

# The Analysis of Financial Reporting Disclosure through Internet Financial Reporting on E-Government: Further Evidence from Local Government of Indonesia

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**Keywords:** Internet Financial Reporting, E-Government, Financial Disclosure Index

**Abstract:** The purpose of this research is to compare the quality of financial reporting disclosures through e-government called Internet Financial Reporting. The research population is local government in Indonesia which is divided into two groups. The first group is all provincial government in Indonesia, while the second group is the district/city government selected one in each province. In the second group, the sample selection method used is a purposive sampling method with the criteria of having the broadest area size, the most populated and has the most substantial regional income. The index used to assess the quality of disclosure is using disclosure parameters based on the Instruction of the Minister of Home Affairs No.188.5/1797 / SJ in 2012 concerning Transparency of Regional Budget Management and the index used has been modified following research needs. There are four parameters used in this research; (A) The existence of the local official government website, (B) The existence of a content menu with the name "Regional Budget Management Transparency", (C) Availability of latest data (the data of 2018), (D) Availability of previous data (the data of 2017), and (E) The presentation of budget information. Data were collected through observation with internet media on the availability of parameters determined in this study. Two groups of samples were analyzed on each parameter using the Mann-Whitney test to examine whether there is a significant difference between the two groups of samples. The result of this research is that there are no significant differences of financial disclosure between provincial government and city government on parameter A, B and E, and there are significant differences of financial disclosure between provincial government and city government on parameter C and D.

## 1 INTRODUCTION

Periodically, the organization will issue reports both financial and non-financial reports. Periodic and annual financial statements will be issued periodically. As time and development progress, rapid changes in the market and society cause this reporting to become obsolete. Today's high competition demands the provision of more up-to-date information to enable management to adapt quickly to opportunities and provide solutions to problems that occur (Inês Pinto, 2016). Organizations need an information system that will help them produce the financial information or reporting needed. For this reason, computerized Accounting Information Systems (AIS) has brought opportunities for companies to perform accounting functions more effectively and efficiently. This opportunity is

because the use of computerized SIA has resulted in significant savings in terms of time and cost. (Maziyar Ghasemi, 2011). Time and cost savings allow companies to do other, more valuable things, such as conducting financial reporting analysis. This analysis is possible with the development of technology. The use of technology in the accounting process has increased as a result of the development of computer technology in producing information for corporate administration. At the same time, the use of e-accounting (electronic accounting) in the company has begun to expand (Aysel Guney, 2014). Technology allows everything to be done quickly and effectively. The results of the use of technology will result in improvements in the means of communication, transaction processing, and information exchange will be more effective. In addition, the use of technology will affect every aspect of life, will consistently revolutionize the way

communication between humans, even the way people interact with the government (Jin Sangki, 2018). With the rapid development and increasingly widespread use of the internet, organizations have obtained highly useful communication tools to present information to stakeholders. The use of the internet in communicating information to stakeholders enables the dissemination of information in a more timely, cheaper and more interactive manner. (Tatjana Dolinsek, 2014)

In addition, the Application of Information Technology (IT) has a different impact on how work is done. The purpose of implementing IT is to provide a significant positive impact on the work done (Wan Zuriati Wan Zakaria, 2017). As with the purpose of financial statement distribution, the application of IT makes a significant contribution in this regard. Initially, the distribution was done manually, but now it is done using internet technology. The rapid growth of the internet in the past decade has enabled companies to use new tools to disclose and disseminate financial information to stakeholders. (Inês Pinto, 2016)

Public sector financial disclosure or reporting using government web sites (e-government) is called IFR (Internet Financial Reporting). Internet Financial Reporting (IFR) is the disclosure of financial information through the company's website (Inês Pinto, 2016). Financial reports can be published quickly with a broader range of coverage by using IFR media to all interested users of financial statements. This demand is clearly outlined in Law No. 14 of 2008 concerning Public Information Disclosure, Article 9 paragraph 4, that the obligation to disseminate public information is conveyed in a way that is easily accessible to the public, one of which is through e-government. Based on this, the local government should make use of the website as an official means of delivering public information.

Law No. 14 of 2008 concerning Public Information Disclosure has mandated that every Public Agency must announce public information regularly, and one of them is the information about financial statements. This law also mandates that the obligation to disseminate public information is delivered in a way that is easily accessible to the public in easily understood languages. This demand is clearly outlined in this Act in article 9 paragraph 14 that the obligation to disseminate public information is conveyed in a way that is easily accessible to the public, one of which is through e-government.

To follow up on Law No. 14 of 2008, the Ministry of Home Affairs issued Minister of Home Affairs Instruction No. 188.52/1797/SC/2012 concerning

Regional Budget Management Transparency (TPAD). The Minister of Home Affairs' instruction instructs the provincial and district/city governments to prepare a menu called Regional Budget Management Transparency on the official government website (e-government) and publish the latest data on the context menu.

The Minister of Home Affairs' instruction requires the Governor to instruct the Regents / Mayors in their respective regions to implement the following:

1. Provide facilities in the official regency/city government websites. This facility was required to be implemented no later than May 31, 2012.
2. Prepare a context menu with the name "Regional Budget Management" in the official regency/city government websites. This menu e was required to be implemented no later than May 31, 2012.

This study aims to compare the quality of financial statement disclosure or IFR (Internet Financial Reporting) between provincial and district/city governments in Indonesia by using disclosure parameters based on the Instruction of the Minister of Home Affairs No.188.5/1797 / SJ in 2012 concerning Transparency of Regional Budget Management. The parameters used in this research has been modified following research needs.

The parameters used in this study are:

- Availability of official government websites
- Availability of a content menu with the name "Regional Budget Management Transparency."
- Availability of the latest data

The latest data used in this research is the data of 2018.

- Availability of data in the previous year

The data for the previous year is the data of 2017.

- Presentation of Budget Information Presentation

## 2 REVIEW OF LITERATURE

### 2.1 Literature Review

Implementation of Law no. 32 of 2004 concerning the Regional Government and Law no. 33 of 2004 concerning Financial Balance between the Central and Regional Governments marked the entry of regional autonomy in Indonesia. The enactment of regional autonomy requires the independence of local governments in managing their budgets in order to reduce their dependence to the central government. In the context of agency problems, principal and agent

relations can occur in the government structure in Indonesia, where the central government is the principal and the regional government acts as an agent. Fadzil and Nyoto (2011) also state that there is a principal-agent relationship between the government agency fund centre. In the context of signalling theory, the government obliged to provide an excellent signal to the people (Evans and Patton, 1987). The goal is that people can continue to support the current government. Financial reports can be used as a means to signal to the public. Excellent government performance needs to be informed to the people both as a form of accountability and promotion for public purposes.

Disclosure of financial reporting using local government websites (e-government) is commonly called the Internet Financial Reporting (IFR). Publication of regional budget information on the local government website will make it easier for the public to access regional budget information if it is available wholly and correctly.

The development of the website used by the district/city government began with the issuance of Presidential Instruction No. 6 of 2001. The instruction discusses the development and utilization of telematics in Indonesia which is then clarified by Presidential Instruction No. 3 of 2003 concerning national development policies and strategies for E-Government. In May 2008, the Indonesian government passed Law No. 14 of 2008 concerning Public Information Disclosure, which mandates that every public body is obliged to open access for every applicant to obtain public information, except for certain information concerning the country's resilience.

## 2.2 Research Method

Parameters used in this research is based on Minister of Home Affairs Instruction No.188.52 / 1797 / SJ / 2012. There are five parameters consist of :

1. Availability of official government websites
  - a) The provincial and district/city governments have an official go.id address and the address can be accessed directly (becoming the first page) when searched from Google / Yahoo
  - b) The website can be accessed properly (not in the stage of under repair)
  - c) The website displays public information
2. Availability of a content menu with the name "Regional Budget Management Transparency."

- a) "Financial Transparency" menu is available on the first page of the provincial or district/city government website
- b) The menu uses names under the Ministry of Home Affairs Instruction, namely "Transparency of Regional Budget Management."
- c) The menu can be clicked, and there is available clickable budget information

### 3. Availability of the latest data (in 2018)

The latest data referred to in this study is the data of 2018. According to the Ministry of Home Affairs Instruction, ten documents must be included in e-government websites, namely:

1. Summary of Work Plans and Budgets of Regional Work Units (Summary of RKA – SKPD)
  2. Summary of Work Plans and Budgets of Regional Financial Management Officers (Summary of RKA – PPKD)
  3. Draft Regional Regulation concerning Regional Revenue and Expenditure Budget (RAPERDA about APBD)
  4. Draft Regional Regulation concerning Changes in Regional Revenue and Expenditure Budget (RAPERDA about The Exchange of APBD)
  5. Regional Regulation on Regional Revenue and Expenditures Budget (PERDA about APBD)
  6. Regional Regulation on Changes in Regional Budget Revenue and Expenditures (PERDA about The Exchange of APBD)
  7. Summary of Regional Government Work Unit Budget Implementation Documents (Summary of DPA SKPD)
  8. Summary of Regional Budget Management Official Budget Implementation Documents (Summary of DPA PPKD)
  9. Budget Realization Report for all Regional Work Units (LRA of all SKPD)
  10. Budget Realization Report of the Regional Financial Management Officer (LRA PPKD)
4. Availability of data in the previous year (2017)
- The previous year's data used in this study is 2017. According to the Ministry of Home Affairs Instruction, the previous year's data that must be available in all of the data mentioned in point 3 above, plus two data, which consists of:
- 1) The Regional Government Financial Report audited by the Supreme Audit Agency (LKPD already audited) and

2) The Opinion of the Supreme Audit Board on the Local Government Financial Report (BPK Opinion on LKPD).

This condition is because these two reports can only be produced in the coming year after the current year has passed.

5. Presentation of Budget Information Presentation  
Presentation of budget information presentation can be done in various ways that make it easy for readers.

The data can be presented in PDF format that can be downloaded, or presented in graphical and infographic form.

The scores are given to each parameter to assess the five parameters mentioned above. Each parameter is given value of 20 points. Therefore, the total value of all parameters is 100 points. The scores are summarized in the following table:

Table 3. Internet Financial Reporting Index

PARAMETER	POINT			
The existence of official local government websites (A)	There is an official go.id address and can be accessed directly (becoming the first page) when searched from Google / Yahoo (10 points)	There is an official go.id address but it cannot be accessed directly (not being the first page) when searched from Google / Yahoo (2- 4 clicks) (8 points)	There is an official go.id address but it cannot be accessed directly (being the first page) when searched from Google / Yahoo (> 4 clicks) (5 points)	There is no official address with go.id (0 points)
	A website can be accessed properly (no interference) and display public information (10 points)	The website can be accessed properly but does not display public information (7 points)	The website cannot be adequately accessed or has a problem (5 points)	
The existence of a content menu with the name "Regional Budget Management Transparency." (B)	A financial transparency menu/banner is available on the first page of the local government website (7 points)	The menu/banner is found on three or fewer mouse clicks (5 points)	The menu/banner is found through four or more mouse clicks (3 points)	No menu at all (0 points)
	The menu/banner uses the name that matches the "Regional Budget Management Transparency." (7 points)	There are a menu and information, but the name is not suitable, for example, "Budget transparency, budget information." (5 points)	There are menus and information and use completely inappropriate names (4 points)	
	The menu can be clicked, and there is budget information that can be clicked (6 points)	The menu can be clicked, but there is no budget information in it (5 points)	The menu cannot be clicked at all (3 points)	
Latest data availability (up to date) (C)	The latest data for the current year is available and complete (10 items) (20 points)	The latest data for the current year is available and complete (6-9 items) (15 points)	The latest data for the current year is available and complete (1- 5 items) (10 points)	There is no data at all (5 points)
Availability of previous year's data (D)	Data for the previous year is available and complete (12 items) (20 points)	Data for the previous year is available (7-11 items) (15 points)	Data for the previous year is available (7-11 items) (10 points)	There is no data at all (5 points)
Presentation of budget information presentation (E)	Data is presented in the format: PDF that can be downloaded Graphs available Infographics available (20 points)	Only available graphics and PDFs that can be downloaded (15 points)	Only available PDF that can be downloaded (10 points)	There is only a table (5 points)
	<b>100 point</b>	<b>75 point</b>	<b>50 point</b>	<b>25 point</b>

\*The total score is 100 points

### 2.3 Sample Selection and Methodology

The population in this study are all local governments in Indonesia, where the study sample is divided into two groups. The first group is all provincial governments in Indonesia, while the second group is district/city governments that are selected based on individual or purposive sampling method. The specific criteria used to select the district/city are; in each province, one district/city government will be chosen with the criteria such as the area with the broadest category, the most population, and with the highest income.

The number of provinces in Indonesia is 34 provinces. Meanwhile, the total sample of regencies/cities is 33, excluding five administrative cities and an administrative district in Jakarta

Data were collected through observation with internet media on the availability of parameters determined in this study. Two groups of samples were analyzed using the Mann-Whitney test to examine whether there is a significant difference between the two groups of samples.

## 3 RESULT

Based on the results of the study, the highest score for the parameter is the category of availability of the official website of the provincial and city government. Then, followed by the availability of financial transparency menu in the second score, then the category of last year's data availability, the availability of the latest year data then the percentage of budget information presentation.

The analysis shows that all provincial governments already have an official website with the address go.id

and 97% of the website can be accessed properly and display public information. Meanwhile, 68% of provincial governments already have a menu called Budget of Transparency on their official website. However, only 58% of the website, have names according to the rules, namely "Regional Budget Management Transparency" Regarding the provision of data/information in the year of 2018, only 37% of the province have already provided complete data. While for the previous year's data provision, only 40% of the province already provided complete data. Furthermore, only 28% of the provincial government presents data in pdf format that can be downloaded, or in the form of tables and infographics.

The results of the analysis for the city government showed that there are two city governments which do not yet have an official city government website (as of the date of these observations performed) namely Tanjung Selor and Sofifi. Meanwhile, 60% of the city governments have already Budget Transparency menu. However, only 49% of the cities have named the menu in accordance with the rules, namely "Regional Budget Management Transparency". Regarding the provision of data/information in 2018, only 27% of cities provide complete data. While for the previous year's data provision, only 26% of cities provide complete data. Furthermore, only 29% of the city government presents data in pdf format that can be downloaded, or in the form of tables and infographics.

Based on Table 2, North Kalimantan received the highest score among the other provinces. Then the second score and highest third, obtained by South Kalimantan and Central Java. For the city group, Banda Aceh received the highest score among other cities. Then proceed by the city of Bandung and the city of Ambon

Table 2. Financial Disclosure Index

No	Province	Score	No	Cities	Score
1	Kalimantan Utara	90	1	Banda Aceh	80
2	Kalimantan Selatan	78	2	Bandung	68
3	Jawa Tengah	73	3	Ambon	61
4	Kalimantan Tengah	73	4	Medan	60
5	Jawa Barat	71	5	Bandar Lampung	60
6	Banten	68	6	Gorontalo	60
7	Gorontalo	68	7	Padang	58
8	Jambi	67	8	Yogyakarta	58
9	Sulawesi Barat	66	9	Surabaya	58
10	Kalimantan Barat	65	10	Palembang	57
11	Maluku	63	11	Kupang	57
12	Papua	63	12	Makasar	57
13	Kepulauan Bangka Belitung	62	13	Jambi	56
14	Bengkulu	60	14	Banjarmasin	55

15	Aceh	58	15	Mamuju	55
16	Lampung	55	16	Pekanbaru	52
17	DKI Jakarta	55	17	Semarang	52
18	Sulawesi Selatan	55	18	Tanjung Pinang	51
19	DI Yogyakarta	51	19	Pontianak	48
20	Riau	50	20	Denpasar	47
21	NTT	49	21	Samarinda	47
22	Sulawesi Utara	47	22	Palangkaraya	45
23	Sumatera Selatan	46	23	Manokwari	42
24	NTB	43	24	Bengkulu	35
25	Kalimantan Timur	43	25	Pangkal Pinang	30
26	Jawa Timur	35	26	Serang	30
27	Sumatera Utara	30	27	Manado	30
28	Sumatera Barat	30	28	Kendari	30
29	Kepulauan Riau	30	29	Jayapura	30
30	Sulawesi Tengah	30	30	Palu	28
31	Sulawesi Tenggara	30	31	Mataram	25
32	Maluku Utara	30	32	Tanjung Selor	0
33	Papua Barat	30	33	Sofifi	0
34	Bali	15			

Following are the results of the Mann Whitney Test statistical test to compare the five parameters between two sample groups, namely the provincial and city governments.

Table 4. Summary of The Result

Parameter	N	Mean Rank	Sum of Ranks	Mann-Whitney	Wilcoxon W	Z	Asymp. Sig (2 tailed)
The existence of official local government websites	Provincial	35,53	1208	509	1.070	-	1,430
	City	32,42	1070				
The existence of a content menu with the name "Regional Budget Management Transparency"	Provincial	35,66	1212,5	504,5	1065,5	-	0,721
	City	32,29	1065,5				
Latest data availability (up to date)	Provincial	37,66	1280,5	436,5	997,5	-	2,092
	City	30,23	997,5				
Availability of previous year's data	Provincial	39,85	1355	362	923	-	3,150
	City	27,97	923				
Presentation of budget information	Provincial	33,46	1137,5	542,5	1.137,5	-	0,257
	City	34,56	1140,5				

**The existence of official local government websites (A)**

From table 4, it can be seen that the mean value for the provincial government is greater than the city government, while the value of Asymp.Sig (2 tailed) is  $0.152 > 0.05$ . This value can be concluded that  $H_0$  is accepted which means that there is no significant difference regarding the existence of the official local

government website between the provincial government and the city government.

**The existence of a menu with the name "Regional Budget Management Transparency" (B)**

From table 4, it can be seen that the mean value for the provincial government is greater than the city government, while the Asymp. Sig (2 tailed) value is  $0.471 > 0.05$ . This value can be concluded that  $H_0$  is

accepted which means that there is no significant difference regarding the existence of the menu "Regional Budget Management Transparency" between the provincial government and the city government.

#### Latest data availability (C)

From table 4, it can be seen that the mean value for the provincial government is lower than the city government, while the Asymp.Sig (2 tailed) value is  $0.036 < 0.05$ . This value can be concluded that  $H_0$  is not accepted which means that there is a significant difference regarding the availability of the latest regional government data between the provincial government and the city government.

#### Availability of previous year's data (D)

From table 4, it can be seen that the mean for the provincial government is greater than the city government, while the value of Asymp.Sig (2 tailed) is  $0.002 < 0.05$ . This value can be concluded that  $H_0$  is rejected, which means that there is a significant difference regarding the availability of the previous year's data between the provincial government and the city government.

#### Presentation of budget information (E)

From table 4, it can be seen that the mean for city government is greater than the provincial government, while the value of Asymp.Sig (2 tailed) is  $0.575 > 0.05$ . This value can be concluded that  $H_0$  is accepted, which means that there is no significant difference regarding the presentation of local government information between the provincial government and the city government.

## 4 CONCLUSION

Based on the results of research conducted, it can be concluded that all provincial governments already have official government websites while there are two cities (at the time this data is accessed), do not yet have official government websites. The lowest category that has not yet been fulfilled by the provincial or city government is the provision of data both the latest and last year's data, such as financial report data, audit opinion by the Supreme Audit Board, and other data required by regulations. Likewise, for the presentation category of budget presentations, both the provincial and city governments still have low scores. The three provincial governments that have the highest scores in a row are North Kalimantan, South Kalimantan and

Central Java while the three highest scores for the city government are Banda Aceh, Bandung and Ambon. The result of this research is that there are no significant differences of financial disclosure between provincial government and city government on parameter A, B and E, and there are significant differences of financial disclosure between provincial government and city government on parameter C and D.

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