
SMALL-MEDIUM ENTERPRISES AND PUBLIC
SECTOR REPORTING AND GOVERNANCE

ANALYSIS EFFECT OF MEMBERS, SCALE COOPERATIVE AND TOTAL LIABILITIES REQUEST FOR EXTERNAL AUDIT AND IMPLICATIONS ON FINANCIAL PERFORMANCE OF COOPERATION IN EAST JAVA INDONESIA

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Abstract

The analysis showed that the member and cooperation scale impact significant effect on the demand for external audit services. Number of members is one of the factors that led to the convening of an internal or external audit voluntarily. Developing large-scale cooperative and the expected increase in the volume of transactions and errors may occur on accounting data and financial statements that it will lead to cooperative audited in order to obtain accurate information. Members had no effect on the financial performance. Total liabilities and demand for external audit services have a significant effect on the financial performance of cooperatives. The greater the amount of liabilities showed the better performance of these institutions because generally all work plans can be met. The need for financial reports are to be believed it is important to make a decision.

Keywords: *members, cooperative scale, total liabilities, demand for external auditing services, financial performance.*

A cooperative society constitute effort body that be composed of person an or Co-operative legal body with base its activity on a basic Cooperative principle and economy method to increase member life level on notably and its vicinity society, at a swoop as movement of people economy that by virtue of familiarity principality. A cooperative society have main characteristic that differentiates it by warms up effort any other which is mark sense double id (the dual identity of the member) on its member (Sitio, 2001:87). Cooperative member act as owner and at a swoop Cooperative service user (user own oriented firm) (Ropke, 1987). Guy et al. (2001:5) name a four factor which beget mark sense requirements will audit which is (1) complexities, (2) distances, (3) bias and motive of the publisher, (4) consequences. Meanwhile Carey et al. (2000) find that marks sense big requisition for service to audit because of its dwindling controls or owner observation to firm.

Observational result that did by Chow (1982), Tauringana and Clarke (2000), Susilowati (2001) prove that service requisition audits also be done by firm that have measure(size) big category firm, firm that have debt proportion is even greater in capital structure and firm that percentage its stock gained control by smaller manager to be compared with that henpecked by side other. Severally usufructs research already be done about whatever factors that regard an effort body ask for audit service, available inconsistencies usufructs research among observational the one with one another one. Observational result that did by Chow (1982) prove that factor that regard to see demand for first for service to audit external is size firm, totaled debt, and proportion ownership (ownership influences). Tauringana research and Clarke (2000) interpose that factor that regard to see demand for first external audit service on corporate little is size (turnover), ownership influences, and gearing. Meanwhile size (assets total) and liquidity ratio (liquidity ratio) don't regard to see demand for first to service audits external. Welter et al. (2001) word that requirement independent will audit or external audits on reverential financial statement marks sense four conditions, which is: the difference behalf(conflict of is interest), consequence(consequence), a completely is problem and effort(complexity), and for operation (remoteness). Susilowati (2001) also do research equal to Chow (1982) on firm that don't go public Indonesia, where is size factor, proportion leverage ownership and ratio having for to service requisition audits external. Sumanto observational result (2003) one that gets focus on corporate that don't go public Indonesia, name that bigger corporate, leverage (leverage ratio) and influential management perception to see demand for first external audit service, meanwhile proportion stock possession by management not ascendant to see demand for first external audit service.

By reason of the existence of inconsistencies research result among observational the one with is another as in the event size(size) Carey's terminological firm et al. (2000) are not influential to see demand for first external audit service. Meanwhile Chow (1982), Tauringana and Clarke (2000), Susilowati (2001) and Sumanto (2003) find that measure (size) firm influential to sees demand for first external audit service. To proportion ownership Chow (1982), Tauringana and Clarke (2000), Susilowati (2001) proving ascendant to see demand for first external audit service whereas Sumanto (2003) prove contrariwise. And marks sense distinctive observational variable that is utilized becomes background be done by this research. This research constitutes development of research that did by Carey et al. (2000). In this case researcher utilize research variable that equals variable that is utilized in research Carey et al. (2000).

Object in observational it is corporate one get to form Cooperative those are on East Javanese provincial area. Reason be chosen object this research because basically service audits haven't a lot of exploited by corporate one get to form Cooperative. Meanwhile reason be chosen a cooperative society since marks sense relationship idiosyncrasy in ownership a firm causes to arise it a question hits independency and professional in indigenous corporate management side outside firms. This research take research region selectively population which is Cooperative at Indonesian, and takes sampling at Javanese East because Cooperative amount at Javanese East quite a lot as much 28.774 Cooperatives of total Cooperatives at Indonesian 188.181 Cooperatives, besides Cooperative measure at Javanese East a lot of its Revaluation one sizable with effort Volume Rp. 23,836,095.70, so enough gets to represent to one research.

Review Literature

Cooperative Financial Performance

As on other cooperative firms also had to know the performance measurement tool, whether measured in terms of financial and management are governed by the regulations of the State Minister of cooperatives and small and medium enterprises of the Republic of Indonesia number: 14/per/m.kukm/xii/2009 on changes to the regulation of State Minister of cooperatives and small and medium enterprises. As on other cooperative firms also had to know the performance measurement tool, whether measured in terms of financial and management are governed by the regulations of the State Minister of cooperatives and small and medium enterprises of the Republic of Indonesia number: 14/per/m.kukm/xii/2009 on changes to the regulation of State Minister of cooperatives and small and medium enterprises number 20/per/m.kukm/xi/2008 about the cooperative health assessment Guidelines Save And Borrow Units Save Loan cooperative.

Request the Services an External Audit

With regard to decision making, users are more likely to trust information that comes from the audited financial statements. Things that cause the possibility that decision-makers would obtain information not reliable and not reliable so large, is as follows (Areens and Loebbecke, 1996: 8): a close relationship) between the receiver and the giver of the information. In modern times, it is almost impossible to obtain information decision makers business partners directly. Effort partner shall perceive to please by acquired information of side other. Information that doesn't be gotten direct of first side, well deliberate or even not, imprecise tend. b) Partialities and other motifs that background information giver. If information presented by party that have a purpose one in contrast to spontaneous taker aim, that information tend advantages to divide publishers information. c) excessive Data. Its wax is organizational cause crescent a lot of it effort transactions that be experienced. This also enlarge its register possible information which wide of the mark in book keeping because overlap it behalf among information. d) complex interchange Transactions. Progressively its complex intercompany transactions, so gets hard to be noted with every consideration.

Factor that Affect the Demand for Services an External Audit

Research that did by Chow (1982) prove that factor that regard to demand service will audit external be size(size) firm, full scale book debt(totaled debt), and proportion possession(ownership influences). Meanwhile Taurigana and Clarke (2000) in its research interposes that factor that regard to demand service will audit external on corporate little is size (turnover), share ownership is managerial, gearing ratio. Meanwhile size (totaled revaluation) and liquidity ratio don't regard to demand service will audit external. Susilowati (2001) doing research that equals Chow (1982) which is about analysis firm perceptions that don't go publics at territorial Javanese Intermediate to demand audit service, what do factor regard are size corporate, proportion leverage possession and ratio. Research that equals Susilowati (2001) done by Sumanto (2003) one that gets focus on corporate that don't go public at Javanese East. Sumanto observational result (2003) name that bigger corporate, leverage (leverage ratio) and influential management perception to demand external audit service, meanwhile proportion stock possession by management not ascendant to demand external audit service. It goes against to usufruct

research Susilowati (2001) one that names that influential ownership proportion to demand external audit service.

Carey et al. (2000) doing research about internal auditing service requisition and external audit on closed corporation. Observational object that is taken is closed corporation because closed corporation have big contribution deep a state economics. That research is done to enrolled closed corporation deep survey's data closed corporation at Australian. Observational result Carey et al. (2000) find that internal auditing requisition and external audit on closed corporation also being regarded by totaled debt, and owner influences (proportion of nonfamily management and the proportion of nonfamily representation on the board of director), size firm are not influential. It goes against to usufruct research already being done by Chow (1982) and Tauringana and Clarke (2000). Also goes against research result that did by Susilowati (2001) and Sumanto (2003). About Owner Influence one that is measured from stock ownership proportion, examination result Chow (1982), Tauringana and Clarke (2000), and Susilowati (2001) prove that stock ownership proportion by ascendant management to demand external audit service, meanwhile Sumanto (2003) prove that stock ownership proportion not ascendant to demand external audit service. Research Carey et al. (2000) about owner influence one that measured by outgrows it (1) management proportion non families in corporate, and (2) delegation proportion non families on board of trustees, resulting conclusion that equals researcher in advance that it having for to service requisition audits external.

Hypothesis

Research that did by Chow (1982), Nasir (1995) utilizing firm as object of research and ownership variable at proxy with corporate stock ownership. Chow's result (1982) for imponderable ownership because data limitation, meanwhile Nasir (1995) influential ownership variable to demand audit. Indira (1998) negative influential head count to demand audit, it can be caused since big head count not by itself cause asking Cooperative is audited because education limitation and member grasp about that audit is alone. Carey et al. (2000) doing empirical research has identified correlation among size firm is with bespoke to eternal's service and internal auditing. Literature points out a number cognitive explanation. Major hypothesis that is proposed is: H_1 : Members, Cooperative scale, Total liabilities significantly influential to demand External Audit service. Minor hypothesis that is proposed: H_{1a} : Members significantly influential to demand External Audit service. H_{1b} : Influential Cooperative scale significant to demand External Audit service. H_{1c} : Total liabilities significantly influential to demand External Audit service.

Cooperative health estimation made by qualitative approaching and also quantitative minimal 1 (one) year once through board meetings. Governing health estimation result is passed on to member in public via form letter or pasteboard, at longest 1 (one) moon of each governing faith term period as accountability of administrator to all member. Health estimation result formulated Cooperative reflect condition actually and according to situation at the site. Research that done by Bracker and Pearson (1990) betoken that little corporate manager have weakness in bring off its financial planning. Mostly their weakness lays in namby pamby ability to do analysis and statistical procedure, don't mark sense data unity and marks sense inaccurate in do financial performance measurement. To settle about problem that, Bracker and Pearson does examination to see if financial consultant service role indispensable for firm step-up. By compares among corporate

finance performance that utilize consultant service with that doesn't utilize evident consultant service that no difference corporate performance that significant among corporate one utilizes consultant service with corporate that does not utilize consultant service. Major hypothesis that is proposed is: H₂: Member, Cooperative scale, Total liabilities of the significant impact to financial performance Cooperatives. Minor hypothesis that is proposed is: H_{2a}: Member of the significant impact on financial performance Cooperative. H_{2b}: Influential Cooperative scale significant to financial performance Cooperatives. H_{2c}: Total liabilities of the significant impact to financial performance Cooperatives.

Service requisition audits to create financial statement that have relative information content valid, in mean can word reality condition about economy activity already been done by firm managements (agent). Research that done by Bracker and Pearson (1990) betoken that little corporate manager have weakness in bring off its financial planning. Hereafter Prasetyo (1999) testing auditor role to increase Cooperative independence. Its research result concludes that auditor tips concerning level independence a cooperative society. Research that done by Yuhertiana and Sofyan (2007) prove that was predicted available distinctive financial performances among a cooperative society that utilize Public Accountant Office service and a cooperative society that doesn't utilize Public Accountant Office service on A Cooperative Society Village Unit that is at Banyuwangi on year 1999 not evident. H₃: Requisition Audits significant ascendant External to Cooperative financial performance.

Methodology

Observational design

This observational design constitute causal research design. It because this research intentionally analyze influence among variables. This research is so-called explanatory research, since aims to word influence among variable through hypothesis testing (Malhotra 1999: 212 - 243).

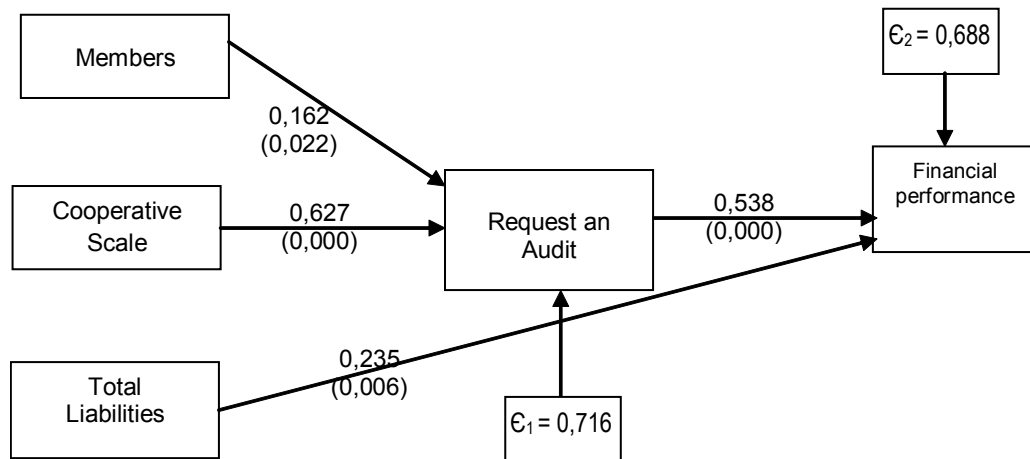
Population and Sample

Population in observational it is Cooperative at Javanese East one entire total 28.774. Sample take is done with tech non probabilities by methodic purposive sampling. Sample in observational it total 120 Cooperatives.

Results and Discussion

Path Analysis Model

Base structured sub result 1 and structure sub 2 get to be arranged by affecting trajectory models as follows.



Picture 1. Final Result of the Analysis Model

Hypothesis testing

Hypothesis testing in observational it did by sees point p, if point p smaller of 0, 05, therefore is said that exists influence that significant.

Table 1. Result Tests Hypothesis

Variable	Beta coefficient	p value	Information
Member	0,162	0,022*	H ₁ is accepted
Cooperative scale	0,627	0,000*	
Member	0,046	0,501	H ₂ is rejected
Total liabilities	0,235	0,006*	
Service requisition audits external	0,538	0,000*	H ₃ is accepted

* Significant statistically on level $\alpha = 5\%$

The Influence of Members to Audit Service Request

Cooperative members are individuals who become part of the cooperative in accordance with the requirements that have been determined. As a member of the cooperative is obligated to pay an amount of money for basic and compulsory deposits savings cooperatives. In General, members of the cooperative have economical relations with cooperative entered the order. The more economical relations between the members of the cooperatives with cooperative, the more likely the development of cooperatives. Therefore, each member in a cooperative society have liabilities and right for each. The greater Cooperative member, the greater Cooperative ability in manures or gather capital of member. Big Cooperative capital will push Cooperative effort developing. With gets its amends Cooperative not close possible more and more too about problem best to incredulous member to governing performance, sometimes in a Cooperative exists active Cooperative member and also passive Cooperative member. For member a cooperative society that active, indeed Cooperative member hopes to get more information a lot of about developing and financially Cooperative effort, but then for member a cooperative society that passive, Cooperative member will slightly have information hits developing and financially Cooperative effort, and also Administrator also have behalf any other in Cooperative management, which is besides to increase Cooperative effort but also have

wish for over welfare itself. To tackling that problem therefore needful audit on financial statement. Audit financial statement can be done by party internal and external. According to Haron et al. (2004) there is relationship among internal auditing by audits external, external auditor usually was trusting to internal auditing already being done by that effort body. Audit nonetheless external shall make an abode to do. According to Carey et al. (2000), head count constitutes one of causative factor be evened out of it internal auditing or ex gratia external. Member step-up at one particular Cooperative constitutes something Cooperative success indicator. Cooperative member increase indirect on a large scale, but Cooperative member increase is adjusted with competence Cooperative in service its member, since if a cooperative society can have crescent member a lot of but be not been escorted with competence Cooperative service to members it, therefore function of a cooperative society that was said not walking. This observational result consistent with Januarti research and Nasir (2006), Nasir (1995), but don't consistence with observational Indira (1998).

The Influence of Scale Cooperative Demand External Audit Service

Base analysis's result influential Cooperative scale significant to demand external audit service. This observational result in contrast to research Januarti and Nasir (2006) one that proves that scale Cooperative not ascendant to demand audit. Cooperative scale to demand external audit service so significant is caused because Cooperative gets big scale and effloresce will happen transactions volume step-up and fault maybe gets happening on accounting and financial statement data. It that cause why financial statement needs to be tested by independent external auditor, competence and good at understands to hit entities firm, transacts is accounting transaction and accounting system. This observational result really consistent with research that did by Carey et al., (2000), and Tauringana and Clarke (2000). Cooperative scale also pending big its little member a cooperative society since in member Cooperative under obligation same which is pay mandatory trove subject trove and liabilities participates active to Cooperative effort so with increases it member therefore Cooperative scale also the greater so influential Cooperative scale to demand audit.

The Influence of Members to Financial Performance

A cooperative society constitute effort body that be composed of person an or Cooperative legal body with based its activity on a basic Cooperative principle and economy method to increase member life level on notably and its vicinity society, at a swoop as movement of people economy that by virtue of familiarity principality. A cooperative society have main characteristic that differentiates it by warms up effort any other which is mark sense double id on its member. Personating Cooperative member owner and at a swoop Cooperative service user. Member is not ascendant to financial performance, as it were acknowledged member a Cooperative available active one in participates deep business activity a cooperative society available that don't active, that thing is reverential because member which outgrows be not been counterbalanced with active member role and participates deep Cooperative effort contribution and monitor performance of a cooperative society. Cooperative organization formed by a group person that bring off firm with which given by task to prop individual economy activity members it. It points out that one of Cooperative success is its success depend member, it pointed out by Cooperative member increase. Cooperative member increase indirect on a large scale,

but Cooperative member increase is adjusted with competence Cooperative in service its member, since if a cooperative society can have crescent member a lot of but be not been escorted with competence Cooperative service to members it, therefore function of a cooperative society that was said not walking with every consideration. Affixed principle in UU No.25/1992 section 5 sentences 1 that Cooperative management is done democratically and with that principle 1 member = 1 voice, therefore if more and more Cooperative member therefore will more and more too distinctive behalf in it so voice or member wish to push a cooperative society its performance better but if be not been counterbalanced with good participation therefore will tend no performance repair, including concerns to human resource quality instead of member e.g. low education zoom etc.

This observational result is Member to financial performance via bespoke audit is positive significant. Fathom a meaning is member regard finance performance, that more and more member therefore the greater Cooperative capital that is brought off, since Cooperative member increase also impacted to increase its capital corresponds to do bit member while comes in to become member Cooperative shall pay subject and mandatory trove that its amount with for each member, at the height member therefore that serviced getting crescent therefore that increase will enlarge turnover and Cooperative internal rate of return. But big member will take in about problem new because transactions and turnover step-up therefore then that governing performance and manager gets to make sure to that member that performance reporting correctness therefore needful service audits eternal. This finding back up Djumahir Et Al.'s research, (2002) one that proves that significant influential member to financial performance.

Influence Total Liability to Financial Performance

A cooperative society give Cooperative economy benefit to straightforward member and also indirect. Direct economic benefit which is economy benefit that directly been accepted direct by member a cooperative society in price benefit form that profitable divides member and flower benefit that advantages member, meanwhile indirect economy benefit as appreciative as Net Income which accepted by member. Direct economic benefit acquired while member does transaction processing with a cooperative society, meanwhile is indirect economy benefit is gotten on year-end binds books up to member utilize goods and also service that is at Cooperative. Existences economic benefit a cooperative society to member will give micro impact and also macro. Cooperative micro impact as increasing as service a cooperative society for effort group activity and or member family economy (both as consumer and also producer), and macro impact as development of Cooperative organization that can increase income and member and also environment welfare it. In the presence and its unmitigated Cooperative developing gets to give main benefit for member a cooperative society as fluency of effort, families economic stability, the need accomplishment member, productions yielding marketing, acquisition input/ production medium at the price that stable and is equal to.

Total liability influential liabilities significant to financial performance, it caused by its amends revaluation one Cooperative effect its crescent does bit will push about capital or financially institute progressively increase servant thus to member and its requirement progressively gets to be accomplished so it will impacted on increases it internal rate of return and liquidity also accomplished so thus will increase finance performance that progressively gets better or can independent in healthy category it if is seen from capital sufficiency ratio and internal rate of return and liquidity ratio. This research in contrast to

research which did by Djumahir, et al. (2001) one that proves that liabilities or debt can't measure performance zoom if well performance it or not because still burden of proof with level rate of interest which that paid shall. This the difference happening of view-point that proves that research Djumahir et al. see just on the side liabilities pay interest expenses on temporary that debt this research sees severally change relate with effect asset increase debt or liabilities. The greater liabilities amount point out that institute performance getting better since by and large all work schedule gets to be accomplished, obviously derived debt was planned in work schedule gets what fund who shall thru add short-range good debt and also long-term with notice cost zoom that will arise liabilities effect that wills be its responsibility.

Influence of External Audit Services on Financial Performance

Financial statement provides information that concerns financial position, performance and financial position change. Financial statement also points out what already is done management or management accountability on resource that is relied to her. Cooperative financial statement that is arranged bases PSAK, will make presented information as more perspicuous, having relevance, reliability, and has tall appeal energy. On the contrary if Cooperative financial statement is arranged not bases default and prevailing principle, can mislead its user. That that financial statement truth is believable therefore needed an accounting system that is equal to. One thing that so in financial management in each business (effort) as little as whatever it makes financial statement. This financial statement made by labor that understand book keeping or even an accountant from within Cooperative or a cooperative society gets also ask for help of following extern accountant its analysis. Will getting better and really it is better if forte accountant also henpecked by Cooperative supervisor. With understand this reporting gets to be known by happening deviation and enabling is to all the interested parties to assess effort and Cooperative finance situations thoroughly.

Presented financial information deep accounting a cooperative society sort benefit sides that straightforward or indirect interested. For member as owner of Cooperative interested ding to know presented information by Cooperative accounting, amongst those to know Cooperative capital developing, get what gain or acquired net income, division or SHU'S allocation for each one member, and gets what approximately gain and benefit point that will get Cooperative on proximately. Service requisition audits significant ascendant external to financial performance, it points out that requirement will financial statement is believable very essential to take a decision. Financial statement needs to be audited since marks sense distinctive behalf among wearing financial statement with management as side as accounts for two that financial statement collation. Financial statement holds to play a part essential in processes decision making by wearing financial statement. To the effect audit common to financial statement is subject to be give opinion statement if checked financial statement presents to the manner born, in any kind that gets material's character, according to principle accountancy knows firm condition as a whole, utilized basal developmental and planning, notably working condition completion, upgrade and job result, for management can know force and firm weakness so gets to increase firm developing, knowing situation and employee ability routinely, and pushes healthy reciprocal among superior and subordinate.

Mark sense financial management by side management of courses it evokes two be-

half's that variably which is organizer behalf in this case administrator and manager with owner behalf. Agency theory reveal that wishful corporate management party to laid at the door indigenous fund management side outer, but at any other corporate outer party flank wants to get information that reliable and gets trusted about fund management already be invested. Information important quality which be kept all deep financial statement is its amenity for shortly gets to be understood by user. This for the purpose, user assumed ding to have science that is equal to about economy and business activity, accounting and willingness to study information with fairly persistence. Information shall relevant to meet the need user in processes decision making. Information has relevant quality if get to regard wearing economy decision with helps manager to evaluate past scene, today, or future, bear out, or correct, result evaluates manager at past. That information utilitarian that reliable. Information has reliable quality if free of savvy which mislead, fault significant, and gets to be relied by its user as representation that devout or honest(faithful representation) of one necessarily being presented or that to the manner born expected gets to be presented. Financial statement user shall get to weigh with corporate finance reporting among period to identify trend(trend) position and finance performance. User shall also get to weigh with financial statement among a cooperative society to evaluate financial position, performance and financial position change relatively.

This observational result consistent with research that done by Prasetyo (1999) one that prove auditor tips concerning level independence a cooperative society. Yuhertiana and Donny (2007) prove no difference financial performance among a cooperative society that utilizes service Public Accountant office and Cooperative that doesn't utilize service Public Accountant office on Village Unit Cooperative that is at Banyuwangi on year 1999, also in contrast to finding Bracker and Pearson (1999) one that proves that manager performance on corporate one utilizes and not utilize financial service consultant is not different or no influence it its mean all the same.

Influence Member to Financial Performance Through The Audit Request

Influence Member to financial performance via bespoke audit is positive significant. This result according to hypothesis which declares for that influential member positive to financial performance but utilizes moderate or lasing factor which is eternal's audit requisition. This observational result points out that outgrows its member little that affect the will finance performance, that more and more member therefore the greater Cooperative capital that is brought off, since Cooperative member increase also impacted to increase its capital corresponds to do bit member while comes in to become member Cooperative shall pay subject and mandatory trove that its amount with for each member, at the height member therefore that serviced getting crescent therefore that increase will enlarge turnover and Cooperative internal rate of return. But big member will take in about problem new because transactions and turnover step-up therefore then that governing performance and manager gets to make sure to that member that performance reporting correctness therefore needful service audits eternal. This finding back up research Djumahir et al. (2002) one that proves that significant influential member to financial performance.

Cooperative Scale Influence to Financial Performance Through Audit Request

Cooperative Scale influence to financial performance via bespoke audit eternal is sig-

nificant, that matter is big its little revaluation a cooperative society really regards finance performance. This finding points out that outgrows its little revaluation will so influential to financial performance if that Cooperative institute is healthy or insanitary. Intention of this finding Revaluation what does little therefore service to member will its requirement of course be not maximal because facility limitation and about capital and its man resource, but if revaluation outgrows liquidity also big medium and facility about capital also big so member the need get to be serviced each while maximal service of course it will impacted to Cooperative developing, Cooperative human resource which qualified obviously will better in availability of its performance reporting. On eventually one scorpion that big or that little one it that affect the will finance performance required by reporting that valid, so in here needed service role audits eternal to check if its performance well or not good, that its cause sees dammed hell first eternal's audit service as variable as lasing in subjective scale a cooperative society to financial performance. This research back up that theory if crescent revaluation means will impact on gain step-up. But contrariwise in contrast to research result Djumahir et al. (2001) one that proves that revaluation is not significant ascendant to financial performance.

Conclusion and Suggestion

Member of the influential significantly to request external audit. Consistent observational result with Carey's research et al. (2000), head count constitutes one of causative factor be evened out of it internal auditing or ex gratia external, and consistence with observational Januarti and Nasir (2006) that significant influential head count to demand audit. This observational result don't consistence with observational Indira (1998) negative influential head count to demand audit, it can be caused since big head count not by itself cause asking Cooperative is audited because education limitation and member grasp about that audit is alone.

Influential Cooperative scale significant to demand external audit service. Consistent observational result with research Carey et al. (2000) one that prove empirical research has identified correlation among size (size) with requisition to eternal's service and internal auditing. Literature points out a number cognitive explanation. This research not consistent with Januarti research and Nasir (2006) one that finds that scale Cooperative not ascendant to demand audit. Cooperative scale to demand external audit service so significant is caused because Cooperative gets big scale and effloresce will happen transactions volume step-up and fault maybe gets happening on its accounting and financial statement data that will cause asking Cooperative is audited in order to get accurate information.

Member is not ascendant to financial performance, it was caused by member reducing participates in Cooperative business activity. This observational result don't consistence with observational Djumahir, et al. (2001) one that proves that head count influential to increases Cooperative independence in mean is Cooperative financial performance which be measured from health zoom flank Cooperative or Cooperative independence.

Total liabilities significantly to affect the financial performance of the cooperative. The greater liabilities amount points out performance institute that getting better since by and large all work schedule gets to be accomplished, obviously derived debt was planned in work schedule gets what fund who shall thru add short-range good debt and also long-term with notice cost zoom that will arise liabilities effect that wills be its responsibility.

This research in contrast to research which did by Djumahir et al. (2001) one that proves that liabilities or debt can't measure performance zoom if well performance it or not because still burden of proof with level rate of interest which that paid shall.

Requisition Audits significant ascendant External to Cooperative financial performance. It points out that requirement will financial statement is believable very essential to take a decision. To the effect audit common to financial statement is subject to be give opinion statement if checked financial statement presents to the manner born, in any kind that gets material's character, according to principle accountancy knows firm condition as a whole, utilized basal developmental and planning, notably working condition completion, upgrade and job result, for management can know force and firm weakness so gets to increase firm developing, knowing situation and employee ability routinely, and pushes healthy reciprocal among superior and subordinate. This observational result consistent with research that done by Prasetyo (1999) one that prove auditor tips concerning level independence a cooperative society. Indrawati and Donny (2007) prove no difference financial performance among a cooperative society that utilize Public Accountant Office service and a cooperative society that doesn't utilize Public Accountant Office service and finding Bracker and Pearson (1999) one that proves that manager performance on corporate one utilizes and not utilize financial service consultant is not different or no influence it its mean all the same.

To a cooperative society, expected by regular keeps or more increase its finance performance and gets to work equals auditor by give data and needed information by ala auditor is right and accurate so get to help auditor performance in does check. Expected by marks sense good collaboration among Cooperative management party with side auditor, therefore audit work can be solved by faster time.

Better Office service purpose Public Accountant not only been attributed to get Cooperative member trust, but quite a focuses on found note side auditors to be followed up serious ala, and taken by stage in point to fix fault or about problem aught. In this case more directed to by inefficiency Cooperative net-operating cost that high enough, one that really regards Cooperative profit.

Research findings show that members had no effect on financial performance, better member participates active in increase Cooperative performance, that participation which is capital participation, effort participation, decision making participation, and observation participation. That ability participates member deep cooperatives activity gets to increase therefore needs cooperatives counseling activity. This counseling activity slated to increase savvy about liabilities and right for someone as member as Cooperative and to give savvy about trick realization right for and performs that liabilities. Beside counseling also executed lighting activity with intent heighten society savvy in a general way about Cooperative.

Better Cooperative management party increase its performance via man resource step-up it's to be able to do efficiency in Cooperative management educationally Cooperative. To the effect Cooperative education be been gotten it quality man resource and gets conscience to back up Cooperative life that formative's ala, professional managerially and heavy duty economy ala.

For further researcher, similar research can be done by notices sample amount take that greater, total more variable a lot of, more period long time and also observational

method purpose that variably. Research hits factors and presumed whatever information's regard service requisition audit external and finance performance need more been done, as cost of audit, SDM'S management and quality perception Warms Up Supervisor so can perfect this research.

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UNDERSTANDING FINANCIAL REPORTING STANDARDS OF COOPERATIVE AND MSMEs: PHENOMENOLOGICAL APPROACH IN WEDORO INDONESIA

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Abstract

Cooperative and MSMEs (Micro, Small & Medium Enterprises) has supported the populist economic growth in Indonesia, requiring financial reporting standards for SMEs as a business language that is transparent, accountable, auditable, bankable and able to compete in a global world based on the principle of kinship and mutual cooperation.

Several Cooperative and MSMEs still have not been able to prepare financial statements, which resulting in the difficulty of bank financing. Therefore, the purpose of this study is to determine how far the level of understanding financial reporting standards for SMEs, and how its accounting practices and constraints associated with the application.

We use a phenomenological approach to capture the phenomenon of social behavior in understanding the financial reporting standards for SMEs. We have some of the findings that the informants to make only financial records and accounting considered unimportance, because it was thought that the important thing is being able to sell the product instead of making financial reports. We want to provide recommendations to the IAI (Indonesian Accountant Association) to formulate a more modest financial standards and in accordance with the needs of cooperative and MSMEs, so that the informants will be able to prepare financial statements accountable, feasible, auditable and bankable.

Key words : financial reporting standards for SMEs, Cooperative and MSME, Phenomenology

INTRODUCTION

Cooperatives and MSMEs (Micro, Small & Medium Enterprises) has supported the populist economic growth in Indonesia, requires financial reporting standards as a business language that is transparent, accountable, auditable, bankable and able to compete

in a global world that is based on the principle of kinship and mutual cooperation. The standard used is a financial reporting standard for SMEs, but in practice its understanding is still low, so it has not been able to make the financial statements. This condition leads to the difficulties of bank financing

Martani, (2007) banking difficulties in providing working capital to cooperatives and SMEs, because is not able to make financial statements. IAI, (2010) competency of human resources low at the cooperative, thus from 166 thousand of cooperative, only 60% make the annual meeting of the members while 40% did not, because the organizers are not able to make financial statements. Airlangga, (2012) suggest to IAI to make simple financial statements for microfinance institutions. <http://akuntanonline.com>

Beck, et al (2008) the banking credit on SMEs in developing countries is very low. Abeygunasekera & Fonseka, (2012) said that SME in Srilanka doesn't agree with IFRSs. Mandilas, et al (2010) IASB must adjust to the SME environment in Greece. This condition is trigger, used external accountants with the way outsourcing. Jayabalan, (2009), Kamyabi &Devi, (2011) lack of expertise in the field of accounting, then the SMEs in Malaysia burdened cost of outsourcing transactions. Kaymaz & Karaibrahimoglu, (2011) although the facing severe constraints in the practice of IFRS for SMEs in Turkey, but was able to make cost savings.

The phenomena and results of previous studies, has provided a good overview of the financial standards that have been decided. The result is that the ability of cooperatives and SMEs arising from the implementation of financial reporting standards for SMEs still low and used of quantitative research methods. Based on this background, the research question is how an understanding of financial reporting standards for SMEs as a guide in the preparation of the financial statements of cooperatives and SMEs, and how accounting practices in financial reporting cooperatives and SMEs, and the how constraints related to financial reporting applications of cooperative and SMEs. The purpose of this study was to determine the extent to which the level of understanding of financial reporting standards for SMEs, and to know how accounting practices as well as to determine the constraints associated with the application.

This study used a qualitative research method with a phenomenological approach. The authors use this approach because it wants to know of social phenomena the behavior of Cooperatives and MSMEs in implementing financial reporting standards for SMEs. Location of the research on industrial craftsmen of shoes and sandals Wedoro Sidoarjo. This location chosen with the reason that this region as a producer of excellent products in the Sidoarjo. (Department of Industry and Trade of the Province of East Java, 2011). Faisal, (2008) Wedoro be one alternative shopping places travelers. Thus, the Wedoro as potential region industrial centers and of course many require capital additional to develop their business, but to see the reality there are difficulties when applying for a loan to the bank, because can not make the financial statements. Mahmudi, (2006) production rate in Wedoro Sidoarjo influenced by capital factor rather than labor. Martani, (2010) stating the difficulty of financing from banks to SMEs, because not able to make the company 's financial statements.

This paper will be written in six parts, the first is the introduction, part two the literature review, part three research design, part four findings, part five discussion, and part six conclusions

LITERATUR REVIEWS

Stakeholder defined as a group or individu that can influence and be influenced in organization, Freeman, (1984). Ullmann, (1985) an organization would choose stakeholder that is important and do something that could result a good relationship between enterprises and stakeholder. Cornell & Shapiro, (1987) give a statement that an enterprise as nexus of contract which used investor and non-investor as the stakeholder in the enterprise. Gray, et al (2001) stakeholder is a factor in an enterprise that can influence or be influenced such as, people, workers, government, supplier, market and so on. The conclusion is that every organization has the responsibility to make the stakeholder value by having a good relationship and can give benefit to each other. Balza and Radojicic, (2004), an enterprise could focus on the stakeholder when it could fulfill the need of the stock holder and the group which would get involved. Ghazali & Chariri, (2007) stakeholder theory said that an enterprise does not only get entity for its need, but it also could give for its stakeholder (shareholders, creditor, consumer, supplier, government, citizen, analyzer and some other).

Based on those opinions, it can be concluded that in the stakeholder theory, an enterprise will always make a contract with the parties to do the activities and they will give benefit to each other. This theory can be applied on the cooperative entity, because the entity has already had the moral responsibility business ethic to give the report of the job to its stakeholder, namely MSMEs, government, supplier and creditor. Cooperative member has two identities, that is member as an owner and also the user of cooperative service. (statement of financial accounting standards number 27. Revision 1998). Explanation of SMEs there are in UU No. 20, 2008 and there is a written contract between the cooperatives and SMEs which legalized in basic budget and households, and was decided in the annual meeting of members.

The fact there are capital support through the revolving fund of the department of Cooperatives and MSMEs in East Java (Sukarno, et al 2008). In 2002 to 2009, a program called "Gerdu Taskin" and in 2010 to 2011 a program called "Gema Sejahtera" (Suhartini, et al, 2012). As a form of moral responsibility, cooperative must make the financial statements and reported at the annual meeting of the members, while SMEs have to report its activities to the cooperative. However, it would be a problem when Cooperatives and SMEs are not able to make financial reports and when applying for a loan to the bank to seek additional capital.

Financial reporting standards for SMEs have advantages for cooperative and MSMEs in making financial statements, resulting in a report that is auditable and used to get a loan from a bank. Compare with GAAP-IFRS, financial reporting standards for SMEs easier to use and can provide the accuracy of information in the financial statements. IFRS is the target of SMEs (Martani, 2011).

Mandilas, et al (2010) IASB should check back and consider the standards in SMEs. Abeygunasekara & Fonseka, (2012), the cost to study accounting, knowledge and competence, lack of qualified workers, has a correlation with the lack of success in applying accounting standards. Jayabalan, (2009), Kamyabi & Devi (2011), outsourcing is a good option for SMEs to remain competitive, and accounting information can be used to have better management. Kaymaz & Karabrahimoglu (2011) is integrated in the globalization of the world economy and IFRS is not just for big companies, but also for SMEs, and although there are many obstacles in the application of IFRS, but can minimize costs significantly.

Several studies of SMEs in Indonesia, Nantu, (2012) distinguishes between the perception of public accountants and management accountants to financial reporting standards for SMEs at KAP and BPR in Makasar. Mahmudi (2006) production rate in Wedoro Sidoarjo influenced by capital factor rather than labor. Imamah (2008) Business Development Services have a role in the development of small and medium enterprises in Wedoro. Marbun (1993) in Sakur (2011) on SMEs no regular bookkeeping such as balance sheets and profit and loss. Pinasti (2007) SMEs do not have the records and bookkeeping for their business continuity and assumes that the accounting process is not very important to be applied.

Arikunto (2009) understanding is how one maintains, differentiate, expect, explain, expand, conclude, generalize, give examples, write back and estimate. Referring to the opinion of the definition of understanding, the purpose of the study is to examine how far the level of understanding of the application of financial reporting standards for SMEs to Cooperatives and MSMEs.

RESEARCH DESIGN

This research is qualitative, phenomenological approach. Creswell (1998), a phenomenological study describes the meaning of life experiences some people about a concept or phenomenon. Thus a phenomenological study, researchers tried to explore the values in someone life experience. In this case, how the informants experience in understanding the concepts of financial reporting standards for SMEs as a guideline in making financial reports, with the constraints that it faces. Orndorff (1998), phenomenological is a good approach. He also said that the German philosopher Edmund Husserl, opinion his that the phenomenological approach is a process that might be seen from of observer perceptions.

This study is done at Cooperatives and MSMEs in a shoes and sandals industry, Wedoro, Sidoarjo, and also with some organizations that support the process, such as Departement Cooperatives and MSMEs Sidoarjo, and BRI (Bank Rakyat Indonesia). The analyses unit used as an informan for the research is the Cooperative committee, the Cooperatives and MSMEs manager, the officials of Departement Cooperatives and MSMEs Sidoarjo, and also employees BRI credit department. They are chosen because their task related to the understanding of financial reporting standards for SMEs as an orientation to make the financial statements for the Cooperatives and MSMEs

The sample selection is done by using snowball sampling method means the amount of sourced data from informants who initially little and yet able to provide satisfactory data, it will look for another informant chosen to saturation, in order to gain more accurate data. Bogdan and Biklen (1982) in Sugiyono (2010) snowball sampling technique was selected sample units increasingly directed in line with the focus of research.

The collection of data by observation participating, depth interviews and documentation. Observations made by involving of researchers participating in the activities of informants. Interviews conducted semi-structured and informal in a variety of situations, to be able to collect data that is more natural and not stiff. The goal is that informant described her experience is freely, until the same data is obtained. With help a tape recorder, to record any interviews. The next with help digital camera to document each document and research activities. After the all the information recorded in the field are collected and classified which has the same meaning, which aim to capture the phenomenon of research..

Test data quality, first, the credibility (internal validity) with the extension of the observations, the increase in persistence, triangulation, peer discussions, negative case analysis, membercheck. Second, transferability (external validity) indicates the accuracy or application of research results to the population in which the sample was drawn. Third, dependability (reliability) conduct an audit of the overall research process by using the independent auditor. Fourth, referred to as test confirmability research objectivity. This means that the results of the study have been agreed upon by many people. (Sugiyono, 2010).

Steps of data analysis in the study of phenomenology, Creswell, (1998): 1). Describe a personal experience of the phenomenon under study, it is an attempt to put aside personal experiences in order to remain focused on the research subject; 2). Horizontalizing data, which makes a list of statements critical of the subject, so as not to repeat; 3). Meaning units, which took statements of the horizontalizing process then combine in a meaningful units; 4). Textural description, which describes the experiences of the subject; 5). Structural description, which describes how the experience can occur; 6). Composite description, the essence of the subject experience with combining the textural description and Structural description

FINDINGS

The informants who described their experiences and answer questions consisting of: 1(one) committee cooperatives, 5(five) owners or managers of SMEs, one(1) supervisor at the Department of Cooperatives and SMEs Sidoarjo, and one(1) employee of BRI from the credit for SMEs, so that there are eight(8) in all. The sampling technique using snowball sampling so that the time until the informant to 8(eight) are already considered saturated, which means that new informants were not able to provide new information. Boyd(2001), 2(two) to 10(ten) informant was enough to achieve the saturation of data.

In this study, data quality tests were conducted as suggested by Sugiyono, (2010). By direct observation of the activities carried out by the informants when conducting production activity, transactions with customers and when they're making financial reports. Triangulation is done to examine the data from several different informants, and then the data is classified according to the same or different meanings of view in order to avoid overlap. This is done to get a conclusion.

The research problem, is how to understand financial reporting standards for SMEs as the orientation to make the financial statements in Cooperatives and MSMEs, and how to apply accountancy in making the financial statements and also to know the obstacles related with financial reporting standards for SMEs, it needs to be studied first definition of understanding itself.

Cooperative and SMEs said performers understand and properly apply the financial reporting standards for SMEs, if the offender has been given the socialization of financial reporting in accordance with financial reporting standards for SMEs (according to that proposed by Chaniago, 2002). Socialization has been done by the department of cooperative and MSMEs Sidoarjo. This statement is said by one informant 1 as Head of Institutional Business Development of Cooperatives and SMEs in the Ministry of Cooperatives and MSMEs Sidoarjo:

“.....for Cooperative committee.....the financial reporting standards for SMEs has already been socialized to 50 Women's Cooperatives on January 2012, but for MSMEs.....not

yet....there is no budget for that, and that is the responsibility of Cooperative to give the training for the members... and the budget is from net income.....”.

This statement emphasizes that Cooperatives and MSMEs Sidoarjo has already socialized the understanding of financial reporting standards for SMEs through training in order to make a Cooperative is able to make the financial statements based on the financial reporting standards for SMEs, even though in this case MSMEs has not got the socialization because of the limited budget in Department Cooperatives and MSMEs Sidoarjo.

Before the financial reporting standards for SMEs declared officially, in January 2012, the financial statements in the cooperative standards have been written in the statement of financial accounting standards number 27. But in reality both the standards still a new thing for Cooperatives and SMEs. As recommended by the first informant, the interview done to informant 2 as the Chief of the Women’s Cooperatives Wedoro Makmur Sidoarjo, that has been legal entities in 2010:

“.....I have never hear about the statement of financial accounting standards number 27 or financial reporting standard for SMEs ... but in March 2011 there are business training with material about savings and credit cooperatives and cooperative financial statement and until now I am still confused and can not make the financial statements by myself....I just note all transactions..”

Then the interview was continued, to collect information regarding the number of members and the nominal value of the loan:

“.....is now,... Cooperatives members around 101 person, with the type of business as craftsmen shoes and sandals, traditional medicine sellers, fruit sellers, owners of boarding houses, food vendors and ... at first the government give grant funding of 25 million ...and each member receive a loan of 650 thousand dollarsbut now I’ve been able to deliver 5 million for good business and it can help when there is a problem to get a loan from a bank....”

Clarified by Informant 3, as a member of Cooperative said :

“I am as a first member of Cooperative in 2010 , got a loan 625 thousand.... but now in 2012 I can get loan 5 million..... it is good to add my profit for my sandals business, I have never ask for a loan to a bank.... people say, it is difficult to get a loan to the bank.... I just come to this Cooperative ...that doesn’t need complicated requirements, even though the loan is not so big...”

Based on those statements, the understanding of financial reporting standards for SMEs as a financial orientation on the Cooperative entities is still low, and this will effect accountancy applied in this entities, that is they just make recordings but do not make financial statements.

Financial reporting standards for SMEs that are used as a standard of financial reporting Cooperatives and SMEs, still do not give a satisfactory result. This statement is said by informants 4, as Chairman of the Association of shoes and sandals in Wedoro Waru, Sidoarjo:

“..... I am not a member of the Cooperative ... and I have never heard of financial reporting standards for SMEs and I record all transactions ... but simple ... (while showing some notes) ... I do not make the financial statements I do not have time for it complicated “

As what he said, Informant 4, he has never heard about financial reporting standards for SMEs and he just makes some recordings. This statement is also said by Informant 5.

".....Never....I have never heard financial reporting standards for SMEs,..and when the first time I made this business...for every bill,.. I always made records on my book (is shown an old book and faded)...but now I have never made records anymore..... nobody has time for it..."

Clarified by informant 3:

".....I have never heard about financial reporting standards for SMEs since I did this business.....I write all the transactions...like the list of my customers, the salary of my employee, how much money I get....I write it all on my book..."

Based on the statements above, some MSMEs in Wedoro Waru, Sidoarjo have never known about the financial standard named financial reporting standards for SMEs, so the understanding of financial reporting standards for SMEs is still low. And it will effect the accountancy system in the MSMEs, they only write the financial whenever they have transaction. As mentioned by informant 6:

..... "I never record the transaction, it is quite complicated, ... and I don't have time to record all the bills (while showing some bills are put on the table)"

It also happens to informant 7:

".....I never record the transaction too,.....I am busy with other activity,.. I do many thingslike,..ordering, buying material , delivering the goods to some stores.. etc.....busy..."

Based on the statement above, it can be concluded that SMEs do not ever make the financial statements and even bills are not stored properly. In fact, the problem will arise when Cooperatives and SMEs need a loan from the bank as one of the requirements must submit financial statements. Martani (2010), the bank will not lend when Cooperatives and SMEs do not make the financial statements. But it does not affect the informant 4, when he said:

"... I have asked for a loan to Bank BRI, and requirements SIUP, TDP, TIN, Marriage Certificate, KSK, the bill 3 months ago, warranty a house certificate (> 100 million), Petok D (<100 million). ... do not need to attach financial statements, because the bank can help make financial statements of firm....."

Statement informant 4, in confirmation to the BRI marketing for delivered to the informant 8, that the financial statements are not made by credit analysts, but only to give technical guidance in the preparation of simple financial statements, as follows:

".....Actually not make....ma'am...because it is unethical if the bank makes, but because our job is to provide loans to SMEs, thus only providing technical guidance for the preparation of financial reports .. so they make financial statements themselves more important for us is the result of interviews with prospective customers, they must have a business and the amount omzet"

However, the average SME had no difficulty in provides venture capital to purchase raw materials for production, because enough taking to the stores that are around Wedoro with the credit system, which does not require financial statements and do not need collateral. It is as presented by informant 7:

".....When the capital is getting less, i can get the material in a store.....and I might pay it later.... as long as I should pay it on the right time.... there is no guarantee..... we just believe each other ..."

Clarified by informant6:

"..... I never borrow to bank the requirements complicated when I needed raw materials I can debts to stores around Wedoro , very close ... not far then when I get money, I pay them our commitment as a guarantee"

Based on the statement, the the existence of cooperative and banks are not quite important as to cover the needs of raw materials, could borrow to suppliers that exist around business premises. Commitment is the system they use.

In order that cooperative and MSMEs can apply financial reporting standard for to make financial statements, that accountable, feasible, auditable, and bankable, then the constraints should be observed. For example, the constraints faced by Informant5:

"... There is no employee who deal for financial administration.....hassle if enforced will add to our burden and I do not know the terms of the loan application to the bank ... yes .. its administration difficult and complicated ..."

Based on the above statement, it can be interpreted that the accounting process requires a special employee, while the field observations find facts, they average a double role as owner and manager. Taking employees specializing in financial administration will increase the cost. Thus the expectation of financial statements of SMEs that accountable, decent, auditable and bankable still not been achieved. However another obstacle not only financial administration, but the important thing is the marketing of products. As stated by informant 7:

"... For this moment ..the problem is inthe marketing product.....for financial report is not quite important for me....because itis more important be abletosellproduct-sandmake money.."

The constraintsfaced bycooperativemanagersis the limitedavailability oftime, as statedby Informant 1:

"...limited human resources ... being the commitee is only the side job.....,the commitees have their own job, some of the them work as government employee, private sector employees, etc. so it can not be a full time ... take care of cooperative ..."

Those explanations show that cooperative entity has not managed professionally, because the limited competent human resource in cooperative field.

DISCUSSION

Based on interviews and observations. Cooperatives and MSMEs have not been professional in running the business, because most of the limitations of competent human resources. Like the dual role between owners and managers in running a business and no one specific employee who is responsible for financial administration, because it would increase costs if will raised the employee the financial administration. Beside it an understanding of financial reporting standards for SMEs is still low, so that the financial statements are not considered important. Although the government has sought to dis-

seminate these standards by providing training to prepare financial statements, but the results not maximized.

Problems may arise when applying for a loan to the bank, but the problem is not the most important, because the need for the provision of raw materials can be fulfilled by existing suppliers around Wedoro with collateral unsecured credit system and requirement are not complicated. Requirement is only trust and commitment alone. The problem that is considered important is the marketing of products, because according to their understanding, selling products is more important than making the financial statements.

Understanding of financial reporting standards for SMEs is still low, it will affect the performance of Cooperatives and MSMEs themselves. From interviews and observations, the cooperative not yet able to make the financial statements and there are only records of financial transactions, even there is no record at all. Therefore, the financial statements that accountable, decent, auditable and bankable not yet been achieved. This will be a problem when applying for a loan to the bank. Beck, et al (2008) bank financing for SMEs in developing countries is still low. However existing cooperatives in Wedoro can help SMEs, by providing loans without any requirement there should be financial statements.

Results of previous studies in Indonesia or other countries, such as Pinasti (2007), SMEs do not have the records and bookkeeping for their business and assume that the accounting process is not too important to be applied. Abeygunasekera and Fonseka, (2012) SMEs in Srilanka doesn't agree with IFRSs, this is due to the high cost to study accounting, lack of knowledge of employees and a lack of qualified employees. This condition is due to lack of competent human resources and financial reporting standards for SMEs is high. Mandilas, et al (2010) IASB should re-examine the standard used in SMEs, for it IAI through the Financial Accounting Standards Board should review the financial standards of Cooperatives and SMEs. Airlangga, (2012) suggest to IAI to make simple financial statements for microfinance institutions.

Lack of competent human resources in cooperatives and SMEs in Wedoro, and raised the new employees will add to the cost, then the SMEs in Malaysia doing outsourcing accountant from the outside, this increases transaction costs but in the future will have good results, and this be good example for SMEs in Wedoro. Jayabalan, (2009), Kamyabi and Devi (2011) outsourcing accounting functions is an option for SMEs to maintain a competitive advantage and accounting information is to become better management control.

Associated with stakeholder theory, Ghozali and Chariri (2007) the entity is not operated for their own, but it can provide benefits to the stakeholders (shareholders, creditors, customers, suppliers, governments, communities, etc.). This statement has a meaning that any organization such as cooperatives and SMEs have the responsibility of providing more value to the stakeholders, to create a good business relationship. The benefits provided by the Women's Cooperative Wedoro Makmur, loans without complicated requirements. SMEs have a social responsibility to create jobs for the surrounding communities, and SMEs are committed to pay debts to suppliers of raw materials in accordance to the appointed time.

CONCLUSION

The results of this study is an understanding of financial reporting standards for SMEs as a guide to make the financial statements of Cooperatives and MSMEs is still low. One

obstacle is the lack of competent human resources in the field of Cooperatives and SMEs. This is evident from the results of interviews and observations, informant at Cooperatives and SMEs have never heard of financial reporting standards for SMEs, and cooperatives management never even knew about the statement of financial accounting standards number 27 on cooperatives. Although the government has sought to disseminate these standards by providing training to make financial statements, but the results not maximized.

An understanding of financial reporting standards for SMEs is still low, it affects the accounting practices used in financial reporting Cooperatives and MSMEs. In this case, Cooperatives and MSMEs not yet able to make the financial statements, there is only a financial transaction records, financial records even nothing at all. Therefore, the financial statements that responsible, decent, auditable and bankable not yet been achieved. It will be a problem when applying for loans to banks, because to applying for loans to banks, must attach the financial statements. However Cooperatives in Wedoro can help MSMEs, by providing loans unconditionally must there are financial statements. For the cooperative itself received a grant from the government. Similarly, MSMEs that require raw materials, can be obtained with a credit system without complicated requirements. Requirement is only trust and commitment.

The constraints associated with the adoption of financial reporting standards for SMEs is the lack of competent human resources in the field of Cooperatives and MSMEs and the high of standards financial reporting for SMEs. Because to the low quality of human resources that exist will lead to high transaction costs in the study of accounting. In addition to the limited availability of competent human resources in the field of accounting, there is another problem, it was of product marketing. Assumed that more important sell products rather than to the administration of finance, it means that the accounting system assumed to be unimportant

The results of this study are expected to have implications for the committee of Cooperatives and MSMEs to apply accounting standards in accordance with financial reporting standards for SMEs as a guideline in making financial reports accountable, decent, auditable and bankable. This research is also expected to have implications the mentoring for cooperatives and SMEs, using a simple model simple accounting, of both for internal and external interests. This can be done by academics in universities as a form of public service.

Limitations of the study is the unit of analysis selected only on Cooperative and MSMEs entities contained in the industrial centers of shoes and sandals in Wedoro Sidoarjo region. However, this study could serve as a reference for future studies with different research methods and in different industrial centers

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THE EVALUATION OF INTERNAL CONTROL AND GOOD GOVERNANCE ON EFFECTIVENESS LEVEL ON ISLAMIC PAWNING SERVICES CASE STUDY PEGADAIAN SYARIAH KRAMAT RAYA

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ABSTRACT

this research focus on the application of the combination system of internal control over Islamic rahn service which applied in the Islamic Pawning service . In this research the researchers learn about the implementation of the internal control system and also the corporate governance that applied. The objective of this research is to develop ideas about the best system for pawning client especially based on the Islamic law , and also how the effectiveness of management 's internal control system and also corporate governance at every operational activity . This research is using qualitative methods such as observation , interviews with the manager of Islamic Pawning service , as well as the observations on the application of five COSO components . From the results it show that there are some mirror in the implementation of internal control systems. We find also in our result that Pegadaian Syariah as one of the division in PT Pegadaian has implemented the corporate governance concept. Therefore , it is suggested that further enhance the company's internal control in terms of supervision pawning goods (Marhun) belongs to the customer and maintain customer confidence in the service of Islamic pawning service (rahn) as the one of the financial solution .

Keywords : *Pegadaian Syariah, Fiduciary Services (Rahn),*

INTRODUCTION

In accordance with today's economy activities, the needs of fund also more increase. The needs of fund can be mostly fulfilled through borrowing-and-lending activities. These borrowing-and-lending activities are done by the individual or legal entity with the institution, either informal or informal one. Indonesian country in which society is still under poverty line will conduct borrowing-and-lending activities to the formal institution

able to grant society a loan. One of formally financial institution currently discussed is PT.Pegadaian (Persero).

Based on the Islamic economy development in the world that happen also in Indonesia made Pegadaian, the state owned enterprise in Indonesia that focus in pawning service also releases syariah-based product called as syariah pawning or Islamic pawning that called Pegadaian Syariah. Basically, syariah-based products hold characteristics like forbidden in the collect the interest in various forms due to the prohibition of interest and the argument that interest is the same with usury (riba), enacting the money as exchange instrument not as traded commodity, and conducting business to gain reward upon service or profit sharing.

Basically it is known that in order to obtain the loan (marhun bih) thus borrower (rahin) must give the property becoming the collateral (marhun) to the fiduciary receiver / fiduciary party (murtahin), yet in case in the end of the agreement of this fiduciary, rahin has fulfilled all of his duties, thus goods guaranteed will be back to the rahin.

Even though it is not denied again that Islamic legal system used in operation of Pegadaian Syariah (or Syariah Pawning) holds advantage and prominence than legal system not based on the syariah yet this does not close the possibility of emergent risk at Pegadaian Syariah such as: Firstly, crime of armed robber band experienced by the Fiduciary at Cipete Raya branch, Cilandak, South Jakarta, succeeding to take twenty (20) bags of gold jewelry in safety box that estimates the value of hundreds million rupiah (5/11/2012). Secondly, risk of customer's unpaid debt (wanprestasi), this risk occurs in case the customer is at difficulty at settling out again goods that has been guaranteed due to some reasons. Thirdly, risk of asset value decline that is detained or at damage, although it is estimated that goods value pawned results in a possibility of goods value decline from the beginning estimation will occur. It is due to various economy problems, for instance rupiah exchange decline from rupiah to dollar. From the case ever occurs in another area makes society get more cautious in terms of using services of the Fiduciary so that their valuable goods will not result in unexpected things. Based on that reason above, the researchers want to explore and answer our research question whether the internal control system that has been applied in the Pegadaian Syariah as Islamic Pawning system has been effectively and whether the Pegadaian Syariah has implemented the corporate governance in their internal control system. This is the reason for this research that the researchers focused on the case on internal control that done by Pegadaian Syariah and also the corporate governance on that institution. Other objective of this research are the important function of Pegadaian or pawning system in our society. According to Kiryanto (2005) that stated SME as economic sector that developed rapidly after the financial crisis in 1997-1998, Pegadaian, and also Pegadaian Syariah had been participated as one of the state owned enterprise for lower people. the Based on that it is very important to understand and explore the internal control system and corporate governance in Pegadaian Syariah or Islamic pawning system.

RESEARCH METHOD

This type of research used by the writers in this research is qualitative, uses primary and also secondary data. Secondary data in which data yielded is descriptive one as in an article of analysis result about implementation of internal control system toward syariah fiduciary that Pegadaian Syariah executes by using various evaluation sources of either books or research result sample. Data accumulation method used by writers during this

thesis compilation is a direct method, namely: Survey Method like Interview, Observation Method, and Library Research Method. The primary data done in this research is the interviewed that done by the researcher to the Pegadaian employee.

LITERATURE REVIEW

a. Definition of Rahn

There are several definition about rahn, such as :

According to the definition from Islamic financial concept, the definition of rahn or mortgage or collateral, is defined in the Islamic jurisprudence as “possessions offered as security for a debt so that the debt will be taken from it in case the debtor failed to pay back the due money.” In Islamic law, Ar-Rahn is a permissible contract in Shari’ah. It is known from the Sunnah (Bukhari Muslim) that when the Prophet of Allah, Muhammad (SAW), passed away, his shield was with a Jewish man in Medina as a collateral. This phrase is common in Islamic financial system study when we discuss about rahn. The Fatwa no 25 National Sharia Board about rahn also based from this sunnah. Other that is the Qur’an 2: 283. Sudarsono (2012:172) also stated that rahn is a debt receivable agreement between two or more parties on the issue and hold objects as collateral debt for something that has a value property according to the views of Personality ‘as a guarantee or he could take most of the benefits of the goods. There are also other definition and concept about rahn for example the definition that come from Hisham et.al (2013c) that stated about rahn or Islamic pawning as on of the financing system in Islam. Finally, we can try to make some conclusion that rahn is the pawning contract that the pawn object will be delivered without any financial compensation.

b. Internal Control Definition

Internal Control is a process which executed by the board of directors, management, and other personnel in an entity, in order to provide a sufficient belief in relation to goal attainment in a category such as: financial report reliability, submission to the law and applicable regulation, as well as effectiveness and operation efficiency. Boynton et al (in Rajoe, P.A., Gania, G., Budi, I.S, 2003:373)

c. Internal Control Component

In order to provide a structure in terms of considering ample control possibilities in relation to entity goal, COSO’s report identifies five components of internal control inter-related, namely:

- Control environment enacts an organization, taking the influence on awareness of control from its people. Control environment is a foundation from all other internal control components, providing discipline and structure.
- Risk assessment is identification and entity analysis about the risk relevant to entity goal attainment, forming a basic about how the risk shall be managed.
- Control activities is policy and procedure that help to convince that management order has been executed.
- Information and communication are identification, capture, and information exchange in the form and time frame that make people capable to implement their responsibil-

ity.

- Monitoring is a process assessing internal control performance quality in a certain time.

Boynton et al (in Rajoe, P.A., Gania,G., Budi, I.S, 2003:374)

d. Corporate Governance and Islamic Corporate Governance

Since the introduction by the OECD principles about corporate governance, it also followed some reference about corporate governance in some countries in the world , including Indonesia. In this case there are some principle about corporate governance, among others :

1. Accountability principle :

Important thing in this principle is includes the powers to be held by the commissioners and directors as well as their obligations to the shareholders and other stakeholders. The board of directors is responsible for the successful management of the company in order to achieve the goals set by the shares

2. Responsibility Function

This principle requires companies as well as leaders and managers of companies conduct their activities in a responsible manner. As managers of the company should avoid any transaction costs that could potentially harm a third party or other parties outside the agreed terms, as implied in law, regulations, contracts and guidelines for the company's business operations.

3. Transparency Concept

In this concept , the information should be disclosed in a timely and accurate manner. Among other information that disclosed financial condition, financial performance, ownership and management of the company. Audits are carried out on the information carried independently. The transparency is important that shareholders and other people know the state of the company so that shareholder value can be enhanced.

4. Fairness Concept

All stakeholders should have the opportunity to get fair treatment from the company. The implementation of this principle in the company will prohibit reprehensible practices are carried out by insiders who harm others. Each member of the board of directors of the company must disclose if they find the transactions that have conflict of interest transaction

5.1 independency

This principle will requires the managers of the company to be able to act independently according to their roles and functions it has without any pressure from any party that is not in accordance with the prevailing system of company operations. The important thing in this principle is the management of the company must still provide the recogni-

tion of the rights of stakeholders are specified in legislation or regulations.

RESEARCH ANALYSIS

a. Internal Control Analysis

1) Survey Method

Interview

This research was done based on interview results undertaken by researchers with the official of PT.Pegadaian (Persero) on June 2013 which results in conclusion as follows:

1. Pegadaian Syariah or Islamic pawning is a non-bank financial institution based on Islamic law that give grants a loan to customers in Rahn as their product management. Qualification to be fulfilled for a to-be candidate is classified easy, and service offered is also simple. Pegadaian Syariah has plentiful advantages instead of Islamic bank which also delivered the rahn product. The latter could be consideration matters in selection of a proper financial institution. The company has released the product of Rahn since 2003 and started in the beginning in area of Dewi Sartika, this shows that existence of Rahn up to present has attained to 10 years.
2. The company takes benefit from the costs of ijarah, margin, and also ta'wid.
3. In order to protect their security, Pegadaian Syariah uses a very small CCTV camera (micro camera) that is not seen by the eyes and put at important corners of rooms in the aim of recording all of its their operational activities. Besides, at corner of office's front yard there is an alarm light as warning signal or danger signal.
4. To minimize criminal action that could done by the external party for example robbery action, the company intertwines collaboration with police officer to increase vigilance in order not to experience robbery as undergone by Fiduciary office in other area. Despite the company is also guarded by two security persons on their security post at daylight, and 2 persons at night.
5. To minimize the risk, company's internal party undertakes fraudulent action, thus pacification system at key of marhun safe deposit box that contact only by the Branch Manager and saved at a very safe location. Then duplicates of the keys are examined by Directors for further action and also the archive at Kanwil or Safe Deposit Box. The safe deposit box have the number of combination only known by Branch Manager, Directors, and other officers holding policies and other officers holding the policy on confidentiality of that number combination.
6. Security standard on Pegadaian Syariah Kramat Raya has been effective.
7. Overseeing the internal audit system undertaken by Internal Supervising Unit (SPI or ISU) that has been guaranteed of their independence, presents the assessment that company's internal audit system has been effective and cited on program "Zero Fraud".
8. All audit procedures have been arranged by Directors' Regulation.

9. Internal audit implementation is undertaken periodically or at any time.
10. Information on effectiveness and completeness of internal control system is presented to all stakeholders of the company.

2) Observation Method

Preliminary step in conducted of this research especially in the internal control examination is that the researchers is compulsory to pawn any goods to obtain fiduciary letter as a condition to be fulfilled in conduct of the research. In this regard, one of the researcher attempts is acted as a customer, and select the gold as goods for pawning.

List of Administrative Fees Per-Loan

Class.	Plafon Marhun Bih (MB)	Administrative fee
A	50.000 – 500.000	2.000
B1	550.000 – 1.000.000	8.000
B2	1.050.000 – 2.500.000	15.000
B3	2.550.000 – 5.000.000	25.000
C1	5.100.000 – 10.000.000	40.000
C2	10.100.000 – 15.000.000	60.000
C3	15.100.000 – 20.000.000	80.000
D1	20.100.000 ke atas	100.000

Source : PT.Pegadaian (Persero)

Remark :

Class A : Ijarah Tariff : 0,45% x Estimate

Class B1-C3 : Ijarah Tariff : 0,71% x Estimate

Class D1 : Ijarah Tariff : 0,62% x Estimate

Calculation of Gold Pawn

a) Calculation at the Preliminary of Pawn

Instance of item 1 :

On date of 7 June 2013 researcher pawned a yellow golden necklace and eye-ring with both values are 16 carat, gross weight of 14,36 gram and nett wet of 13,6 gram. The estimator estimated two golds with the total of Rp.3.962.133,00. Yet researcher only took cash in the amount tof Rp.1.000.000,00.

Count the financing able to finance as well as cash sum received by the customer !

Assume :

- Estimated Price of of gold necklace and eye-ring (16 carat, gross weight of 14,36gram, and nett weight of 13,6 gram) = Rp.3.962.133,00*
- The Financing division, after take some consideration from the data above, decide

- to give financing for $92\% \times \text{Rp.}3.962.133,00 = \text{Rp.}3.650.000,00$
- Administrative Fee is $\text{Rp.}25.000,00$
- Yet writer obnly asks for the cash in the amount of $\text{Rp.}1.000.000,00$
- Administrative fee is $0,71\% \times \text{Rp.}1.000,000,00 = \text{Rp.}7.100$. The rounding becomes $\text{Rp.}8.000,00$.

Thus : Financing is		Rp.1.000,000,00
Administrative fee is	Rp.	8.000,00 -
Receivable sum is		Rp. 992.000,00

From the aforementioned calculation results, thus researcher has the cash amount of $\text{Rp.}992.000,00$.

b) Calculation in the end of the pawn

The rent contract or (ijarah) incurred at the time the goods will be reimbursed. The amount of rent contract (ijarah) is determined in accordance with the period of goods pawn. Period of goods pawn is minimal 10 days and maximal is 4 months. In this case, customer selects period of 10 days.

Instance of Item 2 :

In 16 June 2013 researcher reimbursed the gold already pawned for 10 days. Estimator mentioned that hire cost (ijarah) for 10 days was incurred in the amount of $\text{Rp.}8.200,00$. Count number to be paid by customer at the time of reimbursement !

Assume :

- hire cost of 10 days (07/06/2013 s/d 16/06/2013) is $\text{Rp.}8.200,00^*$
- Financing in the beginning is $\text{Rp.}1.000.000,00$

Thus : Hire cost	is	Rp. 8.200,00
Financing is		Rp.1.000.000,00 +
Total to be paid is		Rp.1.008.200,00

From the simple calculation above, thus researcher must pay the reimbursement with total of $\text{Rp.}1.008.200,00$.

Remark : *Estimated price of gold and cost, is determined according to the amount of gold gram, thus it is not ensured its nominal since gold value changes everytime.

COSO application in operation of Pegadaian Syariah

In this research, researcher identifies COSO's five components related to internal control (Components of Internal Control) applied at Pegadaian Syariah Kramat Raya.

1. Control Environment

In this research, researcher values or assesses that relation between the highest entity with the lowest entity has formed sense of care toward security and harmony of company. The latter is proved on how they interrelate in cooperation and invest discipline behavior of the importance of keeping the customer asset already trusted.

There are some factors establishing control environment in an entity, ones of which are as follows:

- ***Integrity and ethics value***

Researcher assesses that all management of Pegadaian Syariah Kramat Raya has a high integrity in maintaining company reputation, by usually bringing up the ethics values expected to be the exemplary for those in order to always behave in honesty, discipline, and not against the law that can ruin the reputation and company image.

- ***Commitment on competence***

In conduct of its operational activity, Pegadaian Syariah Kramat Raya recruits new staff possessing expertise on the sector needed by the company. Through the trainings given thus it is expected that new staff can be more competent in conduct of the duty.

- **Directors' Board and audit committee**
In conduct of the duty directors' board and audit committee get involved in make troubleshooting at mistakes extant in the company. It is useful to increase company effectiveness in maximum not yet attained, thus company's objective is fulfilled.
- **Philosophy and management style**
Company has style of management operation namely always to be cautious and likely not to act aggressively in establishment of decision making in order to lessen business risk they deal with. It is intended that the company will not undergo achievement decline already attained for years.
- **Organizational Structure**
Pegadaian Syariah has organizational structure that is clear in accordance with duty and placement of each function. Regarding table and outline of duty thus they have been explained by researchers in chapter 3.
- **Enactment of policy and responsibility**
Company presents explanations regarding on how and to whom those policy and responsibility are incurred. The objective is all entities of company interrelate in co-operation and grant contribution in advancement of company.
- **Policy and practice of human resource**
Company's internal control is indeed implemented by a group of persons included in it. Therefore, company needs recruitment policy in selection of new staff. This selection is intended that the new staff can possess integrity and high skills, and expertise in his sector.

2. Risk Assessment

Researchers assesses that Pegadaian Syariah Kramat Raya in conduct of operational activity still possesses very frequent risk, such as: risk at the time customer's debt is not paid, goods value decline from preliminary estimation, as well as criminal case. therefore, Pegadaian Syariah intertwines cooperation with the assuring company to insure pawning goods (Marhun) of customer, and to conduct the auction in case there is customer unable to settle-out the debt.

Risk assessment also shall include some special consideration upon risk that can be emergent from condition alteration such as :

- **Alteration in operational environment**
Pegadaian Syariah also conduct some reformation and also change their policy in its operational activities if fraudulent deeds are found-out that are done by either internal or external party that gave negative implication for the company. This alteration is merely done to increase company effectiveness by lessening risks possibly emergent.
- **Information system new and or modified**
Company uses the original software to input and output customer data. Besides, company has a web already complete and modified to enable the readers eager to look for information complete and related to the company.
- **A swift growth**
From the beginning establishment up to present, Pegadaian Syariah has undergone swiftly-classified growth. At its age of 10 years it makes the company as non-bank financial institution able to help lower-class society to fulfill their life necessities. This proves with increasingly number of offices of Pegadaian Syariah already overspread all around the Indonesia.
- **New technology**
Pegadaian Syariah Kramat Raya has used new technology, namely micro CCTV camera utilization taking function to observe all activities that exist in the organization without known by persons. But, in terms of safety box usage it still uses old system namely that relies on the keys. As it is likewise with usage of Panic Button, it only function as mere signal of danger.
- **Line, product, or new activity**
The company not only releases product of pawn service (Rahn) merely, but also provides service of Arrum running in a small micro business financing sector, Amanah running in financing of vehicle ownership for the employee, and the last one is Western Union running in money delivery swiftly.
- **Overseas operation**
Pegadaian Syariah up to present only runs the operation domestically, branch office also has network overspread all around Indonesia.
- **Accountance Statement**

Company records all transaction that will cited into financial report later presented to directors.

3. Control Activites

In this regard company runs internal control system that has been arranged by directors regulation, afterwards it will be informed about completeness and effectiveness of internal control system to all StakeHolders that its all operational activities have run smoothly based on the procedure.

Control activities relevant with financial report audit can be categorized in various ways such as:

- **Duty separation**
All company committees undertake duties based on duty in commensurate with its functional line, not undertaking a fraud on the way of granting it to another individual.
- **Information processing control**
All transactions will be processed by using computerized database to input the data.
- **Physical control**
Company uses safety box/kluis as security instrument in securing the pawning goods (Marhun) of customer. The safety box has physical durability such as not easily broken in case there is a fire in the company. That safety box is able to survive for + 8 hours in that situation. Although this safety box /kluis has a good physical durability, not avoiding the possibility that the company is supposed to usesafety box /kluis equipped with technology already increasingly progressive.
- **Performance review**
Once undertaking activities, thus company leader will conduct analysis about whatever is the strongness and weakness that the company possesses. In case there is weakness supposed to be capability to obstruct the company, thus the way-out will be attempted to seek.

4. Information and Communication

In this regard, all internal control activities at Pegadaian Syariah Kramat Raya are communicated by SPI parties already guaranteed its independence that all company human being has carried out the duties commensurate with culture "INTAN" as the guidance.

5. Monitoring

In this regard researcher observes that all operational activities at Pegadaian Syariah Kramat Raya are recorded by using micro CCTV camera with the objective of monitoring employee performance effectiveness and avoiding possibilities of fraud done by company's internal or external party.

- **Organizational characteristic and ownership**
Company has principal characteristic such as not collecting the interest (Riba) in its

cost charge. Cost incurred only happen one time namely in the beginning of pawn agreement, and does not continuously accumulate. Enacting money as exchange instrument not as traded commodity, and undertaking business to obtain reward on service and or profit sharing.

- Nature of business

Company has principal nature in conducting the business namely by assisting one another without seeking the reward, thus the profit of its company comes from the margin, ta'wid, and also ijarah.

b. Corporate Governance Analysis

According to the information from Pegadaian Syariah that the company had realized about the important of corporate governance implementation, the researchers analyze this statement from information that we collect in the research periods. From the data we found that Pegadaian Syariah has implemented one of the corporate governance element such as the conflict of interest. It could be found from our research that in Pegadaian Syariah they have done separation of dutie in order to reduce the potential conflict of interest. It stated that the all company committees undertake duties based on duty in commensurate with its functional line, not undertaking a fraud on the way of granting it to another individual. There are also other factors in the Pegadaian Syariah that we can conclude about their corporate governance. In the board of director the company has audit committee. In their activity the audit committee revised any mistakes that extent in the company. Based on that activity it could increase the company effectiveness and also increase the company performance.

From the researchers observation, one of the corporate governance implementation is the accountability of the company. The indicator for accountability is the stakeholder, including the director, manager and also the employee already known about the company 's vision and also mission. In the PT Pegadaian Syariah this indicator is implemented based on the condition that the company has declared the mission and vision in their website. This is the implementation of corporate governance concept.

According to the statement from PT Pegadaian, it stated that in the PT Pegadaian, including in Pegadaian Syariah the company already established the GCG concept. The implementation of GCG based on the condition that PT Pegadaian has established special division under risk management division that specially supervises the GCG implementation in PT Pegadaian, including Pegadaian Syariah. Unfortunately, based on the limited time that the researchers have, we do not had opportunity to do the interviewed with the risk management division.

CONCLUSION AND SUGGESTION

After doing the monitoring and evaluation upon internal control system of syariah fiduciary service (Rahn) at Pegadaian Syariah Kramat Raya, the researchers draws conclusion that there is prominence or strongness and also weakness in internal control system application on syariah fiduciary service (Rahn). Conclusion able to draw from research result is as follows:

1. Prominence

- a. Services provided by Pegadaian Syariah Kramat Raya in terms of pawning goods estimation, pawning goods maintenance, reminder list regarding the period of expiry time or due time, and costs incurred has adequately satisfied the customers who has used the service.
 - b. Cultural application “INTAN” has been applied properly and effectively in each activities.
 - c. Pegadaian Syariah Kramat Raya has used micro CCTV. Different with Bank Syariah also provides service of Rahn ever visited by researchers, still uses big-scale camera. In this regard, Pegadaian Syariah Kramat Raya is more prominent in case in comparison with Bank Syariah.
 - d. Pegadaian Syariah Kramat Raya has applied five components of COSO as a fine work procedure guidance.
2. Weakness
- a. Lacking of officer and also employee overseeing pawn processes, thus fraud risk probably done by company internal party can happen.
 - b. Office of Pegadaian Syariah Kramat Raya only has two security persons. However in case researcher evaluates again, there is fiduciary office in area of Karang Tengah already using TNI service as its security increment. This is due to, expensive cost of hiring security service thus office of Pegadaian Syariah Kramat Raya is not willing to do this.
 - c. Panic Button (alarm) attached at the company, only functions as the mere signal of danger admonition. However in case re-reviewed, there is already instrument of Panic Button able directly to connect the signal to Mapolres or resort police office of East Jakarta and police party will call police officer very near to Case Incidence Site (TKP). Fiduciary party assumes that using Panic Button is hopeless attempt, since Indonesian police party does not act responsively to handle criminal case frequently occurring in Indonesia.
 - d. Safety box still uses old system namely only relying on standard or common keys, does not keep in touch with technology development already progressive. However the existing criminal deed that has been frequently occurring at fiduciaries in other area, it makes Pegadaian Syariah Kramat Raya to be more vigilant about similar bad things that appear.
 - e. Internal Control System at Pegadaian Syariah Kramat Raya is not a bit effective to undertake operational activities. Since, there are still weaknesses in terms of supervision, one of which is not re-padlocking the safety box kotak at the time there is pawn goods (Marhun) getting-in or getting-off. Therefore it can enable external or internal party to do fraud deeds.
 - f. The corporate governance. As one of Indonesia State Owned Enterprise, Pegadaian had implemented the GCG concept under the supervision of risk management division. But further research is required about the how the corporate governance had been implemented by Pegadaian Syariah.

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UNQUALIFIED OPINION WITHIN GOVERNANCE FRAMEWORK: COMPLIANCE STATEMENT OF BUDGET REALIZATION (LRA) WITH GOVERNMENT ACCOUNTING STANDARD STATEMENT (PSAP) NO.2 (A STUDY AT LOCAL GOVERNMENT OF WEST NUSA TENGGARA)

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ABSTRACT

Financial statements is one of important accountability forms for stakeholders. Local government as entity has same responsibility to make financial statements for their stakeholders, which will be examined by Audit Board of Republic of Indonesia (BPK) every periods. Thus, financial statements in local government must fulfill several conditions, such as compliance with Government Accounting Standards Statement (PSAP) and good Internal Control System. Based on previous research, financial statements do not given absolute guarantee of compliance with PSAP, particularly compliance on Statement of Budget Realization with PSAP No.2. This research is an explanatory research. Purpose of the research is to assess implementation of PSAP and Internal Control System on Statement of Budget Realization within governance framework. Data were collected from interview and documentation of financial audit reports fiscal year 2011 and 2012. Data were analyzed using content analysis. Results of the study indicate that compliance Statement of Budget Realization with PSAP No.2 is 80.9%. Internal control system needs improvement at (a) control system of accounting and reporting, and (b) control system of revenue and expenditure budget implementation.

Keywords: *Government Accounting Standards Statement (PSAP) No.2, Statement of Budget Realization, Internal Control System.*

1. Background

Financial statement is one of important accountability forms for stakeholders. Local government as entity has same responsibility to make financial statements for their stakeholders, which will be examined by Audit Board of Republic of Indonesia (BPK) every period. Opinion's BPK is a opinion about level of fairness of information presented in financial statement. Based on Act No.15/2004 on Examination, Management and Financial Responsibility of State, there are three types BPK's examination:

- a. Examination of compliance financial statement with Government Accounting Standard (SAP)

- b. Examination of obedient with laws and regulations in force.
- c. Examination of effectiveness of Internal Control System

Unqualified opinion is the highest rating given, which shows that financial statements are presented fairly without material errors, in accordance with Government Accounting Standards Statement (PSAP), and arranged with sufficient Government Internal Control System (SPIP), so that financial statement is reliable for decision making. In PSAP, there are 11 Government Accounting Standards Statement (PSAP). One of PSAP is PSAP No.2 on Statement of Budget Realization (LRA). However, according to Djultaningsin and Oktafani (2011), compliance of preparation and implementation of LRA of South Tangerang City with PSAP No. 2 was only 60.71%. In line with above, Sari, Rashid, & Firdaus (2010) which explores Audit Reports (LHP) of 14 District financial statement with qualified opinion (WDP) found that LRA components most often appear as the account which is exempt are local revenue and operating expenditure, because of its incompatible with PSAP and guidelines of SPIP. This case indicates that financial statements of local government did not provide absolute assurance of compliance with PSAP. Similarly, several previous studies related to implementation of SPIP still showed results that there are still SPIP weaknesses on local government. For example, Ridwan (2006) states that SPIP of South Sorong regency still indicates weakness in implementation of internal controls within the organization elements, policies, procedures, personnel, planning, recording, reporting, and monitoring. Whereas financial statements prepared by PSAP and dealing with SPIP is one of accountability requirements, and thus also realization of Good Government Governance (GGG).

Local Government of West Nusa Tenggara (NTB) has obtained unqualified opinion for financial statement in 2011 and 2012. Whereas in 2010, financial statement of NTB obtain disclaimer opinion. By stepping of BPK's opinion audit which are quite far from disclaimer become unqualified, this research aims to determine compliance of Statement of Budget Realization (LRA) and it's note (CaLK), with PSAP No. 2 and analyze implementation of SPIP in preparation of LRA in NTB case. The results of this study aimed to provide suggestions for local governments to improve NTB's Statement of Budget Realization and it's internal control system, in order to achieve good governance.

2. Previous Research

Several previous researches related to compliance of financial statements with PSAP have been conducted as follows:

- a. Atyanta (2012) has analyzed opinion of audit report's BPK District X in East Java. As a result, there are some cases of incompatibility of local government financial statement to PSAP. In addition, there is also ineffectiveness SPI within revenue and expenditure budget control system. It can be found two cases of local losses for disobeyed rule of law which is prevail. One case is less revenue, three administrative cases and three cases of ineffectiveness. This is due to lack of human resources quality, mutation which is often done by Local Employee Affair Agency (BKD), and less orderly Local Government Financial Management Office (SKPKD) and financial administration in Local Government Unit (SKPD).
- b. Djuitaningsih & Oktafani (2011) examined about relationship between PSAP application of Statement of Budget Realization No.2 with social welfare level (a case study in South Tangerang City Government). As a result, compliance of preparation and

implementation of South Tangerang City's LRA with PSAP No. 2 was only 60.71%. Dealing with public welfare, budget management which is managed professionally and accountable based on PSAP No.2, can improve welfare conditions of people of South Tangerang as summarized in South Tangerang City's Human Development Index.

- c. Sari, Rashid, & Firdaus (2010) explores audit reports (LHP) of 14 districts's financial statements that obtain qualified opinion with content analysis. As a result, components of budget realization statement which often appears as an account which is exempt are operating expenditure and local revenue. The problems associated with compliance with SAP, obedient with laws and regulations, and weakness of Internal Control System (SPI).
- d. Ridwan (2008), analyzed financial management internal control of South Sorong Regency Government, West Papua based on Ministry of Home Affairs Ordinance (Permendagri) No.13/2006. As a result, there are weaknesses and problems in some expenditure budgeting that are not orderly, controlling at some realization of expenditure budget has not been conducted properly, and classification, control, and recognition of cash have not been done in orderly manners.
- e. Indriani (2012) analyzed the findings published by BPK, then giving further considerations and implementation of internal control with clear standards, so that good governance can be achieved.

3. Review of Literature

3.1. Government Accounting Standard Statement No.02 (PSAP No.2)

One concrete efforts to achieve regional governance in financial management is delivery of government's financial statements conform to timeliness principle and prepared to follow PSAP. PSAP is now used for preparation of financial statement of local government, is based Act No.24/2005 with modified cash basis. Looking ahead, while year 2015, all Local Governments are required to use accrual-based which is based on Act No.71/2010.

In PSAP, there are 11 Government Accounting Standard statement (PSAP), one of which is the PSAP No.2 on Statement of Budget Realization (LRA). LRA provides information on realization of revenues, expenditures, transfers, surplus/deficit, and financing of a reporting entity, where each of them is compared with its respective budget. According to PSAP No.2 par.6-7, the information is useful for the users in evaluating decisions concerning allocation of economic resources, accountability, and compliance of reporting entity to budget. Informations which are provided by statement of budget realization concerning the indicators of acquisition and application of economic resources, whether they:

- (a) have been efficiently, effectively and economically executed.
- (b) have been executed in accordance with budget (Revenue and Expenditure Budget for Local Government/APBD).
- (c) have been executed in accordance.

Statement of Budget Realization (LRA) shall include at least the following items :

- (a) Revenue
- (b) expenditure
- (c) transfer
- (d) surplus or deficit
- (e) financing revenue

- (f) financing expenditure
- (g) net financing
- (h) surplus/deficit after budgeting financing (SiLPA/SiKPA)

3.2. Government Internal Control System (SPIP)

Internal controls are designed in local government according to Act No.60/2008 on Government Internal Control System (SPIP). According to the Act, SPIP is an integral process in form of actions and activities carried out continuously by management and all employees, to provide reasonable assurance for achieving organizational goals through effective and efficient activities, reliability of financial statement, safeguarding of state assets, and obedient with laws and regulations.

According Act No.60/2008, SPIP following components as follows:

- (a) Control environment.
- (b) Risk assessment
- (c) Control activities
- (d) Information and communication
- (e) Monitoring

Related to preparation of LRA, control component which is an important is control activities for transaction revenue, expenditure, and financing. Here are the details of control activities based on Article 18 Paragraph 3 Act No.60/2008:

- (a) Reviews performance of government.
- (b) Development of human resources.
- (c) Controlling management of information systems, which include general controls and application controls.
- (d) Physical control over assets, along with restrictions on access to resources and recording in order to ensure accountability for resources and recording.
- (e) Determination and review of statements and performance measures.
- (f) Separation of functions, namely employee in charge of planning, accounting/book-keeping, storage, and authorization.
- (g) Orderly documentation based on Internal Control System as well as transaction and important events.
- (h) Timely and accurate recording of transactions and events of time, accompanied by authorization of revenue, expenditure, and financing transactions
- (i) Recording accurate and timely and adequate authorization can be obtained through administration process is completely and timely

Analysis of SPIP which is done on the following aspects (Atyanta, 2012) :

1. Control Systems Accounting and Reporting:
 - a. Recording is not been done or inaccurate.
 - b. Process of preparing report is not compatible with provisions.
 - c. Entities submitting report are lately.
 - d. Accounting information and reporting systems are inadequate.
 - e. Accounting information and reporting system is not supported with human resource competencies.
2. Control system of revenue and expenditure budget implementation:

- a. Planning activities are not being done.
 - b. Collection mechanism, depositing and reporting as well as use of local government's revenue and grants are not in accordance with provisions.
 - c. Violations of regulations or internal rules specific technical procedures related revenues and expenditures.
 - d. Expenditure outside budget mechanism.
 - e. Implementation of policy is not appropriate, which raises loss of potential revenue and expenditure.
 - f. Weakness of physical asset management, property area is not clear presence, and self-management mechanism is not orderly.
3. Weakness of internal control structure :
- a. Entity does not have a standard operating procedure (SOP) as a formal procedure.
 - b. Standard Operational Procedure (SOP) on entity does not run optimally.
 - c. Entity does not have internal auditor unit.
 - d. Internal supervisor unit is inadequate or not running optimally.
 - e. There is no separation of duties and adequate function.

3.3. Relationship between Compliance of Local Government Financial Statements with PSAP, Government Internal Control System (SPIP) and Good Government

Good government governance has some principles, among which are transparency, integrity, accountability, and fairness. Transparency principle can be created through a process of communication that is clear, accurate, and effective with stakeholders to assist in implementation of an activity in timely and effective manner through financial statement.

Integrity principle are include fairness and completeness of information (especially financial statement information) are presented to public on management of resources, funding, and public affairs. According to Sari (2012), in a organization, integrity is reflected in decision making procedures and quality of financial statement, as well as resulting performance in a given period. Meanwhile, accountability is responsibility of each individual and organizationally of public institutions to outside parties interested in management of resources and funds. As integrity, accountability is also reflected in financial statement. Finally, fairness is not only reflected in financial statement that were made, but also in financial statement process which is accompanied by adequate implementation of SPI.

Three principles of good governance mentioned above are clearly reflected in process of budgeting, financial reporting, and audit of management and responsibility of local government financial. Thus, compliance of local government financial statement with PSAP relates to good government because it meets the principles of accountability, integrity, and fairness. While preparation of financial statement accompanied by implementation of SPI in their preparation is also associated with good governance as it relates to fairness principle.

4. Research Method

4.1. Type and Object Research

This research is explanatory research that attempts to explain existing phenomena (Jogiyanto, 2004, p:12). The object is Local Government of West Nusa Tenggara (NTB). The research was conducted on NTB's Financial Statements in 2011 and 2012, and BPK's

audit report over NTB's SPI.

4.2. Data Sources and Data Collection Techniques

The data source is secondary and primary data. Secondary data is NTB's financial statement those are Statement of Budget Realization (LRA), Notes on Government Financial Report (CaLK) and audit report of BPK over NTB's SPI in 2011 and 2012. Meanwhile, primary data was obtained through interviews with Head of Sub Division and Personnel of Accounting and Reporting Section NTB government.

4.3. Data Analysis Techniques

Data analysis using qualitative analysis, to analyze contents of Statement of Budget Realization (LRA), CaLK related Statement of Budget Realization (LRA), and BPK's audit report over SPI of LRA. Procedure analysis data which are used as follows:

- a. Check compliance LRA with PSAP No. 2. Elements of LRA and CaLK related to LRA are compared with elements which are contained in statements of PSAP No.2. There are 47 items extracted statements from PSAP No.2 and according to research of Djuitaningsih & Oktafani (2011). It consists of Statement related with LRA forming (17 statements), revenue accounting (9 statements), expenditure accounting (9 statements), and surplus/deficit and financing accounting (12 statements). Compliance of LRA and CaLK with PSAP No.2 measured by three criteria: C (Compliance), NC (Not Compliance) and NA (Not Applied) with definition as follows:
 - If items in PSAP No.2 presented in LRA and CaLK related to LRA, and the items are qualify presented, then LRA and CaLK meets the criteria (C-Compliance)
 - If items in PSAP No.2 presented in LRA and CaLK related to LRA, but it has not been qualify presented, then LRA and CaLK doesn't meet the criteria (NC-Not Compliance)
 - If items in PSAP No.2 aren't presented in LRA and CaLK related to LRA, then LRA and CaLK included in NA-Not Applied criteriaLRA and CaLK related to LRA conformity with PSAP No.2 then calculated, by dividing the number of items included in category Compliance, Not Compliance, and Not Applied with total items (47 items) and total of part of the items (17 items, 9 items, 9 items, and 12 items) that must be met by LRA and CaLK related to LRA.
- b. Reviewing audit report of BPK over NTB government's SPI. Criteria of SPI that was used is adapted from Atyanta (2011). BPK's finding type about revenue, expenditure and financing is classified into appropriate Atyanta's criteria consisting of:
 - Control Systems Accounting and Reporting
 - Control system of revenue and expenditure budget implementation
 - Weakness of internal control structure

4.4. Validity Test

Method to test the validity of the data is through triangulation. Triangulation is done by comparing and checking a degree of confidence of information obtained, through time different methods. (Patton, 1987 in Moleong, 1997, p.330). In addition to obtaining data from financial statements and BPK's audit report, the researchers also conducted interviews with Head of Sub Division and Personnel of Accounting and Reporting Section

NTB government. Interviews were conducted to confirm preparation of LRA, CaLK and audit report of BPK over NTB's government SPI.

5. Result

5.1 Compliance LRA with PSAP No. 2

From 46 statements which were used as indicator of compliance LRA and CaLK IN 2011 and 2012 with PSAP No.2, there were 38 items which were compliance (80,9%), 2 items which were not compliance (4,3%), and 7 items which were not applied (14,9%). This information can be seen in Appendix 1.

a. LRA Forming

There are 17 statements in PSAP No.2 which are related with about LRA forming. From those statements, there were 14 items which were compliance (82,4%), 2 items which were not compliance (11,8%), and 1 item which was not applied (5,9%). A statement which was not compliance with PSAP No.2 was that in paragraph 13. This paragraph stated that the information about LRA was explained further in CaLK. Informations which are explained contains about some things which affect budget realization and information about material difference between budget and its realization. This explanation about budget changes in local government were not explained in detail in CaLK, although budget changes sometimes occurs. Furthermore, material difference between realization of grant in 2011 amounted 45,42% and 13,82% in 2012, did not explained in CaLK.

Whereas there was an item which was not applied, it was Paragraph 11. Paragraph inferred, if period of LRA is longer or shorter from a year period, hence the entity has to report reasons for use that period and to explain that information for amounts in LRA and related notes can't be compared. Conditions required in paragraph 11 did not occur at NTB Government so that CaLK can't explain the information as required in paragraph 11.

b. Revenue Accounting

Statements in PSAP No.2 related with revenue accounting consists of 9 statements. From these statements, there were 8 items which were compliance (88,9%) and 1 item which was not applied (11,1%). a statement which was not applied was paragraph 63 in which it was about explanation in CaLK about revenue in goods and services form. Result of interview showed that there was no revenue in goods and services form in 2011 and 2012. In 2012, PT NNT built a constructed building for the government. It can be inferred as grant of PT NNT, however there is no handover process between PT NNT and the government until financial statement is being made.

c. Expenditure Accounting

There are 9 statements for expenditure accounting, there are 8 items which were compliance (88,9%) and there was an item which was not applied (11,1%). Statement which was not applied by the government was that in paragraph 63 about expenditure in form of goods and services which should have been explained in CaLK. Based on result of interview, the government did not have expenditure transaction in form of goods and services.

d. Surplus/Deficit and Financing Accounting

There are 12 statements which are used as indicator to measure compliance with PSAP No.2. From 12 statements, there were 8 items which are compliance (66,7%) and there

were 4 items which were not applied (33,3%), because there were no related transaction in the government. The statement which were not applied are paragraph 63 about financing transaction in good and service form and paragraph 54 and 57 about reserve fund. NTB Government's balance in 2011 and 2012 showed local government has no transaction in good and service and no reserve fund.

5.2 BPK's Finding on SPI related to LRA

BPK's finding on SPI that belongs to NTB Government is showed in following table :

Table 1. BPK's Finding on SPI Annually

Year	Types of Findings
2011	Maintenance expenditure on Public Works Department (PU) had not been set out as fixed asset
	Consultancy expenditure in form of planning and supervision services to General Bureau of Regional Secretariat (Setda) of NTB had not been set out as fixed asset
	Consultancy expenditure in form of planning and supervision services to Public Works Department (PU) had not been set out as fixed assets
2012	Public Service Agency (BLU) of Education manages revenue and expenditure outside of Local Government Budget
	Monitoring and evaluation of distribution of grant funds has not optimally performed
	Controlling on management of expenditure of social assistance was still less optimal
	Controlling on management of expenditure of financial aid was still less optimal

The findings above later inserted into the criteria which had already been established. From data processing, in 2011 there were 6 findings which came into category of weaknesses of accounting control and reporting system. Whereas in 2012, there were 4 findings which into category of weaknesses of control system of revenue and expenditure budget implementation. Appendix 2 shows this phenomenon.

BPK's finding in 2011 shows there are 6 recording findings which have not been done accurately. Those findings are in form of maintenance expenditure realization which have not been set out as fixed assets (1 finding on PU); Consultancy expenditure in form of planning and supervision services to General Bureau of Regional Secretariat (Setda) of NTB (4 findings); and Consultancy expenditure in form of planning and supervision services to Public Works Department (PU) (1 finding).

Entry that were made are inaccurate or inappropriate with PSAP No.07 paragraph 50. PSAP No.07 Paragraph 50 state that expenditure after initial acquisition of a fixed asset that extend useful life or extending economic benefit in future, should be added to carrying amount of related asset. In addition, capitalized costs must be specified in form of an entity's accounting policies as criteria in paragraph 50. Government should also set limits of cost amount (capitalization thresholds) to be used as a determination whether an expenditure should be capitalized or not.

While the 4 findings of BPK in 2012 do not conflict with SPAP, but it is not according with other legislations. Some laws which are not adhered are:

- a. Act (PP) No.58/2005 on Regional Financial Management Article 17 paragraph (1)
- b. Ministry of Home Affairs Ordinance (Permendagri) No. 13 in 2006 on Guidelines for Local Government Financial Management which last amended by No.21/2011
- c. Ministry of Home Affairs Ordinance (Permendagri) No. 32 in 2011 on Guidelines for Grants and Social Assistance

Management of revenue and expenditure in BLU of education done outside budget mechanism, due to there is no rules related management of revenue and expenditure which derived from student tuition and cost of development. While social expenditures and financial assistance has several problems including monitoring and evaluation which are not optimal, realization of selective assistance does not meet selective criteria, there are social assistance expenditure that has not been fitted with use of funds, SKPD and those who are responsible have not been doing monitoring and evaluation reports, and accountability reports are not completed by deadline.

5.3 Revenue and Expenditure of SPI Implementation

In the Government, a review of government performance agencies has been carried out by the Inspectorate of West Nusa Tenggara Province as Government Internal Control Apparatus (APIP). The Government has also used Local Government Management Information System (SIMDA) include SIMDA for Finance in Finance Division, SIMDA for Local Government Assets (SIMDA BMD) in General Division, and SIMDA for Reporting. Only SIMDA Salary that is not assigned by The Government.

Physical control over cash sourced from revenue and expenditure are performed. Cash paid in the treasurer of admission timely from a department to the Government, as well as cash to spend, it shall be submitted by 10th of next month, as a basis for publishing next Payment Warrant (SPP).

Separation of duties also exist in administration of revenue or expenditure procedures. Example for expenditure is separation of duties is done among head of financial administration in local government unit (PPK-SKPD), spending treasurer of SKPD, and local general treasurer (BUD).

Meanwhile, documents, records, and reports are made completely. SPP submission is always verified by the Government as its PPKD, if there is a correction, using memos. Numbers of letters are issued if the SPP is complete. Similarly, payment order (SPM) verified by Government before release of SP2D. However, as well as other local government, if there are change of revenue and expenditure budget, large amount of Money Supply (UP) still may not be altered, so that a local government unit should take additional money (TU) to cover spending. TU must be discharged within 1 month.

Constraints are related with Certificate of Deposit Income (STS) or other proof of payment, sometimes it can't be obtained in same day by accounting division, even though the money had gone into local bank (NTB Bank) so that cash book must be follow with current account, although there is no evidence of its deposit. This usually happens on payment of revenue that is not derived from Department of Revenue, but comes from third party. Third parties sometimes also deposit in other banks, not in the Bank, because their position is sometimes located in other areas, so that it needs to reconcile between bank accounts.

6. Conclusion, Limitation, and Suggestion

Based on the research, it can be concluded that compliance of LRA 2011 and 2012 with PSAP No. 2 is 80,9%. Compatibility percentage between LRA with PSAP No.2 is rela-

tively high but does not reach 100%. While viewed from internal control systems, it still needs improvement in accounting and reporting control systems and also implementation of control system for budget revenue and expenditure. This suggests that Government not fully implemented the principles of governance. Therefore, in CaLK related LRA, also advised to inform cause of material differences between budget and actual revenue and expenditure. It is also advisable to explain fiscal and monetary policies that affect budget implementation in CaLK.

Finally, unqualified opinion on The Government's Financial Statements in 2011 and 2012 was the result of fulfillment financial statements of local government with Act No.24/2005. On the other hand, obligation to continue, to improve and to refine the SPI and its implementation must be pursued as a permanent duties to fulfill government integrity and accountability to stakeholders.

Limitation of this study is that the assessment of compatibility with PSAP No.2 and government internal control system (SPIP) did not carried and conducted through analysis of financial statements. It just carried and conducted through interviews without examined on document supporting LRA and SPI activity. For further research, it is expected to expand scope of conformity assessment with SAP an SPI activity, and enhance research methods used.

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Appendix 1.Compliance LRA with PSAP No.2

No	PSAP 2	Statement	Result	
	Paragraph		2011	2012
I		Forming LRA		
1	9	LRA has presented realization of revenues	C	C
2	9	LRA has presented realization of expenditures	C	C
3	9	LRA has presented realization of transfers	C	C
4	9	LRA has presented surplus/deficit	C	C
5	9	LRA has presented financing informations	C	C
6	13	LRA provides information about realization and budget of entity simultaneously	C	C
7	7	LRA provides information that realization of budget is in accordance with the budget/APBD	C	C
8	11	LRA is presented at least once a year	C	C
9	12	LRA is timely presented no later than 6 months after the end of fiscal year	C	C
10	13	Explanation is needed about LRA has been further elaborated in notes of financial statements	C	C
11	6	LRA provides information on realization of budget thoroughly and useful in evaluating the government's performance in terms of efficiency and effectiveness of use of budget	C	C
12	9	LRA has been presenting information about realization of revenues, expenditures, transfers, surplus / deficit, and financing, each of which can be compared with budget in the period	C	C
13	10	LRA has clearly and repeatedly identified the necessary information, such as name of reporting entity, reporting entity coverage, period covered, reporting currency, unit numbers used	C	C
14	11	If date changes and LRA annual reported by a period longer or shorter than one year, information on the fact that comparative amounts in LRA and related notes are not comparable, will be disclosed	NA	NA

No	PSAP 2	Statement	Result	
	Paragraph		2011	2012
15	13	If there are things that affect implementation of budget as fiscal or monetary policy, further will be described in notes of financial statements	NC	NC
16	13	If there is a material difference between budget and realization, it will be described in notes of financial statements	NC	NC
17	62	Transactions in foreign currencies are recorded in Rupiah currency to describe amount of foreign currency by central bank based on mid rate at time of transaction	C	C
II		Revenue Accounting		
1	13	Revenues owned listed in detail	C	C
2	22	Revenue is recognized when cash is received on local general cash account	C	C
3	63	Revenue transaction in goods and services form has been reported in LRA by estimating value of goods and services on transaction date	NA	NA
4	63	All relevant information regarding forms of revenue have been revealed in notes of financial statements	C	C
5	17	Revenue in LRA has been classified according to type of revenue	C	C
6	25	Revenue accounting use gross principle, and do not record net amount	C	C
7	26	In terms of public service agencies, revenue is recognized by reference to the laws that regulates public service agency	C	C
8	27	Revenue returns which is normal and recurring in admission period or in previous period, is recorded as a reduction of revenue in the same period	C	C
9	28	Non recurring revenue corrections and returns that has occurred on previous period, is recorded as a reduction of current funds equity in period where the correction and refund discover	C	C
III		Expenditure Accounting		
1	63	Expenditure transactions in goods and services form has been reported in LRA by estimating value of goods and services on transaction date	NA	NA
2	34, 35	Information on expenditures have been classified by economic classification (type of expenditure)	C	C
3	39	Information about expenditure realization has been contained personnel, goods, capital, interest, grants and unexpected expenditures	C	C
4	13	Expenditures that have been issued are listed in detail	C	C
5	63	All relevant information about form of expenditure disclosed in notes of financial statements	C	C
6	31	Expenditure is recognized when expenditure incurred from local general cash account	C	C
7	32	Specific expenditures through the treasurer are recognized when accountability for the expenditures authorized by unit which has function of treasury	C	C

No	PSAP 2	Statement	Result	
	Paragraph		2011	2012
8	45	Correction on expenditure (expenditure readmission) that occurred during a period recorded as a reduction of expenditure in the same period	C	C
9	45	Correction on expenditure (expenditure readmission) that occurred in the previous period recorded in other income	C	C
IV		Surplus / Deficit and Financing Accounting	C	C
1	49	excess or less between revenues and expenditures during reporting period are recognized as Surplus / Deficit account	C	C
2	63	Financing transactions in goods and services form have been reported in LRA by estimated value of the goods and services on transaction date	NA	NA
3	13	Financing revenue are listed in detail in LRA	C	C
4	59	Excess or less between revenues and expenditures of financing during the reporting period are recorded in net financing post	C	C
5	13	Financing expenditure listed in detail in LRA	C	C
6	52	Financing revenue are recognized when cash is received on local general cash account	C	C
7	53	Financing revenue accounting conducted based on gross principle	C	C
8	56	Financing expenditure are recognized when it is issued from local general cash account	C	C
9	54	Disbursement of reserve funds reduces related reserve fund	NA	NA
10	57	Establishment of a reserve fund adds related reserve fund	NA	NA
11	57	Results obtained from use of reserve fund is an addition to the reserve funds recorded as revenue in local revenue account	NA	NA
12	59	Excess or less between revenues and expenditures realization during reporting period noted in SILPA / SIKPA	C	C

ANALYSIS OF GAP BETWEEN SMALL MEDIUM ENTERPRISE TAX COLLECTION MODEL AND SMALL MEDIUM ENTERPRISE TAXPAYER CONDITION (Survey of Small Medium Enterprise Taxpayer in Bandung, West Java, Indonesia)

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ABSTRACT

Government of Indonesia recently implement Government Regulation No 46 year 2013 concerning Income Tax for Small Medium Enterprise (SME) effective July 2013. The government purpose is to foster SME taxpayer's compliance and provide relatively easy procedure for taxpayer. Taxpayer itself still has low knowledge of taxation procedure, so the implementation of this regulation will be a tough challenge. This research purpose is to analyze whether there is a gap between SME tax model and SME taxpayer's condition by examining 6 critical factors in SME tax model. Those 6 factors were: Model for Taxpayer Registration, Model for calculation and collection of the tax system, Presumptive model of tax system, Model for Incentives for Taxpayers, Model for Tax Administration Improvement and simplification, and Model for Tax Amnesty. Research method applied for this research is qualitative research model with descriptive approach. Data collected using literature review and interview to SME taxpayer reside in Bandung, West Java, Indonesia and to tax officer specialized in SME tax model. Data analyzed using content analysis. Research concluded that from 6 critical factors in SME tax model, there is a significant gap in taxpayer's condition. Research shows that taxpayer's still has no or little knowledge of tax laws and tax procedure and administration itself, so the effort of tax office should be paced up, so SME taxpayer will understand tax lawas and tax procedure and administration better.

Keywords: Small Medium Enterprise, Tax Compliance Model, Government Regulation No 46 year 2013.

Research Background

Indonesia's economy has grown substantially in the last decade, despite the global crisis that occurred in 2008, as well as various environmental upheavals that occurred in Indonesia. One contributing factor to Indonesia's economy growth is the growth of Small Medium Enterprise (SME's). SME has an ability to build economic sustainability Indonesia

local market, and therefore is not affected by the global crisis . SME also have the potential to expand into the international scale, mostly by exporting SME's goods.

Ministry of Cooperatives and Small and Medium of Indonesia estimates SME contribution to Gross Domestic Product (GDP) in 2013 reached about 57 percent. The labor force is absorbed by SMEs account for about 101 million people with a number of business units as many as 55 million units. Data collected by Central Bank of Indonesia (2009) showed that SME sector play important role in economic growth of Indonesia. Although the data showed that large businesses still dominate the economy in Indonesia, but SME data showed great potential to overlap large business in the future. SME's business growth and market share increases beyond large enterprises , as can be seen in the following table

Table 1
Comparison of UMKM Growth

PERKEMBANGAN DATA USAHA MIKRO, KECIL, MENENGAH DAN BESAR (UMKM) TAHUN 2007 - 2008							
NO	INDIKATOR	SATUAN	TAHUN		PERKEMBANGAN TAHUN 2007-2008 (%)	PANGSA (%)	
			2007 ⁽¹⁾	2008 ⁽²⁾		TH. 2007	TH. 2008
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Unit Usaha	(Unit)	49.828.586	51.261.909	2,88		
	- Usaha Mikro	(Unit)	49.287.276	50.697.659	2,66	98,91	98,90
	- Usaha Kecil (UK)	(Unit)	498.565	520.221	4,34	1,00	1,01
	- Usaha Menengah(UM)	(Unit)	38.282	39.657	3,58	0,08	0,08
	- Usaha Mikro, Kecil dan Menengah (UMKM)	(Unit)	49.824.123	51.257.537	2,88	99,99	99,99
	- Usaha Besar (UB)	(Unit)	4.463	4.372	(2,04)	0,01	0,01
2	Tenaga Kerja	(Orang)	91.928.262	93.672.484	2,34		
	- Usaha Mikro	(Orang)	81.732.430	83.647.711	2,34	89,30	89,30
	- Usaha Kecil (UK)	(Orang)	3.864.995	3.992.371	3,30	4,22	4,26
	- Usaha Menengah(UM)	(Orang)	3.142.319	3.256.188	3,62	3,43	3,48
	- Usaha Mikro, Kecil dan Menengah (UMKM)	(Orang)	88.739.744	90.896.270	2,43	96,95	97,04
	- Usaha Besar (UB)	(Orang)	2.788.518	2.776.214	(0,44)	3,05	2,96
3	PDB Atas Dasar Harga Berlaku	(Rp. Milyar)	3.743.977,5	4.696.481,2	25,44		
	- Usaha Mikro	(Rp. Milyar)	1.208.029,0	1.505.308,0	24,61	32,27	32,05
	- Usaha Kecil (UK)	(Rp. Milyar)	385.313,5	473.267,3	22,83	10,29	10,08
	- Usaha Menengah(UM)	(Rp. Milyar)	511.792,6	630.784,8	23,25	13,67	13,43
	- Usaha Mikro, Kecil dan Menengah (UMKM)	(Rp. Milyar)	2.105.135,1	2.609.360,1	23,95	56,23	55,56
	- Usaha Besar (UB)	(Rp. Milyar)	1.638.842,4	2.087.121,1	27,35	43,77	44,44
4	PDB Atas Dasar Harga Konstan 2000	(Rp. Milyar)	1.882.313,6	1.997.725,8	6,13		
	- Usaha Mikro	(Rp. Milyar)	620.251,1	654.762,7	5,56	32,85	32,78
	- Usaha Kecil (UK)	(Rp. Milyar)	203.847,3	217.219,8	6,56	10,83	10,67
	- Usaha Menengah(UM)	(Rp. Milyar)	275.202,7	293.274,9	6,57	14,62	14,68
	- Usaha Mikro, Kecil dan Menengah (UMKM)	(Rp. Milyar)	1.099.301,1	1.165.257,5	6,00	58,40	58,33
	- Usaha Besar (UB)	(Rp. Milyar)	783.012,4	832.468,3	6,32	41,60	41,67
5	Total Ekspor Non Migas	(Rp. Milyar)	715.241,0	910.927,9	27,35		
	- Usaha Mikro	(Rp. Milyar)	15.024,8	20.247,2	34,76	2,10	2,22
	- Usaha Kecil (UK)	(Rp. Milyar)	34.661,8	44.148,3	27,37	4,85	4,85
	- Usaha Menengah(UM)	(Rp. Milyar)	93.325,7	119.363,6	27,90	13,05	13,10
	- Usaha Mikro, Kecil dan Menengah (UMKM)	(Rp. Milyar)	143.012,3	183.759,1	28,49	19,99	20,17
	- Usaha Besar (UB)	(Rp. Milyar)	572.228,7	727.168,9	27,08	80,01	79,83

source : Central Bank of Indonesia

Potential of SMEs can be viewed from various perspectives such as from the contribution of SMEs to GDP, employment, and the number of SME units. If we capture another data, the potential of the SME's GDP from overall GDP generated in 2009 was approximately Rp. 3.000 trillion, overwhelmed large industries by Rp. 700 trillion. The data can be described in the following table:

Table 2
Comparison of GDP Contribution

No	Sektor Ekonomi	Nilai PDB Atas Dasar Harga Berlaku Tahun				
		Mikro	Kecil	Menengah	UMKM	E
1	Pertanian, Peternakan, Kehutanan dan Perikanan	761,779	1,663	58,041	821,483	
2	Pertambangan dan Penggalian	71,857	5,270	12,809	89,936	5
3	Industri Pengolahan	181,253	141,487	168,204	490,944	9
4	Listrik, Gas dan Air Bersih	92	453	2,749	3,295	
5	Bangunan	57,106	33,420	112,815	203,341	3
6	Perdagangan, Hotel dan Restoran	408,842	221,184	92,975	723,001	
7	Pengangkutan dan Komunikasi	77,896	23,997	64,170	166,063	1
8	Keuangan, Persewaan dan Jasa Perusahaan	40,173	41,834	168,664	250,671	1
9	Jasa-jasa Swasta	152,647	58,936	32,836	244,419	
	Nilai PDB Total Dengan Migas	1,751,645	528,244	713,263	2,993,152	2,3
	Nilai PDB Tanpa Migas	1,751,637	528,103	709,345	2,989,085	1,8

source : Central Bank of Indonesia

Potential tax revenue is encouraging SMEs to impose taxes on the SME sector. However, prior to the imposition of taxes to SMEs, please note that the taxation of SMEs is not easy, because there are some unique business processes and breadth of the scope of SME business. Currently, SME has four main problems. The first problem is the difficulty of obtaining capital from financial institutions (only 25% or 13 million SMEs who have access to financial institutions) due to collateral issues and non-formal institution of SME. The second and third problems are poor access to markets and poor financial management. And, the fourth problem is the lack of focus of a multi-business SME, so it is difficult to determine the focus of their business.

Number of SME business unit is largely informal, with no legal deed as a foundation. This makes tax imposition become difficult. Various aspects such as ignorance of SMEs to the tax code, and tax office still focused on the tax collection towards big corporate taxpayers, causing SME tax collection before 2012 not get adequate attention.

Total of informal SME in 2009 totalled 50 million business unit, from 52 million business unit around in Indonesia. Number of SMEs from formal and non-formal sector in 2009, according to data from Bank Indonesia and the Ministry KUKM can be described in the following table:

Table 3
Formal and Non-Formal Business Unit in Indonesia

No.	Sektor Ekonomi	Jumlah Unit Usaha Menurut Skala Usaha dan Status Badan Hukum Tahun 2009								
		Non Formal			Formal					Total
		Mikro	Kecil	Jumlah	Mikro	Kecil	Menengah	Besar	Jumlah	
1	Pertanian, Peternakan, Kehutanan dan Perikanan	26,364,440	3,056	26,367,496	-	-	1,803	528	2,331	26,369,827
2	Pertambangan dan Penggalian	188,570	1,501	190,071	80,946	645	267	84	81,942	272,013
3	Industri Pengolahan	3,140,613	53,970	3,194,583	64,433	1,107	8,373	1,178	75,091	3,269,674
4	Listrik, Gas dan Air Bersih	7,583	391	7,974	3,255	168	323	122	3,868	11,842
5	Bangunan	376,840	9,212	386,052	161,763	3,955	1,928	256	167,902	553,954
6	Perdagangan, Hotel dan Restoran	15,112,028	400,875	15,512,903	-	-	21,061	1,303	22,364	15,535,267
7	Pengangkutan dan Komunikasi	3,042,133	16,262	3,058,395	346,609	1,853	1,486	346	350,294	3,408,689
8	Keuangan, Persewaan dan Jasa Perusahaan	644,204	15,397	659,601	387,405	9,259	4,121	644	401,429	1,061,030
9	Jasa-jasa Swasta	1,408,777	18,124	1,426,901	847,196	10,900	1,771	216	860,083	2,286,984
	Total	50,285,187	518,789	50,803,976	1,891,608	27,886	41,133	4,677	1,965,304	52,769,280

Sumber: BPS, dan Kementerian Koperasi dan UKM (Data diolah)

Catatan:

- Data Statistik UMKM tahun 2010 belum dapat dipublikasikan sampai dengan tanggal 27 April 2011 (menunggu hasil pembahasan)
- Formal adalah unit usaha yang berbadan hukum dan memiliki perijinan usaha dari instansi terkait.
- Non Formal adalah unit usaha yang tidak berbadan hukum dan/atau tidak memiliki perijinan usaha dari instansi terkait secara lengkap

source : Central Bank of Indonesia and Ministry of Cooperation and SME (2009)

Effective July 1st, 2013 SME who has gross income maximum 4.8 billion has to pay Income Tax according to Government Regulation Number 46 year 2013 (Regulation). Tax payment must be done monthly using 1% tariff from total gross income. This payment mechanism requires SME to record sales daily for month. SME also have to fill tax return and paid using tax deposit slip.

Tax calculations relatively easy, since using gross income for income tax base, so taxpayer don't have to produce profit/loss statement or held bookkeeping to calculate tax bases, like regular Income Tax. This calculation not considered profit or loss, so although the taxpayer suffer loss , taxpayer still have to pay tax. For tax loss compensation, the gross income should exceedRp. 4.8 billion at the end of the year so the tax loss could be compensate with current year income, and tax calculation will be using regular Income Tax calculation.

Study conducted by Martfianto (2013)stated there are pros and cons regarding the application of Regulation . Taxpayer was resistant due to psychological factors such as reluctance to pay taxes. Before regulation applied, taxpayers were not paying taxes, so when the regulation become effective, taxpayers have to pay tax and they were not feel happy. The study also stated many taxpayer not know about tax administration system for the taxpayer.

Previous research in SME's taxation showed that SME's taxation model need some special aspect adjustment. In Pakistan, a study conducted by Memon (2013) , showed that most of SME's institution form is informal. This form create bottleneck for the implementation of income tax collections. Pakistan decided to adopt a simple taxation system (presumptive) for SME sector. In Jamaica, a study conducted by Wedderburn, et al (2012) showed the same situation like waht happened in Pakistan. Wedderburn

To establish the taxation model for SME , it is necessary to insert some benefits and tax incentives, For example,so the taxpayer won't be reluctant to fulfill tax obligation. The tax system should be simple and presumptive, so the taxpayer wont find difficult to understand the tax system.Government gives incentives to SME, by giving broader market access of SME to the global level . The incentives will motivate SME to fulfill tax obligation, instead of general motivation and persuasion procedure to taxpayer.

In addition to the incentives,SME also need to be facilitated with several convenience and facility. For example, establishtax payment and billing system by cooperating with bank and some financial institution or withholder, so SME taxpayers don't have to queue at the bank because tax payments can be done automatically through a bank account owned by the taxpayer, and the data are connected through point of sales (cash register) of SME taxpayers.

Tax model will support the implementation of regulation. The research want to describe whether the Income tax imposed through regulation suitable to SME tax models and perceived well by taxpayer.Researchers are interested in conducting research on taxpayer's condition in implementation process of SME Income tax.

Research Problem and Purpose

New tax regulation established for SME will cause SME to adapt immediately. For example, SME must register themselves to be a taxpayer, by obtaining taxpayer identification number (NPWP). SME also must make careful calculation, so the amount of tax won't be mistaken. Previously, SME only perform simple calculations, but in the future, they will be expected to make transaction recording in a professional and complete detail, although only for revenue/income section. Some sanction or incentive will be available to enforce the implementation of law

On the other hand, Directorate General of Taxes have to assess the implementation of SME Income Tax system. Will the tax system provided in this law make taxpayer comply voluntarily to income tax law? Will this tax law provided a suitable model for income taxation for SME?

Based on previous explanations, the research purpose is to analyze whether there is a gap between SME tax model and SME taxpayer's condition. To answer and explain the gap, like stated in research purpose, the Research problems can be stated as follows:

1. How is the SME taxpayer condition and knowledge regarding implementation of new SME Income Tax?
2. How is the Government Regulation Number 46 year 2013 suitable with SME Income Tax modelling?

Literature Review

Small Medium Enterprise (SME)

Small and Medium Enterprise (SME) are the dominant business in Indonesia and plays an important role in the economic sector. SME regulated by Law Number 20 year 2008 on Micro and Small Medium Enterprise. The definition of SME like stated in Law Number 20 year 2008 are as follows :

- Micro is a productive enterprise owned by individuals and / or entities individuals who meet the criteria as set forth in this Law .
- Small businesses are economically productive activities that stand alone, which is carried by an individual or business entity that is not a subsidiary or branch company is not owned, controlled , or be part either directly or indirectly from a medium or large businesses that meet the criteria as set forth in this Law .
- Medium Enterprises is a productive economic activities that stand alone , which is carried by the individual or business entity that is not a subsidiary or branch company owned, controlled , or be part either directly or indirectly with Small or large businesses that meet the criteria as set forth in this Law.

SME classified into Micro, Small, and Medium Enterprise, based on annual sales and total asset as follows:

Table4
SME Classification

SCALE	MAX NET WORTH	MAX SALES (ANNUAL)
MICRO	Rp. 50 MILLION	Rp. 300 MILLION
SMALL	Rp. 500 MILLION	Rp. 2,5 MILLION
MEDIUM	Rp. 10 BILLION	Rp. 50 BILLION

source: Law Number 20 year 2008

Characteristics of SME as stated by Central Bank of Indonesia (2009) are:

1. There is no separation between the owner and management. The owner act as a manager and also actively work in the business.
2. Using limited source and quantity of worker/employee, usually worker/employee who has still blood-line or family.
3. Financing his own equity (Has limited access to bank)
4. Not incorporated, almost 78.6% are individual businesses.
5. The sales orientation is to local market
6. The influence of family, local culture and the environment are very large in the company's operations
7. Have limited resources, including technology, employee, and financing resource.
8. Informal and flexible management system.
9. Business development depends on the owner's intention.
10. Most of the sector concentrated in Java and Bali island (approximately 69%) and the majority are in rural areas (74%)

SME sector provide employment and contributes significantly to the Gross Domestic Product (GDP). Data based on the 2006 Economic Census showed that micro and small

businesses dominate in terms of business units (99.1%) and employment (84.4%), with a ratio of 2 workers per unit of effort for micro and 3 workers per unit of effort for small businesses. Instead of large and medium industries, the number of business units is only 0.9%, absorbing 15.5% of workers with 19 comparisons of labor per unit of effort for medium, and 108 labor per unit of effort for large businesses.

SME Taxation Model

SME business are grow and make contribution to economy of Indonesia, yet still compliance of SME toward tax is still low. There are some problems to impose income tax on SME, the problems based on data obtained from the Directorate General of Taxes (2012), are:

- Has different characteristics with large businesses, some SME not permanently resides and can easily move from one place to another.
- Number of Taxpayer is large.
- Relatively small scale of operations so the total income is relatively small.
- Do not have adequate bookkeeping/accounting, so the amount of tax payable is difficult to determined.
- Most of the transactions are made with cash with no cash register machine, so the tracing of transaction data is difficult.
- Understanding of taxation law is very low
- High compliance cost and administration cost for tax collection (cost benefit principle)

The effectiveness of the SME Income tax will be determined by various key success factors. It must adopt SME Income taxation model. There are 6 criteria for SME taxation model as stated by DGT (2012), namely:

1. Promoting / corrections for taxpayer registration enforced .

The identity as a taxpayer is absolutely necessary so SME will recognized to pay certain amount of tax. DGT needs to develop a model to issue taxpayer identification number (NPWP) or taxable entrepreneur numer (NPPKP) with ease, so taxpayer feel it is easy to obtain identity.

2. Optimizing the Tax Withholding System

Withholding tax by a third party can be utilized so SME tax payment will be more efficient, rather SME has to pay themselves. The type of tax collection using withholding can be found in Income Tax article 21, 22, 23, 4(2) or Value Added Tax.

3. Presumptive tax system

Presumptive tax system is tax system that simpler than the prevailing tax system. Because the SME has several limitation with large taxpayer, SME income tax must be simpler, so SME will be more easy to comply and don't feel overload with many tax administration procedure.

4. Incentives on Taxpayers

There must be an incentives to taxpayers who comply to law. This incentive could be in form of wider banking access, international trade incentive, etc. Tax authority must cooperate with various government agencies, or financial institution to provide these incentives.

5. Improvements Administration of Taxation and simplification for SMEs

Tax administration, especially regarding calculation, payment, and reporting needs to be improved to make it easy and simple for SME. Several improvement can be used, for example using of information technology infrastructure.

6. Granting Tax Amnesty on compulsory SMEs

Several SME taxpayers who meet the terms and condition must be eligible for tax amnesty, such as: Not conduct audit for pas tax payable or administration sanction waive.

Government Regulation Number 46 year 2013

Government Regulation (PP) Number 46 Year 2013, entitled "Income Tax on Received or Accrued Income from Taxpayer Which Has Certain Gross Income". This regulation derived from Law No. 36 of 2008 on Income Tax. This law specifically regulate taxation for SME taxpayers

Purpose of Government Regulation No. 46 of 2013 are as follows:

1. To ease and simplify of the tax law and administration for SME taxpayer;
2. Educate the SME taxpayer to the orderly administration;
3. Educate the SME taxpayer for financial information transparency;
4. Give a medium for SME to contribute for the nation's development.

The brief content of Government Regulation Number 46 year 2013, can be described as follows:

1. The taxation nature is final, so the income tax paid, can't be recognized as tax credit.
2. Imposed on an individual taxpayer or a corporate taxpayer (except for permanent establishment), and receive income from the business, (except for income from independent personal services) not exceeding Rp4.800.000.000,00 in one (1) tax year.
3. The rate of income tax is 1 % (one percent).
4. Tax bases used to calculate the income tax is the amount of gross income each month
5. Individual taxpayer exempted from this income tax is individual taxpayer who undertake business activities and / or services in its business, that :
 - a. using the facilities or infrastructure that can be assembled , whether settled or not settled , and
 - b. using some or all of the place to which the public interest is not destined for a place of business or selling .
6. Corporate taxpayers that exempted from this income tax is corporate taxpayer who undertake business activities and / or services in its business, that:
 - a. Taxpayers whose has not been in commercial operation , or

- b. Taxpayers agency within one (1) year after the commercial operation gain on gross income exceeds Rp4.800.000.000 , 00 (four billion, eight hundred million dollars)

Research Method

Object of this study is the gap of taxpayer condition and knowledge of SME taxation and DGT income tax collection model. This study will examine 6 factors for SME Income Tax Collection model and assess taxpayer condition and knowledge, and also the implementation in Government Regulation Number 46 year 2013, stated as follows :

1. Model for Taxpayer Registration.
2. Model for calculation and collection of the tax system .
3. Presumptive model of tax system
4. Model for Incentives for Taxpayers
5. Model for Tax Administration Improvement and simplification
6. Model for Tax Amnesty

Data collected using a variety of data collection methods , namely :

1. Literature review , which is studying and analyzing literature relating to taxation of SMEs .
2. Interview , which interviewed SME and the Apparatus from DGT.
 - a. From SME, Researcher selected 3 respondents who are SME entrepreneurs. SME entrepreneurs chosen to see the readiness of SMEs and SME perceptions of SMEs in the implementation of the tax law.
 - b. From DGT, Researcher selected 3 respondents who understand taxation on SMEs , this is to explain the regulation, and information regarding tax model implementation in tax law, as well as to perform triangulation (data matching) between the data collected from respondents SME and literature review.

Data will be analyzed using qualitative descriptive method. Qualitative descriptive research including the exploration and research plays a very important role in creating a hypothesis or understanding of people about various social variables (Burhan Bungin, 2007). The results of the interview, will be analyzed using content analysis method. Content analysis is a research technique for making inferences that can be emulated, and validate the data by taking into the context or theory (Burhan Bungin, 2007). The use of content analysis will focus on how the literature review and the data content of the interview can describe social interaction , so it can be analyzed and concluded. Content analysis will be done with a pragmatic approach, based on existing taxation theory. The content analysis work using several steps as follows (Burhan Bungin, 2007):

1. Finding attribute / symbol / meaning that exist in the data , namely the interview data.
2. Classifying data with specific criteria, as well as cross- checks between the data with other data. Classification of data will be divided according to the categories mentioned
3. Analyzing data pragmatically, namely the readiness of the taxpayer and the taxpayer's perception of the SME income tax model, and also further explanation of government regulation number 46 year 2013 by DGT apparatus.

In analyzing the interviews using the content analysis, the researcher wrote an answer in every questions asked in interview, and researchers would interpret the meaning of

the informant's answers for both explicitly or implicitly .

Research Result and Analysis

Based on interviews and literature review conducted, researchers describe the results of the study as follows:

Taxpayers Registration Model

Taxpayer in Indonesia mostly don't have sufficient awareness regarding tax administration and procedure, namely most of Indonesian taxpayer don't register as taxpayer. In order to implement new tax regulation on SME, tax office must design new model for taxpayer to register, so it will be convenient for taxpayer to do so.

Respondents from tax office stated that taxpayer registration and data will utilize electronic national identity card (E-KTP) designed by Ministry of Domestic Affairs. Tax office also will gather taxpayer data by cooperate with several SME association, traditional market survey, and also with national census, the respondent said:

"We will utilize E-KTP system , although the accuracy is still not 100 % but it looks like we 'll still using it. We also " pick up the ball " to the traditional market , so we have all the record (of taxpayer)"

To raise awareness, tax office also put an effort to socialize the tax regulation through various media. Respondents from tax office stated that socialization effort take forms such as: opening the stand on the traditional markets and malls, beside mass media, to provide information closer to potential taxpayers . As stated in the interview:

"Socialization done through the mass media , print , electronic but most of it is through a stand in the SME exhibition , in the mall, market ... "

Taxpayers respond in this point are vary. One of them already know about taxes in PP 46 in 2013 , but don't understand the technique and procedures for registration. One of the respondents claimed not knowing the regulation at all . Socialization also perceived to be less effective, one of the respondent that sell product in his residences say that he had receive no socialization from tax office , since it never come to residential, but mainly to mall or market. Other respondent knows about this tax, but had not received a direct explanation from tax office , but rather from fellow SME and the general public gossip.

The above results showed that there is a gap between taxpayer condition and taxpayer registration models. Respondents felt that the tax office efforts to disseminate information regarding registration is still low , so taxpayer effort to register into taxpayer was still low.

IFC (2009) stated in its report that the successful implementation of regulation will be determined by successful taxpayer registration. The tax authorities may take various effort to increase registered taxpayer as follows :

- Facilitate taxpayer registration by opening stand in mall, market, and several strategic places.
- Simplify the registration process and time for processing. Any delays would give nega-

tive impression on taxpayer.

- Ensure accuracy of taxpayer data. Research shows that although new SME born every month, but also SME survive only for a short period of time, only 50% of SMEs are still in operation after five years, the data updating will be critical .
- Establish program for disseminating information and communication to the SME community .
- Cooperation with third parties to establish taxpayer database.

Models for Calculation and Collection of Tax

Adam Smith mentioned 4 principles of tax system, namely: equality , convenience , economic , and certainty (Siti Resmi. 2010). In this taxation principle , equality means that taxation must be fair and equitable, that is subject to an individual who should be proportional to ability to pay and in accordance with the benefits received. Economic means that every tax collected should provide more benefit rather than its cost. Certainty means that the assessment is determined using certain law and procedure. so, taxpayers will know how much tax due, when to pay, and the payment deadline. Convenience principle means that time for taxpayer to pay tax in accordance don't provide difficulties for taxpayer. For example, tax should be payable at the time when taxpayer obtain income. The system is called Pay as You Earn. (Siti Resmi. 2010).

Respondents from tax office stated that SME income tax model are in accordance with four canon of taxation as described above. The SME taxation is intended to facilitate the taxpayer so it will provide easy and not complicated procedure. Respondent state information as follows:

1. SME Income tax collection system designed as final income tax, intended to provide easy administration for taxpayers in meeting their tax obligations. Final income tax will make tax payment settle at time for payment, so taxpayer will be exempted from further tax obligations such as calculate tax credits at year end, making it more efficient in time and convenient for taxpayers . As stated by respondents :
"Final tax provide benefit , taxpayer didn't have to do further obligations, so filling tax return will become easy."
2. Income tax rates is set at 1% per month. This rate is determined by assesing economic capacity of the taxpayer, Imposition of a single rate make calculation become simple and provide certainty to calculate the tax payable, respondent said:
"We can't say in detail why we set that rate (1%),but single, low tariff will make it easier for taxpayer to remember and calculate taxes."
3. Income tax basis determined to be gross income , because mostly SME taxpayers are not yet understand much about bookkeeping and accounting process. Most SME only calculate sales number periodically. Respondents from tax office said:
"Not all taxpayer understand accounting and bookkeeping, usually income tax levied on net income, but how to derive it, since they're not calculate it (expense)? they only calculate revenue, so actually it will be easier for them to do so."

Taxpayer respondents stated they are still confused about the mechanism of tax calculation, payment, and report. Many taxpayers don't know the mechanism, and don't put an effort to know it further. In an interview conducted, the majority of respondents

answered don't know about the mechanism of tax calculation and reporting .

Based on the explanation above, there is still a gap between taxpayer condition in the model for calculation and collection of tax. Most respondents still not know about calculation, payment, and reporting of the tax, so although tax system is easy, but still not run properly because the taxpayers don't know how to do their tax obligations .

IFC (2009) research showed that in collecting tax, the taxpayer should use third party to withhold tax. By delegate the calculation, withhold, and payment using third party, it will provide a variety of benefit for taxpayers and tax office, as follows :

- Lowering administrative burden by shifting some responsibility of collecting taxes to the tax withholder.
- Provide to be an effective instrument to collect tax from unregistered taxpayer, so it will minimize tax evasion. In a country with low levels of tax awareness , withholding tax system is a mechanism that can force the taxpayer to pay tax through a third party.
- Creating an increase in the number of registered taxpayer, since usually unregistered taxpayer will impose with bigger tax rate, rather than registered tax payer.

Presumptive Tax System Model

Government of Indonesia use self-assessment as their tax system. Self assessment tax system give authority, trust, and responsibility to the taxpayer to calculate, pay and report the amount of tax due by themselves (Siti Resmi.2010). With a self-assessment tax system , taxpayers do 4 things in the fulfillment of tax obligations , namely :

- 1 . Calculate tax payable.
- 2 . Calculate tax credits and subtracting it with tax payable.
- 3 . Pay tax payable.
- 4 . Report tax payment and payable by filling tax return.

Presumptive tax system is a tax system that provides simplicity for taxpayers in conducting their tax obligations (Jones. 2012). Presumptive tax system also defined as a tax system that is simpler than the prevailing normal tax system. Application of presumptive tax regimes in various countries is based on the believe that normal tax system often obligate taxpayer to maintain heavy and costly administration (such as: bookkeeping, accounting, filling many tax returns, etc). From the point of view of SME, tax system will be a burden. Tax office respondent in an interview, stated a prove that SME tax system already a presumptive one, as follows:

“We already meet the presumptive system , from the tax bases , rates , and the nature of this collection is much simpler than the regular income tax. Other alternatives exist, such as using third party or tax office calculating tax payable, but this is not in accordance with the spirit of self-assessment system that apply in Indonesia income tax.”

Taxpayer respondent stated that although tax system is simple, but still result in higher taxes paid. One of the respondents said that taxes should be levied on net income instead of sales or at least at fixed amount, because then the tax paid will be cheaper. As stated by respondents :

“Taxes that should be paid out of net income , so if I suffer net loss , I am not paying tax , if the tax bases is gross sales , we must pay tax despite suffer net loss . This system

is detrimental to the taxpayer. “

For the question of whether taxpayer agree to a final income tax on SME Income tax system, all respondents agreed because it simplifies the fulfillment of tax obligations.

Based on the above results , there is still a gap in taxpayer’s condition regarding presumptive tax system models. Tax office needs to make improvements in this system. Various models of presumptive tax system, proposed by the Organization for Economic Development (OECD. 2012) , which are as follows :

- Different tariffs for each business segment or industry. Different business segments can be taxed differently, according to the conditions happen to existing industry.
- Tax impose only for certain Taxpayers. Tax can be applied specifically to certain types of taxpayers , thus for taxpayer who hasspecific economy insufficiency, taxes are not imposed .
- Maintain a simple system of bookkeeping. Tax office may designso bookkeeping will be simpler for certain taxpayers, such as only keep records of total income, expenses, assets , liabilities , and equity in a simple, or prepare partial complete financial statement.

Models for Taxpayers Incentive

Taxpayers who meet certain tax obligations as provided by law , are entitled to certain incentives. Incentives itself can be interpreted as a form of reward to comply taxpayer as well to motivate taxpayer compliance in order to maintain compliance with tax obligations .

SME taxpayer heavily affected by new regulation in Government Regulation Number 46 year 2013. As taxpayer affected by the new regulations, taxpayer will incur costs and times to adopt with new system, and sometimes resistance will surface, so it needs an incentive for SME taxpayer to comply to new rules. Respondentfrom tax office said that tax office has provided various incentives such as the exclusion of some merchants of SME taxation obligations, such as merchants who sell goods on the street or sidewalk (informal sectors). Additionally , incentives are also given in the form of tariff reduction for specific industries and accelerated costs and depreciation, as stated by the respondents like this:

“This regulation does not apply to all taxpayers, not for informal sectors, it ‘s been incentives actually, then in addition to this regulation , Income Tax Law actually give incentives such as longer loss compensation , accelerated costs and depreciation expense, for certain taxpayers.”

All respondents from taxpayer who were interviewed by researchers claimed not know about the incentive in accordance with Regulation 46 of 2013 or Income Tax Law. Based on the above results, thereis still a gap between taxpayer’s condition and model for tax incentive of SME. According to the OECD (2012) , few incentives for SMEs taxpayer can be as follows :

- Reduction in tax rates. To maintain competitiveness of SME, tax office can provide lower income tax rates for SME
- Tax Holiday. Usually carried out by exempt SME for paying tax first few years, followed by a lower tax rate for a couple of years later, before the standard rates applied .

- Accelerated Costs and Depreciation Expense. Accelerated depreciation is one of the features that exist in taxation, accelerated depreciation which allows taxpayers to expense significant depreciation expense in the early years , so as to lowering tax payable of taxpayer
 - The due date to paid underpaid tax assessment can be extended for certain taxpayer. This provides more times for taxpayers to be able to pay tax underpayment amount.
- Model For Tax Administration Improvement And Simplification

To support the model of presumptive tax system, tax office must simplify and reform tax administration itself . To apply for SME Income tax, it is necessary to implement tax administration system that facilitates the taxpayer and not cause difficulties to taxpayer. Respondent from tax office stated that tax administration system already has several new improvements such as : Data Collection taxpayer of SME based on various segment, utilization of information technology for ease of payment and tax reporting, cooperation with local governments, especially enterprises that deal with traditional markets for data collection and payment of taxes. The interview results expressed as follows:

“Tax office has try to simplify administration of ta , we take advantage of information technology for the creation of e - NPWP , e - filing and a lot of use of information technology, like payment through ATM of various Banks We also cooperate with local governments, such as in Jakarta Province, we cooperate with traditional market caretaker so that all tenants must use the cash register, it is beneficial for the income tax collection.”

Respondents stated that the taxpayer’s tax reporting and payment system with the current system already provide convenience. Although Taxpayer still propose improvements to the tax administration system such as : utilizing bank transfer and electronic banking, for example, pay tax through internet or mobile phone, or using auto-debit. The taxpayer also agreed with tax office efforts to make improvements and simplification of the system of payment processing and tax reporting for SMEs. Although respondent also stated that taxpayer often don’t receive news regarding improvement.

Although at this point, there is no gap between taxpayer condition and model for tax administration improvement and simplification, IFC (2009) states that information technology is not the only one factor that determine the success of the implementation of the SME tax. Administration should be improved so that information technology can be implemented properly. Some form of administrative improvements of SME taxation is as follows:

- Organizational Restructuring
- Develop Taxpayer Segmentation
- Optimization of IT through the development of information and content on the Web-site,
- Development of e-tax or module solution - implementation of self-assessment modules, such as e - filing , e - tax return , and so on .
- risk-based tax audit, so only the taxpayer who has a high risk of tax avoidance or tax evasion that will be audited, not all taxpayer will be audited. So, the audit can be performed more optimally
- Cooperation with the local government tax authorities and certain private institutions

(banks, markets, etc).

Models for Tax Amnesty

As a consequence for non-comply taxpayer, taxpayer may subject to several tax penalties. Sanctions could be in form of administrative sanctions, for just an error in tax calculation and tax return mistake and or criminal sanctions, if there is an indication that the taxpayer intentionally commit fraud and manipulate tax payment.

As a new taxpayer, the SME also need to get some tax incentives , one of which is Tax Amnesty. Tax Amnesty is a form of exemption of one or all of the tax penalties. Respondents from the tax office stated that there is currently no method of tax amnesty for SME , but tax amnesty may be granted if it meets certain criteria , namely the length of time and taxpayer risk profile , as stated as follows :

“No tax amnesty for SME provided in current regulation , but tax office try to analyze and evaluate carefully , tax amnesty may be provided in future, as long as the taxpayer risk is known, clear periods of amnesty, and we have to keep in mind that tax amnesty not for al tapayer, but only certain taxpayer.”

Respondents from the taxpayer did not know about the system of tax amnesty granted by the tax office. This is normal, because the laws also not state anything regarding tax amnesty. Tax amnesty is one strategy that is often applied in various countries to improve tax compliance. Tax Amnesty is usually given in the form of exemption from penalties or fines and penalties for taxpayers who voluntarily participated in the program. For taxpayers who do not take advantage of the tax amnesty will usually be severely penalized if discovered at a later date that the tax -reporting is not true. IFC (2009) research showed that tax amnesty should be applied selectively. Taxpayer in Large Tax Office show more comply to law after giving tax amnesty. Besides the time period for tax amnesty should be limited.

Conclusion

Based on the above results and analysis, the following conclusions can be made:

1. Taxpayers still not know or has limited knowledge regarding further implementation of SME Income Tax provided in Government Regulation Number 46 year 2013. Taxpayers do not know details about the tax administration system, so implementation of tax regulation will be difficult.
2. Directorate General of Taxation has attempted to construct a model of taxation for SME sector, through 6 dimensions of Income Tax model for SME. From 6 dimensions, it can be seen that there is a gap of information acquired by a taxpayer with tax regulations.

Suggestion

Based on the above conclusion, the authors suggest to do things - the following:

1. For Directorate General of Tax, the results showed that many taxpayers do not know about new tax regulation for SME so there is still need much effort to disseminate information to taxpayer regarding the implementation of this Regulation 46 of 2013,

- and also to construct tax modelling for SME Income Tax collection.
2. This study is an exploratory study conducted using qualitative research method, because the tax system only implemented for months (started in 1 July 2013), so many limitation exists. Future researcher can conduct further research to see if there is an improvement in taxpayer's condition in implementation of SME Income Taxes.

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