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Research Article

Presentation of Financial Statements On Local/Central Governments In Indonesian (Government Regulation No. 71 of 2010)

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Abstract

Government Accounting Standards are Accounting Principles set out in preparing and presenting Government Financial Statements. Government Accounting Standards are regulated in Government Regulation No. 71 of 2010. Local Government Financial Statements are a description of the performance of local governments in one accounting period. This study aims to determine whether the Regional or City Government in terms of presenting financial statements is in accordance with Government Regulation No. 71 of 2010.One of the significant changes to the implementation of PP No. 71 of 2010 is a change in the field of government accounting, namely the existence of Government Accounting Standards which are intended to improve the quality of financial reports, thus the credibility of financial reports can increase and can realize transparency and accountability in regional financial management so that Good Governance can be achieved.

Keywords: Government Accounting Standards, Financial Statements, PP No.71 of 2010

1. PRELIMINARY

The current pandemic has resulted in a very drastic decline in financial conditions, both in the government sector and the private sector. This can be seen from the financial statements presented by each agency. The government sector has the main goal of providing services and services to the community, and is obliged to continue to realize good and correct governance. Government institutions need several supporters to support the implementation of these obligations. One form of good governance, namely the government requires accounting reports as a basis for analysis as well as in improving the quality of supervision and management of financial reports.

In line with reforms in the field of state finance, changes are needed in various fields. One of the significant changes is changes in government accounting, namely the existence of Government Accounting Standards which are intended to improve the quality of financial reports, thereby increasing the credibility of financial reports and realizing transparency and accountability in regional financial management so that Good Governance can be achieved (Elisabeth et al., 2018).

In order to create good governance, the Indonesian government continues to make various efforts to increase transparency and accountability in the management of state finances. As an effort to increase transparency and accountability in the management of state finances, one of them is to develop government accounting policies in the form of government accounting standards (SAP) which aims to

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provide basic guidelines in the preparation and presentation of government financial reports, both central and local governments. SAP is a requirement that has legal force in an effort to improve the quality of government financial reports in Indonesia. Therefore, regulations are made that can regulate and manage the presentation of financial statements,

Changes in the field of government accounting must be based on a strong basis, namely the existence of Government Accounting Standards (SAP). With the issuance of PP No. 71 of 2010 concerning SAP, it can be used to produce a reliable financial report and can be used as a benchmark and standard in decision making within the scope of government. Government Accounting Standards (SAP) are accounting principles applied in preparing and presenting government financial reports as regulated in Government Regulation Number 71 of 2010. Government Accounting Standards are required in the context of preparing accountability reports for the implementation of the State Budget in the form of financial statements which at least include: Budget Realization Report, Statement of Changes in Balance, Balance Sheet, Operational Report, Cash Flow Statement, Statement of Changes in Equity, and Notes to Financial Statements.

2. Theoretical Basis

1. The Role and Purpose of the Presentation of Financial Statements

The Role of Financial Reporting

Hariadi, Restianto, & Bawono (2010) explained that financial statements are prepared to provide relevant information regarding the financial position and all transactions carried out by a reporting entity during one reporting period. A reporting entity has an obligation to report the efforts that have been made and the results achieved in the implementation of activities in a systematic and structured manner in a reporting period for the purposes of accountability, management, transparency, intergenerational balance and performance evaluation.

In government regulation No. 71 of 2010 concerning Government Accounting Standards, it is stated that financial statements are prepared to provide relevant information regarding the financial position and all transactions carried out by a reporting entity during one reporting period. Each reporting entity has an obligation to report the efforts that have been made and the results achieved in the implementation of activities in a systematic and structured manner in a reporting period for the benefit of:

- Accountability

Accountable for the management of resources and the implementation of policies entrusted to the reporting entity in achieving the goals that have been set periodically.

- Management

Assist users to evaluate the implementation of the activities of a reporting entity in the reporting period so as to facilitate the planning, management and control functions of all assets, liabilities, and government equity for the benefit of the community.

- Transparency

Providing open and honest financial information to the public based on the consideration that the public has the right to know openly and thoroughly the government's accountability in managing the resources entrusted to it and its compliance with laws and regulations.

- Intergenerational Equity

Assist users in knowing the adequacy of government revenues in the reporting period to finance all allocated expenditures and whether future generations are assumed to share the burden of these expenditures.

- Performance evaluation

Evaluating the performance of reporting entities, especially in the use of government-managed economic resources to achieve planned performance.

Purpose of Presentation of Regional Financial Statements

Government financial reporting should provide useful information for users in assessing accountability and making economic, social and political decisions by:

a) Provide information on the sources, allocation and use of financial resources;
b) Provide information on the adequacy of current period revenues to finance all expenditures;
c) Provide information on the amount of economic resources used in the activities of the reporting entity and the results that have been achieved;
d) Provide information on how the reporting entity finances all of its activities and meets its cash needs;
e) Provide information about the financial position and condition of the reporting entity in relation to its sources of revenue, both short-term and long-term, including those from tax collections and loans;
f) Provide information about changes in the financial position of the reporting entity, whether it has increased or decreased, as a result of activities carried out during the reporting period.

2. Reporting Period

Financial reports are presented at least once a year. The presentation of financial statements is an accountability report for the implementation of APBN activities that is required for each period of the APBN budget year, which is within 1 (one) fiscal year starting from January 1 to December 31. Accordingly, the annual financial reporting period is December 31 for the Balance Sheet, and for the year ended December 31 for the LRA and LAK.

In accordance with Law No. 17 of 2003 in Indonesia concerning State Finances, the deadline for submitting financial reports as an accountability report for the implementation of the State Budget is no later than 6 (six) months after the end of the fiscal year. Thus, the usefulness of the financial statements is reduced if they are not available to users within a certain period after the reporting date. Factors encountered such as the complexity of a reporting entity's operations are not sufficient reasons for the failure of timely reporting.

In addition to annual financial reporting, each reporting entity is also required to prepare interim financial reports, at least every semester as mandated in Indonesian Government Regulation No. 20 of 2004 concerning the Preparation of Work Plans and Budgets of State Ministries/Agencies and Indonesian Government Regulation No. 8 of 2004. 2006 concerning Financial Reporting and Performance of Government Agencies.

3. Components of Local Government Financial Reports (LKPD)

According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) that "financial statements are structured reports regarding financial position and transactions carried out by a reporting entity". The government's financial statements have two recognitions, namely cash-based and arual-based. The cash basis is for the recognition of income, expenditure, and financing in the Budget Realization Report, while the accrual basis is for the recognition of assets, liabilities, and equity in the Balance Sheet. The Government's financial statements consist of 7 reports, namely:

a. Budget Realization Report (LRA)

The Budget Realization Report (LRA) discloses the financial activities of the central/regional government that demonstrate compliance with the APBN/ABPD. The budget realization report presents an overview of the resources, allocation and use of resources managed by the central or regional government. The elements are income, expenditure, transfer and financing. The Budget Realization Report is prepared and presented using a cash-based budget. The cash basis for the Budget Realization Report means that income is recognized when cash is received in the State/Regional General Treasury Account or by the reporting entity and expenditure is recognized when cash is issued from the State/Regional General Treasury Account or the reporting entity. The reporting entity does not use the term profit. Determination of the remaining budget financing, either more or less for each period, depends on the difference between the realization of revenues and expenditures. Non-cash income and expenditure such as foreign assistance in the form of goods and services are presented in the Budget Realization Report.

b. Report Changes in Budget Balance Over

Report on Changes in Budget Balance More presents an increase or decrease in Budget Balance More in the reporting year compared to the previous year. The report on changes in the budget balance provides a more comparative presentation with the previous period with the following items:

- Early Budget Balance
- Use of More Budget Balance
- Remaining Over/Less of Budget Financing for the current year
- Correction of previous year's Bookkeeping Errors
- Late Budget Balance.

The Statement of Changes in Budget Balance is prepared and presented on a cash basis.

c. balance

The balance sheet describes the financial position of a reporting entity regarding the assets, liabilities, and equity of funds at a certain date. The balance sheet includes at least items such as cash and cash equivalents, short-term investments, tax and non-tax receivables, inventories, long-term investments, fixed assets, short-term and long-term liabilities, and fund equity.

d. Operational Report (LO)

The Operational Report (LO) presents an overview of economic resources that increase equity and their use which is managed by the central/regional government for government administration activities in one reporting period.

e. Cash flow statement

The purpose of the statement of cash flows is to provide information about the sources, uses, changes in cash and cash equivalents during an accounting period and the balances of cash and cash equivalents at the reporting date.

f. Equity Change Report (LPE)

The Statement of Changes in Equity (LPE) provides information on the increase or decrease in equity for the reporting year compared to the previous year. The Statement of Changes in Equity presents at least the following items:

- Initial equity
- LO surplus/deficit in the relevant period
- Corrections that directly increase/decrease equity
- Final equity

In addition, a reporting entity provides further details of the elements contained in the Statement of Changes in Equity in the Notes to the Financial Statements.

g. Notes to Financial Statements (CALK)

Notes to the Financial Statements include an explanation or detailed list or analysis of the value of an item presented in the Budget Realization Report, Balance Sheet, and Cash Flow Statement. Also included in the Notes to the Financial Statements are the presentation of information required and recommended by the SAP Statement as well as other disclosures required for a fair presentation of the financial statements, such as contingent liabilities and other commitments.

4. Relationship between Financial Statement Components

The items contained in each financial report are interrelated with each other as follows:

- Budget Realization Report with Cash Flow Statement
  The income, expenditure and financing items presented in the Budget Realization Report (LRA) are basically the same as those presented in the Cash Flow Statement (LAK), because the Budget Realization Report (LRA) is prepared on a cash basis. The main difference between the Budget Realization Report (LRA) and Cash Flow Statement (LAK) is that non-budgetary transactions are presented in the Cash Flow Statement (LAK) but are not presented in the Budget Realization Report (LRA). In addition, there are also differences in the classification of budgets due to differences in reporting purposes.
- Budget Realization Report with Balance Sheet
  The link between the Budget Realization Report (LRA) and the Balance Sheet is in the Calculation of the Over/Under Balance of Budget Financing (SiLPA/SiKPA). SiLPA/SiKPA in the Budget Realization Report (LRA) which is the difference between the surflus/deficit and total financing will be entered in the "SiLPA" account in the Balance Sheet as Current Equity Funds. The SiLPA/SiKPA account in the balance sheet is the accumulation of SiLPA/SiKPA in the Budget Realization Report (LRA) from previous years.
- Balance Sheet with Statement of Cash Flows
  The link between the Balance Sheet and Statement of Cash Flows (LAK) is in the presentation of cash balances. The difference between the beginning and ending balances of the state general treasury in the balance sheet is an increase/decrease in cash as presented in the Cash Flow Statement (LAK). In other words, the difference between the beginning and ending general balance of the state treasury in the balance sheet must equal the increase/decrease in the Statement of Cash Flows (LAK). In addition, the ending balance of cash in the state general treasury must be the same as the ending balance of cash in the state general treasury in the Cash Flow Statement (LAK).
- Notes to Financial Statements with Budget Realization Reports, Balance Sheets and Cash Flow Statements
  Notes to Financial Statements (CaLK) are an integral part of the Budget Realization Report (LRA), Balance Sheet and Cash Flow Statement (LAK). Because the Notes to Financial Statements (CaLK) explain/disclose in more detail the items in the Budget Realization Report (LRA), Balance Sheet and Cash Flow Statement (LAK).

5. Qualitative Characteristics of Local Government Financial Statements

Mahmudi (2010:11) states that the financial statements presented by local governments are considered quality if they meet the following characteristics:

- Relevance (Relevance)
  This means that the information in the financial statements presented provides benefits for users for decision making.
- Reliable (Reliability),
  This means that the information presented in the financial statements must be reliable, not misleading and contain elements of manipulation.
- Comparability
  This means that financial statements can be used as a comparison of past performance or a comparison of the performance of other similar organizations.
- Can be understood (understandability),
  This means that financial statements must provide information that is clear, simple, and easily understood by the users of financial statements.

6. Principles of Accounting and Presentation of Financial Statements

The principles of accounting and financial reporting are intended as provisions that are understood and adhered to by standard setters in preparing standards, as well as accounting and financial reporting operators in carrying out their activities, users of financial statements understand the financial statements presented. The following are eight principles used in government financial accounting and reporting:

- **Accounting Base**

  The basis of accounting used in government financial statements is the accrual basis, for the recognition of LO-income, expenses, assets, liabilities, and equity. In the event that laws and regulations require the presentation of financial statements on a cash basis, the entity is required to present such reports.

  The accrual basis for LO means that income is recognized when the right to earn income has been fulfilled even though cash has not been received in the State/Regional General Treasury Account or by the reporting entity and expenses are recognized when the obligation that results in a decrease in net worth has been fulfilled even though cash has not been released from State/Regional General Treasury Account or reporting entity. Revenues such as assistance from outside/foreign parties in the form of services are also presented in the LO.

  In the event that the budget is prepared and implemented on a cash basis, the LRA is prepared on a cash basis, meaning that income and financing receipts are recognized when cash is received in the State/Regional General Treasury Account or by the reporting entity; and expenditures, transfers and financing expenditures are recognized when cash is released from the State/Regional General Treasury Account. However, if the budget is prepared and implemented on an accrual basis, the LRA is prepared on an accrual basis.

  The accrual basis for the balance sheet means that assets, liabilities and equity are recognized and recorded when transactions occur, or when environmental events or conditions affect government finances, regardless of when cash or cash equivalents are received or paid.

- **Historical Value (Historical Cost)**

  Assets are carried at the amount of cash and cash equivalents paid or at the fair value of the consideration to acquire the asset at the time of acquisition. Liabilities are recorded at the amount of cash and cash equivalents that are expected to be paid to meet future obligations in the implementation of government activities.

  Historical values are more reliable than other valuations because they are more objective and verifiable. In the absence of historical value, the fair value of the related asset or liability may be used.

- **Realization**

  For the government, the available cash basis revenue that has been authorized through the government budget for an accounting period will be used to pay debts and expenditures in that period. Considering that the LRA is still a mandatory report, cash-based income or expenditure is recognized after it has been authorized through the budget and has increased or decreased cash. The matching-cost-against revenue principle in government accounting is not under emphasis as is practiced in commercial accounting.

- **Substance Over Form**

  Information is intended to fairly present transactions and other events that are supposed to be presented, so those transactions or other events need to be recorded and presented in accordance with their substance and economic reality, and not just their formality. If the substance of a transaction or other event is inconsistent/different from the formality aspect, it must be clearly disclosed in the Notes to the Financial Statements.

- **Periodicity (Periodicity)**

  The reporting entity's accounting and financial reporting activities need to be divided into reporting periods so that the entity's performance can be measured and the position of its resources can be determined. The main period used is the year. However, monthly, quarterly and semi-annual periods are also recommended.

- **Consistency**
  The same accounting treatment is applied to similar events from period to period by a reporting entity (internal consistency principle). This does not mean that there should not be a change from one accounting method to another. The accounting method used can be changed on the condition that the new method applied is able to provide better information than the old method. The effect of changes in the application of this method is disclosed in the Notes to the Financial Statements.
- **Full Disclosure (Full Disclosure)**
  Financial statements provide complete information needed by users. Information needed by users of financial statements can be placed on the face sheet of financial statements or notes to financial statements.
- **Fair Presentation**
  The financial statements present fairly the Budget Realization Report, Changes in Budget Balance Report, Balance Sheet, Operational Report, Cash Flow Statement, Statement of Changes in Equity, and Notes to Financial Statements. In the context of fair presentation, sound judgment is required for the preparers of financial statements when dealing with uncertainties in certain events and circumstances. Such uncertainty is recognized by disclosing its nature and extent using sound judgment in the preparation of financial statements. Sound considerations contain an element of prudence when making forecasts under conditions of uncertainty so that assets or income are not overstated and liabilities are not understated. However, the exercise of sound judgment does not allow, for example,

7. Previous Research

- From the results of research conducted by Gita and Zeni (2017) with the title Presentation of the Surabaya City Government Financial Statements in the Application of PP No. 71 of 2010, that there are still obstacles in the preparation process, especially the problem of human resources (HR) in the 72 Regional Work Units (SKPD) who do not really understand government accounting. This is because the educational background of the accounting staff is commercial accounting which is different from government accounting.
- From the results of research conducted by Ezra and Jullie (2016) with the title Presentation of Regional Financial Statements in accordance with Government Regulation No. 71 of 2010 concerning Government Accounting Standards at the Regional Revenue Service and Social Service Office of North Sulawesi Province, it was found that the Presentation of the Financial Statements of the Regional Revenue Service and Social Service North Sulawesi Province is still following PP No. 24 of 2005 (cash to accrual) and has not followed PP 71 of 2010 (accrual basis). According to Government Regulation 71 of 2010 Government Accounting Standards (SAP) regarding the presentation of financial statements, the Regional Government Financial Statements have 7 reports, namely: (1) Balance Sheet, (2) Budget Realization Report, (3) Balance Change Report, (4) Operational Report, (5) Cash Flow Statement, (6) Statement of Changes in Equity and (7) Notes to Financial Statements. Meanwhile, the Regional Revenue Service and the North Sulawesi Social Service only presented the Budget Realization Report, Balance Sheet and Notes to Financial Statements. However, the presentation of each report such as the Balance Sheet, Budget Realization Report and Notes to Financial Statements is in accordance with Government Regulation Number 71 of 2010.
- From the results of research conducted by Christy et al (2015) with the title Presentation of Government Financial Statements Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards in North Sulawesi Province, it was found that

the North Sulawesi Provincial Government in its balance sheet display did not depreciate fixed assets so that assets were still recorded at value acquisition. This is not in accordance with PP No. 71 of 2010 concerning SAP, Statement of Governmental Accounting Standards Number 07 paragraph 53 which states that fixed assets are depreciated over the useful life of the assets concerned. The displayed balance sheet is overstated which refers to the window dressing behavior. As a result, the goals of good governance, namely economy, effectiveness, and especially efficiency are not achieved. because the appearance of fixed assets on this overstated balance sheet may in fact have fixed assets whose useful lives have expired and are no longer suitable for use by the government. In terms of the classification of equity separately into current fund equity, investment equity and reserve fund equity is not in accordance with PSAP No. 1 paragraph 84 in PP 71 of 2010 which summarizes all net assets of the government which is the difference between assets and liabilities into Equity.

3. Research Methods

This study used descriptive qualitative method. The focus of the research discusses the Presentation of Financial Statements. The data in this study looks at the facts or the truth in accordance with Government Regulations in Indonesia and the results of previous research. The results of this qualitative research have limited impact or consequences in certain situations because this research is developing theories and describing reality in accordance with Indonesian Government Regulations. The type of data in this study is qualitative data, namely data presented in the form of words that contain meaning and cannot be quantified. This type of data is in the form of service history, organizational structure, and other relevant information. Secondary data is a source that does not directly provide data to data collectors, for example through other people or documents. The data collection technique in this study is the observation method, which is one method of collecting data by observing or systematically reviewing information from collected sources.

4. Results and Discussion

1. Research Result

The regional financial accounting process generally consists of the recording, classification and reporting stages. Presentation of Financial Statements is in accordance with Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) that "financial statements are structured reports regarding financial position and transactions carried out by a reporting entity". The government's financial statements have two recognitions, namely cash-based and arual-based. The cash basis is for the recognition of income, expenditure, and financing in the Budget Realization Report, while the accrual basis is for the recognition of assets, liabilities, and equity in the Balance Sheet. The Government's financial report consists of 7 reports, namely the Budget Realization Report (LRA), Report on Changes in Budget Over Balance, Balance Sheet, Operational Report (LO),

2. Discussion

From the results of the journal research that we present, it can be seen that several local governments have implemented Government Regulation no. 71 of 2010, in which there are 7 components of the financial statements, including the Balance Sheet, Budget Realization Report, Changes in Balance Report, Operational Report, Cash Flow Statement, Statement of Changes in Equity and Notes to Financial Statements. However, it is possible that there are still some local or city governments that do not or have not even implemented Government Regulation No. 71 of 2010. As the results of research conducted by Christy et al (2015) with the title Presentation of Government Financial Statements Based on Government Regulation No. 71 of 2010 concerning

Government Accounting Standards in North Sulawesi Province, it was found that the North Sulawesi Provincial Government in its balance sheet did not depreciate fixed assets so that assets were still recorded at value. acquisition. This is not in accordance with PP No. 71 of 2010 concerning SAP, Statement of Governmental Accounting Standards Number 07 paragraph 53 which states that fixed assets are depreciated over the useful life of the assets concerned. The displayed balance sheet is overstated which refers to the window dressing behavior. As a result, the goals of good governance, namely economy, effectiveness, and especially efficiency are not achieved. because the appearance of fixed assets on this overstated balance sheet may in fact have fixed assets whose useful lives have expired and are no longer suitable for use by the government. In terms of the classification of equity separately into current fund equity, investment equity and reserve fund equity is not in accordance with PSAP No. 1 paragraph 84 in PP 71 of 2010 which summarizes all net assets of the government which is the difference between assets and liabilities into Equity.

5. CONCLUSIONS AND SUGGESTIONS

1. Conclusion

From the research results of several journals that we present above, what we can conclude is that several local or city governments have implemented Government Regulation No. 71 of 2010. One significant change is the change in government accounting, namely the existence of Government Accounting Standards which are intended to improve the quality of financial reports, thereby increasing the credibility of financial reports and realizing transparency and accountability in regional financial management so that Good Governance can be achieved.

2. Suggestion

The suggestions we can give are:

1. For the provincial government of North Sulawesi in the next fiscal year, it should be guided by and apply accrual-based SAP based on PP No. 71 of 2010 by presenting 7 complete financial reports, namely Balance Sheet, LRA, LAK, Changes in SAL Report, Report on Changes in Equity, Operational Report, and CALK so that financial statements are presented more effectively so that they can help users of financial statements in making decisions.
2. In addition, for further researchers to be able to conduct research on several other agencies in order to describe in general and broadly the presentation of local government financial statements.

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