

THE QUALITY OR PUBLIC IMAGE: EXPLANATORY STUDY OF LOCAL GOVERNMENTS FINANCIAL STATEMENT IN INDONESIA



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This research aims to identify a problem which forced by local government in production of qualified financial statement in Indonesia. Local government has two choices to create financial statement. In one hand, they have to produce better financial statement as obligated in Government Accounting Standard (SAP). On the other hand, there is public image about the result of financial statement audit. This research performs qualitative method with survey for data collection. Purposive Sampling is used to choose the sample with criteria the units always report financial report to local government centre. The population of this research is all local government units in Semarang-Indonesia, consisting of 50 units (there are 20 units fulfilling all criteria). Each unit has 5 respondents to analyze unit. The finding shows that local government prefers to maintain public image than financial report quality. They have opinion that the qualified opinion from auditor is important without considering the financial statement quality. The evidence is audited financial statement can not identify corruption problem in this area.

Key Words: Government Accounting Standard, Government Apparatus Quality, Internal Control System, Local Government Performance Report

Introduction

The Government Regulation (PP) № 71, 2010 concerning the Government Accounting Standards has instructed all local governments to be able to implement the government accounting standards properly. The regulation changed to formulating financial statement, local government used a cash accounting basis, but, by the advent of the new regulation, the local governments implement the accrual basis which was started in 2015.

The results of the Government Financial Statements of Semarang city in the year of 2007-2013 show a quite good trend. It is indicated by qualified opinion in 2007 and unqualified opinion in 2013. This result shows the hard work of all working units (SKPD)

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and Regional Financial Management Officer (PPKD) of Semarang city government to comprehend and implement the government accounting standards in the financial statements of local government (LKPD). This condition is, of course, a good example and can be inspiring for other local governments in Indonesia in general or in the province of Central Java in particular.

The Implementation of SAP based on accrual basis becomes an obstacle for local governments. Based on data from the CPC (2014), it is only the government of Semarang city that has implemented the accrual basis accounting. While the other local governments still use the cash to the accrual basis accounting. Therefore, many local governments are vying to obtain an unqualified opinion. Therefore, there will be a view or image in society that the government has a good performance if obtaining an unqualified opinion.

The result of financial audit by BPK to Semarang city government shows unqualified opinion. It means that the financial statement is in accordance with government accounting standards in force. In other words, the financial statement is having a good quality. Looking at the result of audit reports on the financial statement of Semarang city government is very encouraging, but if we look at the reality, it is far from expectations. For example, even though the financial statement received an unqualified opinion, it is not able to prove a clean government without corruption. This, of course, is a dilemma for local government because in one hand they must be able to prepare a good quality of financial statement but on the other hand they must get unqualified opinion for public view. Clearly, this is not in accordance with the objective of financial statement which is to improve transparency, fiscal accountability (Gillibrand & Hilton, 1998; Perrin, 1998; Ryan, 1998), and performance.

There are several factors that affect local governments to formulate good quality of financial statements. Subaweh (2008) states that the implementation of SAP has significant positive effect on the quality of financial statement. This result is also supported by research conducted by Vicky (2013) on the effect of Government Accounting Standards (SAP) on the Quality of local government financial statement on the regional revenue agency of North Gorontalo district, Sulawesi province, Indonesia which shows that the implementation of SAP significantly influences the financial statement quality. On the other hand, based on the experience of a provincial government in implementing of new accounting system, the policy to adopt the new accounting regime fails showing low level of institutional capacity of local administrations. As a consequence, the institutionalisation of the new accounting system has yet to bring intended outcomes. In this vein, the role of accounting as a political tool for controlling people overshadows its roles for efficiency and performance improvemen (Harun & Kamase, 2012)

The other important factor for the creation of quality financial statement is human resources. The success of an entity is not only influenced by its human resources but also by human resources competence. In this case, the competence of human resources has a very important role to plan, implement, and control the entity. Competence is the hallmark of someone which can be seen from the skills, knowledge, and ability in completing the tasks

assigned to him (Indriasari & Nahartyo, 2008). Competence is the basis of an individual to achieve high performance in completing the task. The incompetent human resource will not be able to complete the work efficiently, effectively, and economically. In this case, the carried work will not be on time and there is a waste of time and energy. The presence of competent human resources will save time to formulate financial statement. This is because such human resources have already had knowledge and understanding of the things that must be done, so that the financial statements prepared and presented can be completed on time. The faster the financial statement is presented, the better the decision-making process will be (Mardiasmo, 2002).

The Government Regulation № 60, 2008 on the Government Internal control system mentions that Financial Statement presented by the local government should be based on an adequate internal control system and in accordance with Government Accounting Standards. The control function is performed by the Regional Head through the Internal Control System. The internal control system is an integral process in actions and activities carried out continuously by the management and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial statement, security of state assets, and compliance with laws invitation (PP № 71, 2010). Edy (2014) concludes that the internal control system has significant positive effect on the quality of local government financial statement. Therefore, this study will examine the factors described above, so that, the government of Semarang city is able to apply such accounting standards properly.

This research specifically aims to:

- first, to analyze several factors becoming constrains to local government of Semarang city to implement government accounting standards with accrual base accounting;
- second, to evaluate the excess factors of Semarang city government so that they can implement accrual based accounting;
- third, to analyze how the role of local government internal control system conducted by BPK, BPKP and Inspectorate in supporting the implementation of government accounting standards;
- fourth, to analyze how significant the financial and non-financial support in implementing Accrual Based Accounting Standards to succeed the implementation of government accounting standards.

Literature Review

Agency theory

Agency theory is the theoretical basis underlying the company's business practices over years. The theory is rooted from the synergy of economic theory, decision theory, sociology, and organizational theory. The main principle of this theory states that there is a working relationship between the parties giving authority (principal/investor) and receiving authority

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(agency/manager), in the form of cooperation contracts which is called as "*nexus of contract*" (Subaweh, 2008).

Agency theory emerges as the presence of relationship between the agent and the principal. An Agent is contracted to perform a specific task for principal along with responsibility for a given task. A principal has obligation to reward a top agent for service given by the agent. The existence of difference interest between agent and principal causes an emergence of agency conflict. Both principal and agent want to have profit maximization and avoid risk (Belkaouli, 2001).

The agency theory in the local government began to be applied, especially since the implementation of regional autonomy in 1999. The application of agency theory can be seen from two perspectives, i.e., the relationship between executive and legislative, and legislative and people; in which the implications can be in a positive thing such as efficiency, but more in the form of negative ones like behavior opportunistic (Subaweh, 2008). This happens because the agent has more advantages on financial information than the principals, while the principal may utilize its personal interest (self-interest) by its power. Therefore, problems will arise when an executive agency tends to maximize his interest which is started from budgeting, decision making process up to the present of financial statement only to show that own performance is good, besides to secure the position in legislative and people view.

Agency theory also says that an agent typically has an opportunist stance and tends to dislike risk (risk averse) (Safitri, 2009). The responsibility shown by local government is not only a complete and reasonable presentation of financial statements, but also on how they are able to open up access to the users (stakeholders) financial statement. The local government as agent would avoid risk in the form of stakeholder distrust on their performance. Therefore, the local government will strive to show that their performance is good and accountable especially in financial management field.

Government acting as Agents (administration manager) should set specific strategies in order to provide the best service to the public. The principals absolutely want good performance result of the agents and it also can be shown by the good quality of financial statements.

The Quality of Financial Statement

The Statement of Government Accounting Standards (PSAP) № 1, paragraph 9 states that the financial statement is a structured report of the financial position and transactions performed by a reporting entity. The general objective of financial statement is to provide information about the financial position, the realization of the budget, cash flow, and the financial performance of a reporting entity that is useful for users to formulate and evaluate decisions about the resources allocation. Essentially, the government financial statement is the assertion of government management that provides information useful for decision-making and to demonstrate accountability of reporting entity for the entrusted resources.

The financial statements are primarily used to compare the realization of revenues, expenditures, transfers, and financing, assess the financial condition, evaluate the effectiveness and efficiency of the reporting entity, and help to determine the compliance of the legislation. According to Mardiasmo (2004), in general, the purpose and function of financial statements of the public sector are:

- 1) Compliance and stewardship;
- 2) Accountability and reporting retrospective;
- 3) Planning and authorization information;
- 4) Viability;
- 5) Public relations;
- 6) Source facts and figures.

Therefore, the financial statements play an important role to fulfill government obligation to the public in a democratic society.

Mardiasmo (2004) describes that public accountability is the obligation of a fiduciary (*agent*) to provide accountability, serve, report, and disclose all activities and agenda to be reported to principal who has the right and authority to hold such accountability.

The Public accountability consists of two kinds:

- (1) vertical accountability, and
- (2) horizontal accountability.

Vertical accountability is the accountability for the management of fund to the higher authority, such as the accountability of work units (departments) to the local government, the accountability of local governments to the state government, and the state government to the Federal Assembly. Horizontal accountability is the accountability to the general public. In the context of government organizations, public accountability is the provision of information and disclosure on activities and financial performance of the government to the interested parties. Government, both central and local, should become a subject of information conduit in order to fulfill the public rights (Mardiasmo, 2004)

Previous research

The policy to adopt the accrual accounting system in provincial government level of Indonesia indicates that the country follows similar patterns aimed at strengthening a more accountable, and transparent efficient government. As with the managerial reforms of public sector organisations in Australia, New Zealand and UK, the decision to adopt accrual accounting has been the central theme of these reforms (Ryan, 1998). The Government Accounting Standards (SAP) is a reference for financial statements policy avoiding the accounting problems which have not been set in the standard. SAP is an accounting principle which is applied in preparing and presenting the government financial statements. Thus, SAP is a requirement which has a force of law in an effort to improve the quality of financial statement of the Indonesia government. Nugraheni & Subaweh (2008) state that

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implementation of SAP has significant positive effect on the financial statement quality. This is also supported by the research conducted by Vicky (2013) who concludes that the implementation of SAP has significant positive effect on the quality of financial statement of local government revenue department and finance and asset management of north Gorontalo district. On the other hand, based on the provincial government experience in new accounting system implementing, the policy to adopt the new accounting regime fails to recognise a low level of institutional capacity of local administrations. As a consequence, the institutionalisation of new accounting system has brought intended outcomes. In this vein, the role of accounting as a political tool for controlling people overshadows its roles for efficiency and performance improvemen (Harun & Kamase, 2012)

If the human resource competence is executed properly, then, the quality of financial statements will increase, so that, it is able to meet the qualitative characteristics of financial statements. If the human resources have carried out their duties and functions professionally, effectively and efficiently, then, they will produce quality financial statements. Herawati & Sinarwati (2001) show that human resources competence has positive and significant effect on the Quality of Regional Financial Statement. Internal control system is an integral process conducted continuously to provide reasonable assurance for effectiveness achievement. The efficiency of purpose achieving the state government, reliability of financial statement, security of state assets, are in compliance with legislation through the good SPI implementation and better financial statement produce. Susilawati (2014) shows that internal control system has significant positive effect on the local government financial statement quality.

Research Method

The population of this study is all Regional Work Units or Satuan Kerja Perangkat Daerah (SKPD) under Semarang City government (50 SKPD). The sample is obtained by using purposive sampling method along with the criteria that SKPD always reported their financial statement to the regional government. The method of collecting and analyzing the data is conducted through qualitative approach. Besides employing literature review, this study also uses survey method to several respondents determined before. The questions which were independently proposed to them were about the process of making financial statement such as, how the process of financial statement so far, what obstacles often occurred during making the financial statement, what kind of support given by the Regional Head during the process of financial statement making, and how the role of internal control system likes BPK, BPKP and inspectorate in dealing with financial statement making.

Findings and Discussion

From the 50 SKPD in Semarang becoming the sample, only 20 SKPD meet the criteria and condition determined before. Then, from the sample, it is acquired 2 respondents becoming analysis unit of each SKPD of the sample. Therefore, this research surveyed 40 respondents. Based on respondent distribution on Tab. 1 below, it can be seen that most of them have already experienced more than 5 years in financial statements making and have qualified for good enough education. However, most of their educational backgrounds do not meet the field they are working in. For more detail, Tab. 1 and Tab. 2 below describe the respondent distribution as follows:

Table 1 - Respondent Distribution
(analyzed primary data, 2016)

No.	Experience	Frequency	Percentage
1.	Less than 5 years	18	45,00
2.	More than 5 years	22	55,00
Total		40	100

Table 2 - Respondent Distribution
(analyzed primary data, 2016)

No.	Education	Frequency	Percentage
1.	Accounting	17	43,00
2.	Non-Accounting	23	57,00
Total		40	100

Followings are the quotations of the interview result with some respondents: The first question “*How is the process of making financial statement so far, what problems often occurs during making it*”. Some of them had various answer. This is natural because each of them had different characteristic and transaction from one day to another; their roles were varied such as to be as cost center, profit center, and revenue center. However, the process of making financial statement generally could be done well and punctually due to computerized program which made the accounting easy. Whereas the problem occurred, they faced nearly the same problem which occurred at the beginning of accounting system implementation and new government standard accounting, they got difficulties in arranging accounting system and making annual financial statement. However, along with the time, they could finish and solve the problems by hard-working. They considered the existed accounting system (cash-base SAP) was difficult; the government gave another load in which they had to meet accrual accounting system.

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The second question: *“What kind of support was given by the Regional Head during the process of making financial statement”*. Most of them had similar answer. The government gave very big support dealing with the process of financial statement making. One of those supports was by sending some accounting and financial staffs to intensive accounting training either inside or outside. The government made quite big investment dealing with financial statement in accounting software form to make financial statement. This is hoped that the financial statement could be performed faster, more accurate, and effective, and meet the government accounting standard run at that time.

The third question: *“How the role of internal control system likes BPK and inspectorate dealing with making financial statement”*. All respondent had various answers, some of them answered that the auditors gave big role but some gave contrast answers. This is because the intensity of auditing conducted was varied in each SKPD, therefore, their answers were also varied. However, it can be concluded that all of the auditors above gave big role in assisting financial statement making of the government of Semarang city.

The success of the government in unqualified opinion (WTP) obtaining cannot be separated from cooperation among parties in all SKPD in Semarang city government. Based on the survey result, it can be concluded that the factors succeeding the government to obtain the WTP from BPK are firstly, the quality of human resource. During the process of making financial statement in SKPD, all of the employees cooperate and help one to another to make financial statement, so that it could be published punctually. Even though most of them do not have accounting or financing educational background, they wanted to learn seriously to implement government accounting standard especially in financial statement making. Nevertheless, the role of consultant either from academician, practitioner or inspectors, BPK and BPKP always give assistance and guidance. Besides, the government also often conducts internal or external trainings about making financial statement.

The second factor is an information technology system. The government has implemented computerized accounting system. This system helps employees to make financial statement in order to be faster, more practical and more accurate. However, this system is just a tool, which means that human should operate it. Thus, human resource factor is more prominent. The third factor is commitment and responsibility. The government has invested that technology system in order to enhance the quality of their financial statement. They use E-Reporting to produce financial reporting for all SKPD in Semarang local government. Even though, many human resources in SKPD have not accounting qualification, but they were helped by this technology. This factor is abstract but very important. All of the employees cooperate one to each other and work hard to implement their responsibilities by holding commitment together.

The government generally is viewed as government who has been successful in implementing government accounting standard based on the PP № 71, 2010. This can be reference or example for other regional governments in accordance with strengthening their financial statement. However, something which should be taken into account is that

unqualified financial statement, in fact, is not free from fraudulence or loss of particular government. Even though the government of Semarang City acquire the unqualified opinion from the auditor of BPK, but the cases of corruption in their territory frequently occur. Indeed, this becomes dilemmatic for the government. A qualified financial statement should be free from any faults and fraudulences.

Conclusion, Limitation and Suggestions

Based on the result of the analysis above, it concludes that first, the Government of Semarang City have tried maximally to arrange qualified financial statement even it occurs several obstacles such as the quality of human resource. Second, the success of the government in obtaining unqualified opinion from BPK depends on three factors namely human resources, information technology, and commitment. Third, the role of internal auditor in financial statement making. Forth, big supports are given by the government toward the financial statement making either financial or non-financial. However, this study has limitations. First, this study focuses only on the Government of Semarang City where this can be generalized for other Regional Government in Indonesia. Therefore, it is suggested for further research to broaden the sample of the research. Second, this study only employs qualitative approach; therefore, it is suggested to employ quantitative approach which gives a brief statistical explanation.

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