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Good governance and quality of financial statements

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Abstract

The most prominent issue today in the management of public administration is good governance or what is called good government governance. Good governance can enhance organizational leadership, management and supervision, result in more effective interventions, and ultimately lead to better outcomes with improved people's lives. One form of government governance is financial statement accountability. This study was carried out through in-depth interviews with authorized officials and literature studies. The results of this study indicate that the Regional Government Financial Report of North Sulawesi Province which received WTP opinion from the BPK shows the better quality of state financial management. The better the quality of regional financial management indicates the better regional financial accountability and the application of good governance principles. The lack of good regional financial governance is due to the fact that there are still many adjustments that must be made with the implementation of government accounting standards, especially regional governments.

Keywords: Good governance, financial statements

1. Introduction

Good governance is basically a concept that refers to the process of achieving decisions and their implementation which can be accounted for collectively. As a consensus reached by the government, citizens and the private sector for governance in a country. The state plays a role in providing services for the welfare of the people with a good judicial system and a government system that can be accountable to the public. Referring to the 3 (three) pillars of sustainable development in economic development, environment and human development. Good governance touches 3 (three) parties, namely the government (state administrators), the corporate or business world (economic drivers), and civil society (finding the suitability). The three parties play a role and influence in the good governance of the country. Synchronization and harmonization between these parties is a big answer. However, with the current state of Indonesia it is still difficult to happen (Efendi, 2005).

In recent years, the concept of good governance has been widely discussed in various contexts and has become an emerging issue in government management. This occurs because part of the overflow of old patterns in the administration of government is no longer in line with the changed social order or in other words the ineffective government is increasingly ineffective in addition to the growing quality of democracy, human rights and public participation in policy making. Administrative theorists argue that the role of government should focus on efforts to improve services to the community in addition to empowerment and development. Governance is carried out based on agreements formed through discussions that take place in the public space.

Since 1998, community demands for improved governance, particularly regarding the eradication of Corruption, Collusion and Nepotism (KKN) and the implementation of Regional Autonomy have increased. This prompted the government and the DPR to immediately reform various laws and regulations. Within the framework of decentralization, the community demands that greater authority be given to the regions in an effort to improve the welfare of the people in the regions. As a mandate for reform, the government made several new regulations and revised several old legislation products, especially in the fields of state finance, law, and regional autonomy. In the field of state finances, reform is implemented by amending the third amendment to the 1945 Constitution of the Republic of Indonesia (UUD 1945) in articles related to the Supreme Audit Agency (BPK), enactment of Law Number 17 of 2003 concerning State Finance, Law Number 1 Of 2004 concerning the

State Treasury and Law Number 15 of 2004 concerning the Audit of the Management and Accountability of State Finances, as well as Law Number 15 of 2006 concerning the Supreme Audit Agency.

Several research findings indicate that the regulations issued are not necessarily accompanied by an increase in the transparency of regional financial management itself. This can be seen from the findings of previous studies (see, Hermana *et al.*, 2012; Sofia and Husen, 2013; Seknas Fitra, 2013; and Martani *et al.*, 2014) ^[8-11] which inform that the level of transparency in regional financial management is still very low. Furthermore, the phenomenon of low transparency in regional financial management is also reflected in the prevalence of corruption cases involving regional political officials. The Ministry of Home Affairs (Kemendagri) noted that as many as 361 corruption cases involved regional heads during the period 2010 to August 2016 (Tirto.id, 29 September 2016), while the Indonesian Corruption Watch (ICW) reported that as many as 183 regional heads were suspected of corruption cases during the period. 2010 to 2015 (Antikorupsi.org, 28 August 2016).

The summary data on the results of the BPK examination in 2019 show several problems of non-compliance with statutory provisions that can result in potential losses on regional government financial reports, including in the table below:

Table 1: Several problems of non-compliance with statutory provisions that can result in potential losses on regional government financial reports

Problems and Example	Number of problem	(IDR billion)
The existence of unknown assets of Rp. 106.73 billion occurred in 34 local governments	34	106,73
<ul style="list-style-type: none"> ▪ Fixed assets and machinery, warehouses and buildings, roads, irrigation and networks, as well as other fixed assets at the North Sulawesi Provincial Government, the whereabouts are unknown, totaling 259 units amounting to Rp3.34 billion ▪ Lack of revenue to the North Sulawesi Provincial Government from: Motor vehicle tax (PKB), transfer fee of motor vehicle name (BBN-KN), and PKB denda are collected lower than the minimum regulation of IDR 1.96 <p>The difference between PKB and BBN-KB underpayments is at least IDR 149.42 million.</p>	1 1	3,34 2,11

Source: IHPS BPK, 2019

On this basis, researchers are interested in conducting a more in-depth study of the application of the principles of good governance in local governments.

2. Literature review

The term good governance itself was first used in the World Development Report in 1989 which refers to a trustworthy and responsible government, good governance and clean governance. Governance can be defined as a way of managing public affairs. The World Bank defines

governance in the public sector as a way for the government to manage social and economic resources for the benefit of community development. Meanwhile, the United Nation Development Program (UNDP) emphasizes the definition of governance in the political, economic and administrative aspects of state management. Political governance refers to the policy-making process, economic governance refers to the decision-making process in the economic sector which has implications for equality, poverty reduction and quality of life improvement, while administrative governance refers to the policy implementation system.

The World Bank defines good governance as an implementation of solid and responsible development management that is in line with the principles of democracy and an efficient market, avoiding misallocation of investment funds, and preventing corruption both politically and administratively, implementing budget discipline and creating a legal and political framework for its growth. business activities. Good governance is basically a concept that refers to the process of achieving decisions and their implementation which can be accounted for collectively. As a consensus reached by the government, citizens, and the private sector for the administration of government in a country. The main key to understanding good governance is understanding the principles in it. Starting from these principles, a measure of the performance of a government will be obtained. The good and bad of government can be assessed if it has intersected with all the elements of the principles of good governance. The following describes the principles of good governance.

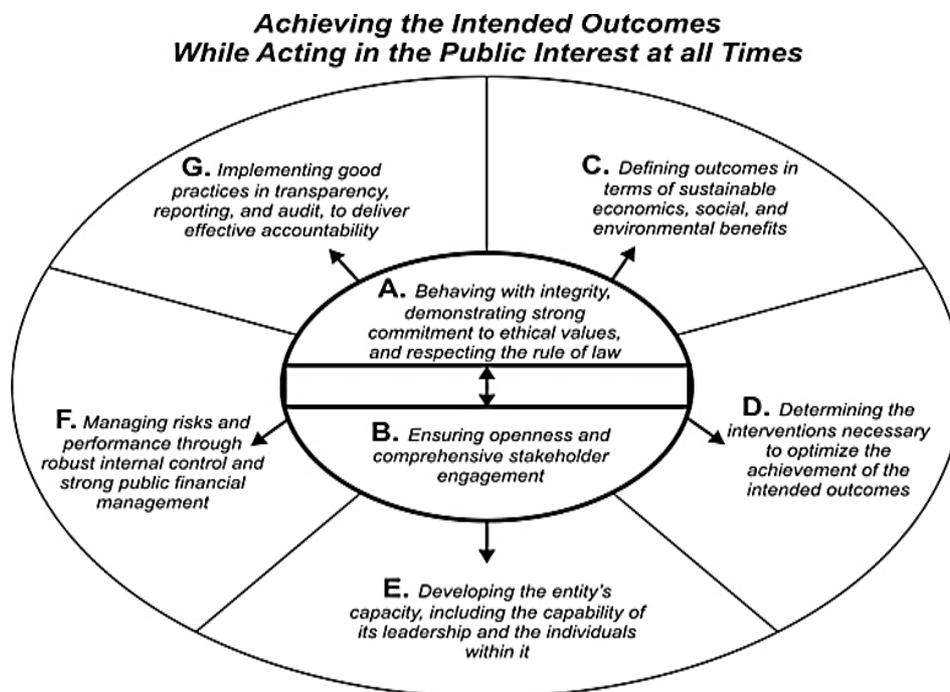
Good governance is a solid and responsible implementation of development management that is in line with the principles of democracy and an efficient market. The definition of governance or better known as good governance, means everything that is related to actions or behavior directing, controlling or influencing public affairs to realize these values in everyday life (Dr.sedarmayanti, PT.Mandaraju, 2003). Good Governance is not only limited to the management of government institutions, but also includes all government and non-government institutions.

Furthermore, several previous studies (Beekes and Brown, 2006; developed, Aman *et al.*, 2011; Beekes *et al.*, 2014; 2016a; 2016b) ^[1, 4-7] have shown that transparency policies depend on and are influenced by the quality of governance. However, this research is still limited to the private sector (companies). To the best of researchers' knowledge, there has not been any empirical research that specifically examines whether local government governance has an influence on the transparency of local financial management in Indonesia. Therefore, researchers are motivated to develop research from Beekes and Brown (2006) ^[1, 4-7] into the government context by analyzing the influence of local government governance on the transparency of regional financial management. Interestingly, even though local government governance is adopted from corporate governance with the same goal, namely to increase stakeholder performance and trust. However, in terms of structure and strategy implementation, government governance is more complex (multi-layered) than corporate governance (Spanhove and Verhoest, 2007). Thus whether the same results found in corporate circles are also found in government circles remains a question.

The Asian Development Bank (2011) explains that good governance contains four main values, namely,

accountability, participation predictability and transparency. Meanwhile, World Bank (2007) reveals a number of characteristics of good governance, namely transparent and accountable institutions, strong skills and competence, and a fundamental willingness to do the right thing. OECD (2004) states that the criteria for good governance consist of: fairness, transparency, accountability, responsibility.

IFAC (2014) in the International Framework: Good Governance in Public Sector states that Good Governance in the public sector encourages better use of information and helps long-term decision making. Good good governance improves organizational leadership, management, and supervision, by making more effective interventions and better output (IFAC, 2010).



Source: IFAC

Fig 1: Principles of good governance

Regarding financial reports, good governance has several principles of its own. The principles of good governance are described as follows:

1. Fairness Principle, according to this principle, government financial statements are said to be fair if they obtain an unqualified opinion. Fair financial statements are free from material misstatement and are presented in accordance with applicable accounting standards.
2. The principle of accountability, financial reports are a form of government accountability and become an effective monitoring tool.
3. The principle of transparency, the government is required to present financial reports that contain clear, accurate, timely, and comparable information. The information presented shows the quality of financial reports, and stakeholder trust depends on the quality of information presented by the government.
4. The principle of responsibility, relating to the form of government accountability to the community. The government is also required to comply with applicable laws

3. Result and Discussion

Good governance described above is clearly reflected in the process of budgeting, financial reporting, and audits of the management and accountability of state finances. Recording and reporting of financial transactions is a form of accountability of government administrators to the people through their representatives in the legislative body. Transparency and accountability in the management of state

finances is the main foundation for the creation of good governance, which is an absolute requirement in a real democracy and economy. The Supreme Audit Agency (BPK) as the government's external auditor conducts an audit of local government financial reports based on applicable audit standards.

North Sulawesi Province's revised revenue budget for 2020 is set at IDR 4.105 trillion. The revenue budget for 2020 is decreased by 0.20% (yoy) or Rp8.19 billion from Rp4.113 trillion in 2019. The budget was relatively unchanged in nominal terms compared to the previous year which recorded a high growth of 7.60% (yoy). However, there was a decrease in 2020 APBD revenue in other posts. Legitimate income. This post experienced a contraction of 84.24% (yoy). In addition, PAD and transfer income also recorded slower growth compared to the previous year.

Table 2: North Sulawesi regional revenue and expenditure budget development in 2020

Uraian	Anggaran (Rp Miliar)			Growth	
	2018	2019	2020	2019	2020
Income	3,823.18	4,113.90	4,105.71	7.60%	-0.20%
Locally generated revenue	1,213.02	1,280.22	1,306.46	5.54%	2.05%
Income transfer	2,586.41	2,706.78	2,779.24	4.56%	2.68%
Other legitimate income	23.75	126.90	20.00	434.32	-84.24%

Source: Annual report bank Indonesia, 2020

In carrying out audits based on these standards, BPK also applies the principles of good governance so that the results of the audits conducted on local governments will show the quality of local government financial reports. The role of

BPK as an independent auditor provides assurance on the quality of financial information by providing an independent opinion on the fairness of the presentation of information in the financial statements. The use of accounting information in the financial statements will be affected by the fairness of presentation that can be fulfilled if the data is supported by valid and correct evidence and adequate presentation. With

the fairness principle, auditors play a role in assisting stakeholders in assessing the development and quality of state financial governance. Auditors also play a role in upholding the principle of accountability. So it can be said that the government auditor (BPK) conducts an examination of the management and responsibility of all elements of state finances.

Table 3: North Sulawesi LKPD opinion 2014 to 2018

No	Local government	2014	2015	2016	2017	2018
1	Sulawesi Utara	WTP	WTP	WTP	WTP	WTP
2	Bolaang Mongondow	WDP	WDP	WMP	TMP	TMP
3	Bolaang Mongondow Selatan	WTP DPP	WDP	WTP	WTP	WTP
4	Bolaang Mongondow Timur	WTP DPP	WTP	WTP	WTP	WTP
5	Bolaang Mongondow Utara	WDP	WDP	WTP	WTP	WTP
6	Kepulauan Sangihe	WTP DPP	WTP	WTP	WTP	WTP
7	Kep. Siau Tagulandang Biaro	WTP DPP	WTP	WTP	WTP	WTP
8	Kep. Talaud	WDP	WDP	WTP	WTP	WTP
9	Minahasa	WTP DPP	WTP	WTP	WTP	WTP
10	Minahasa Selatan	WDP	WDP	WTP	WTP	WTP
11	Minahasa Tenggara	WDP	WTP	WTP	WTP	WTP
12	Minahasa Utara	WDP	WTP	WTP	WTP	WTP
13	Kota Bitung	WTP	WTP	WTP	WTP	WTP
14	Kota Kotamobagu	WTP DPP	WTP	WTP	WTP	WTP
15	Kota Manado	WTD DPP	WTP	WDP	WTP	WTP
16	Kota Tomohon	WTP DPP	WTP	WTP	WTP	WTP

Source: BPK, 2019

The implementation of good governance in the regional government of North Sulawesi Province can be assessed from the quality of regional government financial reports. by the auditor, reflecting the extent and extent of the good governance principles that have been implemented by the local government of North Sulawesi Province. Audit of Regional Government Financial Reports (LKPD) is intended to provide adequate assurance that financial reports comply with government accounting standards, laws and regulations and internal control. Investigation is carried out in order to create a more transparent and accountable public accountability.

Government accountability, among others, can be seen from the opinion given by the BPK on the audited financial statements. The better the financial management carried out by the local government, the better the quality of financial reports. By obtaining the WTP opinion by a LKPD, it shows that accountability is getting better and that good governance has been implemented. Meanwhile, the opinion obtained other than WTP shows low accountability and the lack of good governance. From 2014 to 2019, the regional government of North Sulawesi Province has obtained a WTP opinion on its LKPD, this shows that the implementation of good governance has been going well. But there are still some weaknesses on many sides.

This can be seen from the WTP's opinion which is still accompanied by several explanatory paragraphs, where the results of the audit on compliance with laws and internal control systems show that there are still many deficiencies in the legislation and the internal control system shows that there are still many deficiencies. The cause of the lack of good local government financial governance Reforms in the management of state finances have been carried out, but the management of state finances is still not good. The transition due to reforms that has been rolled out has not gone smoothly.

According to Soepomo Prodjodihardjo, BPK expert, there are several causes of poor regional financial management, namely:

1. The time factor for the implementation of standards is still relatively new which causes the quality of LKPD to be considered poor.
2. Overlapping laws and regulations, so that one rule has not been properly understood and implemented, new regulations have emerged which confuse officials in the regions.
3. Limited human resources who master accounting in the regions. Most Regional Work Units (SKPD) do not understand accounting because most of them do not have an accounting education background. In addition, bureaucrats in Indonesia have only been introduced to a simple budget and accounting system. However, with the new accounting standards, they have to compile a performance-based budget and prepare an accrual-based double entry financial report.

4. Conclusion

Based on the results of the research and discussion that has been stated, it can be concluded as follows:

1. The Regional Government Financial Report of North Sulawesi Province which received WTP opinion from the BPK shows that the quality of state financial management is getting better. The better the quality of regional financial management shows the better regional financial accountability and the implementation of good governance principles.
2. The lack of good regional financial governance is due to the fact that there are still many adjustments that must be made with the implementation of accounting standards for government, especially regional governments.

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