Abstract

Objective – This study aims to investigate the meaning of fairness in government financial statements in Indonesia local governments.

Design/methodology – The qualitative method with phenomenology as an analysis tool was used in this research. Research data was obtained through observation and in-depth interviews. Regional Government of Tojo Una-Una Regency, Indonesia, was identified as research subject while informants consist of the Regional Revenue Agency (Secretary and Treasurer) as the compiler of the regional government financial statements, inspectorate as the auditor, and the general public.

Results – The result of this study reveals that the fairness of the government financial statements is interpreted as the suitability of the government financial statements with the law, which is oriented to the action’s results by ignoring the process that must be passed. It was also found that the fairness of government financial statements is interpreted as being free from prejudice on complaints if fraud is found on the financial statements.

Keywords: Fairness, Government Financial Statements, Phenomenology

1. Introduction

The reforms brought about significant changes in governance in Indonesia. One of them is the shift in the government system from centralized to decentralized or known as regional autonomy. Based on Law No. 23 of 2004 concerning Local Government, regional autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own government affairs and public interests within the system of the Unitary State of the Republic of Indonesia.

The handover of government affairs by the central government to local governments also includes government financial management matters as set out in the Regional Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Daerah/APBD). In order to realize the transparency and accountability, the Governor/Regent/Mayor as the local leader is obliged to submit an accountability report for the realization of the APBD in the form of financial statements, in which the form and content of them are prepared and presented following government accounting standards (GAS). The GAS are accounting principles used to prepare and present government financial statements. The GAS is stipulated by Government Regulation No. 71 of 2010.

The information presented in financial statements as the general purpose of meeting the information needs of all user groups, namely the public, supervisory agencies, auditing institutions, parties that provide or play a role in the process of donations, investments, and loans, and the government. Therefore, financial statements are not made to meet the specific needs of each user group. However, financial statements play a role as a form of accountability for state financial management, so they must be prepared by the GAS and the legislation requirements.

Based on the 2020 Audit Results Summary data, the unqualified opinion (Wajar Tanpa Pengecualian/WTP) given by the Audit Board of the Republic of Indonesia
(Badan Pemeriksa Keuangan/BPK) to local governments has increased from 58% to 90% in 2019. This increase is inseparable from improvements made by the local governments for weaknesses that occurred in the past five years. Previous years so that the accounts in the financial statements have been presented and disclosed following the GAS. However, the phenomenon of unqualified opinion is not followed by a decrease in the number of corruption cases in local governments. Several corruption cases occurred when the local governments obtained an unqualified opinion on its governments financial statements.

Several researchers have conducted studies on the relationship between audits and corruption cases in government organizations. According to Liu & Lin (2012), the audit process results can be used to detect corrupt activities at the local government level. The audit process in the public sector can increase transparency and accountability, including preventing corruption (Khan, 2006). This is because the audit can show areas with the potential for corruption (Suhardjanto et al., 2018).

However, the phenomenon in Indonesia shows that there is a tendency to increase the unqualified opinion in line with the increase in the number of corruption cases involving regional heads. According to Effendy (2013) there are still cases of corruption revealed to local governments that obtain an unqualified opinion on their financial statements, indicating that local governments financial management has not been carried out effectively and efficiently. Pamungkas et al., (2018) also revealed that the potential financial losses of the local government have no significant effect on the audit opinion given on the government’s financial statements.

This phenomenon and research gap encourage researchers to reveal the meaning of fairness in financial statements for local government officials who are the compilers of the financial statements. This study is conducted in the local government of Tojo Una-Una Regency, which is one of the regencies in Central Sulawesi Province that consistently obtained unqualified opinions from 2014 to 2020. Therefore, this study aims to investigate the meaning of fairness in government financial statements.

This study is divided into five parts. The first part contains the study background. The second part is literature review. Meanwhile, in the third part, we will explain the method used. Furthermore, the results of this study are discussed in the fourth part. Finally, the fifth section contains conclusions, limitations, and suggestion for future research.

2. Theoretical Framework

Public Sector Audit

In Indonesia, public sector audits, particularly in the government sector, are regulated in Law No. 15 of 2004 concerning Audit of State Finance Management and Accountability. An audit is the process of problem identification, analysis, and evaluation carried out independently, objectively, and professionally based on audit standards to assess the truth, accuracy, credibility, and reliability of information regarding the management and responsibility of state finances. The audit conducted in the government sector is different from those in the private sector. In the government sector, auditors are carried out to support the success of the implementation of state government, and state finances must be managed in an orderly manner, obeying laws and regulations, efficient, economical, effective, transparent, and responsible with due regard to a sense of justice and propriety. Based on these considerations, audits in the government sector are carried out by an independent body namely the Audit Board of the Republic of Indonesia. Auditors must have adequate professional skills to carry out audit tasks (Darwanis & Putri, 2020).

Based on Law No. 15 of 2004, the audit of state finances includes examining the management of state finances and examining the responsibility of state finances. The audit consists of a financial statements audit, a performance audit, and an audit with a specific purpose. Financial statements audits are carried out on financial statements.
Meanwhile, the performance audit is carried out on the management of state finances, which consists of examining the economic and efficiency aspects and examining the effectiveness aspects. An audit with a specific purpose is carried out if there are indications of state/regional losses and/or criminal carried out by investigation.

The audit is carried out based on auditing standards and the GAS. Auditors prepare a report on the results of the examination after the inspection is completed. The report on the results of the examination of the financial statements contains an opinion. An audit opinion is a professional statement as a result of an examination regarding the fairness of the information presented in the financial statements (Juniantika & Hapsari, 2020). The audit opinion on financial statements can be in the form of unqualified opinion, qualified opinion, adverse opinion, and disclaimer. An unqualified opinion is an independent auditor’s judgement that an organization’s financial statements are fairly and appropriately exceptions, and in compliance with the GAS. A qualified opinion is an auditor’s opinion that the financial statements are fairly presented, with the exception of a specified area. An adverse opinion is a professional opinion made by auditors indicating that an organization’s financial statements are misrepresented, misstated, and do not accurately reflect its financial performance. Disclaimer of opinion is the statement that independent auditors issue saying that they do not express an opinion on the financial statements.

Government Financial Statements

Law No. 17 of 2003 concerning State Finance in article 23 mandates that the form and content of the accountability report for the implementation of the APBD is prepared and presented following the GAS. Financial statements are prepared to provide relevant information about the financial position and all transactions made by the government during a reporting period (Bustaman et al., 2018). Financial statements are mainly used to determine the value of economic resources used to carry out government operational activities, assess financial conditions, evaluate government effectiveness and efficiency, and help determine compliance with laws and regulations.

Financial statements are prepared for the purposes of accountability, management, transparency, intergenerational equity, and performance evaluation. Government financial statements should provide useful information for users in assessing accountability and making economic, social, and political decisions by:

a) Providing information about the sources, allocation, and use of financial resources.

b) Providing information about the adequacy of current period revenues to finance all expenses.

c) Providing information about the amount of economic resources used in government activities and the results that have been achieved.

d) Providing information about how the government finances all of its activities to meet its cash needs.

e) Providing information about the financial position, and condition of the government concerning its sources of revenue, both short-term and long-term, including those from tax collections and loans.

f) Providing information about changes in the government’s financial position, whether it has increased or decreased due to activities carried out during the reporting period.

Based on the GAS, the government’s basic financial statements consist of reports on budget realization, reports on changes in excess budget balances, balance sheets, operational report, cash flow report, report on changes in equity, and notes to financial statements. In addition, the government is also required to present other reports and/or elements of accounting information required by the provisions of laws and regulations. Quality of financial statements are relevant, reliable, comparable, and understandable.
3. Research Method

This study uses a qualitative approach with an interpretive paradigm. The interpretive paradigm focuses on language, the interpretation of symbols, and the understanding of social science and human thought (Darmayasa & Aneswari, 2015). Interpretive research seeks to explain the relationship between action and meaning where interpretation is an active process and creative to ascertain the possible meaning of actions and messages (Lannai et al., 2014). This paradigm is in line with the aim of this study, which seeks to understand and explore informants’ points of view regarding the meaning of fairness in government financial statements. Research data obtained through observation and in-depth interviews. Observation and interviews were conducted during March-April 2020 in Tojo Una-Una Regency. Phenomenology is used as a data analysis technique to investigate the meaning of the fairness of financial statements. The sense of a phenomenon is always based on individuals’ experience so that the reality of the event can only lead to different interpretations for each actor who experiences it (Iser, 1972).

The first stage of the analysis includes horizon lining in which the researcher listens to the interview recording and reads the interview transcript of the research informants to identify the statements relevant to the focus of this study or the informants’ outer awareness (noema). The researcher did this three times to ensure that no essential points were missed from the recorded interview. Next, a list of meaning units is made through identifying essential statements at the horizon lining stage and then arranged and developed into specific themes (Holloway, 1997; Hycner, 1985). A textual description is a stage where the units of meaning and ideas obtained are used to compile explanations of what is experienced by the informants. Besides, through this stage, the researchers do a structural description by describing reports of the context or setting that influences how the informants’ experiences the phenomenon. The researchers combine and compile an overall summary that illustrates the essence of the event under study (Groenewald, 2018).

The subject of this research is the Regional Government of Tojo Una-Una Regency. Tojo Una-Una Regency is a regency located in Central Sulawesi Province, Indonesia. Tojo Una-Una District Government’s Financial Report recorded obtaining a Fair Opinion without Exception from the Republic of Indonesia Supreme Audit Board in 2014-2020. The informants of this research are directly involved, understand, and able to provide information about the fairness of the financial statements of the regional government of Tojo Una-Una. The informant is the Regional Revenue Agency (Secretary and Treasurer) as the compiler of the regional government financial statements, Tojo Una-Una Regency Inspectorate as the auditor of the local government financial statements, and the public. The first informant was Mr. Sigit Labolong, a graduate of STPDN and a government employee for fifteen years. His experience in the secretarial field as a liaison between leaders and members in charge of making financial statements for local governments for one year. The second informant was Mrs. Feiby, who also worked at the Tojo Una-Una District Revenue Agency and had been a government employee for ten years. Her experience is in the treasury as the one who keeps books and manages finance for two years. The third informant was Mr. Irham, an economics graduate who worked as a civil servant for nine years. He has experience in finance at the Tojo Una-Una Regency Inspectorate for the past two years. Meanwhile, the fourth informant was Mr. Nurdiyanto. He was an economics graduate and worked as a state official in Tojo Una-Una Regency for sixteen years and had a good understanding of government finances.

4. Result and Discussion

The Meaning of Fairness of Financial Statements through Phenomenology

Generally, fairness cannot be reduced or cannot be overstated and cannot be said to be true or false (Arnett, 1967). The meaning of the fairness of the financial state-
ments can be different for each individual involved in it (Asare & Wright, 2012; Cowan, 1965). Phenomenology is a type of research applied to reveal the similarity of meaning, which is the essence of a concept that is consciously and individually experienced by a group of individuals in their lives. Consciousness is an event that can be accepted by the mind. So phenomenology can be said to be a strong desire to understand the actual events that can be achieved by observing phenomena or meeting individuals with reality. This study found two meanings of the fairness of financial statements that are naturally meaningful if they are presented based on the law and free from prejudice.

Fairness of the Financial Statements: Presented Based on the Law

The law is a significant part of the presentation of regional government financial statements (Darwanis & Putri, 2020). In Indonesia, laws governing the presentation of regional government financial statements include Law No. 17 of 2003 concerning State Finances, Law Number 32 of 2004 concerning Local Government, and Government Regulation No. 71 of 2010 concerning Government Accounting Standards. The existence of these rules becomes a reference for local governments in preparing and presenting local governments' financial statements. Deviations from these rules may be subject to criminal and/or civil penalties.

Sigit Labolong (SL) and Feiby (F) state that the meaning of fairness on financial statements is when the financial statements have been prepared based on applicable laws. SL and F explained that the meaning of the fairness of financial statements is conformity based on the law determined by the government because the financial statements of the regional government were also approved by law. The conformity of local government financial reports with related regulations is professionally examined by the Supreme Audit Board auditor, which is stated in the audit report (Agustiningsih et al., 2017).

"It is only fair when the financial statements are following the law that has been set because what is in making the government's financial statements approved by the law (SL)."

"Yes, of course, it is fair that the financial statements have been based or under the law or government accounting standards that discuss the country's finances and then endorsed (F)."

Furthermore, F revealed that following the applicable laws in preparing the financial statements of local governments is a must. If there are transactions that should be recognized in accounting but are not accommodated by applicable law, then the local government cannot record the transaction. The transaction cannot be avoided, but on the other hand, the transaction cannot be recorded because it is not regulated or even justified by law. Local governments often experience this dilemma and are forced to find loopholes to solutions so that transactions can still be presented in the financial statements of local governments (Syafudin et al., 2020).

Even so, the compilers of local government financial reports realize that the existence of laws related to local government financial statements is vital. The rules governing the preparation of local government financial reports, which are then derived in the form of a system, make it easier for civil servants to prepare local government financial statements.

"Likewise, the systems and procedures of the two are related. How can we make that financial report if there is no system? The procedure will also not work if there is no system (SL)."
SL and F statements indicate that the local government, as the compiler of the financial statements, understands that the results are more important than the process. Regional governments are more focused on outputs in the form of regional government financial statements with an unqualified opinion from the auditor rather than preparing and presenting the local government’s financial statements. Local government financial statements are not considered deviant and avoid punishment for these deviations. This understanding is also inseparable from the compilers’ beliefs of the regional government's financial statements that the auditor only sees the conformity of the regional government’s financial statements with relevant laws. As a result, acts of manipulation have to be carried out so that local government financial statements follow applicable laws.

"The rule means that the making of financial statements should not be arbitrary, if we want to make it carelessly without rules, of course, there is a law in it (SL)".

"It is the same with those systems and procedures. If you want to make a financial statement, it must be gradual. For example, this little brother cannot get to the student stage if you do not go through kindergarten, elementary, junior high and senior high, yeah (F)".

**Fairness of the Financial Statements: Free form Prejudice**

Something said to be free from prejudice is free, clean, and far from subjective considerations. Objective verification is something that cannot be rejected because it refers to what it wants to produce. Irham (I) and Nurdiyanto (N) stated that the meaning of fairness on financial statements is that the financial statements are free from prejudice. I stated that a fair financial statement is a financial statement in which there is no suspicion that is not objective, clean, and accurate by facts without manipulation.

"The meaning of this fairness is that there is no suspicion that the data produced by financial data are objective, meaning that the data is accurate according to facts. One more thing that nature is also clean means that it does not have interference from outsiders or insiders. So that is how (I) ".

I and N interpret fair opinion as an evaluation of financial statements that are free from prejudice in which the data contained in the financial statements are presented under the facts without any reduction or overuse of the data. The evaluation process is also carried out by people appointed by the government; in this case, the auditor of the Supreme Audit Agency. An assessment conducted by an external party of the regional government is expected to guarantee the objectivity of the appraiser so that the auditor can reveal the fraud committed by the local government (Darwanis & Putri, 2020; Sutton & Arnold, 1998).

"The meaning of the reasonableness of the financial statements is that they are free from suspicion by various parties, where the financial statements are made based on laws that have laws in them. So those who make it, if there is a lump in it, can be compared directly with the law, and if it is proven, violations can then be subject to the law. That the name is objective and free from interference by internal and external parties of the government (N) ".

"Clean from internal and external interference of the government. So those who make it, if it is felt there is a blockage can be compared directly with the law, and if indeed there is proven violation, then it can be subject to law, well that is called an objective (N) ".

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"One more thing, the nature of being free from prejudice is also clean, meaning that it does not have interference from outsiders or insiders (I)."

According to N and I, the meaning of being free from prejudice is clear and objective. Clean is clean from the interference of internal and external parties of the regional government as the compiler of the financial statements. Meanwhile, the objective is that the financial statements are made according to facts, and there is no manipulation (Etemadi & Abdoli, 2018). The existence of a fair opinion assures users that the audited financial statements have met the criteria in all material respects and corrections to improve the reliability of the financial statements (Tuanakotta, 2009).

**Synthesis of the Meaning of Fairness of Government Financial Statements**

Based on generally accepted accounting principles, financial statements should be fair, unbiased, and impartial. Financial statements are not intended to meet the interests of certain parties (Scott, 1941). Fair means that accounting information has been measured and expressed objectively and without any prejudice, the interests of its constituents. The information presented in the financial statements is useful for all users as stakeholders. Therefore, fairness is also a form of fair and equal behavior without taking sides of one of the stakeholders based on applicable laws and regulations.

The nature of fairness is appropriate in the presentation to ensure that financial transactions have been adequately presented. The meaning of the fairness of the financial statement itself is a financial statement of the company and the government that is presented correctly or following applicable accounting standards (Harris, 1987). Even so, each party has a diverse interpretation of the reasonableness of financial statements (Juniantika & Hapsari, 2020). The meaning of the fairness of the financial statements formed through the experiences can be said to be an internalization of Machiavellianism. Machiavellianism is an understanding that believes that results are more important than the process (Utami et al., 2019). (Prabowo & Cooper, 2016) explained that adherents of this notion believe that politics and morality are two separate fields, and there is no relationship. If there is no ethical value in political life, a ruler may break the agreement that has been said to his people and neighboring countries. Therefore, any manipulative action will be justified by the adherents of this understanding as long as it can help achieve the desired results. Internalization of this understanding will only affect his thinking and be oriented to the results of his actions and ignore the process that must be passed. No matter how the process is taken to achieve the results of an action, whether it is good or bad, as long as the action’s output is profitable, then the action is considered good and justified. Therefore, it is not surprising that the regional government of Tojo Una-Una Regency, Central Sulawesi, is willing to do everything possible, including being able to employ third parties to prepare financial statements, so that the financial statements look good and following applicable regulations.

Another meaning given to the fairness of the financial statements, which is free from prejudice which means avoiding slander or accusing each other in the event of fraud in making financial statements which is a manifestation of pragmatism in the Tojo Una-Una regional government. Pragmatism is an understanding which believes that a statement is true if the statement or the consequences of that statement have practical uses in human life (Shusterman, 1997). Pragmatism justifies the nature of trust which is manifested by the meaning of fairness on financial statements as a tool that can be used to obtain the benefits of trust. This can explain why the meaning made by informants of the fairness of financial statements is as a predicate that can provide the benefits of trust, both to internal and external parties.
5. **Conclusions**

Fair means that accounting information has been measured and expressed objectively and without any prejudice, the interests of its constituents. The information presented in the financial statements is useful for all users as stakeholders. Therefore, fairness is also a form of fair and equal behavior without taking sides of one of the stakeholders based on applicable laws and regulations. The nature of fairness is appropriate in the presentation to ensure that financial transactions have been adequately presented. Another meaning given to the fairness of the financial statements, which is free from prejudice which means avoiding slander or accusing each other in the event of fraud in making financial statements which is a manifestation of pragmatism in the Tojo Una-Un region.

This study has theoretical and practical implications. This study contributes to increasing knowledge regarding government financial statements and public sector audit. This study also contributes practically to the government in reviewing regulations related to government financial statements to represent actual activities. The government also needs to review audit procedures on financial statements so that audits can detect corruption within the government’s environment.

The results of this study should be interpreted carefully because this study has limitations. The limitation of this study is that the study results are difficult to generalize, except in areas with very similar local wisdom and similar businesses. In addition, the Covid-19 pandemic has limited the opportunity for researchers to conduct further observations and in-depth interviews. The researchers suggest further researchers expand the research subject so that more comprehensive research results can be obtained. Future researchers can also use other interpretive approaches to gain other understandings regarding the fairness of government financial statements.

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