

Research Article

The Cash Budget as Internal Control in Regional Cash Financial Management

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Abstract

The case study was conducted at the Pandeglang Regency Government, where an urgent need arose when central government transfer funds experienced changes in distribution. The research aims to explain the function of the cash budget in the public sector to achieve efficiency and effectiveness in regional cash management, especially in APBD planning and decision-making regarding the availability of regional government finances. The research method used is qualitative and comparative, namely analyzing certain situations, cases, or groups. The financial management situation of regional cash was analyzed by comparing the before and after implementation of the cash budget as internal control in cash management in Pandeglang Regency. The research results show that the role of the cash budget as an internal control can improve activity planning, cash administration, and activity reporting. The cash budget has also been proven to increase the efficiency and effectiveness of regional cash management, as can be seen from the significant reduction in excess financing. Implementing the cash budget allows the Pandeglang Regency Government to calculate minimum cash and invest the funds to obtain deposits, optimizing the use of funds.

Keywords: cash budget, public sector, regional financial management, internal control

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1. Introduction

One of the indicators in assessing the quality of public services is the smoothness of funding to finance regional government activities. Regional governments prepare and implement regional budgets to provide the best possible services to the public. Regional governments should manage resources as well as possible to smooth the availability of funds. Fund management by each work unit requires sufficient funds at the right time (Nakatani et al., 2023).

Regional government financial management requires the implementation of a cash budget to measure regional financial capacity appropriately (Putra & Shauki, 2022). The initial step begins with making a regional revenue projection plan measured rationally by the provisions of the laws and regulations in the APBD. The important role of regional revenue projections is to balance funding and financing sources for the benefit of sustainable development programs, namely public services, in implementing development management. Planning regional revenue projections should not be imposed on the community. Increasing Original Regional Income (PAD) does not focus on increasing regional levies but on innovation in revenue from regional government assets utilized by the community (Nakatani, 2023).

This research was conducted at the Pandeglang Regency Regional Government Financial Management Agency, with the focus of research data being the 2019 to 2021 budget year. The regional income structure of Pandeglang Regency is local original income (PAD), balance funds/transfer funds, and other regional income. Existing data shows that Pandeglang Regency is highly dependent on transferring funds from the center. The high dependence of the Pandeglang Regency APBD on transfer funds needs to be studied because if there is a change in policy related to transfers to the Province/Regency/City from the center, it will disrupt the smooth financing of activities in each Regional Work Unit (SKPD). The long-term target of Pandeglang Regency is to evaluate the management of PAD funds by maximizing regional income potential. Increasing the potential for PAD will encourage financial independence in Pandeglang Regency so that dependence on central transfer funds can be overcome.

Regarding the high dependence of the Pandeglang Regency APBD on central transfer funds, it is necessary to implement a cash budget. Implementing the cash budget begins by making financing projections based on trends in receipt of transfer funds over the last three years, namely 2019 to 2021. The Regional General Treasurer (BUD) evaluates each SKPD managing transfer funds to be more concerned in managing their activities so that preparation and time implementation can be adjusted to suit needs.

The cash budget is a reference and guideline for implementing operational activities in the next one-year period (Suparman, 2021). Likewise, cash budgets exist in local governments. The implementation of the cash budget will also be the implementation of internal control in regional financial management (Gamkrelidze & Japaridze, 2020). In addition to regulating the balance between funding and financing in each SKPD, the cash budget also plays a role in encouraging the realization of activities according to planning. Automatically, the role of regional governments as public servants is expected to be optimal, with all planning carried out by regional policies (Aray & Pedauga, 2022).

The research aims to illustrate how implementing the cash budget can play a role in managing regional cash finances. The next objective is to measure the effectiveness of the cash budget as internal control in the realization of activity planning in each SKPD.

2. Literature Review and Hypothesis

Regional financial management is an activity that includes planning, budgeting, implementation, administration, reporting, accountability, and supervision of regional finances (Halim & Kusufi, 2012). As Permendagri No 77 (2020) states, regional financial managers are financial management officials who carry out all activities, including planning, budgeting, implementation, administration, reporting, accountability, and supervision of regional finances. Thus, the Cash Budget regulates the availability of cash to fund the implementation of the APBD, which is part of regional financial management.

The cash budget is a projection of cash income sourced from receipts and projected financing of cash outflows. The role of the cash budget is to provide an overview of financing by the fund withdrawal plan stated in the SKPD DPA for each period. As stated in Article 134 PP No. 12 (2019), the regional government can regulate the availability of funds in preparing the cash budget.

Expenditure funds are by the fund withdrawal plan stated in the SKPD DPA, which contains a plan for estimating the realization of revenue from the expenditure plan, the data of which comes from the compilation and synchronization of the SKPD cash budget.

The management and role of the cash budget as financial management of regional government cash is explained as follows in Permendagri No. 77 (2020): BUD is obliged to prepare a regional government cash budget to regulate the availability of funds to fund financing expenditures in accordance with the fund withdrawal plan stated in the SKPD DPA; AKPD or Regional Government Cash Budget is a collection of monthly regional revenue and financing projections sourced from a compilation of all SKPD; Preparation of cash inflow estimates in the Regional Government cash budget, calculated based on revenue projections for sub-details of income objects and financing revenue plans for each month based on the estimated time of realization of cash receipts in the DPA-SKPD and the SKPD cash budget in the Revenue SKPD (Producing SKPD).

The results of the revenue projection calculation are in accordance with the sub-details recorded in the cash budget for financing receipts in the revenue plan for a certain period; The results of the financing projection calculations in accordance with the sub-details are recorded in the cash budget for financing payments in the revenue plan for a certain period based on the specified ceiling; The results of the expenditure plan calculation per sub-detail of expenditure objects and financing expenditures are recorded in a cash outgoing budget document which contains the total expenditure budget and financing expenditures for one year and the expenditure plan for each month; The results of the calculation of the expenditure plan per sub-detail of expenditure objects and financing expenditures are recorded in a cash outgoing budget document which contains the total expenditure budget and financing expenditures for one year and the cash budget expenditure plan for each month that has been approved by PPKD is used as the basis for preparing the letter of provision of funds; and The preparation of the cash budget contains information, data flow, as well as the use and presentation of documents carried out electronically.

3. Data and Method

The cash budget is one of the cash management systems implemented in Pandeglang Regency. The cash management system is aimed at achieving accountability and transparency in order to achieve good government financial governance.

This research uses a qualitative approach with a comparative qualitative method approach. Comparative research carries out an analysis of certain situations, cases, or groups (Moleong, 2018). The financial management situation of regional cash was analyzed by comparing before and after the implementation of the cash budget as internal control in cash management in Pandeglang Regency. This research has a methodological orientation in placing social life in a natural setting, namely experiencing, observing, describing, understanding, and analyzing parts of social life in situations that are actually free from scientific manipulation (Brewer, 2003).

The implementation of the cash budget is a social interaction involving several SKPDs. Holistic disclosure of the social interactions of cash management is a natural need in this research. The social interaction of cash management shapes internal control practices, as in the study by Lovita & Prabantoro (2019) and Lovita et al. (2020), which shows that internal control is a daily life practice by the members of the organization involved.

Data collection was carried out using observation, documentation, and interviews. Observations were carried out at the Regional Financial Management Agency, Pandeglang Regency, which is located at Jalan Ahmad Satriawijaya No.02. Documentation includes all procedures and documents related to the implementation of the cash budget. Interviews were conducted with several informants who were involved in carrying out treasury tasks in regional cash management. The table below shows a list of informants who were sources in the interviews.

Table 1. List of Informants

No.	Name	Informant (Actors)	Duties and Principals and Functions
1.	Mr. Yahya	Regional General Treasurer	Regional general cash management
2.	Mrs. Eros	Authority BUD	Prepare a cash budget
3.	Mr. Hasan, Mr. Amet, Mr. Irwan	Regional Treasury and Cash Division Staff	Member of the cash budget verification team
4.	Mr. Dais	Head of SKPD	SKPD Planning Department
5.	Mr. Ehu, Mr. Oca, Mr. Sunarto	Treasurer of Revenue and Expenditure SKPD	Budget realization department

The data analysis technique is carried out through the theme identification stage. Namely, the researcher identifies themes or patterns in each situation comparison. This data can include significant differences, similarities, or causal relationships between elements in the data. The next stage is interpreting the meaning behind the findings. Researchers try to understand the implications of these comparisons and explain why these differences or similarities arise. The final stage is reflection and validity; researchers should reflect on their interpretations and consider the validity of the findings. Understanding the context and position of the researcher is critical to ensuring comparative analyses remain consistent and relevant (Santosa & Hidayat, 2014).

4. Results & Discussion

Implementing a cash budget as one of the cash management mechanisms in Pandeglang Regency is necessary because it considers existing financial conditions. The following are several things that describe the existing financial condition.

Dependence on Transfer Funds

The 2019 - 2021 APBD structure shows that the Pandeglang Regency APBD has a very high dependence on transfer funds from the center, namely in the range of 66% to 85% of the total APBD. This data shows that financial management in Pandeglang Regency requires strict control, considering this dependency.

Changes in Fund Transfer Mechanism

Central government regulations since 2020 require several changes regarding the mechanism for transferring funds from the center. Changes to the central transfer fund mechanism include Special Allocation Funds (DAK), both Physical and Non-Physical, Profit Sharing Funds (DBH), General Allocation Funds (DAU), and Village Funds. The impact of the change in the transfer fund mechanism requires the Pandeglang Regency government to adjust the cash budget to align with the timing of central transfers to regional treasuries.

Impact of the COVID-19 Pandemic

Pandeglang Regency's Original Regional Income (PAD) began to feel the impact of the COVID-19 pandemic in 2020. This finding was shown by the decline in PAD in 2020 by 50% compared to PAD in 2019. As previously explained, the largest contribution to PAD came from the tourism sector, which experienced a drastic decline due to social restrictions implemented by the central government.

Cash Budget as Planning in Regional Cash Financial Management

One of the objectives of preparing the APBD is to produce guidelines that regulate income and expenditure patterns in regional government activities. Regulation of regional spending patterns is an effort to increase production, employment opportunities, economic growth, and community welfare. So, budget preparation is a guideline for managing state revenues and expenditures (PP RI No. 12, 2019).

Financial management of regional treasuries requires appropriate financial planning to balance the availability of funds and the financing that is realized. The Regional General Treasurer (BUD)

must be able to ensure this balance so that regional government operations can run optimally. Currently, cash budgeting is considered effective financial planning in the public sector (Cifuentes-Faura & Simionescu, 2023).

The existence of a cash budget can provide data regarding the availability of cash in regional general cash accounts. The cash budget is also able to create regional cash planning so that the amount of cash in the cash account is manageable, which indicates that there is a large amount of idle cash. Likewise, on the other hand, the amount of cash is manageable, which, of course, will disrupt the running of government operations as the party that provides services to the public (Aray & Pedauga, 2022).

Financial management through a cash budget requires each SKPD to submit a projection of cash needs. The projection of cash needs is, of course, based on the activities of each SKPD within one budget year, and each SKPD must be accountable for its submissions. Next, the Regional General Treasurer (BUD) will make a cash budget based on the submissions from 68 SKPDs throughout the Pandeglang Regency. The cash budget is the basis for assessing the financial realization of each SKPD. The cash budget will encourage harmony between projected cash needs and their realization because each SKPD is directly involved in its preparation. So, through the cash budget, regional cash management can be accountable.

Cash Budget as Internal Control for Regional Cash Financial Management

One of the objectives of internal control in the public sector is to achieve transparency and accountability in managing regional treasury finances (Mahsun, 2013; Lovita, 2022). This is intended to ensure that local governments provide optimal services to the community. Internal control in regional cash management is a trigger in controlling regional government activities, namely measuring, directing, and supervising all government activities to achieve efficiency and effectiveness (Windhani, 2019; Pitaloka. et al., 2020).

Internal control in Pandeglang Regency is formed through a cash budget mechanism. The existence of a cash budget requires that each SKPD Head understand the operational plans for the activities in his section well. The operational plan will be the basis for submitting a budget for planning funding receipts for the next period. Based on the operational plan submission of each SKPD, the BUD and Operator will prepare a cash budget after verification. Preparing a cash budget encourages synchronization between revenue estimates and withdrawal schedules; this has also been proven in research by Huda and Sho (2023). The final result is expected to be harmony between receiving funds and realizing activities in each operation.

Public sector internal control has been regulated in PP RI Number 60 (2008). So far, internal control through the cash budget mechanism has been quite effective. This is demonstrated by the realization of the 2020 APBD, which illustrates the amount of Surplus Budget Financing (SILPA). SILPA is the difference between the realization of budget revenues and expenditures during one budget period and the remainder of last year's budget, which can be carried over and used again in the following year. The 2020 SILPA is smaller than the 2019 SILPA. This shows that financing planning and its realization have run more harmoniously. As previously explained, this can be achieved because of a cash budget. The following table presents a comparison of the 2019 and 2020 SILPA amounts.

There is a significant difference between SILPA in 2019, 2020, and 2021. In 2019, SILPA reached a value of Rp. 129,326,110,147.85. Currently, cash management still needs to implement a cash budget. However, when the 2020 cash budget was implemented, the 2020 SILPA showed a value of IDR 65,042,032,194.32, a decrease of almost 50%. Likewise, SILPA in 2021 shows a value of IDR 67,693,356,298.74. It is hoped that implementing a cash budget in the coming years will reduce the value of SILPA to the current level. Low SILPA reflects effective financial planning and realization of activities, further indicating that the role of local government as a public servant can be achieved optimally.

Table 2. SILPA Regional Government Fiscal Year 2019 – 2021 (in rupiah)

Description	2019	2020	2021
Income	2,637,673,439,002.91	2,544,847,521,620.42	2,444,089,206,513.47
Shopping	2,595,969,523,903.00	2,541,213,697,516.00	2,508,612,245,198.00
Surplus (Deficit)	41,703,915,009.91	3,633,824,104.42	(64,523,038,684.53)
Net Financing	87,622,195,047.94	64,059,532,194.32	129,565,070,878.85
Remaining Over Budget Financing (SILPA)	129,326,110,147.85	67,693,356,298.74	65,042,032,194.32

Source: LRA Kab.Pandeglang

Implementing a cash budget requires the support of all related parties because it is closely related to the quality of human resources. The role of human resources in a unit of activities included in the cash budget is very determining. Heads of SKPD and related employees must understand the importance of regional cash management through cash budgets. Therefore, knowledge about regional cash management through the cash budget must be disseminated regularly and continuously to every employee involved in each SKPD. This socialization needs to be carried out with the consideration that several SKPDs experience changes in organizational structure every year or certain period.

5. Conclusion

Based on the data presentation and discussion above, the role of the cash budget is to manage and implement internal control in regional cash finances. This research draws the following conclusions:

The cash budget maintains cash balances in financing financing and projects effective and efficient actions in optimizing cash surpluses and shortages. Financing is adjusted to the cash balance required by the SKPD at the adjusted value and time.

The management of activities in each SKPD is well planned, from the ROK preparation to the report on the implementation of SKPD activities.

Cash budget management encourages BUDs to be able to measure the financial capacity of regional treasuries every month in calculating cash balances, especially those categorized as regional original income, such as bank interest and deposits.

Regional cash management planning is more measurable by implementing a projection system, especially the SKPD managing tied transfer funds so that the SILPA of tied funds is low at the end of the year.

SKPD understands the importance of transfer requirements and can evaluate each activity, thereby providing control if targets are not achieved.

As an internal control for regional cash management, the cash budget needs to be understood by all components of the government organization. The existence of integration in all components of regional government becomes a form of joint accountability to realize regional government goals.

Recommendation

The research results have illustrated the effectiveness of the cash budget as planning and internal control of regional financial management in Pandeglang Regency. The next important agenda is to measure the extent of local government compliance with the established cash budget. Next, measure the impact of compliance on achieving regional government financial and development goals.

Limitations and avenue for future research

Hopefully, this research can provide deeper insight into the effectiveness and impact of implementing cash budgets in regional government financial management and provide constructive recommendations for improvements. However, as is the limitation of case study research, the results of this research are limited to Pandeglang Regency. Future research can be developed by selecting several other regional governments implementing cash budgets as a comparison and learning material.

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