

Revealing Good Governance in Regional Financial Reporting (Case Study on Banyuwangi Regency Government)



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ABSTRACT: This study aims to determine the factors in the implementation of governance of Banyuwangi Regency so that a Reasonable Without Exception (WTP) regional financial report is obtained. This study used qualitative research methods with a focus on phenomenology. Data collection through literature studies, interviews, and surveys within the scope of the Banyuwangi Regency Government. Primary data were obtained from interviews and surveys, while secondary data were obtained from literature reviews. Data analysis using interactive analysis methods. The results of the study found that leaders have a very important role in government. The leadership style applied is able to build a conducive work environment. In addition, leaders are able to motivate employees to increase performance effectiveness and productivity. This has an impact on the quality of the regional financial statements produced.

KEYWORDS: Governance, Leadership, Financial Statements

I. INTRODUCTION

Financial reports are the final result of the accounting process for a period that occurs in an entity (Muraina & Dandago, 2020). This financial report is used by all entities. The public sector also uses financial reports as a form of accountability and transparency (Muraina & Dandago, 2020; Ortega-Rodríguez et al., 2020). Data from the Financial Audit Agency (BPK) reports that as many as 500 out of 541 regional governments, or 92.25 percent, have received a WTP opinion in their 2021 financial reports, while the remaining 38 regional governments, or 7 percent, received a WTP opinion, and 3 regional governments or 0.06 percent get TMP opinion. The number of regional governments receiving WTP opinions has increased from 486 regional governments or 90 percent in the previous year (BPK, 2021). This phenomenon shows that local governments have a good ability to maintain the quality of their financial reports. WTP's opinion is an asset for strengthening public trust in the quality of regional government financial management as a reflection of a good state. So, all government financial reports should have WTP quality.

The Banyuwangi Regency Government is one of the best regional governments in maintaining WTP opinions on their financial reporting. The BPK awarded the Banyuwangi Regency Government for its ability to maintain an Unqualified Opinion (WTP) for eleven consecutive years from 2012 to 2023 (Banyuwangi Regency Government, 2023). This achievement by the Banyuwangi Regency Government is an encouragement for other regional governments to be able to improve and maintain the quality of financial reports. Quality government financial reports are, of course, prepared using good procedures in accordance with the public sector financial accounting system and government financial reporting regulations (Ermawati & Aswar, 2020). As a result, government financial reports can support economic, social and political decision-making processes (Agostino et al., 2022).

The government is required to provide all financial information that is relevant, accurate, on time, and trustworthy as a reflection of public sector organizations (Handayani et al., 2020). Efforts to maintain the quality of financial reports will not run fully if there is no good governance in them (Cuadrado-Ballesteros & Bisogno, 2021). Several previous studies show that governance influences an organization's financial performance (Al-ahdal et al., 2020; Bhagat & Bolton, 2019; Hermuningsih et al., 2020; Kyere & Ausloos, 2021; Puni & Anlesinya, 2020). Good governance is a series of rules, processes and policies that influence direction, management, control and control within an organization (Alqooti, 2020). The government, private sector

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and society must have equal roles and control each other to anticipate exploitation of each other (Sofyani et al., 2020). Therefore, implementing good governance will help create conducive relationships between parties.

A government with good governance can certainly create public service functions (Alqooti, 2020; Sofyani et al., 2020). This is oriented towards the goals that regional governments want to achieve, namely achieving national goals and effective and efficient government. In this case, success in creating good governance cannot be separated from good leadership (McMullin & Raggo, 2020; Schwarz et al., 2020). Leadership is a leader's effort to influence individuals and groups with the aim of realizing the expected goals (Katsaros et al., 2020). Leadership is the key to organizational success by creating good governance (Ferine et al., 2021; Schwarz et al., 2020). The progress or decline of an organization's performance depends on its leadership. Therefore, leadership is the main foundation for creating a strong team. Financial reports are the final result of the accounting process for a period that occurs in an entity (Muraina & Dandago, 2020). This financial report is used by all entities. The public sector also uses financial reports as a form of accountability and transparency (Muraina & Dandago, 2020; Ortega-Rodríguez et al., 2020). Data from the Financial Audit Agency (BPK) reports that as many as 500 out of 541 regional governments, or 92.25 percent, have received a WTP opinion in their 2021 financial reports, while the remaining 38 regional governments, or 7 percent, received a WTP opinion, and 3 regional governments or 0.06 percent get TMP opinion. The number of regional governments receiving WTP opinions has increased from 486 regional governments or 90 percent in the previous year (BPK, 2021). This phenomenon shows that local governments have a good ability to maintain the quality of their financial reports. WTP's opinion is an asset for strengthening public trust in the quality of regional government financial management as a reflection of a good state. So, all government financial reports should have WTP quality.

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Leadership is needed by every organization. Leaders have a big role in guiding their teams, so strong leadership skills are needed (Ferine et al., 2021; McMullin & Raggo, 2020). Regional governments, of course, also need leaders to be able to carry out the large authority of the central government, namely regional autonomy. One form of this democratization is by providing authority for the independence of the management system at each level of government that has been divided (Talitha et al., 2020). The Banyuwangi Regency Government, since being led by Abdullah Azar Anas from 2010 to 2021, has experienced rapid development in several aspects. His transformational leadership style can encourage physical and non-physical development during that period. Innovation in the public service sector is able to provide convenience for the community, so this success makes Banyuwangi Regency the Most Innovative Regency in the Innovative Government Award (IGA) event from the Ministry of Home Affairs of the Republic of Indonesia in 2018. Another award for the success of the public sector is the district that received

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the first A score in the Government Agency Performance Accountability System (SAKIP) and the best district for Electronic Based Government System (SPBE) by the Ministry of State Apparatus Empowerment and Bureaucratic Reform of the Republic of Indonesia in 2019. After his leadership was completed, this position was filled by his wife, Ipuk Fiestiandani. This is proof that leaders play a major role in the success of their organization (Minister of PANRB, 2022).

Leadership success also occurs in several countries. The former president of the United States, Barack Obama, was able to lead the most influential country in the world by giving him unmatched power. After his success in dealing with the financial crisis and health issues, his leadership style has become an example for many people. The business sector is the same, Ulf Mark Schneider became a successful CEO leading his company Nestle in Switzerland. His leadership style and business strategy are also emulated by many people. Therefore, local governments need leaders to create good governance in order to achieve success.

In accordance with stewardship theory, stewards and principals will try to prioritize organizational goals rather than their own interests (Bjurstrøm, 2020; Schillemans & Bjurstrøm, 2020). This theory emphasizes the harmonization of mutual interests between the government (steward) and the community (principal) (Kiswanto et al., 2020; Nijhof et al., 2019). Leaders (stewards) will act as servants of the community so they are motivated to provide the best for them (Löhde et al., 2021; Van Thiel & Smullen, 2021). As a regional government leader, he is obliged to carry out financial authority in accordance with the mandate he has been given. Regional governments can now utilize the financial resources they have by adjusting the needs and aspirations of regional communities so that their level of trust in regional governments increases (Ermawati & Aswar, 2020; Handayani et al., 2020; Kim et al., 2022). Leaders have a big responsibility in building good governance so that goals can be achieved (Dick-Sagoe, 2020; Kiswanto et al., 2020). As a result, local governments can prepare quality local government financial reports as a reflection of accountable and transparent public organizations.

In connection with these several things, this research aims to analyze good governance in regional financial reporting against similar previous studies. This research was also carried out at the Banyuwangi Regency Government to obtain real information regarding good governance in regional government financial reporting.

II. LITERATURE REVIEW

Stewardship Theory

Stewardship theory explains that stewards will be motivated to prioritize the principal's interests (Van Thiel & Smullen, 2021). Stewards will place the principal's interests above their personal interests (Nijhof et al., 2019). This is contrary to agency theory, which explains that agents act opportunistically by ignoring the interests of the principal. This theory leads to achieving common interests. When the interests of stewards and principals differ, stewards will prefer to try to cooperate rather than oppose them (Bjurstrøm, 2020; Löhde et al., 2021). Stewards realize that shared interests are more important in achieving organizational goals (Kiswanto et al., 2020), so this theory prioritizes harmonization of the interests of stewards and principals.

This theory is also interpreted as the relationship between leadership and communication patterns between stakeholders to achieve organizational goals without hindering their respective interests (Nijhof et al., 2019; Schillemans & Bjurstrøm, 2020). Stewards have behavior where they can be formed so that they can always be invited to work together in the organization, have collective or group behavior with higher utility than the individual (Löhde et al., 2021). Apart from that, stewards also create a tug of war between personal needs and organizational goals, that by working for the organization and then being gathered, personal needs will meet. On the other hand, stewards have the perception that the utility that can be obtained from people who behave pro-organizationally will be higher compared to those who behave individually (Kiswanto et al., 2020; Van Thiel & Smullen, 2021).

Organizational success and performance satisfaction have a close relationship (Schillemans & Bjurstrøm, 2020). Both are the focus of this theory. Stewards' actions are motivated by financial rewards so that they will work better. The reputation and career progress of stewards also influences their performance satisfaction (Bjurstrøm, 2020; Kyere & Ausloos, 2021). In this research, the government as a public organization must act in the public interest by carrying out its duties and functions, ideally in order to gain the trust of the public. The government also needs to be held accountable in a transparent and accountable manner as mandated.

Governance

Governance is the exercise of authority in the political, economic and administrative fields to be managed and encouraged to create integrity, prosperity and social cohesiveness (Jameel et al., 2019; Sofyani et al., 2020). In simple terms, governance means

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patterns, actions, facts and procedures for administering government (Beshi & Kaur, 2020; Puni & Anlesinya, 2020). The components of governance that are constructive are the government, business sector and society (Kyere & Ausloos, 2021). The orientation referred to in governance is upholding the values that society desires and values that can improve society's ability to achieve national goals, as well as the functional aspects of an ideal government in carrying out its duties to achieve the expected goals.

The principles of good governance according to the Organization for Economic Cooperation and Development (OECD) are 1) transparency is freedom to access information that is easy to understand and monitor, 2) accountability is being responsible for one's performance in a fair and transparent manner, 3) responsibility is complying with existing regulations. applies and is responsible for society and the environment in order to create sustainability, 4) independence is the implementation of independent governance, and 5) equality and fairness is paying attention to the interests of stakeholders equally and fairly.

The large role of governance in government institutions, of course, requires a good understanding of the meaning of governance by every state administrator. This will encourage the creation of clean government administration (Beshi & Kaur, 2020; Hermuningsih et al., 2020). The implementation of good governance practices can be carried out in stages according to the capacity of the government and society (Chien & Thanh, 2022). Good governance in the Banyuwangi Regency Government can be an example of the success of good governance in regional government. The Banyuwangi Regency Government has succeeded in showing that government administration in regional areas can also provide the best public services for the community.

Regional Government Financial Reports

Financial reports are records of financial information in a period by a reporting entity (Jorge et al., 2021). Financial reports in the public sector are subject to public accountability because of the high demand, thus encouraging management to provide financial information (Schmidhuber et al., 2022). The government's goal is clean government, so it is mandatory to have good public financial management capabilities (Cuadrado-Ballesteros & Bisogno, 2021). Public trust will also increase if local governments receive more fiscal decentralization from the central government with the aim of meeting community needs better in the long term (Kim et al., 2022; Rahim et al., 2020).

The public sector also has its own accounting standards in preparing its financial reports. The Government Accounting Standards Committee (SAP) explains that the purpose of financial reporting to the government is to provide financial information for making decisions and evidence of government accountability for the resources that have been entrusted. The financial information is in the form of 1) receipts to finance expenditure, 2) suitability of obtaining economic resources and their allocation with the agreed budget and statutory regulations, 3) the amount of economic resources used and the results, 4) how to fund activities and sufficient cash, 5) financial position, 6) increase or decrease in financial position.

III. METHOD

Qualitative research was used in compiling this research. The approach used is phenomenology. In this context, the existence of a phenomenon will be interpreted as something that is in the researcher's awareness by using certain methods and explanations as to how the phenomenon becomes clear and real. Phenomenology prioritizes searching, studying, and conveying the meaning of phenomena that occur and their relationship with people in certain situations. The Banyuwangi Regency Government, which has good governance in regional financial reporting, is the focus of the phenomenon in this research.

The data collection techniques used were literature studies and interviews. The literature study was carried out by searching for and understanding literature related to good governance in preparing regional financial reporting. Interviews were conducted with sources selected through purposive sampling, namely Banyuwangi Regency Government staff. The survey was also carried out at the Banyuwangi Regency Government.

Primary data and secondary data were collected in this research process. Primary data was obtained from interviews and surveys, while secondary data was obtained from various literature in the form of journals, articles, books, news and websites. Data analysis using interactive analysis used in this research will be divided into three stages. First, formulate research ideas and collect materials. Second, collect and classify data. Third, draw conclusions and analyze the facts found. Test the validity of the data through data triangulation in the Banyuwangi Regency Government case study.

IV. DISCUSSION

Leadership in Accounting and Local Government

Leadership abilities are the key to success for an organization in achieving its goals. (Ongi, Aristo, 2015; Nilda et al, 2015) in (Indrawati & Sembiring, 2020) stated that a leader, in this case a regional government leader, is required to continue to encourage performance improvements and provide motivation to subordinates so that work productivity can continue to be increased. As subordinates, employees will be motivated if leaders continue to encourage employees to continue developing their abilities (Fazira & Mirani, 2019). Stimulating employee motivation has a good impact on employee work effectiveness (Syahputra et al., 2020). This is related to the leadership style applied by local government leaders. In accounting, the leadership style applied by the leader has a significant influence on the quality of the financial reports produced (Agung and Gayatri, 2018). Leaders who provide consistent direction will increase performance and fulfill financial report quality standards (Salia & Wibowo, 2022).

Strong leadership can have a significant impact on planning, implementation and achieving the goals of the government institutions they lead (Basri et al., 2021). Leadership styles within government institutions have the potential to play a role in encouraging transparency in financial reports. With effective and firm leadership and supported by a high level of commitment from employees, the potential for fraud will be reduced (Wijayanto, 2020). (Basri et al., 2022) also stated that if the leadership style in an organization has been effective in terms of performance, it can reduce the risk of accounting fraud. Thus, it is important for leaders to develop an effective leadership style and ensure high commitment from employees to achieve and prevent potential financial report fraud.

Leadership Attitude from Regional Government

Leadership is important, the regent must meet top management. There must be a target to be achieved (bureaucracy). The leadership ensures that each SKPD head has achievements. "That allows SKPD to get lessons from various parties so that all SKPD parties continue to strive to be the best" (Mrs. Ika, Head of Fixed Assets, BPKAD)

In line with research (Singh et al., 2021) which states that knowledge of top management has an impact on the practice of various knowledge and open innovation which in turn influences organizational performance. (Alblooshi et al., 2020) stated that the innovations that emerge are the result of leaders' thinking, so leadership is needed that supports learning and open communication. Therefore, as parties who understand top management, leaders need to understand the importance of increasing awareness within the team (Fareed et al., 2023).

Head of the BPKAD Budget Division, Mr. Henri, said "The leadership said that every SKPD must have innovation and every village must have a destination, that's why we used to say 1 village 1 destination, so what? Let the money circulate in the regions, not in Jakarta, because 90% of the country's money circulates in Jakarta. "If we don't have a leader who is committed and has broad insight like him, I guarantee it will be useless."

Mr. Henri's statement explains that a leader needs to have strong commitment. The commitment held by a leader is able to control employees in carrying out work (Suryatin et al., 2019). Without commitment, big work is difficult to complete (Amalia Yunia Rahmawati, 2020). Your commitment must be supported by insight into knowledge. Having broad insight can help in collective problem-solving (Al-Husseini et al., 2021). With deep insight, a leader can more easily direct subordinates so that broad insight becomes a strong foundation for a leader (Parmin, 2020).

"He adopts open management leadership, meaning he does not exist without the help of others. So he is open, it's okay to criticize him, there's no problem. If it's wrong, it's corrected and so on. With his leadership style, everything must be the best. Even activities to instill a sense of love used to be there was something called the sunrise of Java, which means the sun rises from the east, so whatever activities must first be Banyuwangi because the sun is from the east, so it is emphasized that leadership must be true apart from being based on existing rules, he said, don't ignore the existing rules, but leadership is out of the box, so it's beyond reason. His mainstream leadership style. "Mr Anas has an explosive leadership style." (Pak Yusdi, BPKAD)

The way a leader leads can have a significant impact on employees' work environment, including how employees respond to this leadership style, whether they feel satisfaction or not, and whether this can motivate employees to carry out their duties well (DINARWATI, 2021). In line with (Indrawati & Sembiring, 2020) which states that an effective leadership style has the ability to change employee attitudes and actions. The quality of leadership style has a positive impact on the level of work motivation, so that it will contribute positively to employee performance (Khasanah, 2021). In this way, employees will try to increase productivity so as not to disappoint their leaders (Indrawati & Sembiring, 2020).

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"He is an open person, meaning no one is superman, who is strong, who is great. There are no sectoral egos so that each section reminds each other of other sections." (Pak Yusdi, BPKAD)

Pak Yusdi's statement shows a leader who has a humble attitude. The humble attitude applied to the leadership style has a positive impact on the employee's personality. Employees' fear of failure reduces innovation and even encourages employees to come up with more new ideas (Alblooshi et al., 2020). (Mehmood et al., 2023) stated that positive thoughts and behavior provided by leaders can increase innovation among employees.

Thus, leaders need to have a strong understanding of top management and increase awareness within the team. Broad insight also helps leaders in collective problem-solving. On the other hand, the humble attitude and positive thoughts applied by the leader are the driving factors in achieving success in motivating employees to have good work performance.

Staff Attitudes in Government Leadership

"Mr Azwar insisted on working, determining the potential of the Banyuwangi area which was turned into capital to develop Banyuwangi. Align the vision and mission of all ASN. Learn together by bringing in motivators to change your mindset. There is no superman, there is a superteam. Strategy for how to get up quickly, determining priorities, namely education and health. "He emphasizes teamwork, people must identify their individual needs so that they can be directed to plans that are tailored to their priorities." (Mrs. Lusi, BAPEDA staff)

Mrs. Lusi continued, "We were invited to learn new things, for example building an airport, so we went to Thailand to see the airport. Bring in motivators to refresh your mindset and thoughts so you don't get bored. Vacations and outbound activities to reduce employee boredom and provide rewards. "Festivals can be held anywhere, but the spirit may not necessarily be there."

The statement made by Mrs. Lusi shows that the leader is trying to be fair uphold teamwork, and build a comfortable working atmosphere. (Marissa, 2010) (Kurniawan et al., 2021) explain the term innovative work behavior, which means the treatment received by employees without considering their position. It can be said to be fair if employees receive rights that are commensurate with the contribution they make. This statement also shows that the government provides a comfortable and conducive work environment for employees. Supported by good working conditions and committed leaders, employees need to increase their level of professionalism and have high work motivation and confidence in managerial abilities in order to improve their performance (Azhar & Alfihamsyah, 2021). In the future, the attitude shown by employees will play a very important role in realizing effective and efficient government. The better employee attitude has a positive impact on work performance (Hartono et al., 2019). In line with the statement (Kalepo et al., 2022) that the attitudes shown by employees have the potential to influence the quality of services provided. Thus, it is important for employees to display an optimal attitude so that the services provided can improve overall quality.

CONCLUSIONS

Based on the previous discussion, it can be seen that leaders play a large role in government. Understanding top management and its commitment are the main factors in the success of a leadership style. Leaders act as drivers of work improvement, motivators, and facilitators for capacity development. A humble attitude is a supporting factor in creating a comfortable work environment. Support for good working conditions and competent leaders can be a motivation for employees, which has a positive impact on work effectiveness and productivity. Work effectiveness and productivity is the main key to the success of the Banyuwangi Regency government in achieving Unqualified Results (WTP) in financial reports.

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