FACTORS INFLUENCING DATA QUALITY OF THE PUBLIC SECTOR ACCOUNTING INFORMATION SYSTEM IN INDONESIA

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FACTORS INFLUENCING DATA QUALITY OF THE PUBLIC SECTOR ACCOUNTING INFORMATION SYSTEM IN INDONESIA

by

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LIST OF ABBREVIATIONS

BPK   Badan Pemeriksa Keuangan (Supreme Audit Board).

DJKN   Direktorat Jenderal Kekayaan Negara (Directorate General of State Property).

DJPBN   Direktorat Jenderal Perbendaharaan Negara (Directorate General of State Treasury).

Kanwil DJKN   Kantor Wilayah Direktorat Jenderal Kekayaan Negara (Regional Office of Directorate General of State Property).

Kanwil DJPN   Kantor Wilayah Direktorat Jenderal Perbendaharaan Negara (Regional Office of Directorate General of State Treasury).

KPKNL   Kantor Pelayanan Kekayaan Negara dan Lelang (The Office of State Property Services and Auction).

KPPN   Kantor Pelayanan Perbendaharaan Negara (The Office of State Treasury Services).

LKPP   Laporan Keuangan Pemerintah Pusat (Central Government Financial Report).

UAKPA   Unit Akuntansi Kuasa Pengguna Anggaran (Accounting unit of budget user authority).

UAKPB   Unit Akuntansi Kuasa Pengguna Barang (Accounting unit of asset user authority).

UAPA   Unit Akuntansi Pengguna Anggaran (Accounting unit of budget user).

UAPPA E1   Unit Akuntansi Pembantu Pengguna Anggaran Eselon I (Accounting unit of budget user assistance - Echelon I).

UAPPA-W	Unit Akuntansi Pembantu Pengguna Anggaran Wilayah (Accounting unit of budget user authority assistance- regional).
UAPPB	Unit Akuntansi Pembantu Pengguna Barang (Accounting unit of asset user assistance).
UAPPB-E1	Unit Akuntansi Pembantu Pengguna Barang Eselon I (Accounting unit of asset user assistance - Echelon I).
UAPPB-W	Unit Akuntansi Pembantu Pengguna Barang Wilayah (Accounting unit of asset user assistance - Regional).

FAKTOR-FAKTOR YANG MEMPENGARUHI DATA KUALITI

SISTEM MAKLUMAT PERAKAUNAN SEKTOR AWAM DI

INDONESIA

ABSTRAK

Laporan kewangan yang berkualiti tinggi adalah penting untuk meningkatkan ketelusan dan akauntabiliti pengurusan kewangan di kalangan Kerajaan Pusat Indonesia (LKPP). Walau bagaimanapun, bukti menunjukkan bahawa kualiti sistem maklumat perakaunan (AIS) negara masih tidak memuaskan. Laporan audit yang dikeluarkan oleh Lembaga Audit Indonesia (BPK) menunjukkan bahawa laporan kewangan yang dikemukakan oleh LKPP gagal memperoleh pendapat yang tidak berkelayakan dari tahun 2004 hingga 2015. Kajian-kajian terdahulu telah mengenal pasti beberapa kelemahan sebagai punca kualiti pelaporan yang rendah, namun, kajian-kajian tersebut hanya tertakluk kepada konteks kerajaan tempatan dan menghadapi kelemahan dari segi saiz sampel kecil. Objektif pertama kajian ini adalah untuk mengenal pasti faktor-faktor yang mempengaruhi kualiti data (DQ) AIS dalam sektor awam Indonesia. Kajian ini juga mengkaji sama ada terdapat jurang di antara prestasi sebenar faktor-faktor yang mempengaruhi kualiti data AIS berbanding dengan persepsi terhadap kepentingan faktor-faktor berkenaan di kalangan kakitangan dalam unit kerja. Populasi kajian ini ditakrifkan sebagai kesemua kakitangan yang terlibat dalam penyediaan maklumat SAI (Sistem Perakaunan Institusi) di Lembaga Pengajian Tinggi (DIKTI). Dengan menggunakan kaedah persampelan mudah, kajian ini memperoleh 168 jawapan sah semasa mesyuarat penyesuaian laporan yang dihadiri oleh staf penyediaan maklumat SAI yang terdiri daripada 'validators', 'verificators' dan pengendali pada Julai 2015 di Batam, Lombok dan Yogyakarta. Kajian ini menggunakan SmartPLS versi 2.0 M3 untuk menganalisis pengaruh sokongan pengurusan, ciri-ciri DQ, faktor manusia dan faktor organisasi terhadap DQ. Dapatan kajian menunjukkan sokongan pengurusan, ciri-ciri

DQ, faktor manusia dan faktor organisasi mempengaruhi kualiti data AIS dengan signifikantnya. Persepsi tentang kepentingan faktor dan prestasi sebenar diuji dengan ujian t berpasangan. Ujian ini menunjukkan bahawa terdapat perbezaan yang signifikan di antara persepsi kepentingan dan prestasi sebenar untuk kesemua faktor-faktor yang disenaraikan dalam AIS. Hasil kajian menunjukkan bahawa unit kerja dalam sektor awam Indonesia perlu memahami faktor-faktor tersebut untuk menghasilkan maklumat yang berkualiti tinggi. Pengurusan perlu mengadakan latihan yang mencukupi untuk meningkatkan kemahiran dan kecekapan kakitangan AIS. Di samping itu, pembahagian tugas di kalangan kakitangan AIS juga perlu dilaksanakan dengan berhati-hati untuk menghasilkan maklumat yang berkualiti tinggi.

FACTORS INFLUENCING DATA QUALITY OF PUBLIC SECTOR

ACCOUNTING INFORMATION SYSTEM IN INDONESIA

ABSTRACT

High quality financial reports are essential to enhance transparency and accountability of the financial management among the Indonesian Central Government (LKPP). Nevertheless, evidence shows that the quality of the national accounting information system (AIS) is still far from satisfactory. The audit reports issued by the Indonesian Audit Board (BPK) indicated that the financial reports submitted by LKPP failed to obtain unqualified opinion from 2004 to 2014. Previous studies have identified some weaknesses as the causes to the poor reporting quality, however, these studies are subject to local government context and suffered from small sample size. The first objective of this study is to identify the factors influencing data quality (DQ) of AIS in the Indonesian public sector. This study also examines whether there is a gap among the staff in the work units with regards to their perception about the actual performance and factors that are perceived to be important in DQ of AIS. The population of this study is defined as all information producers of SAI (Sistem Akuntansi Instansi, Institution Accounting System) staff in the Directorate of Higher Education (DIKTI). Using convenience sampling method, this study collected 168 valid responses during a reconciliation meeting attended by the information producers of SAI which consist of validators, verificators and operators in July 2015 at Batam, Lombok and Yogyakarta. This study utilized SmartPLS version 2.0 M3 to analyse the influence of management support, DQ characteristics, human factors and organisational factor on DQ. The study found that, management support, DQ characteristics, human factors and organisational factor

significantly influencing DQ of AIS. Perceived of importance and actual performance is tested by paired t- test. The test indicated that there is a significant difference between the perception of importance and actual performance for all the listed factors on AIS. The findings suggest that the work units in the Indonesian public sector should understand those factors so as to produce high quality information. Management should conduct sufficient training to improve the skill and competence of AIS personnel. In addition, the segregation of duties among AIS personnel also needs to be implemented carefully in order to achieve high quality information.

CHAPTER I

INTRODUCTION

1.1 Introduction

This chapter first discusses the background of the study. This is followed by a discussion of issues and challenges faced by the Indonesian Government in the implementation of the Institution Accounting System (SAI). The problem statement, research objectives and questions, and significance of the study are presented thereafter. This chapter ends with the definition of some key terms used in this study.

1.2 Background of the Study

Accounting information plays an important role in the decision-making process in all types of organisations. In the public sector, government institutions in Indonesia rely on theAccounting Information System (AIS) that is tailored to their needs to generate accounting information for decision making as well as to discharge accountability obligations to multiple stakeholders. The public sector accountability is generally categorized into two main aspects; a vertical accountability through public sector hierarchies and processes to the Parliament, and a horizontal accountability to the citizens (Mardiasmo, 2002).

Accountability can be defined as a form of obligation to account for the success or failure of the organisations' mission in achieving its goals and objectives that have been set previously, through a medium of responsibility periodically (Stanbury, 2003). Schiavo-Campo and Tomasi (1999) stated that accountability is the provision of information and disclosure about the activities and financial performance of the entity to the parties concerned. Given the wide spectrum of

responsibilities assumed by the public sector, accountability could be achieved in many different ways.

Ryan, Stanley & Nelson (2002) stated that presentations of financial statements are generally considered as the main medium for discharging accountability. Financial reporting is a form of transparency that shows openness of the government in the management of activities using public resources. Mardiasmo (2002) indicated that accounting information is a tool for discharging public sector accountability. The role of financial reporting in providing relevant information to users has gained increasing attention in recent years.

In the context of the government's financial reporting, the information presented in the financial statements must be able to discharge the accountability of public financial management and responsibility. Among the qualities that should be fulfilled in financial statements are the principle of completeness and timeliness. Unqualified opinion[1] will be issued by the Supreme Audit Board (Badan Pemeriksa Keuangan, BPK) based on the audited financial statements to the institutions that demonstrated a high degree of responsibility and accountability.

Although a major effort to enhance transparency and accountability of the state financial management can be achieved through the presentation of timely financial reports that comply with the generally accepted government accounting standards, evidence show that the accountability and transparency of financial statements of the public sector in Indonesia have not made much progress and the improvement of the national AIS is still far from satisfactory (Nasution, 2008). This is substantiated by the fact that the Central Government Financial Statements had

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[1]Unqualified opinion is an opinion from auditor indicates that there are no material violations of General Accepted Accounting Principle (GAAP), that disclosures were adequate, and that the auditor was able to perform all of the necessary procedures. Furthermore, there was no change in accounting principles that had a material effect on the financial statements, and no material weaknesses in internal controls over financial reporting.

never obtained unqualified opinions from the Supreme Audit Board from 2004 to 2014. In the public sector, a major concern raised is whether the public reporting system and disclosure can deliver accountability for public monies and services.

According to Bastian (2010), the public sector in Indonesia generally yields poor quality accounting information. In actual practices, the public sector AIS in Indonesia is implemented in thousands of location with different facilities and human resources. These systems rely on desktop application platforms (Nasrun, Hendra & Priandi, 2012). Desktop application is an application that runs on a stand-alone desktop or laptop computer without using a browser or internet connection. Given that the preparation of financial reports is conducted at various hierarchical levels, the existing data input processes via stand-alone desktops are not able to integrate and transfer data among different hierarchical levels efficiently. As a result, the reconciliation process at each level of work units often takes a long time because of human errors or application errors.

In the process of preparing financial statements, source documents such as evidence of transactions are the most needed data. In practice, the source documents that guarantee the quality of the input data are not well managed and maintained. For example, duplication of data, incomplete data, invalid data and inconsistency of data are major causes of low productivity, poor decision-making, and declining reputation (Rochadi, 2013).

In conducting the audit of the Central Government Financial Reports (Laporan Keuangan Pemerintah Pusat, LKPP), the Supreme Audit Board (BPK) found several weaknesses associated with the implementation of the accounting system of the Central Government (SAPP). One in particular is the weaknesses relating to the implementation of the Institution Accounting System (SAI), an

integrated system that combines manual procedures with electronic process for collecting data, recording, and reporting all financial transactions, assets, debt and equity for all the State Ministries/Agencies.

According to the findings of the BPK, the weaknesses are generally associated with problems of human resource capacity in implementing the SAI, lack of internal controls among the SAI team, lack of commitment and support by the heads of working units, minimum facilities for the management of SAI as well as several other weaknesses among different work units as documented in the Audit Report of the BPK (BPK, 2013). These weaknesses are noted at every hierarchical level, namely the work units, the Regional level, Echelon 1 and the Ministry level. These conditions indicate that improvement of the information system at each of these government institutions is required (Purnomo, 2010) in order to convey upward accountability through the public sector hierarchies and processes to the Parliament.

In addition, the development of the public sector accounting has not been followed by the availability of adequate experts in accounting. A study conducted by Harun (2007) showed that the obstacle in the financial reform in Indonesia is the lack of public sector accountants. Observations of the current situation show that accountants who are employed and worked in the public sector are mainly concentrated in the auditing and supervisory agencies. Meanwhile, the number and quality of accountants who work in the government units at both central and local governments are still a concern. Given that the majority of these existing financial managers are non-qualified accountants, most of them do not really care and do not understand the importance and implications of getting qualified financial statements (Mardiasmo, 2002).

One of the Central Governments that have been identified by the BPK for unsuccessfully complying with the audit standard is the Ministry of Education and Culture. The Ministry of Education and Culture is responsible for managing a large number of organisations located in widespread geographical areas and it is also one of the ministries that receive the largest budget allocation from the state budget. In 2013, the Ministry of Education and Culture obtained Rp. 73,087 trillion fund allocations and this value is close to 20% of the total value of the state budget.

In 2010, the Ministry of Education and Culture consisted of decentralized authority treasury offices with 310 work units (Ministry of National Education No. 134, 2010). This means that to ensure the preparation of financial statements at different hierarchical levels (stages) can be done in a fast, timely and reliable manner; a large pool of human resources and facilities are required to support the input of data for communication and dissemination of information among the office/ work units.

Based on the audit report issued by the BPK, it is found that the Ministry of Education and Culture has never obtained unqualified opinions throughout the period of 2006 to 2011. The Audit Report issued a disclaimer opinion[2] toward the implementation of state financial management responsibility by the Ministry of Education and Culture domain in the 2006 and 2007 budget years. The BPK then gave a qualified opinion[3] in the 2008 and 2009 budget years. However, in 2010 and 2011 budget years, the Ministry of Culture and Education once again obtained a disclaimer opinion.

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[2]A disclaimer opinion was given when the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.

[3]Qualified opinion– given by auditor when the auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about, certain items in the subject matter which are, or could be, material but not pervasive.

Suryadi (2012) revealed that the budget management in the Ministry of Education and Culture is still inefficient, and this could be the reason for issuance of a disclaimer of opinion by the BPK. He further pointed out that a major problem is related to inefficient budget spending as the budget allocation is not being fully utilized for the development of educational activities and programmes for the nation.

The appraisal report (2010) issued by the BPK indicated that one of the prominent complications that held back the effort to gain unqualified opinion (Wajar Tanpa Pengecualian, WTP) by the Ministry of Culture and Education domain is the weaknesses and imperfections in the implementation of SAI. The 2011 BPK audit found that almost all work units under the Ministry of Education and Culture faced various problems including inefficient asset management, issue related to government lands being controlled by third parties, non-tax revenues collected on behalf of government not being remitted back to the Central Government, debt management problems, failure to comply with approved accounting standards and rules in managing accounts receivable and inventory (BPK, 2012).

In order to comply with the accounting standards, the General Secretary of the Ministry of Education issued a Standard Operating Procedure (SOP) as the guidance for its work units in preparing financial statements. According to the SOP version 3/2009, the responsibility of preparing the financial statements is assigned to the SAI officers. These officers comprise operators, verifiers, and validators. Validators give the authorization to record transaction data into the SAI application, verifiers then verify the completeness of the source document before it is recorded by the operators into the SAI application. These three categories of officers play critical roles in determining the data quality in the AIS as they are responsible for the input of data into the accounting system. In order to perform their tasks effectively,

appropriate skills and thorough understanding of the rules related to preparation of financial reports are required in the management of SAI by these officers.

A successful organisation requires high performance on critical factors that influence the data quality, but in the real practice, it may appear that while organisations placed a high degree of importance on certain factors, the performance of those factors can be quite different. The study by Xu (2003) showed a big gap between the perceived importance and the performance of the critical factors. This indicated that although organisations were aware of the factors that are important in ensuring data quality, they might still face problems of failing to execute them to a greater extent in actual practice.

Information quality refers to the degree of 'fit for use" by information quality customers (Keeton & Wilkes, 2010; Wang & Strong, 2006). It is a subjective concept which is assessed by information users. Different people may have different opinions. Literature found that information quality referred to a comparison between expectations and actual perceptions. There are many factors that can influence people's expectations and perceptions, such as age, gender, and experience (Chong & Wolf, 2010).

1.3 Problem Statement

The discussion presented above suggests that upward accountability by the governmental agencies and institutions relied on the quality of accounting information generated through the reporting hierarchy based on the bottom-up approach. Therefore, it is important to identify factors that influence the quality of financial information at the lowest level of the reporting hierarchy to gain insights into the causes of the problem. In the context of the Indonesian public sector

reporting settings, the data quality of SAI is critical in producing financial reports as the problems and weaknesses associated with the data quality of SAI will cause ineffectiveness in generating financial reports. Hence, it is of interest to examine factors that have influenced the data quality of SAI and what are the factors that should be given further efforts for improvement.

Most of the prior research work in this area has focused on the private sector; as a result, this has restricted the understanding of the issues and problems faced by the public sector with regards to the implementation of AIS and data quality. Given that the public sector is accountable for the public resources that were entrusted to them to maximize the benefits and welfare of the nation, it is thus important to gain more insights in this area.

In Indonesia, research has been done on several factors that influence data quality such as management support and commitment, facilities, human factor, AIS nature, input control, teamwork, personal competency, internal control, understanding of financial reports, and usage of information technology (Fariziah, 2008; Indriasari & Nahartyo, 2008; Mardiasmo, 2002; Nugraha & Susanti, 2010; Saleh, 2013; Sukmaningrum & Harto, 2000). This research adopted the researches conducted by Xu (2003, 2015) that included factors that had never been tested in Indonesia such as the DQ policies and standard, DQ vision, continuous improvement, DQ manager position, employee relation, information supplier quality management, audit and review, organisational structure, evaluation and rewards, physical environment and risk management. Some of the factors (such as from BPK (2013), Mardiasmo (2002), Nazier (2009), and Nasrun et al. (2012)) were not empirically tested in the Indonesian context. Furthermore, the existing researches in Indonesia were focused on local government so the findings may not applicable to

the Central Government. Whereas, researches conducted by Xu (2003, 2015) using 25 factors in which there are factors relevant to the Central Government such as information supplier quality management and risk management. Therefore, Xu (2003, 2015) are appropriate to be adopted for this study.

Given that the majority of the task force who are employed in the work units in handling the SAI system differ in terms of their education level, qualification, knowledge, experience and are provided with different types of facilities in their workplace, these differences may influence their perception of the organisation's vision and factors that are important for data quality. Lindsay (2002) argued that if there is a difference between perceived quality (perception of actual performance achieved) and expected quality (perception of importance), customers may feel either dissatisfied (perceived quality is less than expected quality) or satisfied (perceived quality is higher than or equal to expected quality). Xu and Al Hakim (2005) found that the stakeholders' performance and behaviours are influenced by the expectation of each factor affecting data quality. In other words, the perception of each SAI on factors affecting data quality reflects his/her perception about the level of performance achieved. If there is a gap between perceived performance and perceived importance of factors affecting data quality, this may cause potential problems in the flow of information, which in turn, may affect the data quality generated by the system. In conclusion, it is important to examine whether there is any gap among the staff in the work units with regards to their perception about the actual performance of factors that are perceived to be important by these staff.

1.4   Review of Indonesian Public Sector Financial Reporting

1.4.1 Indonesian Public Sector Accounting Reform

The demand for public sector accounting reform in Indonesia was stimulated after the collapse of the Soeharto regime in 1998 (Harun, 2007), although smaller initiatives have occurred since the seventies. During the administration of this regime, public sector accountability and efficiency lacked transparency. Political reforms and democratisation in Indonesia since then has aimed at detailed evaluation of efficiency and effectiveness of the government's use of scarce resources. As a result, various public sector accounting reforms were attempted at Indonesian governmental accounting levels. The stages of public sector accounting reforms and the corresponding periods are summarised in the following paragraphs:

1979-1980:

During this time, the governmental administrative system was manual and there were no standards in existence with respect to Indonesian government accounting. A Budget Realisation Report was the only accountability report that was presented to the Parliament. The report was prepared manually based on a single entry system. During this period, the Indonesian Ministry of Finance started to develop a Study Plan to modernise the Indonesian government accounting system.

1986:

One outcome of the Study Plan mentioned above was the establishment of the Central Government Accounting System and the Institution Accounting System Design. The Ministry of Finance used these systems to set up the budget allocation, the cash inflow, and the cash outflow of the State Office of Treasury. The system was based on the manual method of journalising and general ledger maintenance.

1987-1988:

The use of a computerised accounting system was proposed and a proposal of a computerised governmental accounting system was approved.

1992:

The State Financial Accounting Agency (BAKUN) was established and started functioning as the Central Accounting Office. The agency was assigned with the responsibility of setting up public sector accounting standards.

2003-2004:

The Indonesian public sector accounting reform initiatives started with the enactment of three Laws relating to state finance:

1. Law No. 17/2003 on State Finance;

2. Law No. 1/2004 on State Treasury;

3. Law No. 15/2004 on Audit on Management and Accountability of State Finance In addition to the enactment of these three Laws, a Standard Setter Body (KSAP) was established by the enactment of Presidential Decree No. 84/2004.

2005:

Presidential Decree No. 84/2004 that is related to the setting up of the standard setting body was amended by Presidential Decree No. 2/2005. The Government Accounting Standard (SAP) was set up in 2005 by the Government Regulation No. 24/2005. Since 2005, the Central Government Financial Statement was presented based on the Government Accounting Standards.

The Indonesian Government Accounting Standards (SAP) are derived from international best practices that adapt the International Public Sector Standards (IPSAS), which was published by the International Federation of Accountants (IFAC). While many developing countries adopted the International Accounting Standards without any modifications (see Mir & Rahaman, 2005), Indonesia took the

'adoption with modification' path. Although Indonesia adopted the main principles of IPSAS, the SAP also considered certain conditions in Indonesia such as its domestic laws, existing financial practices, and the readiness of its human resources. Given that the majority of the existing literature on the adoption processes of the international-based accounting standards by developing countries reported that the implementation and compliance of a modified version of international standards adoption were more successful compared to the full adoption of the international standards (see for example, Enthoven, 1973; Larson, 1993; Mirghani, 1998; Al-Rai & Dahmash, 1998; Hassan, 1998; Chamisa, 2000; Mir & Rahaman, 2005), it is therefore expected that the Indonesian experience of IPSAS adoption and implementation would be positive. The SAP consists of the following components: the conceptual framework of government accounting, eleven statements of government accounting standards, and five technical bulletins. However, there is no component containing the interpretation of the standards. The development and the implementation of the SAP coincided with the transitional process from cash basis towards accrual basis of accounting and reporting (popularly known as 'Cash towards Accrual' basis). In the process, the Indonesian public accounting standardsettingcommittee has referred to the following bodies:

- International Federation of Accountants

- International Accounting Standards Committee

- International Monetary Fund

- Indonesian Accounting Board

- Financial Accounting Standard Board – the USA

- Governmental Accounting Standard Board – the USA

- Indonesian laws on state finance

- Other international organisations which are involved in public sector accounting and government audit

The implementation process of 'cash towards accrual' (CTA) commenced in the 2007 financial year. All these public sector reform initiatives are summarised in Figure 1.1. As can be seen in Figure 1.1, the main outcome that is expected from the Indonesian public sector financial management reform is the increased accountability of the public sector agencies at national and sub-national levels with respect to their uses of public money. One of the most significant public sector accounting reform initiatives in Indonesia was the adoption of public sector accounting standards (SAP) in 2005. In the case of public sector entities, the annual reports are the important pillars of discharging their accountabilities. Therefore, the SAP, among another public sector financial management reform initiatives, is expected to facilitate the discharging of accountabilities within the public sector agencies in Indonesia.
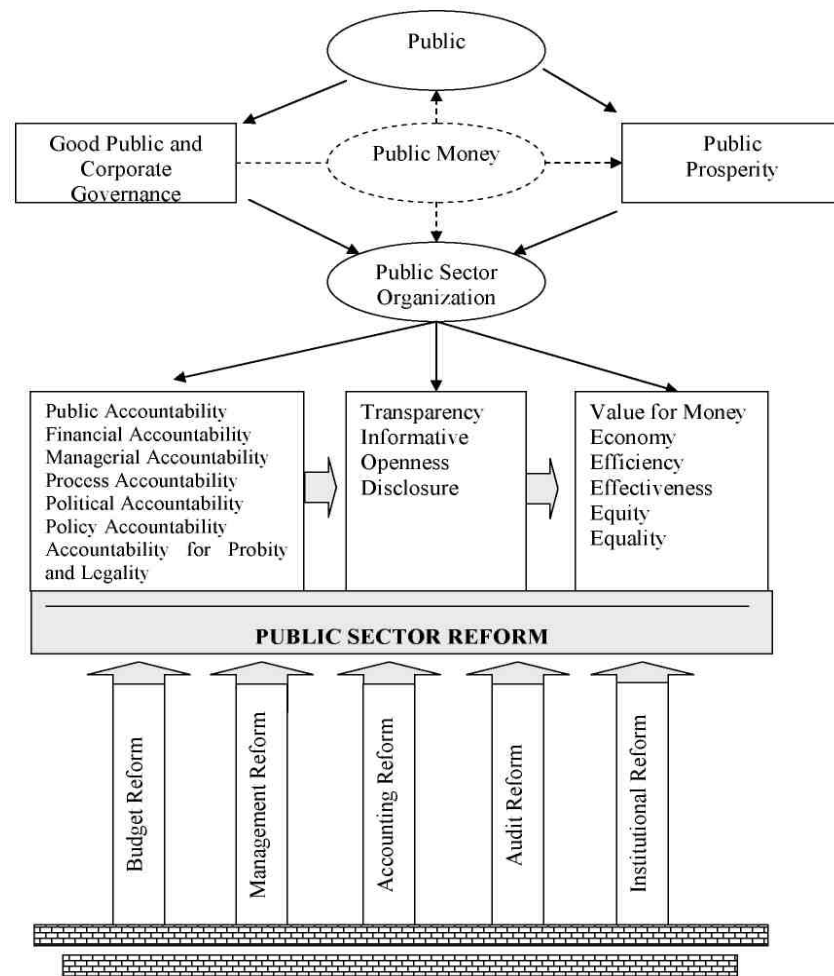
Figure 1.1

Indonesian Public Sector Financial Management Reform Framework

Source: Ministry of Finance (2000)

1.4.2 Audit Report and Implementation of SAP

The financial and accountability reports in Indonesian institutions are prepared and presented on the basis of SAP. The appendix of PMK No. 171 of 2007, explained that the units of accounting institution perform accounting functions and financial reporting on the implementation of the budget in accordance with the level of organisation. The financial statements are a means of accountability of the budget by the unit of accounting, which acts as the record keeper as well as the reporting entity. Financial statements of ministries/agencies that are produced by the accounting unit consist of:

a. Actual Budget Report, which presents the realization of revenue and expenditure information, each of which is compared with the budget of the period.

b. Balance Sheet, which describes the financial position of assets, liabilities and equity funds of an accounting and reporting entity at a specific date.

c. Notes to the Financial Statements, which include explanations, detailed lists and analysis of the value of an item presented in the Actual Budget Report and Balance Sheet.

Before the financial statement sprepared by Central Government are discussed by the House of Representatives (DPR), the financial statements are audited by BPK. After being audited, BPK will submit the audited report (Laporan Hasil Pemeriksaan, LHP) to the DPR and the Central Government for further correction to be made.

In performing the audit, the opinion of BPK is based on four aspects, namely;

- Compliance with governmental accounting standards,

- Adequate disclosures,

- Compliance with laws and regulations,

- Effectiveness ofinternal controlsystems.

The Central Government Financial Statements (LKPP) from 2006 to 2012 had never received unqualified opinions from the Supreme Audit Board. For 2006 to 2008, BPK gave a disclaimer opinion and for 2009 to 2012, BPK gave a qualified opinion (see Table 1.1). Although the quality of LKPP has increased from a disclaimer opinion to a qualified opinion, but the quality has not achieved the

expectation as required by the authorities, which is obtaining an unqualified opinion from BPK.

Table 1.1
BPK's opinion on Central Government financial reports (LKPP)

Fiscal Year	Opinion
2006	Disclaimer (TMP)
2007	Disclaimer (TMP)
2008	Disclaimer (TMP)
2009	Qualified (WDP)
2010	Qualified (WDP)
2011	Qualified (WDP)
2012	Qualified (WDP)

LKPP is a consolidation of reports from the Ministry/Institution's financial reports and general treasury's financial reports. The Audited LHP of LKPP is also a consolidation from the Ministry/Institution's LHP and general treasury's LHP. This means the audit opinions are based on an audit conducted at work units and not at the central level. Table 1.2 summarises the audit result from BPK of the Ministry/Institution's financial reports for the fiscal year of 2006-2012.

Table 1.2
BPK's opinion on Ministry/Institution's financial reports

Opinion	2006	2007	2008	2009	2010	2011	2012
1. Unqualified (WTP)	7 (8.8%)	16 (19.8%)	35 (42.2%)	45 (57.0%)	53 (63.1%)	67 (77.0%)	69 (74.2%)
2. Qualified (WDP)	37 (46.3%)	31 (38.3%)	30 (36.1%)	26 (32.9%)	29 (34.5%)	18 (20.7%)	22 (23.7%)
3. Adverse (TW)	0 (0.0%)	1 (1.2%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
4. Disclaimer (TMP)	36 (45.0%)	13 (16.0%)	18 (21.7%)	8 (10.1%)	2 (2.4%)	2 (2.3%)	2 (2.2%)
Total Entities	80 (100%)	81 (100%)	83 (100%)	79 (100%)	84 (100%)	87 (100%)	93 (100%)

In conducting the audit of LKPP, BPK found several weaknesses associated with the implementation of SAPP, in particular, the implementation of SAI at the Ministry level, Echelon I, Region and work units. According to the findings of the BPK, the weaknesses are generally associated with problems of human resource capacity to run the SAI, lack of internal controls among the SAI teams, lack of commitment and support by heads of working units, minimum facilities for the management of SAI as well as several other weaknesses between different work units (BPK, 2013).

Mardiasmo (2002) said that the main problem to implement good governance is that Indonesia does not have a good accounting system. The absence of a reliable accounting system weakens the government's internal control. If the accounting system is not reliable, the recording and reporting of accounting are less reliable. Second, most government personnel have very limited accounting qualifications; as a result, they do not really care and do not understand the importance of good governance. On the other hand, very few qualified accounting scholars are interested to practise their profession in the public sector because of low compensation.

Empirically, a number of studies (Alimbudiono & Andono, 2004; Indriasari & Nahartyo, 2008; BPK as cited by Nazier, 2009) found the problems such as the lack of employees with approved accounting qualifications, unclear job descriptions, and insufficient training to ensure the accounting functions are properly executed in several local governments in Indonesia. Indriasari and Nahartyo (2008) found that several work units have only one employee with accounting qualification who serves as a middle manager in finance.

BPK, as revealed by Nazier (2009) have conducted a survey in 6 Ministries/Institutions, 20 local governments and 12 universities. The purpose of the

survey was to obtain an overview of the strengths and weaknesses of the government employees in the process of preparing financial statement. The results of this study show that, first, Indonesia suffers from a shortage of human resources particularly those with accounting qualifications to manage state finances, particularly in the accounting background; second, the existing managers and financial reporting executives do not possess accounting qualifications; and third, the understanding of state financial administrative among the employees is weak.

Nasrun et al, (2012) found that one of the major constraints faced by the government in presenting high quality financial statements is the lack of system integration. In one work unit, at least six systems are used to support the preparation of financial statements; application for budget plan of ministries/agencies (RKKL), application for the list of budget implementation (DIPA), application for paying the warrant application (SPM), AISs of treasurer (SISKA), application of inventory, SIMAK BMN applications for asset management, and SAKPA applications for financial management. A total number of running applications is 21,000 and located throughout the region with a variety of conditions and settings. Furthermore, even though the process of planning, implementation and reporting are interrelated, the applications are still fragmentary, desktop-based. There are repetitions and duplications of the processes, redundancies, and variance in the data in different applications. The report preparations that are stratified by separate applications also pose its own problems in merging the data. The involvement of a large number of employees to operate the systems increased the potential for human errors and took a longer time to complete the report.

Harun (2007) draws attention to the importance of improving the quality of public sector accounting in Indonesia, in line with the aims of reform and

democratization, and in the context of decentralization. It highlights a continuing lack of progress in reform of government accounting. This is attributable partly to a lack of interest and understanding of the issues among newly empowered electors. In addition, current human resource management practices in the public sector have resulted in a shortage of accounting skills; and without them there is little prospect for successful reform in this area.

1.4.3 Accounting System of the Central Government (SAPP).

In order to meet the qualitative criteria of financial reporting, the Indonesian Government has developed AIS known as the Accounting System of the Central Government (SAPP). SAPP comprises two subsystems, (1) Accounting System of the State General Treasurer (SA-BUN), which produces reports on financial positions and financial performances to the Minister of Finance who acts as the State General Treasurer, and (2) Institution Accounting System (SAI) whereby reports of financial position and financial performances of all agencies under the control of the State Ministry/Institution are generated.

The Central Government Financial Statements (LKPP) are prepared by the Ministry of Finance based on the integration of financial reports prepared by the Minister/Chief of Institution as the budget user, and liability report of State Treasury Management that has been arranged by the Ministry of Finance as the State Financial Treasurer. The report is then submitted to the President and the Supreme Audit Board (BPK) for the LKPP audit. The SAAP scheme is illustrated in Figure 1.2 below:
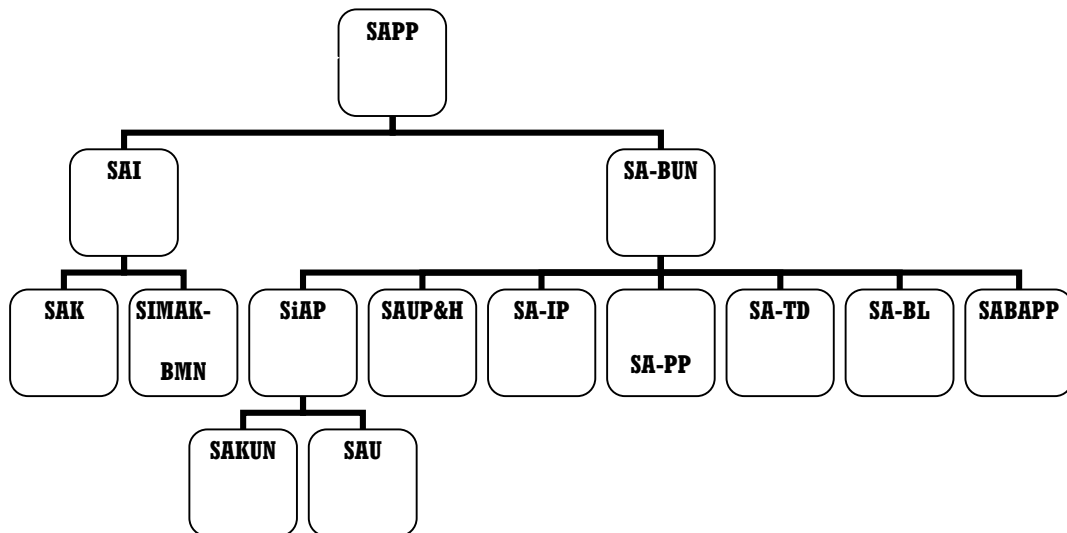
Figure 1.2
Scheme of Accounting System of Central Government (SAPP)

The preparation of the financial statements by the Central Government involves the integration of financial data and information at different hierarchical levels. Firstly, at the lowest hierarchical level, financial statements are prepared by individual work units known as the Accounting Authorized Budget Units (UAKPA). Then, the Accounting Unit Assistant Regional Budget (UAPPA-W), which is a higher authority, consolidated the financial statements prepared by the UAKPA. The financial statements are then consolidated again at the regional level by the Accounting Unit Assistant Budget User Echelon (UAPPA-E1). Financial Statements of inter level echelon is consolidated at the Accounting Unit Budget User (UAPA) to produce financial statements for Ministries/Institutions. Subsequently, the financial statements prepared by each Ministry/Institution are submitted to the Ministry of Finance.

The reporting cycle commencing from the work units to the Ministry of Finance demonstrates the upward accountability process by the public sector. Beginning from the year 2006, BPK is not only giving opinions toward LKPP, but

also toward the financial reports of each Ministry/Institution. The financial statements produced by the Central Government or the Ministry/Institution are a form of accountability for the use of funds from the state budget. With better and more responsible use of the funds, the BPK will provide unqualified opinions (WTP) to the audited financial statements.

In accordance with Law 15 of 2004 on Audit of State Financial Management and Responsibility, the criteria for giving a fair view of the financial information presented in the financial statements are (a) in accordance with government accounting standards (b) adequate disclosures (c) compliance with laws and regulations and (d) the effectiveness of internal control systems.

Furthermore, the law stated that the Central Government financial reports should be audited by the Supreme Audit Board (BPK) before submitting to the Parliament as a means to discharge their responsibility for the use of the state budget. Opinions given by the BPK indicates the quality of information contained in the financial statements.

1.4.4 Institution Accounting System

The Institution Accounting System (SAI) is the subsystem applied by the Ministry/Agency that processes financial transactions to prepare their financial statements. According to the PMK (Finance Minister Regulation) No. 171 of 2007 Article 1 paragraph (10) (it is now updated to PMK No. 233 of 2011 Article 1 paragraph (12)), the definition of SAI is as follows:

"Institution Accounting System hereinafter referred to SAI, is a series of manual and computerized procedures ranging from data collection, recording, reporting of the financial position and financial operations of the Ministry/Agency."

SAI is used to generate financial statements as a means to discharge responsibility and accountability in the budget execution and administration and reporting of State property (BMN). SAI is applied by all Central Government organisations and the accounting unit in local government in the context of Deconcentration and/or Co-Assistance.

Deconcentration is the delegation of authority from the Central Government to the Governor as Deputy Government and/or other institutions in a particular region. Co-Assistance is the assignment from Government to the local government and/ or the village, from the provincial to the district, or city and/ or village, as well as from the district, or the city to the village to carry out certain duties. The funds for implementation of the deconcentration and co-assistance are taken from the budget of the Central Government, thus, each accounting unit in the local government should report the use of the budget based on SAI.

The appendix PMK No. 233 of 2011 provides further details which outlined that SAI is divided into two subsystems, which is Financial Accounting Systems (SAK) and AISs and Management of State Property (SIMAK BMN).

According to the Standard Operational Procedure (SOP) of Preparation of Financial Report Ver.3/2009, the officer in charge in preparing the financial reports are administration officers, operators, verificators, and validators. Their responsibilities are presented below:

1. Operator
   - Enter transaction data into SAI
   - Print the document reports
   - Internal and external reconciliation with verificator
   - Computerised data file (ADK) and backup the data from the SAI application
   - Submitting the report to a higher hierarchical unit

- Maintenance devices (PC and printers)

2. Verificator

   - Verifies the source documents before input
   - Verifies the validity of source documents with printouts of reports produced by application
   - Internal and external reconciliation with operator
   - Ensuring data updates
   - Ensuring the submission of the financial reports to a higher hierarchical unit

3. Validator

   - Authorization of data recording
   - Ensuring preparation of financial reports meets the standard operating procedure
   - Validate the data of financial reports
   - Authorization of financial reports submission

1.4.5 Reporting Mechanism of SAI

Accounting data and financial reports are submitted periodically to the accounting unit at a higher hierarchical level. Accounting data and financial statements generated by the system of financial accounting (SAK) and accounting and management information systems of state property (SIMAK BMN) were compiled. SAI reporting mechanisms are illustrated in Figure 1.3 as shown below:
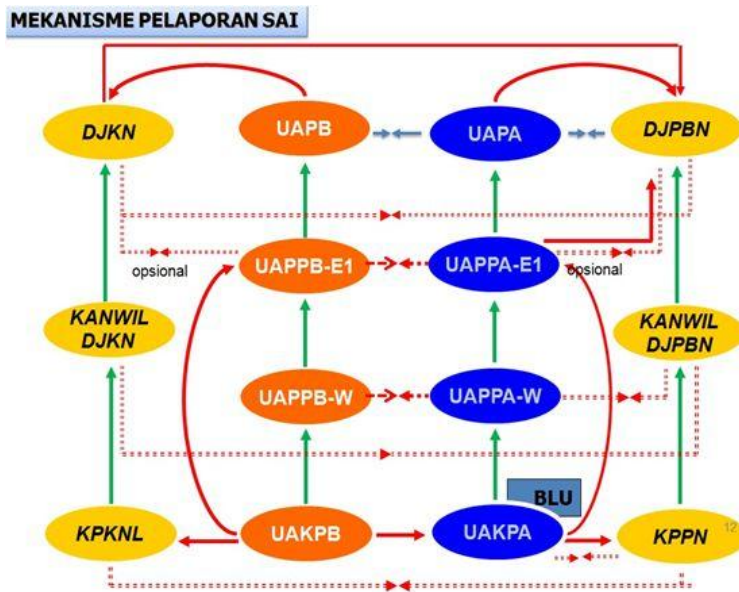
Figure 1.3
SAI Reporting Mechanism

As depicted in Figure 1.3, it shows that the financial reporting mechanisms through SAI started from the UAKPA who is responsible for matching BMN report of UAKPB with the financial statements of UAKPA. UAKPB will reconcile with the KPKNL, and then report it to its higher hierarchical level, which is the UAPPB-W and to UAPPB-E1 followed by UAPB. At UAKPA, the staff will perform monthly reconciliations with the Treasury Office, then submit the report to the next hierarchical level, UAPPA, then to UAPPA-W-E1 and lastly to the UAPA. Every level; UAPPB-W, UAPPB-E1, and UAPB will match the report with the reports from the levels UAPPA BMN-W, UAPPA-E1, and UAPA. The result of the reconciliation between UAKPB and KPKNL will be reported to the Regional Office of Directorate General of State Wealth (DJKN) then to DJKN.

UAKPA who performs monthly reconciliations with the Treasury Office will report to the Regional Office Directorate General of State Treasury (DJPBN) then to the DJPBN. UAPA, who matched the BMN report with UAPB, will also report to DJKN. UAPA will also reconcile with the DJPBN. DJKN will then report the results