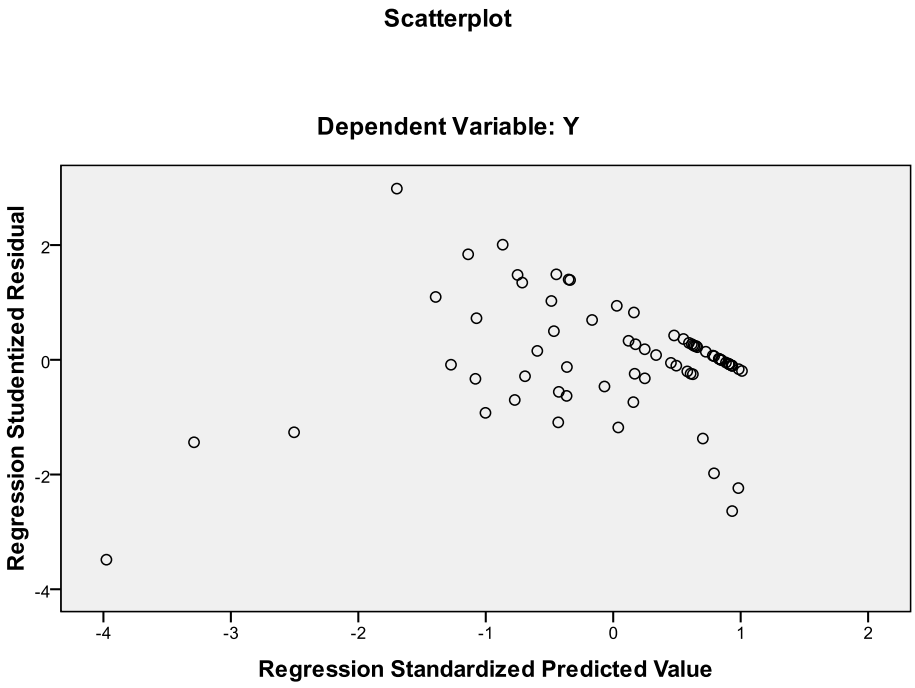

Figure 1. Heteroscedasticity Test

4.5 Simultaneous

Testing hypothesis intended to determine the effect simultaneously can be seen in the following table.

Table 4. Simultaneous Test

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	359.727	5	71.945	17.784	.000[a]
	Residual	258.916	64	4.046		
	Total	618.643	69			

a. Predictors: (Constant), fairness, accountability, accountability, independence, openness

b. Dependent Variable: Y

From the table above can be seen the significance value of 0.000 or below 0.05 which means that simultaneously all independent variables have a significant effect on the dependent variable.

4.6 Partial Test

Testing the hypothesis is intended to determine the effect partially, can be seen in the following table.

Table 5. Partial Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.261	4.181		.780	.438
	Openness	.110	.138	.077	.797	.428
	Accountability	-.038	.109	-.029	-.351	.727
	Accountability	.007	.097	.007	.073	.942
	Independence	.604	.072	.723	8.345	.000
	Fairness	.089	.110	.069	.812	.420

a. Dependent Variable: Y

From the table above can be seen the significance value of 0.000 or below 0.05 which means that partially the independent variable has a significant effect on the dependent variable.

5. CONCLUSION:

From the results of the research conducted, it can be concluded that the identification of budget leaks measured by openness, accountability, accountability, independence and fairness that significantly influence the variables partially is independence. It is due to the intensiveness factor which is a condition where the company is managed professionally without conflict of interest and influence/pressure from the management which is not by the prevailing laws and regulations and strong corporate principles. For the responsibility carried out by the individual himself. With the inculcation of this independence attitude, it is expected that government officials in the city of Medan can prevent budget leakage and also be facilitated by the prevailing system. From the simultaneous regression results, it can be seen that together the variables of this study can prevent the leakage of the Medan city government budget. If the entire system and also the attitude of employees who have attitudes such as openness, accountability, responsibility, independence, and fairness, then this dramatically reduces the budget leakage in Medan.

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