

Limited Public Role and Challenges to Transparency in the Implementation of the State Finance Law

Nayla Ramadhani Nasution¹

¹ Universitas Bhayangkara Jakarta Raya, Bekasi, Indonesia

Abstract

Article history:

Received: February 5, 2025

Revised: March 20, 2025

Accepted: May 15, 2025

Published: June 30, 2025

Keywords:

Accountability,
Good Governance,
Public Participation,
Public Transparency,
State Finance.

Identifier:

Nawala

Page: 34-50

<https://nawala.io/index.php/ijgspa>

This study analyzes the effectiveness of the implementation of Law Number 17 of 2003 on State Finance in the context of public participation and transparency. The findings indicate that although this law normatively provides a transparent and accountable financial management framework, its implementation still faces two major challenges: the limited role of society in financial oversight and restricted public access to financial information. These issues have implications for weak accountability and delayed detection of budget irregularities. Therefore, strategic measures are needed to strengthen transparency and public participation to ensure that the state financial system becomes more responsive, efficient, and integrity-based. Improving interactive transparency mechanisms, enhancing fiscal literacy, and encouraging inclusive social oversight are essential to realize better public trust and accountability in public financial governance. This study emphasizes that effective financial management requires not only a strong legal framework but also active citizen engagement as a foundation for sustainable good governance.



1. Introduction

Transparency and public accountability are fundamental principles in the democratic governance of state finance. In Indonesia, this has been formally regulated through Law Number 17 of 2003 concerning State Finance, which affirms the necessity of managing state finance in an open, efficient, and publicly accountable manner. However, despite being in effect for over two decades, the effectiveness of implementing this law remains a subject of evaluation, particularly in the context of community involvement and public transparency. As asserted by Masdar et al.¹, the main challenge lies in the sub-optimal public participation media and the weak infrastructure supporting public access to regional financial information.

Normatively, Law Number 17 of 2003 became the main pillar of state financial management reform post-1998 crisis, aiming to create a system that is transparent, result-oriented, and based on public participation. This principle is also aligned with the concept of good governance, which emphasizes the integration of accountability, transparency, effectiveness, and citizen participation.² However, empirical research shows that the realization of these principles still faces structural and cultural barriers, especially regarding public information disclosure and the community's capacity to oversee fiscal policies.

¹ Rahma Masdar, Andi Chairil Furqan, Masruddin Masruddin, and Lucyani Meldawaty. "The role of transparency and professional assistance in regional financial management in the Indonesian regional governments." *Journal of Public Affairs* 21, no. 3 (2021): e2666

² Agus Fatoni. "Fiscal decentralization dilemma in Indonesia: Between corruption accountability and probability at local levels." *Jurnal Bina Praja* 12, no. 1 (2020): 106

Community involvement in state financial management is a crucial component in enhancing the effectiveness of fiscal policies. Sofyani et al.³ found that accountability and transparency implemented at the village government level can increase public trust in the government. However, the study also highlights the dilemma between “full transparency” and policy effectiveness, as information disclosure without adequate participatory capacity can lead to public misperception of the budget management process. Thus, the effectiveness of implementing Law No. 17 of 2003 is measured not only by data openness but also by the government’s ability to build fiscal literacy and inclusive participatory channels.

The level of regional fiscal health also influences the extent to which the principle of financial transparency can be implemented consistently. In this context, Yuniar and Firmansyah⁴ show that the financial health level of local governments correlates positively with the level of public information disclosure. Local governments with strong fiscal governance tend to be more capable of providing transparent access to financial reports and opening space for public oversight. This reinforces that the success of implementing the State Finance Law also depends on the institutional capacity and fiscal stability of each region.

However, Wahanisa et al.⁵ highlights that the model of public participation in Indonesia is still dominated by a formalistic approach, emphasizing administrative

³ Hafiez Sofyani, Suryo Pratolo, and Zakiah Saleh. "Do accountability and transparency promote community trust? Evidence from village government in Indonesia." *Journal of Accounting & Organizational Change* 18, no. 3 (2022): 399

⁴ Muhamad Rizal Yuniar, and Amrie Firmansyah. "The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health Matter?." *JITAKEN Journal of State Financial Governance and Accountability* 9, no. 1 (2023): 126

⁵ Rofi Wahanisa, Benny Riyanto, Septhian Eka Adiyatma, Uche Nnawulezi, and Muhammad Abdul Rouf. "Achieving Public Information Transparency in The Dissemination of Local Regulations." *Yuridika* 38, no. 3 (2023): 641

obligations rather than substantive participation. This causes a gap between regulation and practice, where the community often merely becomes the object of policy socialization, not an active subject in the process of public budget formulation and evaluation. Meaningful public participation is necessary for the principle of transparency to have a tangible impact on improving the accountability and effectiveness of state financial management.

Based on these findings, it can be concluded that the effectiveness of implementing Law Number 17 of 2003 still faces multidimensional challenges. On one hand, there is significant progress in strengthening fiscal transparency and accountability, but on the other hand, limited public participation remains a major obstacle to realizing inclusive and responsive state financial governance. The public's limited access to information and low capacity for budget oversight weaken the public's position as a partner in controlling fiscal policy. Therefore, this research is directed to answer two main questions as (RQ1) To what extent is the effectiveness of implementing Law Number 17 of 2003 concerning State Finance in the perspective of public role and public transparency (RQ2) What are the challenges in implementing the law related to the limitations of the public role and public transparency, and what is the urgency and compelling reason for addressing them.

2. Methods

This study uses a normative juridical method, which is an approach focusing on the study of law from a normative perspective through analysis of legislation, legal doctrines, and principles applicable within the Indonesian legal system. This

approach was chosen because the primary goal of the research is to examine the effectiveness and challenges of implementing Law Number 17 of 2003 concerning State Finance, especially in relation to the public's role and transparency. The normative juridical approach allows researchers to deeply examine the content, meaning, and relevance of legal norms governing state financial management, as well as assess the extent to which these norms have been implemented in accordance with their intended purpose.

The object of this research is the legal norms contained in Law Number 17 of 2003 and its implementing regulations, including government regulations, ministerial regulations, and other regulations related to the principles of accountability and public disclosure in state financial management. The analysis is conducted by examining the alignment between positive legal provisions and the general principles of good governance, such as transparency, participation, effectiveness, and accountability. Through this approach, the research aims to identify whether the existing legal framework sufficiently supports the creation of an open and participatory state financial system.

The research data consists of primary, secondary, and tertiary legal materials. Primary legal materials include relevant legislation, while secondary legal materials encompass legal literature, scientific journals, and previous research related to the theme of public transparency and the public's role in state financial management. Meanwhile, tertiary legal materials such as law dictionaries and encyclopedias are used to clarify the terminology and legal concepts used in the analysis.

The analysis technique used in this research is descriptive-analytical, which involves explaining the applicable legal provisions and analyzing their implementation in government practice. The researcher traces the relationship between the written legal norms and their implementation on the ground, thereby identifying the gap between das sollen (what should be) and das sein (what is happening). Thus, the research results are expected to provide a comprehensive picture of the effectiveness of implementing Law Number 17 of 2003, as well as identify juridical and practical challenges that still need to be addressed in order to strengthen transparency and public participation in state finance.

3. Results and Discussion

3.1. Effectiveness of Implementing Law Number 17 of 2003 concerning State Finance in the Perspective of Public Role and Public Transparency

The implementation of Law Number 17 of 2003 concerning State Finance is an important milestone in the reform of public financial governance in Indonesia. This law comprehensively regulates the process of state financial management, from planning, execution, to accountability through the APBN/APBD mechanism and the oversight system by the Supreme Audit Agency (*Badan Pemeriksa Keuangan* / BPK). The goal is to create a state financial governance that is efficient, transparent, and accountable in accordance with the principles of good governance.⁶ However,

⁶ Erna Handayani, Mahfud Sholihin, Suryo Pratolo, and Alni Rahmawati. "Optimation principles of good financial governance to increase financial sustainability." *Calitatea* 24, no. 196 (2023): 235

in practice, the effectiveness of implementing this law still faces challenges, especially in the aspects of community involvement and public transparency.

Normatively, Law 17/2003 asserts that state financial management must be carried out openly to allow the public to access budget information. However, the reality of its implementation shows a gap between legal idealities and empirical conditions. According to Masdar et al.⁷, the limitations of media and infrastructure for public participation in regional financial management are one of the main obstacles to achieving this effectiveness. Local governments often do not provide adequate communication channels for the community to convey aspirations or oversee budget allocations, thus limiting social control over fiscal policy.

In addition, research by Sofyani et al.⁸ indicates that public transparency and accountability at the local government level significantly influence the increase in public trust. When the public has wider access to village financial information, they tend to place greater trust in the government. However, this research also underscores the paradox of transparency: when information disclosure is not balanced with adequate public literacy, it can lead to misinterpretation and even distrust. Thus, the effectiveness of implementing Law 17/2003 depends not only on the availability of information but also on the public's ability to understand and use that information to oversee fiscal policy.

⁷ Rahma Masdar, Andi Chairil Furqan, Masruddin Masruddin, and Lucyani Meldawaty. "The role of transparency and professional assistance in regional financial management in the Indonesian regional governments." *Journal of Public Affairs* 21, no. 3 (2021): e2666

⁸ Hafiez Sofyani, Suryo Pratolo, and Zakiah Saleh. "Do accountability and transparency promote community trust? Evidence from village government in Indonesia." *Journal of Accounting & Organizational Change* 18, no. 3 (2022): 399

In the context of budget efficiency, Law 17/2003 demands that the government allocate public resources precisely and cost-effectively. This principle aligns with the findings of Ahmad⁹, who found that budget clarity, public participation, and managerial performance have a positive influence on regional financial transparency and accountability. By involving the community in the process of planning and prioritizing the budget, the government can ensure that public funds are used to meet the real needs of the community, thereby increasing the efficiency of budget use.

Besides efficiency, the aspect of accountability is also an important indicator in assessing the effectiveness of implementing the State Finance Law. Based on the research by Yuniar and Firmansyah¹⁰, the level of local government financial health influences the extent to which financial transparency can be realized. Local governments with good fiscal conditions tend to be more open in providing financial reports and more ready for public oversight. This indicates that fiscal stability is not only a technical factor but also impacts the political and social dimensions of public financial management.

⁹ Murdhani Lalu Ahmad. "THE EFFECT OF BUDGET CLARITY, PUBLIC PARTICIPATION, AND MANAGERIAL PERFORMANCE ON REGIONAL FINANCIAL TRANSPARENCY AND ACCOUNTABILITY IN EAST LOMBOK DISTRICT OF INDONESIA." *Russian Journal of Agricultural and Socio-Economic Sciences* 106, no. 10 (2020): 45

¹⁰ Muhamad Rizal Yuniar, and Amrie Firmansyah. "The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health Matter?." *JITAKEN Journal of State Financial Governance and Accountability* 9, no. 1 (2023): 126

However, community participation in Indonesia's public accountability system remains formalistic. Wahanisa et al.¹¹ affirms that community involvement is often limited to administrative mechanisms such as deliberation forums or policy socialization, without being followed by a substantive role in the budget evaluation process. This condition causes the community to function more as an information recipient than as an active supervisor in state financial management. Substantive involvement is necessary to strengthen the function of social control and increase the effectiveness of formal oversight by institutions such as BPK.

Previous research by Fatoni¹² also highlighted that the success of public sector reform in Indonesia heavily depends on the combination of four main factors: accountability, transparency, predictability, and public participation. When one of these factors is not running optimally, the overall effectiveness of public governance is disrupted. This indicates that the implementation of Law 17/2003 has not been fully successful in integrating the public's role as an equal partner in the state financial oversight system. The effectiveness of implementing Law Number 17 of 2003 from the perspective of public role and public transparency can be concluded to still face various conceptual and practical challenges. From a normative perspective, the law has provided an adequate legal framework to guarantee accountable state financial management. However, empirically, public participation and access to public information have not fully progressed as expected. The public does not yet have

¹¹ Rofi Wahanisa, Benny Riyanto, Septhian Eka Adiyatma, Uche Nnawulezi, and Muhammad Abdul Rouf. "Achieving Public Information Transparency in The Dissemination of Local Regulations." *Yuridika* 38, no. 3 (2023): 638

¹² Agus Fatoni. "Fiscal decentralization dilemma in Indonesia: Between corruption accountability and probability at local levels." *Jurnal Bina Praja* 12, no. 1 (2020): 109

sufficient capacity to utilize the available participatory space, while the government still needs to strengthen interactive and easily accessible transparency mechanisms.¹³

By strengthening the synergy between government and the community through open transparency and wider fiscal literacy, the effectiveness of Law 17/2003 will increase. Active social oversight can be a complement to the formal audit system, ensuring the efficiency of budget use, and strengthening public accountability. Ultimately, meaningful openness and participation will reinforce public trust in the government and realize the principles of good governance in Indonesian state financial management.

3.2. Challenges in Implementing Law Number 17 of 2003 related to the Limitations of Public Role and Public Transparency

The implementation of Law Number 17 of 2003 concerning State Finance is fundamentally intended to build accountable and transparent state financial governance. However, in its implementation, a number of substantive challenges still hinder the effectiveness of these legal norms, especially in the aspects of community involvement and public information disclosure. The first challenge is the limited role of the public in state financial oversight. Normatively, the law does regulate the internal audit system by inspectorates and external audit by the BPK, but it does not provide participatory mechanisms that allow the public to play an active role in overseeing budget realization. As a result, the public tends to be in a passive position,

¹³ Firman Firman, Sumartono Sumatono, MR Khairul Muluk, Endah Setyowati, and Restu Rahmawati. "Enhancing citizen participation: The key to public service transparency." *Journal of Law and Sustainable Development* 12, no. 1 (2024): e2937

awaiting the results of official audits before knowing about deviations, making social control reactive rather than preventive. Concrete example: various infrastructure development projects such as roads, bridges, or other public facilities in a number of regions often involve large funds, but information related to their implementation is not easily accessible to the public.

When official reports are finally published, only then are small deviations that have been ongoing for a long time discovered. This pattern of delayed public reaction reflects the weakness of the social participation system in state financial oversight. According to Masdar et al¹⁴ , most local governments do not yet have adequate mechanisms to encourage the public to actively participate in budget monitoring.¹⁵ However, public involvement can be an important element in strengthening the function of external control outside formal institutions such as the BPK. The second challenge is limited public transparency. Formally, government financial reports, both APBN and APBD, are indeed available on the official websites of various state institutions. However, this data is often presented in a technical format that is difficult for the general public to understand. This condition creates a gap between the availability of information and the public's ability to utilize it.

¹⁴ Rahma Masdar, Andi Chairil Furqan, Masruddin Masruddin, and Lucyani Meldawaty. "The role of transparency and professional assistance in regional financial management in the Indonesian regional governments." *Journal of Public Affairs* 21, no. 3 (2021): e2666

¹⁵ Arifin, Taufiq. "Performance Accountability in Indonesian Local Governments: Does Monitoring Really Work?" *International Journal of Business and Society* 22, no. 3 (2021): 1681

Sofyani et al.¹⁶ revealed that although administrative transparency has increased, many citizens do not have adequate fiscal literacy capacity to objectively assess government accountability. This limits the potential for social control, which should complement formal oversight, from running effectively. Concrete example: APBN/APBD reports can indeed be downloaded through the official websites of ministries and local governments, but ordinary people often struggle to understand the details of allocation, budget changes, and fund realization. The technical data format and minimal contextual explanations limit public evaluation of government programs. Thus, information openness that should strengthen participation has the potential to become symbolic if not accompanied by public education and simplification of information access. These challenges are reinforced by the findings of Yuniar and Firmansyah¹⁷, which show that the level of local government fiscal health influences the openness of public financial data.

Regions with weak financial capacity tend to be less transparent in financial reporting, both due to limited human resources and digital infrastructure.¹⁸ This disparity in access creates a transparency gap between regions, so the effectiveness of implementing the State Finance Law is not evenly distributed across Indonesia.

¹⁶ Hafiez Sofyani, Suryo Pratolo, and Zakiah Saleh. "Do accountability and transparency promote community trust? Evidence from village government in Indonesia." *Journal of Accounting & Organizational Change* 18, no. 3 (2022): 399

¹⁷ Muhamad Rizal Yuniar, and Amrie Firmansyah. "The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health Matter?." *JITAKEN Journal of State Financial Governance and Accountability* 9, no. 1 (2023): 128

¹⁸ Marsyanda Eka Pratiwi, Muhammad Din, Rahma Masdar, Andi Mattulada Amir, Femilia Zahra, Abdul Kahar, and Lucyani Meldawati. "Utilization of information technology to increase human resources capacity and internal control systems on local government financial reporting information." *Universal Journal of Accounting and Finance* 10, no. 1 (2022): 197

Ahmad¹⁹ added that community participation in budget preparation and evaluation is an important factor in ensuring the clarity and efficiency of public fund use. However, in practice, this participation is often ceremonial and does not directly impact budget decision-making. As a result, the public is only involved as information recipients, not as active supervisors capable of providing input on fiscal policy priorities.

Research by Wahanisa et al.²⁰ reinforces this view by asserting that the model of public participation in Indonesia is still formalistic and top-down. The information conveyed by the government is often not packaged communicatively, so the public cannot conduct critical assessments of the effectiveness of budget use. Consequently, the transparency that was hoped to be a means of empowerment turns into merely an administrative obligation. Meanwhile, Fatoni²¹ emphasize that public sector reform can only succeed if four main pillars accountability, transparency, predictability, and public participation run synergistically.

The urgency of addressing these two challenges is very pressing given their impact on the effectiveness of state financial governance and public trust. The enhancement of public transparency and social participation is not only to fulfill democratic demands but also to prevent budget leaks and misuse of funds from the

¹⁹ Murdhani Lalu Ahmad. "THE EFFECT OF BUDGET CLARITY, PUBLIC PARTICIPATION, AND MANAGERIAL PERFORMANCE ON REGIONAL FINANCIAL TRANSPARENCY AND ACCOUNTABILITY IN EAST LOMBOK DISTRICT OF INDONESIA." *Russian Journal of Agricultural and Socio-Economic Sciences* 106, no. 10 (2020): 45

²⁰ Rofi Wahanisa, Benny Riyanto, Septhian Eka Adiyatma, Uche Nnawulezi, and Muhammad Abdul Rouf. "Achieving Public Information Transparency in The Dissemination of Local Regulations." *Yuridika* 38, no. 3 (2023): 638

²¹ Agus Fatoni. "Fiscal decentralization dilemma in Indonesia: Between corruption accountability and probability at local levels." *Jurnal Bina Praja* 12, no. 1 (2020): 108

planning stage. The sooner the public can detect inconsistencies in budget use, the greater the chance to correct fiscal policies before losses occur. By strengthening social oversight mechanisms and expanding public fiscal literacy, the implementation of Law 17/2003 can be optimized to encourage the creation of an efficient, accountable, and integrity-based state financial system in accordance with the principles of good governance.

4. Conclusion

The implementation of Law Number 17 of 2003 concerning State Finance has provided a comprehensive legal framework for transparent, accountable, and efficient state financial management. However, the effectiveness of its implementation still faces structural and functional obstacles, especially related to the limited role of the public and public information disclosure. Although the internal and external audit systems are running, the lack of participatory mechanisms means the public has not played an active role in state financial oversight. This condition causes social control to tend to be reactive, not preventive, resulting in delayed detection of budget deviations. Furthermore, limited public transparency also becomes an impediment to the effectiveness of implementing this law.

The available state financial information is still difficult for the general public to access and understand. Consequently, the potential for social participation, which should strengthen government accountability, has not been utilized maximally. The urgency of addressing these two challenges is pressing, considering that public transparency and public participation are the main foundations for building integrity-

based state financial governance. By strengthening public participation mechanisms, increasing fiscal literacy, and developing interactive, technology-based transparency systems, the execution of Law 17/2003 can be more effective in promoting budget use efficiency, strengthening social oversight, and increasing public trust in the government, in line with the principles of good governance.

References

Ahmad, Murdhani Lalu. "THE EFFECT OF BUDGET CLARITY, PUBLIC PARTICIPATION, AND MANAGERIAL PERFORMANCE ON REGIONAL FINANCIAL TRANSPARENCY AND ACCOUNTABILITY IN EAST LOMBOK DISTRICT OF INDONESIA." *Russian Journal of Agricultural and Socio-Economic Sciences* 106, no. 10 (2020): 40-51.

Arifin, Taufiq. "Performance Accountability in Indonesian Local Governments: Does Monitoring Really Work?." *International Journal of Business and Society* 22, no. 3 (2021): 1673-1692.

Fatoni, Agus. "Fiscal decentralization dilemma in Indonesia: Between corruption accountability and probability at local levels." *Jurnal Bina Praja* 12, no. 1 (2020): 103-112.

Firman, Firman, Sumartono Sumatono, MR Khairul Muluk, Endah Setyowati, and Restu Rahmawati. "Enhancing citizen participation: The key to public service transparency." *Journal of Law and Sustainable Development* 12, no. 1 (2024): e2937-e2937.

Handayani, Erna, Mahfud Sholihin, Suryo Pratolo, and Alni Rahmawati. "Optimation principles of good financial governance to increase financial sustainability." *Calitatea* 24, no. 196 (2023): 230-242.

Masdar, Rahma, Andi Chairil Furqan, Masruddin Masruddin, and Lucyani Meldawaty. "The role of transparency and professional assistance in regional financial management in the Indonesian regional governments." *Journal of Public Affairs* 21, no. 3 (2021): e2666.

Pratiwi, Marsyanda Eka, Muhammad Din, Rahma Masdar, Andi Mattulada Amir, Femilia Zahra, Abdul Kahar, and Lucyani Meldawati. "Utilization of information technology to increase human resources capacity and internal control systems on local government financial reporting information." *Universal Journal of Accounting and Finance* 10, no. 1 (2022): 191-199.

Sofyani, Hafiez, Suryo Pratolo, and Zakiah Saleh. "Do accountability and transparency promote community trust? Evidence from village government in Indonesia." *Journal of Accounting & Organizational Change* 18, no. 3 (2022): 397-418.

Wahanisa, Rofi, Benny Riyanto, Septhian Eka Adiyatma, Uche Nnawulezi, and Muhammad Abdul Rouf. "Achieving Public Information Transparency in The Dissemination of Local Regulations." *Yuridika* 38, no. 3 (2023): 635-664.

Yuniar, Muhamad Rizal, and Amrie Firmansyah. "The Transparency Level of Local Governments in Indonesia: Does the Level of Financial Health

Matter?." *JITAKEN Journal of State Financial Governance and Accountability* 9, no. 1 (2023): 123-150.