

GOOD GOVERNANCE IMPLEMENTATION AND ITS EFFECT ON REGIONAL FINANCIAL PERFORMANCE IN BALI PROVINCE

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ABSTRACT

The decentralization policy with the implementation of regional autonomy can be used as an opportunity for regions to empower all available resources for the greatest prosperity of the people in their respective regions. The implementation of regional autonomy in the context of implementing regional governance needs to be supported by a regional financial management system that is rational, fair, participatory, transparent and accountable. Substantial government spending is to provide capital goods such as road infrastructure, electricity, water and public goods because these public goods are useful to many people. The application of good governance principles such as participation, transparency and accountability in government administration turns out to provide positive values for the implementation of performance-based APBD budgeting, this is possible because these values greatly support the implementation of performance-based budgeting, where in its implementation, performance-based APBD budgeting need support for transparency, participation and strong accountability from various stakeholders. The implementation of good governance will be able to create good regional financial management so that the goal of government spending in regional finances, namely improving the welfare of the community can be realized. This paper uses a literature study approach which aims to examine the implementation of good governance and its impact on regional financial performance in Bali Province.

Key words: good governance, autonomy, development, regional finance.

INTRODUCTION

The decentralization policy implemented in the implementation of regional autonomy began to be widely implemented in the reform era, and has changed the government structure that was previously centralized towards a decentralized government structure by giving wider authority to local governments, especially district / city governments. Law Number 23 of 2014 concerning Regional Government states that Regional Autonomy is the right, authority and obligation of an autonomous region to regulate and manage government affairs and the interests of local communities in the system of the Unitary State of the Republic of Indonesia.

This autonomy right can be used as an opportunity for regions to empower all available resources for the greatest prosperity of the people in their respective regions. Suhandak and Nugroho (2007) state that the implementation of regional autonomy in the context of implementing regional governance needs to be supported by a regional financial management system that is rational, fair, participatory, transparent and accountable. With the development of the regional financial system, clean government and good governance will be created. According to Santosa (2017), good governance means a synergistic and constructive relationship between the state (government), the private sector and society (society). In this case is governance that develops and applies the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, rule of law and is acceptable to all people. One of the aspects that must be followed up in realizing good governance within the local government is the implementation of regional financial management. Halim and Iqbal (2012) state that the meaning of good in good governance contains two definitions. First, is to uphold the wishes or will of the people and the values that can increase the people's ability to achieve the goals of independence, sustainable development and social justice. Second, it is the functional aspects of government that are effective and efficient in carrying out their duties to achieve these goals. With the implementation of a government based on good governance, it will make every activity in every public organization financially accountable. This will ultimately increase public accountability. By increasing public accountability, it will increase public confidence in the existing government system and control can be exercised in case of irregularities.

Regional financial performance will be checked by an institution authorized by the state in auditing the finances of both the central and local governments. This examination will be able to provide an overview of the suitability of state financial management with predetermined standards. In Law Number 15 of 2004 concerning the Audit of the Management and Accountability of State Finances, it is stated that the financial audit is an examination of the financial reports of the central government and regional governments. This financial audit is carried out by the Supreme Audit Agency (BPK) in order to provide a statement of opinion on the fairness level of information presented in government financial reports. Law Number 15 of 2006 concerning the Supreme Audit Agency states that the responsibility of State Finances is the obligation of the Government and other state institutions to carry out the management of state finances in an orderly manner, obeying statutory regulations, efficiently, economically, effectively, and transparently by taking into account the sense of justice and decency. An examination of the financial statements aims to provide an opinion / opinion on the fairness of the financial information presented in the financial statements. Good supervision is needed so that there are no deviations from the implementation of regional financial management. Irregularities in the management of regional finances are very prone to occur, especially before the election. The Chairman of the Corruption Eradication Commission (KPK) released that between 2005 and 2019 as many as 124 regional heads committed irregularities in regional financial management or committed criminal acts of corruption (Media Indonesia, 7/8/2020). This data shows that there is still a very large potential for irregularities in regional financial management.

Substantial government expenditure is to provide capital goods such as road infrastructure, electricity, water and public goods because these public goods are useful for many people (citizens). As much as the funds collected and allocated by the government in terms of expenditure, if government spending is not aimed at improving the economy and providing public goods,

it will not mean much (Suprayitno, 2017). A study conducted by Suhendar (2016) found that the application of good governance principles such as participation, transparency and accountability in government administration turned out to provide positive values for the implementation of performance-based APBD budgeting, this is possible because these values greatly support budgeting implementation. Performance-based, where in its implementation, performance-based APBD budgeting needs the support of transparency, participation and strong accountability from various stakeholders. In addition, Rosliyati (2017), in her research found that state and regional finances must be managed in an orderly, law-abiding, efficient, economical, effective, transparent and accountable manner by paying attention to the sense of justice and appropriateness. For the management of state and regional finances effectively and efficiently, the basic idea, of course, must be implemented through good governance which has three main pillars, namely transparency, accountability and participation. Research by Mercan and Sezer (2014), on government spending in education has a positive effect on economic growth. The performance of a country in the development process is closely related to the effectiveness of the education system. In addition to positive contributions in the social, cultural and political fields, an effective education system increases competitiveness and contributes to economic growth by training a qualified workforce and increasing productivity in the economic aspect.

Several studies produced in various countries show that there is a positive relationship between the implementation of good governance and regional financial performance. The implementation of good governance will be able to create good regional financial management so that the goal of government spending in regional finances, namely improving the welfare of the community can be realized. The province of Bali, which consists of nine districts / cities, is an autonomous region that continues to strive to improve the implementation of good governance and regional development performance towards community welfare. Revenue obtained from various sectors, mainly from the tourism sector, is used to realize the regional vision and mission. The tourism sector as a mainstay sector in gaining PAD continues to be encouraged in order to generate maximum PAD. The agricultural and trade sectors as tourism support sectors also receive sufficient priority. One of the benchmarks for regional success in implementing Regional Autonomy is the success of the region in exploring, managing, directing and controlling the Regional Revenue and Expenditure Budget (APBD) in accordance with the policy direction and set priorities. The implementation of good governance in regional financial management is expected to realize the goals of development carried out by local governments that lead to improving people's welfare. The implementation of good governance is very important in the process of regional financial management and will be able to improve the financial performance of local governments. The formulation of the problem in this study is whether the effectiveness of the government's financial budget strategy is able to improve the welfare of the people in Bali Province?. This paper uses a literature study approach and aims to examine the implementation of good governance and its impact on regional financial performance in Bali Province.

RESULTS AND DISCUSSION

Regional Financial Management in the Autonomy era

The implementation of the decentralization policy gave local governments broad authority to explore the existing potential, both taxes and levies, as the main sources of development in the regions. According to Mardiasmo (2018), theoretically, decentralization is expected to produce two tangible benefits. First, to encourage increased participation, initiative and creativity of the community in development, as well as to promote equitable distribution of development results (justice) throughout the regions by utilizing the available resources and potentials in each region. Second, improve the allocation of productive resources by shifting the role of public decision-making to the most fully-informed local government level. Regional autonomy as a form of implementation of the decentralization policy gives regional governments the authority to manage their own households, including in regional financial management aimed at achieving the goals of the regional government. Regional finance in accordance with Government Regulation no. 12 of 2019 concerning Regional Financial Management are all the rights and obligations of the Region in the context of administering Regional Government which can be valued in money as well as all forms of assets that can be made the property of the Region in connection with the rights and obligations of the Region. The implementation of regional autonomy has brought changes to the management of regional finances, especially in the management of the regional budget which is fully left to the regional government. Holynskyy (2017) states that the process of implementing government budget management is directed at increasing the efficiency of the use of funds, which is a form of government budget policy and ensures the improvement of the quality of public administration instruments. Budget management is the process of managing the formation, distribution and use of public resources as well as optimizing the use of financial resources for the benefit of the socio-economic development of each region and the country as a whole.

In Government Regulation no. 12 of 2019, the central government has provided general direction to local governments in preparing and implementing the APBD. In addition, regions are required to be more skilled in the process of preparing and implementing the APBD by using a performance approach. Budget with a performance approach is a budget system that prioritizes efforts to achieve work results or outputs from the stipulated input cost allocation planning. This also means that the things achieved must be worth or greater than the costs incurred. In addition, every budgeting in the APBD expenditure post must be supported by the assurance of the availability of sufficient revenue. The regional financial management of regencies / cities in Bali Province is carried out with the aim of realizing the vision and mission of the regional government that has been set. Regional development policies that are spelled out in regional financial policies through the APBD are an opportunity for local governments to increasingly take advantage of their authority in developing development capacity and the economy so as to improve the welfare of their people. The following is an illustration of the allocation of regional revenue and expenditure in the district / city APBD in Bali in 2018

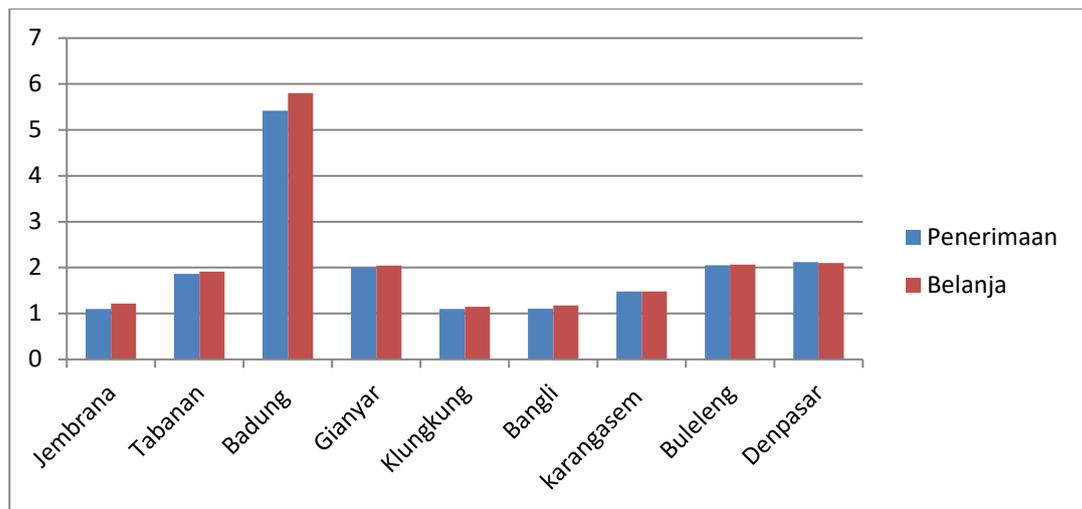


Figure 1 District / City APBD in Bali 2018(In Trillion Rupiah)

Source: BPS Prov. Bali in 2019

The local government budgets of regencies / cities in Bali are prepared using a performance approach. The majority of local revenue (PAD) which is the basis for financing activities in the Bali area comes mainly from the tourism sector. Bali as a tourist destination has been managed well so that this sector has become a mainstay in gaining PAD for district / city governments. The highest PAD is obtained by Badung Regency, whose main source is Hotel and Restaurant Tax. The Decentralization Policy has brought enormous changes to the management of government finances in the regions. The implementation of regional autonomy and fiscal decentralization has consequences for the pattern of authority between the central and regional governments, including their financial relationships. The authority given to regency / city governments in Bali has been put to good use by local governments in Bali by exploring its potential to be used as PAD miners. The tourism sector as the main sector for extracting PAD has been able to provide maximum contribution to the APBD which is used in carrying out development towards increasing the welfare of the people of each region.

Factors Affecting Regional Financial Performance

One of the capabilities of the regions in carrying out regional autonomy can be measured through regional financial performance. The financial performance of local governments will be assessed by external parties to ensure that regional finance has been implemented in accordance with applicable regulations and aims for the welfare of the community. Regional Financial Performance is the achievement of work carried out in the financial sector which consists of revenue and also regional government expenditure by looking at financial indicators that are determined through local policies or regulations during one budget period or one year. Good performance for an organization is achieved when administration and service providers by the organization concerned are carried out at an economic, efficient and effective level (Wahyuningsih, 2019). Suyana Utama (2009) states that Regional Financial Performance has a positive and significant effect on people's welfare. This means that if the performance of local government finances is getting better, the level of community welfare in that area will increase ..

Machmud et.al (2014) states that measuring regional financial performance can be done by looking at independence ratios, effectiveness ratios and growth ratios. The self-reliance ratio, namely seeing the dependence of regions on sources of income outside of PAD. The effectiveness ratio is the ratio between PAD revenue and the target set. Meanwhile, the growth ratio is the amount of the local government's ability to maintain and increase the success it has achieved from one period to the next. Gomes et. al (2013), revealed that the personal quality of regional heads (age, educational background, and administrative experience) greatly affects the level of regional government financial performance. This means that the leadership factor is very dominant in determining the quality of government financial management of a region. In the results of their research, Tahir et.al (2019) explained that there are three factors that affect regional financial performance, namely PAD, balance funds and capital expenditure. The first factor is PAD as revenue earned by regions, collected based on Regional Regulations in accordance with statutory regulations. The higher the PAD revenue, the better or better the local government's financial performance will be. The second factor that affects is the balance fund, which is a fund sourced from the State Revenue and Expenditure Budget (APBN) which is allocated to the regions to finance regional needs, consisting of: Production Sharing Funds, General Allocation Funds (DAU) and Special Allocation Funds). The stronger the regional government depends on the central government, the lower the Regional Government's Financial Performance. Meanwhile, the third factor is capital expenditure. Capital expenditure shows an increase in investment made by local governments so that an increase in capital spending will increase regional financial performance.

Meanwhile, research conducted by Aikins (2011) shows that government internal audit makes a significant contribution to financial performance by increasing internal control over the financial management process. This implies that the supervision and audits carried out by internal parties will be able to have a good impact on improving government performance. Continuous and tiered supervision will be able to direct budget management not to deviate from the applicable regulations so that financial performance will increase. Regional financial performance assessed by external audit institutions can be used as an instrument by various parties to evaluate and assess the success of local government management (Gomes et.al, 2009). The good assessment given by the audit institution can be used as a reference by the regional head in claiming the success of his government performance

in the welfare of the community. District / city governments in Bali continue to strive to improve the financial performance of their respective regions. All of the potential that is owned has been maximally developed in order to be able to boost income that can increase PAD. The tourism sector as a mainstay sector is being developed together with other sectors such as agriculture and trade. All regions are trying to develop their territory into an independent region in order to reduce dependence on balancing funds or transfer funds from the state budget. Regional expenditures are prioritized for capital expenditures so that funds issued by the regional government can become investments whose benefits are directly felt by the community at large so that regional expenditures issued can improve the welfare of the community to the maximum.

The Relationship between Good Governance and Regional Financial Performance

The implementation of good governance is a prerequisite for any government to realize the people's desire to achieve the goals and ideals of the nation and state. Good governance is good organizational governance by applying the principles of openness, fairness and accountability in order to achieve organizational / governance goals. In order to make it happen, it is necessary to develop and implement an accountability system that is precise, clear, measurable and legitimate so that the performance of government and development can take place in an efficient, effective, clean and responsible manner (Halim and Iqbal, 2012).

The relationship between the implementation of good governance and regional financial performance

As stated by Suhendar (2016), that the importance of implementing the principles of good governance (good governance), whose main objectives include the realization of government accountability, improving public services and increasing public welfare, the government issues various regulations that try to provide evidence in the effort to create accountability, one of which is through financial management reform, which is implemented through a change in the budgeting system from a traditional budgeting system to a performance budgeting system.

Omri and Mabrouk (2020) state that good governance management will avoid misuse of government power so as to be able to efficiently mobilize economic resources in order to provide opportunities for the community to reach more productive economic resources in realizing sustainable development. Good governance will be able to create a good financial budgeting system as well. The main components of good budgeting are effectiveness, efficiency, transparency, accountability and discipline. Effective budgeting can be realized with optimal supervision of all existing elements, including from the community as the object of budget allocation. Budget allocation must include the main sectors that will improve the welfare of citizens as a whole (Caleb and Godwins, 2012). Wardani et.al (2017) explained that in conditions of inefficiency in local government spending, the central government must evaluate local government spending by linking it to performance and governance benchmarks. The implementation of public sector governance has an important role in improving performance and increasing efficiency in government spending. The central and local governments must pay more attention to the quality of good governance and make efforts to improve aspects related to governance. Good governance can have a positive effect on performance and reduce inefficiency in government spending.

In realizing good governance or good governance within the local government, one of them is by implementing good regional financial management as well. Regional financial performance will be checked by an institution that is authorized by the State in auditing both the central and local governments, namely the Supreme Audit Agency (BPK). An examination of the financial statements aims to provide an opinion / opinion on the fairness of the financial information presented in the financial statements. Opinions or opinions given by BPK on government financial reports consist of four types of opinions, namely Fair Without Exception (WTP), Fair With Exceptions (WDP), Unfair (TW) and Not Providing Opinions (TMP). Giving opinions based on several criteria such as: (a) conformity with government accounting standards; (b) adequacy of disclosure; (c) compliance with statutory provisions; and (d) the effectiveness of the Internal Control System (SPI). To realize good and sustainable governance, it can be done by strengthening government institutions, realizing an effective democratic system, optimizing public participation, upholding public accountability and upholding just law (Nanda, 2006). The local government in Bali continues to strive to improve governance by implementing financial management so that it does not break out of the applicable rules and regulations. Table 1 below shows the development of BPK's Opinion on Regional Government Performance Reports in Bali from 2014 to 2018.

Table 1 BPK's opinion on the 2014-2018 Regional Government Performance Report in Bali Province

LKPD	Opinion of BPK-RI				
	2014	2015	2016	2017	2018
Jembrana	WTP	WTP	WTP	WTP	WTP
Tabanan	WTP	WTP	WTP	WTP	WTP
Badung	WTP	WTP	WTP	WTP	WTP
Gianyar	WTP	WTP	WTP	WTP	WTP
Klungkung	WDP	WTP	WTP	WTP	WTP
Bangli	WDP	WDP	WTP	WTP	WTP
Karangasem	WDP	WTP	WTP	WTP	WTP
Buleleng	WTP	WTP	WTP	WTP	WTP
Denpasar	WTP	WTP	WTP	WTP	WTP
Prov. Bali	WTP	WTP	WTP	WTP	WTP

Source : IHP BPK-RI 2015-2019

The Supreme Audit Agency (BPK) has provided a good assessment or opinion on the Regional Government Performance Reports, both Regency / City and Province in Bali. This assessment shows that the local government in Bali has implemented a development process including financial management in accordance with the prevailing laws and regulations. The assessment given is the highest rating, which is reasonable without exception.

The local government performance report in Bali is already in the best assessment, which is fair without exception. This shows that financial management and development processes have been implemented properly in accordance with the prevailing laws and regulations. The opinion given by the BPK is one of the benchmarks for local governments in Bali to make improvements in the coming years.

The application of the principles of good governance in improving regional financial performance

World Bank defines governance as a way of (government) power in managing economic and social resources in a country which is implemented in the development process towards social welfare (Weiss, 2000). Optimizing the application of the principles of good governance in local government management can be seen by how the local government allocates spending for the benefit of the community which can have a multiplier effect on improving the welfare of its people. Regional government policies in optimally allocating expenditures will be able to realize regional macroeconomic goals, particularly those related to economic growth and social welfare. This correlation is shown by Keynes in Mankiw (2018) that public sector investment will encourage economic growth, job opportunities and reduce poverty through a multiplier effect. The implementation of the principles of good governance must become a reference in the management of regional government, especially in improving regional financial performance in order to realize development goals, namely a prosperous society.

The World Bank defines good governance as a solid and responsible implementation of development management that is in line with the principles of democracy and an efficient market, avoiding misallocation of investment funds, and preventing corruption, both politically and administratively, implementing budget discipline, and creating legal and legal issues. political framework for the growth of business activities (Mardiasmo, 20018).

UNDP in Mardismo (2018) provides several characteristics of the implementation of good governance including:

- a. Participation
Community involvement in decision-making, either directly or indirectly through representative institutions that can channel their aspirations. Such participation is built on the basis of freedom of association and to speak and participate constructively.
- b. Rule of law
A fair and indiscriminate legal framework.
- c. Transparency
Transparency is built on the basis of freedom of information. Information relating to the public interest can be obtained directly by those in need.
- d. Responsiveness
Institutions must be quick and responsive to serving stakeholders.
- e. Consensus orientation
Oriented to the interests of the wider community.
- f. Equity
Every society has the same opportunity to obtain prosperity and justice.
- g. Efficiency and effectiveness
The management of public resources is carried out in an efficient and effective manner.
- h. Accountability
Accountability to the public for every activity carried out.
- i. Strategic vision
Government officials and the community must have a far-reaching vision.

The district / city government in Bali seeks to apply the principles of good governance into the implementation of regional financial management so that regional financial performance can increase. Compliance with regulations can prevent local leaders from dealing with law enforcement and make assessments of local financial performance better. According to Kurdi (2016), institutional compliance with governance regulatory mechanisms will lead to reducing financial and administrative corruption which will increase performance efficiency. Yousaf et.al (2015), consider that the application of the principles of good governance will have an impact on public trust in government institutions. Increasing public trust can foster investment by the public which in turn will lead to economic growth and public welfare. Public trust in the development performance carried out by the government can be stimulated by implementing development through a participatory approach. According to Mollick et.al (2018), community participation in the development process can be increased by providing incentives to people who want to be involved in the development process carried out by the government. In good financial management, the reporting system also determines the assessment of local government financial management. Complete and clear reporting will make it easier for the assessors to give their views on the process that has been carried out. Safkaur et.al (2019) found that the quality of financial reports has a significant effect on governance, the better the quality of local government financial reporting, the better governance is implemented. The implementation of the principles of good governance in improving the performance of district / city governments in Bali continues. All districts / cities in Bali continue to seek regional potential in order to increase PAD in their respective regions. This regional income from PAD will be used as the main force in carrying out development towards improving the welfare of the community. The funds obtained are allocated by prioritizing government spending or expenditures that directly touch the interests of the wider community. Suryantini et.al (2017) stated that the regional financial performance of regency / city governments in Bali has entered at a high level of independence or delegation when viewed from the independence ratio. At the level of effectiveness, the use of the budget has also entered the very effective category. Meanwhile, the efficiency ratio of the use of district / city government

budgets in Bali is still inefficient. Meanwhile, for the ratio of PAD growth, total regional income and expenditure was still fluctuating or experienced an increase or decrease from the previous year.

CONCLUSION

Regional autonomy and fiscal decentralization policies have resulted in the pattern of authority between the central and regional governments, including their financial relationships. The authority given to regency / city governments in Bali can be put to good use by the Regional Government in Bali by exploring the potential it has to be used as PAD miners. Regional Financial Management of Regency / City in Bali Province is carried out with the aim of realizing the vision and mission of the regional government that has been set. District / city governments in Bali continue to strive to implement the principles of good governance in increasing the achievement of regional financial performance. The financial reports of local governments in Bali, both Province and Regency / City in 2018 as a whole have obtained the best opinion, namely Unqualified (WTP). The WTP opinion obtained shows that the process of implementing development and also regional financial management has been carried out in accordance with applicable legal guidelines. The application of the principles of good governance in regional government management can be seen by how local governments allocate expenditure for the benefit of the community which can have a multiplier effect on improving the welfare of its people.

Suggestion

The application of the principles of good governance in the management of regional finances in regencies / cities in Bali has been running well so that the achievement of regional financial performance has generally been well implemented. Although currently the local government has received the best assessment, namely WTP, the principles of good governance in regional financial management still need to be improved. Public participation in the financial management process needs to be given wider space, as well as the principle of openness needs to be increased again so that the public can obtain good information on regional financial management and implementation of development in general.

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