

Investigating accountability of state subsidies for political parties

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ABSTRACT

Regulations stipulate that a political party must prepare financial reports to facilitate sound financial management and accountability of the state subsidies it receives. However, its accountability remains problematic, raising a question: How do the related policies deal with the accountability of state subsidies for political parties? This study aims to evaluate issues related to accountability in the policies governing the management of state subsidies for political parties. This study is normative legal research. Within a meta-analysis framework, critical analysis of the relevant policies in the form of laws and regulations and other reliable sources of information is carried out. The study finds that the policies provide rules to ensure eligible political parties' right to obtain state subsidies and employ audit and administrative sanctions to enhance state subsidy accountability. Nevertheless, the policies still overlook important issues related to vertical accountability of political parties and government, horizontal accountability of government, internal control mechanisms, supervision requirements, and formal and material responsibilities by relevant in-charge parties. Moreover, the running audit practices do not provide much value for improvement. This study provides policy-makers with a new perspective on relevant studies so that the government will consider the comprehensive management of state subsidies for political parties by relevant in-charge parties before elevating the value of the subsidies.

KEYWORDS:

Accountability; internal control; policy; state subsidies; political parties

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INTRODUCTION

Since the advent of democracy, political parties have been the marker and principal support for democracy (Stokes, 1999). Makara (2009) reveals that political parties are perceived as the heart of democracy and essential to developing a country’s democratic climate. Therefore, to play their significant roles in politics and government, political parties need an impartial political playing arena, which is costly (Simandjuntak, 2021). Moreover, the ever-increasing resources required to run political parties’ functions have made money more significant in politics. Accordingly, although a large amount of money arguably becomes the biggest threat to democracy, it becomes an indispensable part of a democracy. Thus, political parties should have access to funds.

In addition, Muhtadi (2019) stated that more than one-third of Indonesian voters in the 2019 election were exposed to buying and selling votes, placing Indonesia in the top three countries with the most money politics in the world. This high cost of politics has led to low political integrity, which still needs to be solved (Muhtadi, 2019). These conditions have confirmed the growing body of literature indicating critical issues regarding political finance, which have resulted in an increase in corrupt politicians and increased public distrust of political parties and the government (Hopkin, 2004; Simarmata, 2018; Syarif & Faisal, 2019; Ratnasari et al., 2022).

Consequently, recognizing the challenges money poses to politics, government participation should address the issue of the erosion of trust and prevent people’s loss of interest in political life by providing public financial and nonfinancial support. Introducing state subsidies to political parties is considered one of the most fundamental developments corresponding to the government–political party relationship (Pierre et al., 2000) and a popular policy to support democracy (Supriyanto & Wulandari, 2012). In this case, the government’s support for political parties is intended to strengthen political parties’ effectiveness and freedom while seeking to settle issues of inequality, misconduct, and distrust in public institutions (OECD, 2016), in addition to incentivizing democratic participation as well (Reed et al., 2021).

In Indonesia, Law Number 2 of 2008 on Political Parties and its amendment has required that the government provide subsidies for national and local political parties. Therefore, establishing state subsidies for political parties has become one of the main sources of political parties’ income (Reed et al., 2021). Although their share is relatively small compared to other political party funding sources, state subsidies allocated for political parties steadily increase over time, as shown in Table 1.

Table 1. Allocation of State Subsidies for Political Parties from State and Local Budget during 2019 –2021

State Budget			Local Budget		
2019	2020	2021	2019	2020	2021
IDR 121.92 B	IDR 123.03 B	IDR 126.37 B	IDR 522 B	IDR 539.58 B	IDR 648.28 B

Source: BPK RI (2019, 2020b, 2021)

Moreover, as the main pillar of democratic systems, transparent, democratic, and accountable governance is necessary for political parties to positively contribute to improving the quality of democratic life. Consequently, political parties must show that the state subsidies they receive have been spent per the rules; this requirement emerged since the state budget management is expected to be accountable, transparent, and fair, manifested through preparing financial reporting mechanisms. Furthermore, Law Number 15 of 2004 on the Audit of State Finance Management and Accountability has required audits to ensure that state finances have been managed efficiently, economically, effectively, transparently, and responsibly, in compliance with laws and regulations.

However, contrary to the increased allocation of state subsidies, repeated problems are always identified while auditing political parties' financial reports on utilizing state subsidies (Alkam, 2018; Aprimulki & Halim, 2021). The Audit Board (Badan Pemeriksa Keuangan, BPK) has identified common findings on the incompleteness and invalidity of evidence of transactions and the inappropriate proportion of the use of state subsidies (BPK RI, 2020a). In addition, the malfunctioning of political parties-related policies remains widespread, indicating that the political parties' accountability is weak and underperforming (Hopkin, 2004; Kholmi, 2013; Susanto, 2017; Simarmata, 2018; Sukma, 2021; Ratnasari et al., 2022). On the contrary, the procedures and mechanisms for monitoring political parties' accountability have been considered the lowest in policy improvement for years (Sousa, 2005). For these reasons, Chelimsky (2007) acknowledges that, although it is in the public interest, it is not easy to achieve accountability in such political circumstances.

For many years, the Government of Indonesia has tried to regulate the accountability of state subsidies for political parties. Several policies, ranging from law to ministerial regulations, have been established. A tool developed by Transparency International to encourage political party financial system reforms revealed that the ambiguity of the regulatory framework related to political parties has created room for interpretation and abuse in addition to gaps in implementing good financial governance (Wibowo et al., 2011). Yanuarti (2019) adds that poorly designed regulations have exacerbated political parties and their financial management conditions. In contrast, Slater in Rahmatunnisa (2018), has observed that Indonesia, like many other developing countries, has weak accountability, and Indonesian elites have actively strived to avoid accountability.

These conditions have attracted the public's attention because people presume that a healthy democracy requires accountability. Furthermore, the population grows under democracy, and thus, it becomes increasingly crucial to identify problems that hamper the accountability of the state subsidies received by the political parties. For this reason, the gaps and disagreement in the governance of state subsidies allocated for political parties in existing policies must be investigated.

Several studies on the accountability of state subsidies for political parties, such as Pinilih (2017), Juliestari (2018), Natasyah (2019), also Aprimulki and Halim (2021), mainly elaborat-

ed on the roles of political parties to increase their management's capacity to promote transparency and accountability of the state subsidies they receive. Slightly differently, Alkam (2018) applied the State Financial Audit Standard 2017 and the internal control integrated framework developed by the Committee of Sponsoring Organizations to portray and analyzed the phenomena. However, within those recurring debates, there is one recurring problem of interest, i.e., even though the cardinal principles and bedrock of public finance have been applied in the management of state subsidies for political parties, the audits of the political parties' financial reports that focus on utilizing state subsidies have failed to improve the accountability of the state subsidies, as indicated by repeated audit findings. Considering these conditions, an interesting question emerges: "Have the existing policies related to state subsidies for political parties considered the accountability of state subsidies allocated for political parties?"

This study differs from previous research in three respects. First, following Yang et al. (2015), who claim that in a policy related to governance, internal controls carried out by the relevant in-charge parties play an important role in supporting accountability, authors examine policies related to state subsidies for political parties from the internal control and roles of the relevant in-charge parties using the three lines model developed by the Institute of Internal Auditors. Second, authors enrich Alkam (2018) with a new analysis of the distribution of formal and material responsibilities of related parties in the governance of state subsidies for political parties. Third, authors identify gaps and disagreements in policies related to state subsidies for political parties, which affect the audit practices and the value created by the audits. Consequently, following up on the recommendation by the Indonesian Corruption Eradication Commission on the need to elevate the value of state subsidies for political parties, this study will help public policy-makers design and develop policies to build oversight mechanisms on utilizing state subsidies by political parties as intended in the National Strategy for Corruption Prevention.

Public Policy

Perception and literature defining public policy are very diverse. Kadji (2015) states that the essence of public policy lies in continuous intervention by the government for the benefit of society. Meanwhile, Cooper in Islamy (2017) defines public policy as the solution to public issues, which comprises problems (issues) and their alternative solutions. Furthermore, Stone in Islamy (2017) adds that there are five types of solutions, namely (1) inducements, i.e., positive or negative incentives; (2) rules, i.e., several rules to follow; (3) facts, i.e., factual information or data used to encourage community group to do things in a certain way; (4) rights, i.e., granting particular rights for community members; and (5) powers, i.e., power given to policy-makers to improve the quality of policies they make. There are various typologies of public policy. In the Indonesian context, Nugroho (2017) divided public policy into four: formal policy, convention, statements of public officials in public forums, and behavior of public officials. Nugroho (2017) added that formal policy includes legislations, laws, and regulations that drive, make dynamic, anticipate, and provide space for innovation.

State Subsidies for Political Parties

Article 34 Law Number 2 of 2011 established that a political party's financial sources encompass member contributions, private legal donations, and state subsidies. Van Biezen (2003) stated that state subsidies must be allocated for political parties based on specific measurement criteria and principles. In Indonesia, state subsidies for political parties are considered government financial assistance, equitably distributed in proportion to the votes obtained by qualifying political parties occupying parliament seats at the central and local level in the most recent legislative elections. As required, central and local governments annually allocate subsidies for political parties. The provisioning of these subsidies is the manifestation of government affairs in developing democracy in Indonesia. This also follows the state and local budget's philosophy, which is intended to facilitate the state's interests and activities to achieve the government's vision and mission, among others, to enforce a democratic climate (Sukma, 2021).

Agency Theory

According to agency theory, a relationship is defined as when the principal delegates work for the agent (Figure 1), and information asymmetry may be figured out (Ittonen, 2010). From the democratic perspective, the fundamental premise is that citizens are the principals, and governments are the agents that undertake tasks delegated by the principals (Smith & Bertozzi in Twinomurinzi & Gharthey-Tagoe, 2011). Consequently, citizens can obtain information on the government's operations and delivery; thus, it is important to measure whether the governments perform tasks as intended by the citizens.

Accountability

Lindberg (2009) stated that when the power to make a decision is transferred and possible information asymmetry exists, certain mechanisms to ensure the agent's accountability should be in place within a principal-agent relationship. Therefore, accountability entails the agent's

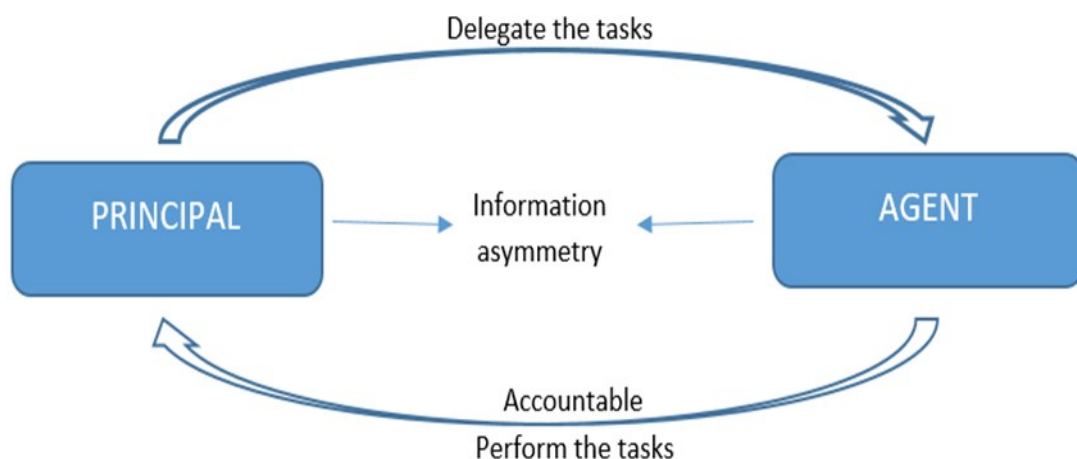


Figure 1. The Relationship between Principal and Agent
Source: Snippert et al.(2015)

responsibility to manage its resources and disclose activities related to utilizing the principal’s resources (Mahmudi, 2010). Bovens (2007) defined accountability as the interconnection between an actor (such as a public institution or an agency) and a forum (such as a parliament or audit office), in which the actor must account for and justify its activities, the forum scrutinizes the clarification and justification, and the actor may face some consequences based on the scrutiny. Accordingly, Guerin et al. (2018) added that accountability should foster improvement and prevent repeated problems or failure. Lederman in Rahmatunnisa (2018) stated that accountability would reduce problems related to information asymmetry between citizens (the principal) and governments (agents), which, in turn, would lead to fewer corruption cases.

Bovens (2007) states that when accountability mechanisms enter the administrative area, it is known as administrative accountability. Administrative accountability is crucial for executive public agencies, involving independent and external administrative and financial supervision and control (Bovens, 2007). Furthermore, Cendon (1999) posited that administrative accountability comprised vertical and horizontal dimensions. The vertical dimension connects inferior administrative positions to the more superior ones and exercises a set of internal mechanisms or procedures of control and supervision. Meanwhile, the horizontal dimension associates individual administrators and public administration (agents) with the citizens (principal) as real users or subjects of the service and with external control and supervision organs created for this goal, such as audit agencies and oversight bodies. The characteristics of administrative accountability are presented in Table 2.

Furthermore, administrative accountability typically comprises regular financial and administrative examinations that executive public agencies carry out because it is required by specific laws and regulations (Bovens, 2007). One of the administrative requirements to allow government structure and/or system to run optimally is by requiring public institutions using public money to be transparent with their spending by providing periodic statements that can

Table 2. Characteristics of Administrative Accountability

Points	Characteristics
Fundamental working principle	Compliance with legal standards (laws, regulations, rules, procedures)
Internal accountability (accountable to whom)	Superior administrative/political authority Superior administrative organs
External accountability (accountable to whom)	External control and supervision organs Citizens Court
Subject matter	Procedures and forms followed by administrative activities
Criteria	Formal/legal criteria (to examine compliance)
Mechanisms	Internal control and supervision External control and supervision Administrative requirement Judicial strategy
Consequences	Revision of administrative policies Recognition or sanction for personnel involved Redress for citizens

Source: Cendon (1999)

then be scrutinized, which is required for accountability (Maphunye & Motubatse, 2019).

Internal Control

Public spending can also be delegated to entities/agencies other than the government. Sevilla (2005) noted that the entities/agencies receiving a delegation of public spending should be responsible for managing the spending, including designing and implementing a sufficient internal control system. These entities/agencies are also subject to government and external controls. However, Sevilla (2005), noting that challenges regarding accountability would emerge, suggested that the government should overcome the challenges by maintaining a sufficient level of control over the entities/agencies receiving the delegation as well as ensuring that the entities/agencies would be accountable to the parent ministry/government institution. However, the Institute of Internal Auditors (IIA) has prepared three lines model to re-vamp the three lines of defense in 2020, as seen in Figure 2. This model determines the tasks of numerous parties within an organization and their cooperation to achieve sound governance and risk management.

As illustrated in Figure 2, management serves the first- and second-line roles for achieving organizational goals. First-line roles comprise (1) leading and directing actions (including risk management) and deploying resources to achieve organizational goals, developing and maintaining adequate structures and processes for operational and risk management (including internal control) and (2) ensuring compliance with laws, regulations, and ethical values. In addition, management runs the second-line roles to supply supporting competence, monitoring, and support, challenging the risk management process. Management also provides inquiries and reports on the sufficiency and efficacy of risk management and internal controls. These second-line roles exercise sufficient independence from daily operations, although they are not as independent as the internal audit function in the third line.

Internal audit plays a third-line role in supporting these tasks and serves the governing

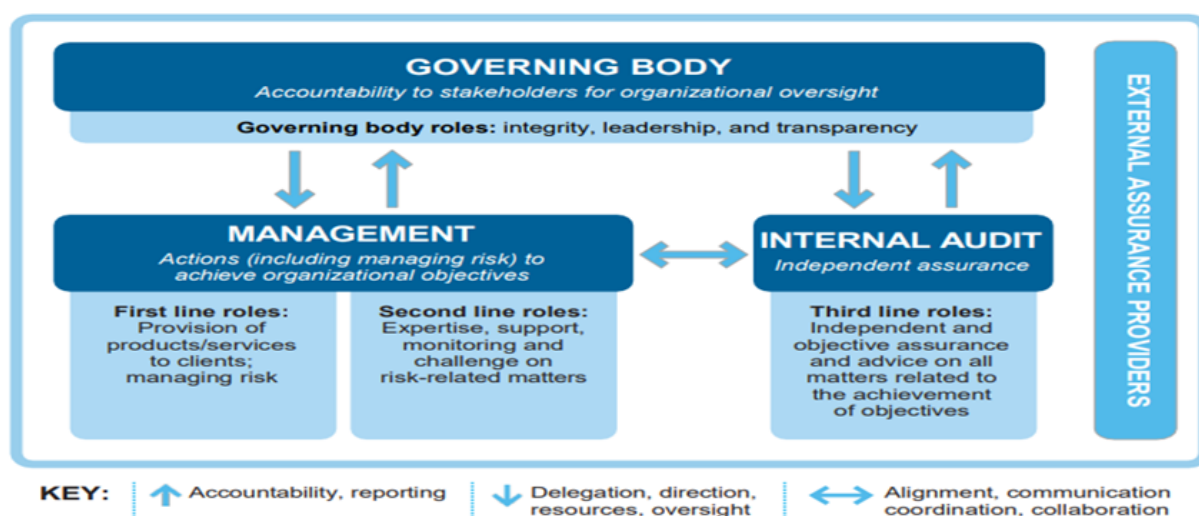


Figure 2. The IIA's Three Lines Model
Source: (IIA, 2020)

body with impartial advice and assurance on governance and risk management sufficiency and efficacy. Hadinata (2017) added that an internal audit's core function is to ensure that risk management activities have been running effectively to guarantee achieving organizational goals. That is, an internal audit maintains the accountability of risk management carried out by management. Meanwhile, external assurance providers are assigned to meet the expectations of legislative and regulatory provisions to safeguard stakeholder interests. Consequently, external assurance providers should not intervene in the internal control system but examine whether the internal control systems/procedures have been adequately designed and implemented. In this case, the third line and external audit provider ensure that the administration of public funding reflects the public interest (Wicaksono, 2015).

Audit and Three-party Relationship

Ittonen (2010) argued that control and auditing played significant roles in ensuring the accountability system's effectiveness. In this case, a country's Supreme Audit Institution (SAI), an independent audit agency, can carry out external control and be a reliable source of trusted and objective information (Berliner & Wehner, 2022). SAI can also bridge the gap between the public policies formulated by the government and their implementation by the delegated entities/agencies (Santiso, 2015). In addition, by relying on the internal control system designed and implemented by the entity, which is intended to ensure compliance with legal policies, SAI can improve the effectiveness of its audit (Wescott in Santiso, 2015). In this case, through an audit, SAI should ensure that the entity's internal controls, manuals, procedures, and policies are adequate, effective, and comply with stipulated requirements.

One important element of audit engagement in the public sector is the three-party relationship, which typically includes the auditors, the responsible party, and the intended users (INTOSAI, 2019b). The auditors have the responsibility to acquire appropriate and adequate audit evidence so that they can conclude to increase the intended user(s)' degree of confidence about the evaluation or measurement of a subject matter toward criteria. The responsible party refers to the executive branch of government, whether at the central or local level, and/or its underlying strata of public entities and officials which account for public fund management. The responsible party runs its authority under the legislature's control. Meanwhile, the intended user(s) are persons for whom the audit report is concerned. They can be parliament, government, and other parties with specific interests in the audit reports. The relationship among those three parties is illustrated in Figure 3.

RESEARCH METHOD

This normative legal research study uses a statutory and case approach. Normative legal research examines written laws from various aspects, including their philosophy, scope, material, consistency, articles, and legal language (Purwati, 2020). Furthermore, Ibrahim (2006) states that the statutory approach uses laws and legislation as the basis for conducting re-

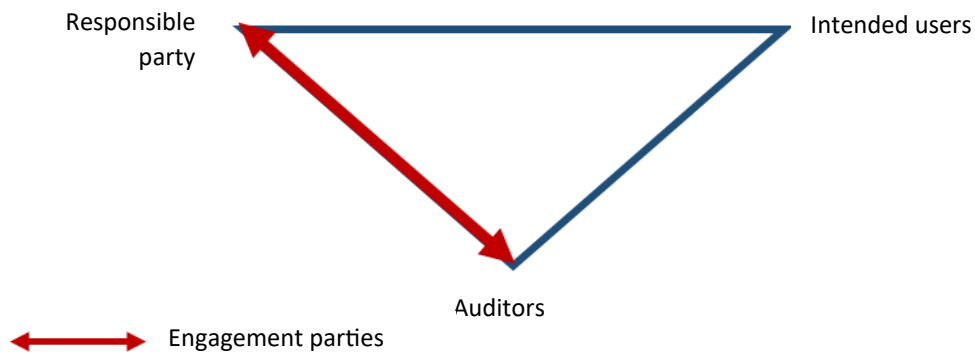


Figure 3. The Three-Party Relationship
Source: (BPK, 2017)

search. Meanwhile, the case approach is mainly applied by investigating accountability cases related to state subsidies for political parties.

According to Purwati (2020), normative legal research employs secondary data. Thus, this study includes secondary data comprising primary and secondary legal materials. Primary legal materials are laws and regulations that are authoritative. This study uses Law Number 17 of 2003, Law Number 1 of 2004, Law Number 15 of 2004, Law Number 2 of 2008, Law Number 2 of 2011, Government Regulation Number 60 of 2008, Government Regulation Number 5 of 2009, Government Regulation Number 83 of 2012, Government Regulation Number 1 of 2018, Minister of Home Affairs Regulation Number 36 of 2018, Minister of Home Affairs Regulation Number 78 of 2020, and Minister of Finance Regulation Number 228 of 2016 as primary legal materials. Secondary legal materials are related documents that support and strengthen primary legal materials. This study uses articles from reputable scientific journals, reports, books, and other pertinent sources relevant to the case.

Furthermore, Purwati (2020) added that normative legal research methods comprised setting the criteria, identifying norms and other relevant sources of literature, collecting norms and other relevant literature, organizing the collected norms and literature, also conducting analysis. Establishing criteria is important for reducing and narrowing the scope of the data. In this study, laws, regulations, and publications related to the accountability of state finance and state subsidies as well as internal controls, were the criteria for data selection. Once settled, related norms and literature were identified and collected. The primary legal materials were acquired from the BPK regulatory database and retrieved from the <https://peraturan.bpk.go.id/page>. The secondary legal materials were obtained from the internet and a literature review. Having been collected, the data were organized in the framework and systematically analyzed. The meta-analysis technique was undertaken to analyze several norms, literature, and previous studies relevant to the research subject. Donthu et al. (2021) stated that meta-analysis could be employed when the pivotal analysis focused on the link of the reviewed documents while also trying to uncover gaps or disagreements among the available documents or resources. The interpretations are then presented in the narrative description to answer the questions about the accountability of the state subsidies for political parties.

RESULT AND DISCUSSION

Understanding Policies on State Subsidies for Political Parties

The Government of Indonesia has allocated subsidies for political parties since the enactment of Law Number 3 of 1975, which regulates political parties and Golongan Karya. However, political parties spending that fails to reflect their main functions, as well as issues related to political parties' lack of financial transparency and accountability, have urged the Government of Indonesia to re-control and re-manage these state subsidies through the reformulation and revision of pre-existing formal policies, particularly regulations (see Appendix 1). As stipulated in the available policies, state subsidies for political parties are prioritized for political education, including seminars, workshops, interactive dialogues, and other political party meeting activities related to their roles and functions. The subsidies can also be used for political party secretariat operations, including administration, power and services subscription, data and archive maintenance, also office equipment maintenance. Moreover, the Government Regulation Number 5 of 2009 and its amendments and the Minister of Home Affairs Regulation Number 36 of 2018 imply that state subsidies for political parties-related policies must comply with four requirements, namely 1) conformity of the bank account used to receive the state subsidies with the political party's official bank account, 2) accuracy of the amount of the state subsidies received and reported, 3) completeness and validity of disbursement transaction documents, and 4) conformity of the state subsidies utilization priority.

Appendix 1 shows that policies on state subsidies for political parties have undergone several changes, particularly the derivative provisions in government regulation and minister regulation level. The leading adjustments relate to the amount of state subsidies and their utilization priority. In this case, Government Regulation Number 1 of 2018 has changed the utilization of state subsidies from at least 60% for political education to be prioritized for political education. This unclear setting leads to public questioning the possibility of achieving the goals of political education for parties' cadres and Indonesia. To date, public distrust in political parties' cadres indicates the failure of political education goals.

The formal public policies on the state subsidies for political parties presented in Appendix 1 represent government intervention, particularly to encourage a democratic climate and create healthy democracy in Indonesia. In this case, to achieve the intended goals, the government offers three alternative solutions: inducement, rules, and rights. Law Number 2 of 2008, Government Regulation Number 5 of 2009, Government Regulation Number 1 of 2018, and Ministry of Home Affairs Regulation Number 36 of 2018 provide a negative incentive, i.e., administrative sanction, for political parties late to submit their report to BPK. Meanwhile, other than Ministry of Home Affairs Regulation Number 78 of 2020, the policies in Appendix 1 include rules on managing and accounting for utilizing state subsidies. Furthermore, Law Number 2 of 2008, Government Regulation Number 5 of 2009, Ministry of Home Affairs Regulation Number 36 of 2018, and Ministry of Home Affairs Regulation Number 78 of 2020

explain the rights of political parties regarding receiving state subsidies.

State subsidies for political parties reflect the philosophy that the government should maintain fairness in a democratic system and that political parties play significant roles in political life. On the contrary, Article 1 point 1 Law Number 17 of 2003 on the State Finance specifies the state's rights and obligations that are worth money, as well as each thing in the form of goods or money used as state property due to the implementation of those rights and obligations as state finance. Furthermore, Article 2 letter g Law Number 17 of 2003 stipulates that state finance encompasses state/local assets administered separately or by other parties in the form of money, goods, securities, receivables, and other rights that have monetary value, including separated assets in state/local owned companies. Thus, subsidies for political parties are included in state finance's scope and can be defined as public money managed by an independent party (i.e., a political party), which is used to support achieving the government's vision and mission regarding the enforcement of the Indonesian democratic system.

Considering the status of state subsidies for political parties, the principal-agent relationship takes place within the framework of the citizen-government relationship. Citizens have the right to receive information on how government agencies operate programs or policies and deliver related services to develop Indonesian democracy, particularly using state subsidies for political parties financed by the state. Meanwhile, the government performs tasks to develop Indonesian democracy as intended by the citizens; in this case, political parties and society are the target groups. However, many different perceptions come from lawmakers and regulators regarding political parties' position in the principal-agent relationship. This is because political parties are private organizations separated from the government, yet they compete in general elections to obtain and preserve power over it (Reed et al., 2021). Therefore, some see that political parties are part of the principal-agent relationship.

Gaps and Disagreements of Policy Content Regarding Accountability Between State Subsidies for Political Parties and State Finance Policy Framework

As state subsidies for political parties are within the scope of state finance, their governance and accountability are subject to the jurisdiction of three laws, namely Law Number 17 of 2003 on the State Finance, Law Number 1 of 2004 on the State Treasury, and Law Number 15 of 2004 on the Audit of State Finance Management and Accountability. Under these provisions, the management of state subsidies for political party rests with the responsible government agencies/local apparatuses, i.e., the Ministry of Home Affairs at the central level and/or the National Unity and Politics Agency at the local level. Meanwhile, the eligible political parties are beneficiaries of the state subsidies and, thus, must utilize the subsidies as the provisions intend.

Therefore, when referring to a three-party relationship, within the context of audits of political parties' financial reports on utilizing state subsidies, the audit engagement should entail BPK's auditors as the auditors, the executive branch of government both at the central or local

level, i.e., Minister of Home Affairs at the central level or Head of the National Unity and Politics Agency at the local level, as the responsible parties, as well as head of government and parliament as the intended users. However, under current practices, which are carried out based on the available policies on state subsidies for political parties, the responsible party is political parties, while the Minister of Home Affairs and/or Head of the National Unity and Politics Agency serve as intended users. This shows disagreement between existing policies on state subsidies for political parties with policies on state finance.

Moreover, dealing with vertical accountability, even though Article 14 paragraph (3) letter h Minister of Home Affairs Regulation Number 36 of 2018 has requested the Head of Political Parties to prepare a statement of responsibility in addition to Articles 30-31 Minister of Home Affairs Number 36 of 2008 which have requested political parties to formally and materially account for the state subsidies they receive by preparing financial reports focusing on utilizing state subsidies, there is no explicit explanation about to whom the Head of Political Parties should be accountable for utilizing state subsidies within the internal party as well as the political party's internal control and supervision mechanisms to account for. Furthermore, there is no single policy related to state subsidies for political parties that deal with whom the authorized parties in the Ministry of Home Affairs and National Unity and Politics Agency should be accountable for managing state subsidies for political parties within the government structure. However, the provisions on vertical accountability can be found in policies related to state finance, for example, Article 18 paragraph (2) letter a Law Number 1 of 2004. This shows a gap in the vertical accountability of state subsidies for political parties and policies on state finance. In addition, public institutions' internal control and supervision mechanisms are mostly defined in Government Regulation Number 60 of 2008.

There have also been several provisions regarding horizontal accountability, such as those found in Article 34A Law Number 2 of 2011, which deals with political parties' responsibility for preparing financial reports focusing on the utilization of state subsidies and BPK's responsibility to audit the report as well as Articles 13-14 Government Regulation Number 5 of 2009 which regulates political parties' responsibility to deliver the audited report to Government, Governor, Regent, or Mayor with regard to their authority. Nevertheless, no single policy on state subsidies for political parties regulates the government's horizontal accountability for managing state subsidies for political parties. Thus, there is a gap in horizontal accountability on the government's responsibility on this issue.

Furthermore, considering the Government of Indonesia's political culture, the appointed oversight agencies should be independent and have a clear mandate to provide independent assurance and enforce existing regulations. Law Number 15 of 2004 and Law Number 2 of 2008 (amended by Law Number 2 of 2011) establish that mandate and authority for BPK to audit state finances, including state subsidies for political parties. However, there is no single policy profile governing state subsidies for political parties that regulates the role of the Government Internal Supervisory Apparatus (Aparat Pengawas Internal Pemerintah, APIP) in

this oversight function, underscoring the gap in current policies on APIP roles and responsibilities for ensuring accountability of state subsidies for political parties.

In addition, although BPK has been required by the law to audit political parties' financial reports focusing on utilizing state subsidies, there are no imposed sanctions on the political parties' malfeasances or for their failure to fulfill their obligations to utilize state subsidies as intended. As seen in Appendix 1, the available policies only regulate the administrative sanction for political parties late in submitting their reports to BPK. Regardless of the audit results and conclusions, the government should provide subsidies to political parties as long as they have submitted the report to be audited on time. This shows that the government has not paid serious attention to accountability issues, as the audit is not a key instrument for improving the governance of state subsidies for political parties.

Moreover, the administrative sanction for political parties is biased and has multiple interpretations. As the available policies imply, BPK does not conduct an audit in the relevant year when a political party is late submitting its report. Thus, political parties will not be able to meet the requirement to request state subsidies. Consequently, as a penalty, political parties will lose their right to receive state subsidies in the relevant fiscal year. However, Article 16 paragraph (1) Government Regulation Number 1 of 2018 and Article 33 paragraph (1) Minister of Home Affairs Regulation Number 36 of 2018 states that the administrative sanction will be given to the political party in the relevant fiscal year until BPK audits the political party's report.

Furthermore, paragraph (2) of those policies add that the audit will be carried out the following year. Thus, political parties assume they are still eligible to receive the state subsidies allocated in the previous years by the Ministry of Home Affairs and/or National Unity and Politics Agency in the year they submit their report to BPK. Hence, they submit their reports in the following fiscal year to BPK to be audited and use the audited reports to meet the requirement to request state subsidies (BPK RI, 2020a). However, the National Unity and Politics Agency argues that state subsidies have become political parties' right that should be given for their functions. Accordingly, the National Unity and Politics Agency would still transfer the state subsidies to respective political parties even though they were late submitting their report to BPK (BPK RI, 2020a). Thus, the bias has made administrative sanctions have failed to become a key instrument for disciplining the political parties. In contrast, even though the EU has no standards for political financing, they have strict reporting requirements and technical means for reporting and disclosing the funding received by political parties (Reed et al., 2021).

After Distributing State Subsidies for Political Parties, what is the Ministry of Home Affairs and National Unity and Politics Agency's Responsibility?

According to Article 18 paragraph (2) letter a Law Number 1 of 2004 within the context of

the governance of state subsidies for political parties, the Ministry of Home Affairs and/or National Unity and Politics Agency has the authority to examine the material truth and the validity of state subsidies for political parties' disbursement documents. Furthermore, Article 18 paragraph (3) assumes the material truth lies in the government officials who sign/ratify any documents used as the basis of government expenditure. Government officials are also deemed responsible for any consequences arising from using the documents.

Furthermore, Article 54 Law Number 1 of 2004 regulates the formal and material responsibilities of the Budget User and Proxy of Budget User on the realization of budget policies that are within their jurisdiction. Accordingly, it can be said that the Ministry of Home Affairs and/or National Unity and Politics Agency should be formally and materially responsible for the comprehensive management of any state/local budget under their authority, including state subsidies for political parties. In other words, problems in the design, distribution, utilization, and accountability of state subsidies for political parties should be within the Ministry of Home Affairs and/or National Unity and Politics Agency's control since managing state subsidies for political parties and their related issues have been included in the Ministry of Home Affairs and/or National Unity and Politics Agency's authority.

However, under the current policies, the Ministry of Home Affairs and/or National Unity and Politics Agency only serves the administrative function. They pay no heed to the formal and material responsibilities to ensure the validity of how state subsidies for political parties are used. Existing policies do not cover the formal and material responsibilities that should be fulfilled by the Ministry of Home Affairs and/or National Unity and Politics Agency for state subsidies for political parties. Instead of regulating the formal and material responsibilities of the Ministry of Home Affairs and/or National Unity and Politics Agency, Article 14 paragraph (3) letter h as well as Article 30 paragraph (1) Minister of Home Affairs Regulation Number 36 of 2018 have even shifted the formal and material responsibilities to political parties. Nonetheless, this Minister of Home Affairs Regulation also does not provide a clear definition and further explanation of those formal and material responsibilities, and thus frequently neglected. In this case, setting down formal and material responsibilities only to political parties and ignoring the Ministry of Home Affairs and/or National Unity and Politics Agency's roles create a gap of control that no one in the government has the authority to detect any noncompliance of the utilization of state subsidies for political parties. Besides, the absence of a clear definition of the head of political parties' tasks to accomplish their formal and material responsibility may result in weak accountability.

Internal Control Issues in the Governance of State Subsidies for Political Parties

Preparing sufficient control structures is important for public spending; thus, each level of government should promote and develop its control system (Sevilla, 2005). In the context of preparing financial statements, Article 55 paragraph (4) jo. Article 56 paragraph (4) Law Number 1 of 2004 states that ministers/heads of local governments, as Budget User/Proxy of

Budget User, should provide a statement on the adequacy of the internal control system over the state/local budget management. This article also requires that in-charge parties employ financial accounting based on government accounting standards. Furthermore, Article 2 Government Regulation Number 60 of 2008 requires ministers/heads of institutions/heads of local governments to establish internal controls on government activities so that state finance management is carried out efficiently, effectively, and accountably. In other words, internal control is mandatory in all government-related activities. Accordingly, the government must ensure that state and local budgets under their control are managed and comply with applicable laws and regulations.

Considering the three lines model, in the framework of the governance of state subsidies for political parties, the Ministry of Home Affairs and/or National Unity and Politics Agency exercises management functions and serves first-line roles. APIP serves a third-line function, and BPK provides external assurance. No second-line role is available in the governance state subsidies for political parties. Only a few government entities have a second-line function, especially in local government governance.

As the first line, the Ministry of Home Affairs and/or National Unity and Politics Agency should provide sufficient resources to manage state subsidies for political parties, ensure the risk management of state subsidies for political parties, ensure the state subsidies for political parties meet their intended goals and comply with applicable laws and regulations, and design and implement internal control of the management of state subsidies for political parties. Furthermore, APIP, as the third-liner, provides objective assurance and advice regarding the sufficiency and efficacy of the governance of state subsidies for political parties, risk management, and internal control systems/procedures designed and implemented by the Ministry of Home Affairs and/or National Unity and Politics Agency. Thus, the Ministry of Home Affairs and/or National Unity and Politics Agency (serving as first-liners) and APIP (serving as third-liners) should ensure that (1) political parties use their state subsidies in compliance with applicable laws and regulations, (2) political parties have met the intended objectives of state subsidies for political parties-related policies, and (3) party officials have prepared financial reports on the utilization of state subsidies based on the requirements before the report is submitted to BPK to be audited.

The available policies reveal the absence of those issues. As mentioned, the Ministry of Home Affairs and/or National Unity and Politics Agency only play administrative roles. They did not control whether the state subsidies for political parties were used according to the intended design and goals or whether preparing the report complied with the stipulated regulations. Besides violating Law Number 1 of 2004, this malfeasance results in inadequate risk management, potentially leading to repeated problems in the management and governance of state subsidies for political parties. Table 3 shows that although fluctuating, modifications in the audit conclusions are found in almost 50% of the audited reports and repeat from year to year.

In contrast, because the Minister of Home Affairs Regulation Number 36 of 2018 has made the political party heads responsible for the governance of state subsidies for political parties under their jurisdiction, the Ministry of Home Affairs and/or National Unity and Politics Agency should be interested in ensuring that the political parties have adequate internal controls to ensure the subsidies are used in compliance with the applicable provisions. This should be viewed by the Ministry of Home Affairs and/or National Unity and Politics Agency as an additional control to ensure compliance instead of replacing the Ministry of Home Affairs and/or National Unity and Politics Agency’s responsibility regarding internal control.

Furthermore, the responsibilities of the heads of political parties and the direct submission of political parties’ financial reports on their utilization of state subsidies to BPK for an audit should not necessarily remove the government’s and APIP’s obligation to carry out control and supervision functions. The Ministry of Home Affairs and/or National Unity and Politics Agency and APIP still play important roles in ensuring compliance and governance of the state subsidies applied by political parties and related government entities. When the government and APIP run their roles in the first and third roles, they become BPK’s counterparts in audit practices and restore the three-party relationship.

In comparison, the Minister of Finance Regulation Number 228 of 2016 on the Amendment of the Minister of Finance Regulation Number 254 of 2015 on Social Assistance Spending in Ministries/Institutions requires beneficiaries of government social assistance programs to prepare accountability reports. Article 40 states that the Budget User has the authority to establish general guidance on the distribution of social assistance programs, while the proxy of the Budget User has the authority to establish technical guidance on the management of social assistance programs. Moreover, this regulation also requires beneficiaries of social assistance programs to deliver accountability reports to the Commitment Making Officials, who are responsible for checking and examining those accountability reports’ compliance with the technical guidance on social assistance spending and cooperation agreement. This mechanism reflects the best practices and is consistent with the three lines model, which, unfortunately, has been missing in the policies related to state subsidies for political parties.

Moreover, the applicable policies on state finance have implicitly required the Minister of

Table 3. Audit Conclusion at Central and Local Level During 2019–2021

Year	Number Audited Reports	Audit Conclusion							
		Central Level				Local Level			
		Comply	Comply with Ex-ception	Not Com-ply	Disclaim-er	Comply	Comply with Ex-ception	Not Com-ply	Disclaim-er
2019	4,925	10	-	-	-	2,610	1,964	148	193
2020	5,087	10	-	-	-	2,819	2,119	98	41
2021	4,980	8	1	-	-	3,109	1,743	69	50

Source: *BPK (2019), BPK (2020a), BPK (2021)*

Home Affairs and/or Head of the National Unity and Politics Agency to implement adequate internal control systems for managing state finances within their jurisdiction, including state subsidies for political parties. The sufficiency of this internal control should be examined by APIP, which serves the internal audit function, before any accountability reports are submitted to BPK. Unfortunately, these two important supervisory and control functions from the first and third lines are absent in managing state subsidies for political parties.

In contrast, as part of the audit standards, the auditors should understand the audited entity environment and the adequacy of internal controls to design and implement the audit effectively. Accordingly, the auditors should test the control design and examine its effectiveness to meet the control objectives (BPK RI, 2017). The absence of internal controls design and implementation makes the auditors unable to test the internal control systems/procedures to determine whether the political parties' reports are prepared in compliance with the applicable laws and regulations. This arrangement put BPK at greater risk regarding compliance with utilizing state subsidies for political parties.

Problems Related to Direct Report Submission and Delay in the Value Creation of BPK's Audit

Article 34A Law Number 2 of 2011 mandates political parties to directly deliver their financial reports focusing on utilizing state subsidies to BPK to be audited within a given time as stipulated in the applicable regulations. After being audited, BPK delivers the audit reports to political parties respectively. Political parties, later, as regulated in the Minister of Home Affairs Regulation Number 36 of 2018, submit the audited version of the report to the government. Without considering the audit results, this audited report becomes one of many administrative requirements for applying state subsidies for political parties for the coming year.

This direct submission of the report from political parties to BPK happens due to misconduct in a three-party relationship. This condition may lead to two problems. First, the public may fail to understand that although being distributed to eligible political parties, government, both centrally and locally, is responsible for the money they delegate. Besides, the role of APIP and BPK will be biased in this issue due to the absence of policies on the role of APIP in the state subsidies for political parties' management cycle. Second, since the regulation has required political parties to deliver their financial reports focusing on utilizing state subsidies directly to BPK for an audit, the officials of some political parties often directly consult their problems when preparing the report to BPK's auditors (BPK RI, 2020a). The direct relationship between political parties to BPK and the absence of three lines roles at the operational level have consequently put BPK in the management function (i.e., to provide support and expertise on the relevant matters) and the internal audit function.

Compared to other government spending, the amount of state subsidies for political parties is quantitatively immaterial, when, in fact, Law Number 2 of 2008 and its amendment

has specifically required BPK to conduct an audit on the issue, making state subsidies for political parties qualitatively material. It means the government has emphasized state subsidies for political parties as an important aspect of developing a healthy democracy. However, this philosophy has yet to be reflected in the derivative policies. This, among others, can be seen in the available policies that only put audited reports as one of many administrative requirements that should be submitted when proposing state subsidies for political parties. Furthermore, the policies also neglect the audit results and provide no sanction for those who do not comply and have a disclaimer from BPK. The administrative sanctions are also frequently ignored because local governments have allocated state subsidies for political parties in their local budget (BPK RI, 2020a).

Notwithstanding the applicable regulations that require the BPK to audit political parties' financial reports focusing on utilizing state subsidies, abandoning the audit conclusion and results and the absence of consequences for noncompliance means nothing for improvement. Thus, the audits carried out annually have no improvement effect on political parties, as shown in the repeated audit findings during an audit assignment. In contrast, INTOSAI P-12 has stated that SAIs' existence is expected to provide value and benefit for the lives of citizens (INTOSAI, 2019a). Accordingly, the delay in creating value from the audits carried out by BPK contradicts INTOSAI P-12 expectations. A very different practice is shown in South Africa, when the Auditor General, at any time, can carry out audits on political parties' financial books, account records, and financial statements. Based on the audit results, the Auditor General of South Africa can provide recommendations for the South African General Election Commission to impose sanctions on political parties, such as fines, imprisonment, and the determination of government financial support (Surbakti, 2015).

CONCLUSION

The Indonesian government has paid serious attention to the role of political parties in supporting the growth of democracy. Accordingly, state subsidies are made for eligible political parties under the current laws and regulations. Policies have also been established for governing the management of political parties and the state subsidies they have received. However, several problems are found in those regulatory frameworks, particularly related to accountability of state subsidies for political parties.

First, there is no clear policy governing the vertical and horizontal accountabilities as well as distribution or segregation of duties regarding internal control and supervision mechanisms. Neither are there control and supervision mechanisms by the government and APIP to ensure that state subsidies for political parties have met the intended goals. Second, there is no formal or material responsibility from the Ministry of Home Affairs and/or National Unity and Politics Agency. Although the Minister of Home Affairs Regulation Number 36 of 2018 has required the heads of political parties to be responsible for the utilization of state subsidies for political parties, the government (i.e., Ministry of Home Affairs and/or National Uni-

ty and Politics Agency) should have risk management and internal controls to ensure that there are no inadequate processes, unexpected events, or control breakdowns in the management of state subsidies for political parties, in the Ministry of Home Affairs and/or National Unity and Politics Agency and in the political parties. Third, the policies mandating political parties to submit their reports to BPK for audit purposes directly have, in contrast, provided BPK with a greater risk. Fourth, the absence of clarity of roles of respective in-charge parties has led to ineffective operations for the Ministry of Home Affairs and/or National Unity and Politics Agency, political parties, and BPK. Fifth, since the audit results only serve as one of the requirements for political parties to obtain state subsidies in the forthcoming year, they have a minimal impact on improving the management of state subsidies for political parties.

However, good governance of state subsidies for political parties is undoubtedly possible. Consequently, considering the conditions mentioned above, government involvement in managing state subsidies for political parties should be improved through governance. Corrective actions for accountability and transparency should support these efforts. Revision of policy frameworks to accommodate the gaps affecting the management of state subsidies for political parties should be carried out. Additionally, employing proportionate, enforceable, and dissuasive sanctions and following up on audit results when BPK finds irregularities/noncompliance are also important for ensuing political parties' compliance.

Most importantly, the Indonesian government should institutionalize policies and systems that enable better transparency, accountability, and public scrutiny. In this case, the Ministry of Home Affairs and/or National Unity and Politics Agency should play roles to (1) ensure and evaluate whether the priority of state subsidies for political parties has been used for political education, (2) review the compliance/conformity of political parties' report with the applicable law and regulations, as well as (3) support political parties so that political parties can comply with the available provisions and regulations. Furthermore, by serving in first and second-line roles, the Ministry of Home Affairs and/or National Unity and Politics Agency can increase coaching, dialogue, and technical assistance regarding reporting systems and mechanisms. Disseminating and advocating the stipulated policies to political party officials can also be carried out periodically to provide parties with relevant knowledge and expertise. The government should also facilitate political parties' adherence to the available policies, regularly appraise monitoring and oversight systems and mechanisms, and ensure efficient, effective, and independent oversight functions.

Finally, a review of Article 34A Law Number 2 of 2011 can be carried out to put independent and accountable audit practices back in place. The review can include (1) the delivery of political parties' financial reports focusing on state subsidies (i.e., the report should be delivered to the Ministry of Home Affairs and/or National Unity and Politics Agency, not directly to BPK), (2) internal control systems/procedures by first, second, and third-line roles, (3) revocation of the clause stating that the audit reports only serve as an administrative requirement for disbursing state subsidies for political parties, and (4) BPK's independence to ar-

range the audit timeline and scope.

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APPENDICES

Appendix 1. Policy Profile of State Subsidies for Political Parties: Law

Policy Level	Details of Arrangement
Law Number 2 of 2008	
Article 12 letter k	The right of political parties to receive state subsidies
Article 13 letter i	Political parties' responsibility to submit financial reports focusing on utilizing state subsidies to the government after being audited by BPK
Article 34	State subsidies as one of the political parties' sources of funds Definition of state subsidies for political parties
Article 47	The Administrative sanction for political parties for being late to submit financial reports focusing on utilizing state subsidies
Law Number 2 of 2011	
Article 34A	<ul style="list-style-type: none"> - Political parties' responsibility to submit financial reports focusing on utilizing state subsidies to BPK to be audited - BPK's mandate to audit the report and deliver the audited report back to the respective political parties - Audit timeline for auditing the report

Appendix 2. Policy Profile of State Subsidies for Political Parties: Regulations

Policy Level	Details of Arrangement
Government Regulation Number 5 of 2009	<ul style="list-style-type: none"> - Provisioning of state subsidies for eligible political parties - Allocation of state subsidies for political parties - Submission and distribution of state subsidies for political parties - Utilization of state subsidies for political parties - Financial reports focusing on utilizing state subsidies - Administrative sanction for political parties for being late to submit financial reports focusing on utilizing state subsidies to be audited by BPK
Government Regulation Number 83 of 2012	<ul style="list-style-type: none"> - Policy change regarding the minimum percentage of utilization of state subsidies for political parties - Political parties' responsibility to submit financial reports focusing on utilizing state subsidies to BPK to be audited - Audit timeline for auditing the report - BPK's responsibility is to prepare a manual related to the report submission from the political parties to BPK and vice versa
Government Regulation Number 1 of 2018	<ul style="list-style-type: none"> - The changes in the allocation of state subsidies for political parties - The changes in the policy related to the priority of the utilization of state subsidies for political parties - The adjustment related to administrative sanction for political parties that are late to submit financial reports focusing on utilizing state subsidies (i.e., the administrative sanction is applied until BPK audits the report)
Minister of Home Affairs Regulation Number 36 of 2018	<ul style="list-style-type: none"> - Source of state subsidies for political parties - Procedures for calculating, budgeting, orderly administering the submission requests, distributing, and reporting the utilization of state subsidies for political parties accountably - Roles of Minister of Home Affairs, Directorate General of Politics and General Administration of Ministry of Home Affairs, Minister of Finance, head of local governments, political party leaders, political party administrators, as well as Team established by the Ministry of Home Affairs for verifying the completeness of administration requirements for requesting state subsidies for political parties - The roles of financial management officers at the local level as well as BPK in the governance of state subsidies for political parties - Administrative sanction for political parties for being late to submit financial reports focusing on utilizing state subsidies to be audited by BPK
Minister of Home Affairs Regulation Number 78 of 2020	<p>The adjustment in the utilization of state subsidies for political parties, particularly those related to political education due to the COVID-19 pandemic. This regulation also allows political parties to provide medical supplies or equipment for political parties' members and communities.</p>

