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Good Governance Implementation In Public Sector: Exploratory Analysis of Government Financial Statements Disclosures Across ASEAN Countries

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Abstract

The purpose of this research is to investigate the disclosure level in the Association of South East Asian Nations (ASEAN) governmental financial statement for year ended 2012-2013.

The research method employed is exploratory quantitative. Data collected using disclosure checklist provided by International Public Sector Accounting Standard (IPSAS). Two countries in ASEAN, Indonesia and Malaysia was selected as a sample. Data analysed using descriptive statistics.

The research indicated that although Indonesia's government financial statements provide more disclosure rather than Malaysia's, but generally, disclosure level in both countries is low, indicate that both countries still has to increase their disclosure level in the future.

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1. Introduction

South East Asian countries in 1967 establish Association of South East Asian Nations (ASEAN). ASEAN which has 10 states member currently implementing the ASEAN Economic Community (AEC), which is an ASEAN

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response to globalization and free trade. AEC establishment is to strengthen the ASEAN economy which had slumped since the economic crisis in 1997-1998, as well as to compete with India and China, as the largest economy in Asia's developing countries.

Although currently, development in ASEAN countries is advancing, steadily than the European Union or United States of America, ASEAN countries have a diversity in culture, government, politics, and social conditions. One of the examples is corporate governance implementation. Survey conducted by Asian Development Bank (ADB) in 2014 incorporated into ASEAN Corporate Governance Scorecard in six ASEAN countries showed that although there were governance improvements in six ASEAN countries surveyed, but the average index of governance in six ASEAN countries was 64.55 (from maximum score of 142.00), which means that governance in ASEAN countries still far from sufficient.

Government has a role in promoting good governance. Generally, a government that perceived to have good governance, will gain trust from stakeholders and will generate good business and corporate culture. One of vital area in government governance is how government manage their financial resource. The information provided in financial statements

Financial statements can present quality in government financial management. By looking into financial statement disclosure, the user can know several vital information regarding how the government manages the country, especially how good the accountability and governance of government. Financial statement usually has accounting standard. Generally, all ASEAN countries published governmental financial statements, and it has unique accounting standard. However, International Federation of Accountants (IFAC), through its International Public Sector Accounting Standards Board (IPSASB) has drawn up the International Public Sector Accounting Standards (IPSAS) as an international reference in governmental accounting standard. This research is trying to compare governmental financial statement's disclosure level, using IPSAS as a guidance.

2. Research Questions

The purpose of this research is to answer questions, namely how is the disclosure level in an ASEAN governmental financial statement, using an IPSAS disclosure checklist during year 2012 – 2013?

3. Literature Review and Research Framework

Government is always depicted as long bureaucrat and have severe levels of corrupt practice. New Public Management Theory developed in 1980's began to shift the focus of government management, by taking best practices of business, one of which is implementation of good corporate governance (GCG), which was adopted as good government governance (GGG). UNDP currently has 9 criteria of GGG, namely: Participation; Rule of Law; Transparency; Responsiveness; Consensus Orientation; Equity; Efficiency and Effectiveness; Accountability; and Strategic Vision. GGG implementation, has proven to improve governmental performance. One of government performance can be looked at its financial management.

Financial management processes in government ranging from planning to financial control. Financial management usually consists of these activities: Planning, Budgeting, Treasury, Accounting and Reporting, and auditing. The issues raised in the government financial management reform is public accountability, value for money, and its system of accounting and auditing. (Mardiasmo. 2002). The central theme of financial reform is to establish welfare state and society, creation of good governance, and establish equitable development. (Mardiasmo. 2002).

The financial statement is a product of financial management. Financial statement has several purposes, namely as a decision making tools for user of financial statements, and also to show accountability and stewardship of entity to users. Financial statement informs several financial matters, not just numbers, but also qualitative information. There are several information required to disclose by accounting standard. Disclosure serves a purpose as further explanation of numbers provided in financial statement, and as another explanation of government financial management, which can't be explained in numbers, or in face of financial statements.

List of information that need to be disclosed usually appear in accounting standard. Accounting standard used in countries can be different, so it will be very difficult to make disclosure level comparison. Public sector/government

accounting has IPSAS, which is a public sector accounting's best practice standard. Although not all ASEAN countries applied IPSAS, some countries have already adapted IPSAS requirement in its accounting standard, like Indonesia or Malaysia. Higher disclosure level will indicate how much government comply to its commitment for governance, so making comparison of governmental financial statements disclosure can find an early indication of governmental financial statements.

Research framework can be defined as follows:

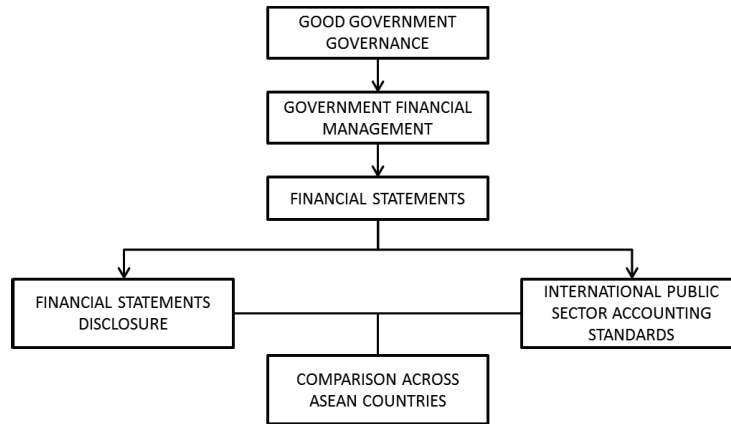


Figure 1. Research Framework

4. Research Methodology

This research uses exploratory method with quantitative approach. Researcher used governmental financial statement as an instrument. Population is all ASEAN countries, but researcher select only two samples, namely: Indonesia and Malaysia. This is due to both countries have same characteristic such as both of them were once controlled by regime, President Suharto in Indonesia and PM Mahathir Muhammad in Malaysia. Hence, it will be good sample for comparison the good government governance between two countries. Researcher select 2012 – 2013 as observation years due to the both countries is the latest data from government financial statements.

Data collected by browse governmental financial statement published on-line in the internet. Disclosure checklist used a guidance as provided by Ernst and Young, one of Big 4 audit firm. Data analyzed using descriptive statistics. Data is presented in form of tables and explain narratively.

5. Research Findings and Discussions

Generally, Indonesian and Malaysian Government still lack of financial statement disclosure. Indonesia's disclosure level for two years is around 16 percents, while Malaysia is worse, lower than 10 percents. More detailed analysis is presented in table below:

Table 1. Disclosure Level of Governmental Financial Statements.

Disclosure Matters	Indonesia		Malaysia	
	2012	2013	2012	2013
General Information	44,83%	44,83%	41,38%	37,93%
Presentation of Budget Information	60,00%	60,00%	80,00%	80,00%
Statement of Financial Positions	77,27%	81,82%	68,18%	59,09%
Statement of Cash Flows	52,78%	52,78%	44,44%	47,22%
Statement of Changes in net assets/equity	0,00%	7,69%	0,00%	0,00%
Notes of financial statements	83,33%	83,33%	83,33%	83,33%
Accounting policies, key measurement assumptions and capital	60,00%	60,00%	20,00%	20,00%
Changes in Accounting policies	0,00%	0,00%	0,00%	0,00%
Key estimation assumptions	100,00%	100,00%	100,00%	100,00%
Capital	50,00%	50,00%	0,00%	0,00%
Borrowing costs	33,33%	33,33%	0,00%	0,00%
Changes in accounting estimates	16,67%	25,00%	16,67%	8,33%
Controlling entity's and investor's separate financial statements	50,00%	50,00%	30,00%	30,00%
Correction of errors	37,50%	37,50%	62,50%	0,00%
Dividends	33,33%	33,33%	0,00%	0,00%
Employee benefits	7,69%	8,97%	0,00%	0,00%
Entity Combinations	0,00%	0,00%	0,00%	0,00%
Events after the reporting period	33,33%	33,33%	0,00%	0,00%
Financial guarantee contracts	0,00%	100,00%	100,00%	100,00%
Financial Instruments	5,66%	6,29%	3,14%	3,77%
Foreign currency	18,18%	18,18%	0,00%	0,00%
Hyperinflation	0,00%	25,00%	0,00%	0,00%
Impairment	1,69%	3,39%	0,00%	0,00%
Intangible assets	3,23%	6,45%	0,00%	0,00%
Interest in joint ventures	0,00%	0,00%	0,00%	0,00%
Inventories	25,00%	25,00%	0,00%	0,00%
Investment Property	0,00%	0,00%	0,00%	0,00%
Investment in associates	0,00%	0,00%	0,00%	0,00%
Lease disclosures by lessees	0,00%	0,00%	0,00%	0,00%
Property, plant and equipment	3,57%	10,71%	0,00%	0,00%
Provisions, contingent liabilities, and contingent assets	19,05%	19,05%	0,00%	0,00%
Related parties	28,57%	28,57%	0,00%	0,00%
Revenue from exchange transactions	42,86%	19,05%	9,52%	9,52%
Segment reporting	0,00%	0,00%	0,00%	0,00%
Service Concession Arrangements: Grantor	0,00%	0,00%	0,00%	0,00%
Agriculture	0,00%	0,00%	0,00%	0,00%

Information about the general government sector	81,82%	81,82%	0,00%	0,00%
Reconciliation to the consolidated financial statements	100,00%	100,00%	0,00%	0,00%
Lease disclosures by lessors	15,79%	21,05%	0,00%	0,00%
New pronouncements	0,00%	0,00%	0,00%	0,00%
Other Disclosures	5,43%	6,52%	0,00%	0,00%
Overall Disclosure	16,83%	17,60%	9,42%	8,65%

Indonesia's central government financial statements provide better disclosure rather than Malaysia's central government. There are several reasons of why Indonesia can provide more disclosure rather than Malaysia. Although neither Indonesia nor Malaysia fully implemented IPSAS when making their financial statements, but Indonesian Governmental Accounting Standard (Government Regulation No. 71 year 2010) stated that Indonesian Governmental Accounting Standards is developed based on several accounting standard, one of them is IPSAS, while Malaysia's financial statements still developed using cash modification basis, and not implemented IPSAS.

Although Indonesia's financial statements provide more disclosure rather than Malaysia, it has to be noted that several disclosure matters are still zero (0,00%). This can happen for various reasons:

1. There are some items in IPSAS that not applicable in Indonesia's or Malaysia's governmental financial management. For example, Indonesia's does not have investment in joint venture or associates, since Indonesia's accounting standard is prohibit presenting investment in joint venture or associates in its financial statements (although in reality, Indonesia has several associates, namely State Owned Enterprise). Malaysia's financial statements scope is also for governmental entities only, and its exclude the enterprise owned by government.
2. There is lack of several transactions in government. For example, neither Indonesia nor Malaysia allowed property as their investments. Indonesia's financial management system is not familiar with hedging system.
3. Indonesia's or Malaysia's governmental accounting standard do not provide the requirements for specific disclosure. For example: IPSAS required government to assess risk management in government, while local standards is not requiring them to be presented. Although it is understandable because neither of these two countries fully implement IPSAS, but since IPSAS is an international standard, financial statement that using IPSAS will have more quality rather than local standard.

6. Conclusion and Suggestions

Based on research result above it can be concluded that although Indonesia's government financial statements provide more disclosure rather than Malaysia's, but generally, disclosure level of Indonesia's and Malaysia's government financial statements is still low. This result indicated that Indonesia's and Malaysia's government has to do an effort to increase their level of disclosure in the future.

The researcher suggests several effort that can be done to increase the level of financial statement disclosure:

1. Indonesian and Malaysian government has to harmonize their accounting standard to IPSAS. Although not fully adopt IPSAS, but this effort will reduce the gap between current accounting standard and IPSAS, and it will increase the disclosure level in the future.
2. Indonesian and Malaysian government needs to strengthen infrastructure of their financial reporting. Some other research indicated that human resource, financial management policy and government support is most critical infrastructure to be develop.

This research is still an exploratory so it has many weaknesses. For future research, we suggest to add more ASEAN countries and also adding years of observation. Future research can also test any relation between financial disclosure level with government performance, such as: audit opinion, good governance index, etc.

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