

Annual Report for Ministries/Institutions in Indonesia: Benchmark from Best Practices

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ABSTRACTS

The purpose of the study is to compare the content of annual reports prepared by Ministries/Institutions in Indonesia with best practices from other countries and to provide a proposed information content in the annual reports in Indonesian Ministries/Institutions based on international reporting standards. This research is a qualitative research with a case study approach. This study compares the content of the annual report from the Treasury of the Republic of Indonesia with the Treasury of New Zealand. The Treasury of the Republic of Indonesia was chosen because it is the Ministry/ Institution that has compiled and published the annual report and was awarded the Silver Award for the Annual Report at the 2019 Australasian Reporting Awards. Comparisons will be made by looking at the components reported in the two annual reports. The overall results from comparison show that New Zealand annual report is more concise because it uses a lot of tabulations and summaries and there is no repetition of information. The advantage of Indonesia's annual report is that information on the implementation of public governance is presented in a more complete and structured manner. The information content of the annual reports prepared by 19 Ministries/Agencies in Indonesia is very diverse. To increase the comparability of annual reports, a framework is needed which can be used as a reference. Two frameworks for preparing annual reports that can be used as references are the International Integrated Reporting Framework and the Criteria for General Award from the Australasian Reporting Awards (ARA). The International Integrated Reporting Council (IIRC) stated that an integrated report should contain the following eight content elements: (1) An overview of the organization and the external environment; (2) Governance; (3) business model; (4) Risks and opportunities; (5) Strategy and resource allocation; (6) Performance; (7) Outlook; and (8) Basis for report preparation and presentation. ARA Criteria for the General Award divides information into five topics: overview, review of activities, ethics and governance, human resource management, financial performance, and financial reports. The implication of this research is that the central government may encourage the publication of annual reports to replace redundancy in various reports. The central government needs to develop content guidelines and reporting formats following the best practices analyzed in this study. Before the regulation is established, Ministries/Agencies in Indonesia can refer to the Ministry of Finance's annual report since Ministry of Finance annual report already met majority of ARA criteria.

Keywords: annual report, ministries/institutions, best practices, benchmarks, comparison

1. BACKGROUND

In the Indonesia's private sector, public companies are required to prepare an annual report as a form of corporate accountability to stakeholders. The Annual Report must contain several important information, including: summary of important financial data, stock

information, reports from the Board of Directors, reports from the Board of Commissioners, audited financial report and company's governance practices (Financial Services Authority, 2016). In the government sector in Indonesia, local and central government are required to prepare financial reports and performance reports. Financial statement is prepared according to Government Accounting Standards (SAP). Based on its qualitative characteristics, the quality of local government financial statement in Indonesia slightly above average (Agustina and Setyaningrum, 2020). The performance report contains information about a brief description of the organization, comparisons between performance plans and targets, performance measurement, analysis, and performance evaluation for each strategic goal (Ministry of State Apparatus Empowerment and Bureaucratic Reform, 2014). Both the financial report and performance report do not contain information on the implementation of governance in the government institutions.

KNKG (2008) encourage government institution to conduct an assessment of the good public governance (GPG) implementation on an ongoing basis and to disclose the results of the GPG's assessment in an annual report that can be accessed by the public. Although publication of annual report is not mandatory for Ministries/Agencies, there are 19 Ministries/Agencies (22.08% of total Ministries/Agencies) that have taken the initiative (become volunteers) to prepare and publish an annual report to the official website, but only 11 Ministries/Agencies have published the latest annual report up to the 2018 (Kisworo and Shauki, 2019). This condition is due to the absence of a guideline or framework for preparing annual reports for government institutions. Based on international practice, there have been several guidelines that can be used as a reference in the preparation of annual reports for government institutions, including International Framework: Good Governance in Public Sector formulated by CIPFA and IFAC in 2014 (Kisworo and Shauki, 2019). Guidelines for the preparation of annual reports also already prepared by developed countries such as Australia and New Zealand.

The purpose of the study is to compare the content of annual reports prepared by Ministries/Agencies in Indonesia with best practices from other countries and to proposed information content in the annual reports in Ministries/Agencies in Indonesia based on international reporting standards. This research makes an important contribution, especially for countries that do not have regulations on the publication of annual reports. The proposed framework provides a comparison of the format and content of annual reports for government institutions. The issuance of an annual report can be a comprehensive reporting solution to avoid overlapping existing reports. In Indonesia, there are at least 5 types of reports that must be made by each institution every year where the information contained in each report contains a lot of duplication. Annual reports can be a solution to simplify reporting obligations and integrate existing reports into integrated reports so as not to add new obligations, especially for Ministries/Agencies.

2. LITERATURE REVIEW

2.1 Institutional Theory

Based on the institutional theory introduced by DiMaggio and Powell (1983), there are three isomorphism mechanisms that can explain the reasons for an organization to prepare and publish an annual report. First, coercive isomorphism that arises because of political influence and legitimacy from outside the organization. In the context of public sector annual reports, the central government can impose regulations for government institutions to prepare and publish financial reports. Second, normative isomorphism where changes in the organization are triggered by professionalism that comes from the demands of stakeholders or professional association agreements. Government institutions face demands to be more accountable and transparent, one of which is by compiling and publishing annual reports.

Third, mimetic isomorphism, when the organizations facing uncertainty because the absence of standards that can be used as a reference, organizations will tend to imitate other organizations and implement what considered good to be applied to their organization. This third isomorphism condition is the most suitable with the conditions in Indonesia, where until now there has been no special regulation requiring government institutions (central and regional) to compile and publish annual reports.

2.2 International Public Sector Annual Report Preparation Practices

The Organization for Economic Co-operation and Development (OECD, 2002) published a publication entitled Public Sector Transparency and Accountability. In this publication, the OECD stated that one of the main areas of good governance is increasing information disclosure, consultation and public participation in the formulation and implementation of public policies. One of the tools that can be used by the government to actively provide information is an annual report that contains financial and non-financial information such as comparisons between targets and performance achievements (OECD, 2002). The Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants (IFAC) in 2014 published the International Framework: Good Governance in The Public Sector, stated that the government must prepare an annual report as a form of accountability in the use of public resources. The annual report must be accompanied by performance report and the assessment of the implementation of governance principles including action plans for the improvement of governance (IFAC & CIPFA, 2014). In addition, the annual report must also be accompanied by information on the implementation of risk management and internal control. IFAC & CIPFA (2014) states that annual reports must be comparable to other similar organizations, therefore it is very important to prepare annual reports in accordance with internationally accepted standards and recommend the use of the International Integrated Reporting Framework formulated by The International Integrated Reporting Council (IIRC, 2013).

The criteria formulated by an annual report award agency such as the Australasian Reporting Award (ARA) or an annual report from a public sector institution that has won the award, can be a benchmarking option for preparing annual report. Australasian Reporting Awards Limited is an independent non-profit organization run by professional volunteers who are concerned with the quality of financial and business reporting (ARA Limited, 2019). ARA gave a Specific Industries Award, in which there are several sub-categories according to the industrial sector including public administration followed by government agencies. The practice of preparing and publishing financial reports has also been carried out in Australia and New Zealand. The Australian Government requires every public institution to prepare an annual report through the Financial Accountability Act which was passed in 2009. This regulation is then complemented by several technical guidelines including the Model Annual Reports issued by the Department of Treasury, Annual Report Checklist issued by the Public Sector Commission (PSC) as well as Good Practice in Annual Report 2017-2018 issued by the National Audit Office (NAO). The New Zealand government also issued guidelines for the preparation of an annual report entitled: Preparing the Annual Report and End-of-Year Performance Information on Appropriations: Guidance for Crown Entities. This guide explains comprehensively the government's annual report, including the content that must be in the annual report.

2.3 Previous Research

Ryan & Ng (2000) examined the disclosure of corporate governance information in public sector annual reports in Queensland. The results show that the monitoring principle received the most attention because the internal control mechanism had been clearly regulated

by the Queensland Treasury and overseen by ANAO. The principle of accountability has received the least amount of attention because of its complex nature and has the potential to become a "tool" for parliament to criticize the government if disclosed. Ryan et al., (2002) found that public institutions will adjust the level of disclosure of annual reports not only from the existence of regulations that require compilation of annual reports (coercive isomorphism) but also due to external pressure factors, namely the needs and demands of stakeholders (normative isomorphism).

Kisworo and Shauki (2019) found that in Indonesia, external pressure factors, namely the needs and demands of stakeholders (normative isomorphism), are a factor that causes 19 Ministries/Agencies in Indonesia to prepare annual reports even though there are no mandatory regulations. Ministries/Agencies are encouraged to compile annual reports, and the government must prepare the regulation, standardized guidelines, internal SOPs, and give awards for annual report publication.

3. METHODS

This research is a qualitative research with a case study approach. In accordance with the research objectives, the discussion in this study will be divided into two parts. The first part will compare the content of the annual report from the Ministry of Finance of the Republic of Indonesia with the Ministry of Finance of New Zealand, thus using a multiple case study approach (Yin, 2009). The Ministry of Finance of the Republic of Indonesia was chosen because it is the Ministry of Finance that has compiled and published the annual report and was awarded the Silver Award for the Annual Report at the 2019 Australasian Reporting Awards. The report from The Treasury New Zealand was chosen because there is a complete guide regarding the preparation of the annual report. The report that will be compared is the 2017 Annual Report, because the Annual Report of the Ministry of Finance of the Republic of Indonesia which is published on the website is 2017, which was compiled in 2018. Comparisons will be made by looking at the components reported in the two annual reports. Apart from the New Zealand Treasury, the information component in the Indonesian Ministry of Finance will also be compared with ARA for the Criteria General Award. Based on these comparisons, recommendations for information components that should be included in the annual report will be formulated.

4. RESULT

4.1 Comparison of the financial statements of the Ministry of Finance of the Republic of Indonesia and the Ministry of Finance of New Zealand

Comparisons are made by looking at the content and presentation of the report which can be seen in table 1. Overall, the New Zealand annual report is more concise because it uses a lot of tabulations and summaries and there is no repetition of information. The advantage of Indonesia's annual report is that information on the implementation of public governance is presented in a more complete and structured manner. In terms of content, the Treasury of New Zealand has an introduction followed by an explanation of the organization's vision and mission, followed by highlighting performance achievements based on groups and ending with a community satisfaction survey. At the Treasury of the Republic of Indonesia, discussions are less structured and there is no public satisfaction survey regarding performance. In terms of presentation, the Treasury of New Zealand begins with a summary of each activity and service with an interesting tabulation when explaining achievements. In the Treasury of the Republic of Indonesia, charts and tabulations have been presented to make it easier for readers, but not completed with a summary.

Table 1 Comparison of Annual Report Contents

No	Description	Annual Report-RI	Annual Report-NZ
1.	Content	It begins with a glimpse of the reported year's performance	It begins with explaining the vision of the organization, followed by a brief explanation of the annual report and what information will be explained in the annual report
		The second part describes the vision, mission, and values. There is no public satisfaction survey	The second part describes the achievements and performance highlights grouped by area/scope. Performance achievement is followed by information on public satisfaction surveys, to provide confidence that performance achievement creates community satisfaction. The targets and missions are described in sequence.
		The third part contains complete financial statements	The third part provides a glimpse of financial information regarding the surplus and composition of expenditure/income
		Provide information about important events, but there are several events that are considered to have no relevance with organizational performance	Significant important events are described in the financial report or achievements related to activities and services
		Presents a separate section for the theme of governance. This section contains information regarding the implementation of good governance in government, for example internal control system, risk management, whistle blowing, public information disclosure, etc.	Information about governance and management from councilors is presented briefly
		In relation to performance, the Ministry of Finance displays information about performance analysis, which explains the formulation and management, the methods used to achieve predetermined targets, and the results obtained.	Regarding the achievement, the annual report explains it with the theme activities and service. This section is described based on its scope. And each scope begins with a brief description, target achievements, how to measure it, to the costs incurred.
		There is no statement of compliance for the annual report.	There is a statement of compliance for the annual report
2.	Presentation	Each theme / chapter begins with a philosophy.	Each theme / chapter begins with a brief explanation of what information will be presented

		Summary financial statements are less efficient because they are displayed twice; in the performance section and in the financial statements section.	Presenting a summary of the financial statement only in the financial statement section
		The organizational structure is presented in chart form, making it easier for readers.	The organizational structure is presented in a narrative form.
		Performance analysis is presented in narrative form, and there are several sections that display tabulations.	Achievement of targets and how to measure them are presented such as tabulations that contain information on types of services and activities, targets, achievements and status, and their comparison with the previous year.
		Served side by side in two languages	Served side by side in one language

4.2. Information Content in the Government Annual Reports

4.2.1 Information Content in Annual Reports of Ministries / Agencies in Indonesia

This section will begin by analyzing the content of information contained in the annual reports of ministries / agencies in Indonesia. The results of this analysis can be seen in table 2 below.

Table 2. Information Content in the Ministry/Agency's Annual Report

No	Information Theme in Annual Report	Number and % disclosed by Ministry/Agency		No	Information Theme in Annual Report	Number and % disclosed by Ministry/Agency	
		Number	%			Number	%
1	Performance Information	19	100%	12	Public information disclosure report	5	26%
2	Organization Structure	15	79%	13	Internal Control System	5	26%
3	Financial Information	12	63%	14	Basic Values	4	21%
4	Vision and Mission	11	58%	15	Information Technology Management	4	21%
5	Main duties and function	10	53%	16	Whistleblowing System	3	16%
6	awards the organization has received	10	53%	17	Organization kaleidoscope	2	11%
7	Head of Unit Profile	9	47%	18	Organization history	2	11%
8	bureaucratic reform information	9	47%	19	Asset Management	2	11%
9	Human Resources Management	9	47%	20	Risk Management	1	5%
10	Policy and strategy formulation	8	42%	21	Social Responsibility Information	1	5%
11	International Collaboration information	6	32%	22	Next Year Activity Plan	1	5%

From Table 4.2. above, we can see that the information content of the annual reports prepared by 19 Ministries/Agencies in Indonesia is very diverse: in term of content and format. To increase the comparability of annual reports, a framework is needed which can be used as

a reference. Two frameworks for preparing annual reports that can be used as references are the International Integrated Reporting Framework and the Criteria for General Award from the Australasian Reporting Awards (ARA).

4.2.2 Content of Financial Statements in accordance with International Reporting Practices

As recommended by IFAC & CIPFA (2014), public sector institutions can consider the International Integrated Reporting Framework in preparing their annual reports. The International Integrated Reporting Framework was published by The International Integrated Reporting Council (IIRC) in December 2013. An integrated report must contain the following eight content elements: (1) An overview of the organization and the external environment; (2) Governance; (3) Business model; (4) Risks and opportunities; (5) Strategy and resource allocation; (6) Performance; (7) Outlook; and (8) Basic report preparation and presentation. IIRC does not require the presentation order of content elements to follow the order stated above. Organizations are given the freedom to be able to present in a structure and order that can make connections between content elements clearer. Integrated reporting is a new concept in reporting preparation so it may not be applicable in Indonesia soon, considering that the preparation of integrated reporting requires a relatively long adaptation time.

Besides IIRC, there is one criterion that can be used as a reference for Ministries/Agencies in preparing annual reports, namely the ARA Criteria for the General Award. ARA Criteria for the General Award divides information into five topics: overview, review of activities, ethics and governance, human resource management, financial performance, and financial reports.

There is a significant difference between the information content recommended by the International Integrated Reporting Framework and the ARA Criteria for the General Award. From 58 items of information content recommended by the International Integrated Reporting Framework, only 30 items (51.72%) of information content could be fulfilled if the report were presented according to the ARA Criteria for the General Award. Thus, it can be concluded that the presentation of reports with the International Integrated Reporting Framework is indeed more comprehensive, however, Ministries/Agencies will need more time to implement integrated reporting. We also make comparison of the 2017 Annual Report of the Ministry of Finance with the ARA Criteria for the General Award. The 2017 Annual Report of the Ministry of Finance was included in the ARA event and won a silver award. From the comparison, it was found that of the 46 items of information criteria contained in the ARA Criteria for the General Award, the 2017 Ministry of Finance annual report was able to meet 33 criteria (71.74%) among them. Thus, in the short term before central government establish regulation about content and format of annual report, other Ministries/Agencies can refer to the Ministry of Finance's annual report.

5. CONCLUSION

The purpose of the study is to compare the content of annual reports prepared by Ministries/ Institutions in Indonesia with best practices from other countries and to provide a proposed information content in the annual reports in Indonesian Ministries/Institutions based on international reporting standards. The issuance of an annual report can be a comprehensive reporting solution to avoid overlapping of various existing reports. In Indonesia, there are at least five types of reports that must be made by each institution every year where the information contained in each report contains a lot of duplication. Annual reports can be a solution to simplify reporting obligations and integrate existing reports into integrated reports so as not to add new obligations, especially for Ministries/Institutions.

This research is a qualitative research with a case study approach. This study will compare the content of the annual report from the Treasury of the Republic of Indonesia with

the Treasury of New Zealand. The Treasury of the Republic of Indonesia was chosen because it is the Ministry/ Institution that has compiled and published the annual report and was awarded the Silver Award for the Annual Report at the 2019 Australasian Reporting Awards. Comparisons will be made by looking at the components reported in the two annual reports. Guidelines regarding the components of information that must be presented in the annual reports of Ministries/ Institutions refer to the Australasian Reporting Awards (ARA) for the Criteria General Award and the International Integrated Reporting Framework formulated by The International Integrated Reporting Council (IIRC). The results from comparison show that in terms of content, the Treasury of New Zealand has an introduction followed by an explanation of the organization's vision and mission, followed by highlighting performance achievements based on groups and ending with a community satisfaction survey. At the Treasury of the Republic of Indonesia, discussions are less structured and there is no public satisfaction survey regarding performance. In terms of presentation, the Treasury of New Zealand begins with a summary of each activity and service with an interesting tabulation when explaining achievements. In the Treasury of the Republic of Indonesia, charts and tabulations have been presented to make it easier for readers, but not completed with a summary.

The proposed content of annual report can refer to The International Integrated Reporting Council (IIRC). IIRC stated an integrated report should contain the following eight content elements: (1) An overview of the organization and the external environment; (2) Governance; (3) business model; (4) Risks and opportunities; (5) Strategy and resource allocation; (6) Performance; (7) Outlook; and (8) Basis for report preparation and presentation. ARA Criteria for the General Award divides information into five topics: overview, review of activities, ethics and governance, human resource management, financial performance, and financial reports.

The Indonesia's central government can consider decisions to oblige the preparation of annual reports for Ministries/Agencies. This consideration must be carried out carefully considering that currently there are several reports that must be compiled by the Ministries/Agencies. If it is decided that the preparation of an annual report is an obligation for the Ministries/Agencies, the government should consider simplifying the report submission obligation so that the obligation to compile this annual report does not become an additional burden, for example by combining performance report, financial statements and public information service report into one annual report format that uses an integrated reporting approach. To increase motivation for the preparation of annual reports, the government needs to hold an annual report award event. In addition, the preparation of an annual report needs to be included as one of the indicators for bureaucratic reform that will affect the level of remuneration of ministries/agencies.

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