

## Evaluation of Activity-Based Budgeting System at Politeknik Unggul LP3M Medan

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### Abstract

In the traditional budget system, budgetary activities are assessed in terms of input, i.e. the ability to absorb the budget. If there is a remaining budget because the budget is not fully absorbed, it is considered ineffective. The rest of the budget must be deposited into the state and regional treasury accounts, then the work unit budget is threatened with no increase for the following year or The research method used in this research is descriptive The method using this qualitative approach provides a comprehensive and clear description of the social situation being studied, in this case explaining the changes from the traditional budget system to the activity-based system (performance budget system) The activity-based system at the Superior Polytechnic Education Institute LP3M aims to improve the efficiency, effectiveness and quality of education. By focusing on achieving academic and non-academic performance, using performance indicators such as student grades, graduation rates and parent satisfaction, allocating funds to strategic programs, conducting continuous performance monitoring and evaluation, increasing transparency and accountability in budget management.

**Keywords:** Traditional Budget System, Activity Budget System.



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### INTRODUCTION

The budget system in Indonesia has evolved from the implementation of the traditional budget system which initially had many shortcomings and was input-based to an output-based budget system. The concept of activity-based budgeting is often referred to as performance-based budgeting, which is expected to ensure that budget activities can be carried out effectively and efficiently in allocating resources and using the budget. The traditional input-based budget system meant that the remaining budget was spent at the end of the fiscal year, so activity-based budgeting was implemented so that budget preparation and management activities focused on activities, not policies.

In the traditional budget system, budgetary activities are assessed in terms of input, i.e. the ability to absorb the budget. If there is a remaining budget because the budget is not fully absorbed, this is considered ineffective. The remaining budget must be deposited into the state and local treasury accounts, and then the work unit budget is threatened with no increase in the following year or possibly a reduction. This has an impact on local governments that spend their budgets at the end of the year, so that the budget for the following year cannot be cut. However, by using an activity-based budgeting system, this is no longer the case because this system is no longer input-based, but more result-oriented from activity-based budgeting activities. Each budget is linked to the activity objectives to be achieved. If there is a remaining budget at the end of the period, then the remaining budget cannot be forfeited but can be used as a source of financing for the following year which is included in the category of budget surplus financing.

(Sabu et al., 2023) Activity-based budgeting is a budgeting system that is closely related to the vision, mission, and strategic plan of an organization, which has a perspective on the

overall output of the organization. Activity-based budgeting is a budget preparation based on an activity plan, which is composed of programs and activities to be carried out and indicators of activities to be achieved by the budget unit (Achlan et al., 2022). Activity-based budgeting is done in a more transparent way, so that the budget can be easily assessed and re-evaluated, and the cost approach emphasizes input-output relationships.

The current economy continues to grow and develop, and is accompanied by technological developments that have a broad impact on all business opportunities. With the existence of business opportunities, planning is needed in advance, because these opportunities mean nothing without controlling the plan, but in general, the company's ability to directly control company activities is decreasing, due to limited time, attention, and knowledge of company leaders (Zamzami & Arifin Faiz, 2015). To achieve company goals, good company management is needed, which carries out management functions properly. These management functions include: 1. planning 2. organizing 3. actuating 4. staffing 4. directing 5. controlling the five functions above are a series of implementation of company goals to achieve predetermined goals. To achieve goals in accordance with the plan that has been set, managers need to implement control, which is a procedure designed to ensure that the company's operations do not deviate from the plan that has been prepared. The planning function is related to the control function, which is the company's action to achieve the desired goal, covering all series of activities that the organization has achieved and a series of activities that will be carried out in the future (Pambudi, 2023).

The plan made must describe the objectives to be achieved, choose from the various alternatives available, then be taken as the best idea to be implemented by the company leadership. The company leader's decision considers several important factors, taking into account the past and future experience of the company, so that the decision to be taken can satisfy various parties. In carrying out their duties, company leaders have several planning tools, one of the planning tools used by company leaders is the budget, which is a plan that is determined and used for a period of 1 year, where this plan is determined, compiled. And used based on past experience considerations for planning and controlling the company in managing its activities. Many experts have put forward the definition of a budget, but basically the understanding they put forward has the same goal (Sukaesih Kurniati, 2023) A budget is "a systematically prepared plan covering all the company's activities expressed in monetary units that is valid for a certain period of time in the future".

Basically, the authority and responsibility for the preparation of budgets and the implementation of other budgetary activities rests with top managers. This situation is caused because managers have more authority and are more responsible for all company activities, but the process of preparing and preparing budgets and other budget activities does not have to be carried out alone by top managers, but must be delegated to them. Managers still need to coordinate other departments to provide competent departments and inputs. Which department the manager assigns to carry out the budget function depends on the organizational structure and job description created. With the plan that has been prepared, every manager wants to achieve company goals and to achieve these goals must be guided by planning activities within the company (Fauziah et al., 2023).

In realizing the budget, it is necessary to follow up with supervision. Supervision is carried out based on job descriptions, programs and/or budgets that have been prepared to drive business activities. Supervision of the implementation of work must be able to ensure that budget realization can be carried out without any deviations. The purpose of supervision is achieved if the company manager is able to streamline and supervise all operational activities. Supervision is the manager's responsibility to ensure that job executors can operate in

accordance with the budget to achieve the expected work results. No matter how well the work program is prepared, it will fail if the company manager does not work effectively under his supervision (Muhtasar et al., 2023).

Supervision is a process where the manager of a company needs to know whether the results of the work achieved by his subordinates are in accordance with the budget, orders, goals and policies that have been set. Monitoring is needed to evaluate and correct the work of the parts included in it, in order to obtain confidence that the budget made can be realized properly. The implementation of monitoring is ideally carried out by setting implementation standards with plan objectives, designing a mutual information system, comparing actual activities with predetermined standards, determining and measuring deviations, and taking the necessary corrective actions to ensure that all available resources can be used in the most effective and efficient way. The implementation of an effective monitoring system, if supported by intensive supervision, can be done by eliminating deviations arising from delays in budget realization. Requirements and characteristics of good monitoring Monitoring should discover the facts about how tasks are carried out within the company. Monitoring should prevent deviations and aberrations from previous plans. Monitoring is directed at the present and is a means to improve efficiency and should not be viewed as an end in itself (Ningsih et al., 2018).

## **RESEARCH METHODS**

The research method used in this research is a descriptive method using qualitative methods. Descriptive research method is a problem-solving process investigated by describing/painting the state of the subject/object of research (a person, institution, society, etc.) at the present time based on the facts that appear or as they are. Meanwhile, qualitative research is a scientific study that aims to understand phenomena in a natural social context by emphasizing the process of in-depth interaction between the researcher and the phenomenon under study (Ridwan et al., 2021). The method used by this author is to provide a thorough and clear description of the social situation under study, in this case describing the changes from the traditional budgeting system to the activity-based system (performance budgeting system). In addition, it describes the real situation of the object under study from the results of observations and reports as the object of the analysis carried out. And the real data conditions can be interpreted (Yam, 2024). The data collection technique uses a literature study, which is a data collection technique by conducting a study of books, literature, notes, and reports related to the problem being discussed. Researchers use this literature study to meet various theoretical and practical needs related to the research problem being discussed. Qualitative data analysis techniques include testing, selection, classification, evaluation, comparison, synthesis, and conclusion drawing.

## **RESEARCH RESULTS AND DISCUSSION**

### **Tradisional Budgeting System**

Financial management techniques that emphasize budget monitoring and execution are known as traditional budgeting systems. In higher polytechnics, LP3M implements a budget based on the previous year, the previous year's budget becomes a guideline for the upcoming budget by adjusting to existing programs and the budget is driven by income and expenses and is made from top to bottom and the budget made is annual or per period. The budget applied at this institution is classified as a budget that is easy to make and does not require complicated techniques because it is based on the budget issued in the previous year.

The budget made in the LP3M high polytechnic operation includes the education budget, research budget, community service budget, facilities and infrastructure budget, student

activities budget and household budget. All these budgets are guided by the previous year's activities by revising the rupee value in each budget. Traditional budgeting systems focus more on inputs, which can lead to a lack of attention to long-term and other considerations relating to the institution's overall program. Then, in the traditional budgeting system approach, the focus is on execution and oversight of budget execution. In terms of execution, the number of entitlements for each state agency becomes important according to their respective cost objects.

### **Activity-based Budgeting System**

The activity-based budgeting system was designed to overcome various weaknesses and limitations found in the traditional budgeting system, where the previous year's benchmark was a limitation in implementing an effective budget, so an activity-based budget was needed, where each activity was calculated. Precisely because this budget cannot be implemented in accordance with the operations carried out. The weakness in the traditional budgeting system is the absence of benchmarks that can be used to measure activities in achieving the goals and objectives of public services. In an activity-based budgeting system, the focus is more on the results of activities and prioritizes procedures for determining and prioritizing goals and a systematic and rational approach to the decision-making process.

Changes in the budgeting system from a traditional budgeting system to a performance budgeting system or activity-based budgeting because the traditional budgeting system has many weaknesses and limitations. The traditional budget system has several weaknesses (Halim and Sayam, 2014) such as the absence of adequate information for decision making, too control-oriented and less attention to the planning and evaluation process, the focus of the budget execution report is too small, the achievement of activities is neglected, the realization of budget revenues and expenditures, and budget makers do not have rational reasons for setting revenue and expenditure targets. The purpose of determining output measures related to costs is to measure the level of efficiency and effectiveness. This is a tool to implement the principle of accountability, because what is ultimately accepted by the community is the result of the organization's activity process. Main characteristics, advantages and disadvantages of activity-based budgeting system (performance budgeting).

However, performance budgeting faces major obstacles for developing countries like Indonesia. The main obstacle is that it is not easy to determine output measurement in the public sector. This is often the case in some local government agencies or organizational units that deal with intangibles. For example, at the central government level, it is not easy to measure the activities of the Department of Foreign Affairs. Then at the local government level, it is not easy to measure the activities of social services for example. The implementation of activity-based budgeting is expected to fundamentally improve quality and make the budget decision-making process more rational in determining the allocation of financial resources, so that government activities can be carried out more efficiently and effectively. Several weaknesses at the implementation stage pose threats and challenges to the effectiveness of activity-based budgeting. The low quality of output information leads to the use of activity information in decision-making.

(As mentioned, activity-based budgeting requires appropriate or specific measures of budget efficiency, namely expenditure standards and analysis of minimum service standards (MSS). However, in reality, the implementation of provincial/district/city governments in Indonesia has not been optimal in meeting Minimum Service Standards (MSS), so budget efficiency measurements cannot be made. The weaknesses in the activity-based budgeting system occur because government work units in Indonesia have few qualified experts in the

field of budgeting. This of course slows down the implementation of the activity-based budgeting system, so strategies need to be implemented to increase the number of experts in the field of public sector budgeting. This can be done by working with universities or by training activity units in budgeting.

### **Discussion**

However, traditional budgeting systems have several disadvantages, including: They rarely focus on strategy and may conflict with company goals. They do not pay attention to the concept of Value for Money (VFM). They cannot reveal the amount of funds spent on each activity. Expensive and time-consuming to compile. Often based on unsupported assumptions and presumptions. There are some basic requirements for implementing an activity-based budgeting system to be effective in educational institutions. The first prerequisite is a clear strategic goal. Building a strategic plan and focusing on what you want to achieve can develop a budget strategy. The plan should have objectives that are based on results, benefits and impacts that can ultimately be felt directly by the community. Clear strategic goals make it easier for decision-makers, especially in the process of allocating budgets in accordance with the priorities set out in the medium-term expenditure framework. Second, the development and availability of activity indicators. Activity indicators need to be developed and clearly defined so that they are not difficult to understand when implementing an activity-based budgeting system. Third, a clear link between strategic goals and activity indicators, to facilitate the link between budget allocations and the results to be achieved and the extent to which strategic goals can be achieved in accordance with predetermined activity indicators. Fourth, clarity of accountability for activities that emphasize results. To realize the principle of accountability, it is necessary to have clear and firm rules, guidelines, and technical instructions regarding the accountability of activities that emphasize results. A comprehensive activity data collection system plays an important role in improving the quality of information contained in activity accountability reports. Fifth, plan early. Early planning must be done carefully to build consensus among work units and build competition within work units, so as to produce good results with relatively limited funds. Sixth, leadership as a supporter of change. Strong and committed leadership to drive change for the better. Seventh, the principle of prudence. Regarding the scope and stages of implementation, all at once or in stages according to a predetermined implementation schedule. These seven prerequisites are necessary to implement an activity-based budget, because in an activity-based budget, the budget is categorized based on activities or work programs, so that the preparation and management of the budget emphasizes more on group activities or programs and consequently focuses more on work performance (Fauziah et al., 2021).

This is possible because activity-based budgeting is basically a budgeting system that links activities with budget allocations, so that it includes various indicators and procedures for financial management activities which include budgeting activities based on activity classification and activity size. By emphasizing the classification of activities into different work units that carry out the assigned tasks or responsibilities and by still paying attention to the size of the activity, in addition to encouraging educational institutions to use funds sparingly, it will also be able to achieve the goals that have been set efficiently and effectively, so as to encourage the best financial activities (Anwar, 2014). As mentioned in management planning and control, an activity-based budgeting system can be used as a management planning and control tool. This is possible because plans are realistic steps set out in detail to achieve organizational goals, so measurement criteria and evaluation criteria must be set out in plans that allow for creativity and flexibility in the implementation of activities. Meanwhile, the

details of the activities to be carried out are realized in the form of work plans which are the main activities that will be carried out to implement the strategy that has been decided, so that the strategic plan is the first step in preparing the budget plan (Fadila et al., 2024). A strategic plan is a structure of objectives and long-term plans, linked to various activities and/or work programs that will be implemented, including an estimate of the amount of resources that will be used to carry them out. Physical resources in the sense of facilities and infrastructure, as well as human resources, are all measured against predetermined financial criteria, resulting in a budget plan. Activity-based budget plans are prepared from an output perspective. Therefore, if we develop a budget using the activity approach, our mindset must focus on “what we want to achieve”. Focusing on “outputs” means thinking about the “objectives” of the activity at every stage while preparing the budget (Djafar et al., 2023).

This system emphasizes the management aspect so that in addition to the efficient use of funds, work results are also reviewed. Thus, the success criteria of this budget system is the performance or results of work and the achievement of work units in effectively using the budget to achieve predetermined goals. By building a budget system that integrates activity plans with annual budgets, there is a visible link between available funds and expected results. To effectively develop an activity-based budget, a strategic plan must first be developed that is carried out objectively by involving all units within the educational institution. Factors that determine the success of the work plan include price criteria, activity criteria and minimum service standards set by legislation. Activity measures or criteria are used to assess the success or failure of activities to be implemented or work programs to be implemented, as well as policies in accordance with the objectives and tasks set to achieve the vision, mission and goals of the educational institution. Thus, the design of activities or work programs to be implemented is prepared by the work unit based on rational and objective goals, objectives and costs, in accordance with the type and function of the appropriation (Ramadhani, 2021).

Goals and objectives are the criteria for successful implementation of activities that must be accounted for by the leadership. Meanwhile, the amount of costs and cost allocations are used to assess whether these goals and objectives can be achieved optimally or not. Thus, in allocating the budget, it becomes clear whether the benefits of costs are received more by implementers, work units or stakeholders and whether the allocation is intended for general administration, operational costs or capital expenditures. (Mahyudin et al., 2020) All budget planning activities are the responsibility of the work unit, which is described in the form of work plans and work unit budgets. In terms of public accountability, work plans and budgets must be morally accountable and legally accountable to stakeholders, so the participation of all stakeholders in efforts to realize transparency and public accountability is also very necessary. In addition to acting as a planning tool, the implementation of an activity-based budgeting system can also be used to develop a management control system as a tool for implementing strategies, as well as motivating all units of educational institutions to achieve predetermined goals. This is very necessary, because in practice many management actions are still not systematic, making it impossible to use the rules of the system that has been established. As a result, they use personal judgment in their actions. This action is usually related to the interaction between the work unit leader and other work unit leaders or between the work unit leader and the implementing staff (Nur Ramadhana Nashrul Ummam et al., 2020).

The accuracy of the control system depends more on the leadership's ability to manage the deputy leaders and/or implementing staff, because it is no longer based on the rules agreed upon in the management control system. In fact, management control is the process of applying standards in receiving feedback in the form of activities that are actually carried out and taking the necessary actions if these activities differ significantly from those planned. This can be

understood by leaders by evaluating the budget implementation reports that are periodically prepared and submitted by budget implementers (Pangalila et al., 2017). Thus, the management control system in the application of activity-based budgeting has two components, namely: First, the system structure, which is the relationship between the components in forming a systematically planned and integrated control system. This system structure includes organizational structure and information network. Second, the system process, which is the steps that must be carried out by the control system to achieve the objectives of the educational institution. In other words, the system process describes the work of each structural unit in achieving the goals of the educational institution (Sumarlin & Andriana, 2023).

## **CONCLUSION**

The activity-based budgeting system at Politeknik Unggul LP3M aims to improve the efficiency, effectiveness and quality of education. By focusing on achieving academic and non-academic performance, using performance indicators such as student grades, graduation rates and parent satisfaction, allocating funds to strategic programs, conducting continuous performance monitoring and evaluation, and increasing transparency and accountability of budget management. The benefits that can be obtained from implementing an activity-based budgeting system are improved quality of education, efficient use of funds, increased responsibility, strategic development, and increased parent and student satisfaction. The stages of implementation determine the goals and objectives of the educational institution, identify academic and non-academic performance indicators.

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