

Analysis of Public Sector Financial Reports to Assess Local Government Accountability and Performance

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ARTICLE INFO

Keywords: Public Sector Financial Reports, Accounting Information Systems

Received : 5 October

Revised : 9 November

Accepted: 16 December

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ABSTRACT

This study aims to analyze public sector financial reports in order to assess the accountability and performance of local governments. Financial reports are one of the important instruments used to describe the financial position and evaluate the performance of public sector entities. In the context of local government, financial reports are the basis for decision making, both for internal government parties and for external stakeholders such as the community, creditors, investors, and the central government. This study uses a descriptive analysis approach and case studies to explore the functions, objectives, and stakeholders related to public sector financial reports. The results of the study indicate that public sector financial reports not only function as a tool to measure financial performance, but also as a medium to increase transparency and accountability in regional financial management. In addition, public sector financial reports are also an important reference in decision making related to public policy and regional development. Comparison with the private sector shows significant differences in terms of focus, accountability, and supervision of financial reports. This study provides recommendations for improving the public financial accounting and reporting system in order to create more efficient and accountable management at the local government level

INTRODUCTION

Public sector financial reporting is a form of accountability in government financial management that aims to realize transparency and accountability in the implementation of government. This financial report is prepared by the government as a basis for decision making by various parties, be it the community, government institutions, audit institutions, or other parties involved in the planning process, investment, and other transactions. In Indonesia, public sector financial reporting is regulated by Law Number 23 of 2014 concerning Regional Government which regulates the obligations of regional governments to prepare accurate and accountable financial reports.

The public sector is a complex and heterogeneous organization, which requires various types of information for management, planning, and control. The same applies to public sector stakeholders who need reliable and relevant information for decision making. The responsibility of a public sector accountant is to compile information that is used for both internal and external purposes. In this case, public sector accounting plays a very important role in the preparation of financial statements that reflect public accountability and government performance.

Accounting and financial reporting are the process of collecting, processing, and delivering information that is very important in decision making and performance evaluation. Well-prepared financial reports can provide a clear picture of the financial performance of local governments, which in turn will reflect the level of accountability of local governments in managing their resources.

The financial performance of a local government can be seen from the financial indicators presented in the financial report. Therefore, the purpose of this study is to analyze public sector financial reports, especially in the context of local government, to assess the level of accountability and performance reflected in the financial report. This study will focus on the analysis of financial ratios that can describe the financial condition of local governments, including liquidity, solvency, and profitability, all of which play a role in determining the effectiveness and efficiency of local financial management.

Thus, this research is expected to contribute to improving understanding of how public sector financial reports can be used to assess the accountability and performance of local governments and provide recommendations for improvements in future regional financial management.

LITERATURE REVIEW

Public Sector Accounting

Public sector financial reports play a very important role in building and maintaining accountability in the public sector. Along with the increasing demands for transparency and accountability, the need for open and accountable financial information is increasingly becoming a priority in local government financial management. These financial reports are not only used as a tool of accountability, but also as a basis for decision-making related to resource allocation and public policy. In this case, public sector accounting serves as a main pillar in the preparation of financial reports that describe the extent to which government accountability can be accounted for to the public.

Financial capacity in the implementation of regional government is very vital because a limited budget can limit the effectiveness and efficiency of public services. Regional financial performance is one of the main indicators in assessing the ability of regional governments to manage and organize their resources. In the era of regional autonomy, regional financial capacity is often evaluated through financial performance reflected in accurate and timely financial reports. Therefore, the quality of human resources and the use of sophisticated information technology are highly expected to support the preparation of effective, reliable financial reports that comply with applicable standards.

Public sector organizations, including local governments, are required to prepare formal financial reports that include various types of reports, such as budget realization reports, cash flow reports, profit and loss reports, and performance reports that include financial and non-financial measures. These financial reports, both for internal and external purposes, have a crucial role. From the management side, financial reports are used as a tool for controlling and evaluating organizational performance. While from the external side, financial reports function as an accountability mechanism and a basis for decision-making for various interested parties, such as the community, audit institutions, and other stakeholders.

According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the purpose of government financial reporting is to present information that can be used in decision making and to demonstrate government accountability for the management of resources entrusted to it. Information that must be presented in the financial report includes:

1. Information regarding the position of economic resources owned by the government.
2. Information regarding changes in the position of economic resources.
3. Information regarding the allocation and use of economic resources.
4. Information regarding financing of operations and cash management by government entities.
5. Information regarding the government's potential to finance future government activities.

Financial Statements

Financial statements are structured presentations of the financial position and performance of an entity during a specific accounting period. In the context of the public sector, these financial statements include reports that provide an overview of the financial condition, results of operations, and cash flows of a government entity. Financial statement analysis involves breaking down the information in the financial statements into smaller units of information to evaluate the relationships between the elements, both quantitative and non-quantitative data, with the aim of identifying and understanding the financial condition of the government entity.

Financial statement analysis aims to confirm the results obtained from measuring financial performance, as well as to provide information that can be used in decision making. One of the tools used in financial statement analysis is the financial ratio, which is a number obtained from a comparison between certain accounts in the financial statements. This financial ratio can provide an overview of various financial aspects, such as liquidity, solvency, activity, and profitability, all of which are important in assessing the accountability and performance of local governments.

The forms of financial ratios commonly used in public sector financial report analysis include:

1. Liquidity Ratio

This ratio is used to measure the ability of local governments to meet short-term financial obligations. Liquidity ratios, such as the Current Ratio, indicate how quickly an entity can settle its short-term obligations using its current assets.

2. Solvency Ratio

The solvency ratio measures the ability of a local government to meet all its long-term obligations. This ratio is important to assess how efficiently an entity manages its debts and assets, as well as its capacity to fund its operations through internal and external resources.

3. Activity Ratio

This ratio is used to assess how effectively a government entity is using its assets to generate revenue or achieve its operational goals. This ratio also measures how efficiently existing assets are managed to produce output.

4. Profitability Ratio

Profitability ratios are used to measure the extent to which local governments can generate profits or other economic benefits from their operations. These ratios include Profit Margin and Return on Assets (ROA) which can provide an overview of how well an entity is managing existing resources to produce optimal results.

By understanding and analyzing these financial ratios, it is expected to obtain a clear picture of the financial performance of local governments and the level of accountability in managing existing resources. This study will use financial statement analysis to assess the accountability and performance of local governments, as well as to provide recommendations for improvements in local financial management.

METHODOLOGY

This study uses case study and descriptive analysis methods. The case study approach was chosen to analyze public sector financial reports as a tool for assessing local government accountability and performance. Local government financial reports are the basis for economic, social, and political decision-making by external parties, as well as a performance evaluation tool for internal parties. Descriptive analysis methods are used to describe and analyze financial data to assess accountability and effectiveness of local financial management. This study also emphasizes the importance of a good accounting information system to produce accurate and reliable financial reports

RESULTS

Public sector financial reports are documents that describe the financial position and transactions carried out by public sector entities, which must be prepared to create accountability and transparency in financial management. These financial reports not only serve as a tool to describe financial conditions, but also as a basis for evaluating performance and making economic decisions. One of the main objectives of financial reports is to present information that can be used by various parties in making relevant decisions, including the financial position, financial performance, and cash flow of an entity.

The users of public sector financial reports are:

1. Creditors

Creditors use financial statements to assess the financial condition of an entity, which is used as a consideration for approving or rejecting loan applications. Clear and transparent reports provide confidence that the funds loaned will be managed well.

2. Supplier

Suppliers use financial statements to assess a company's ability to pay its obligations arising from credit transactions. Healthy financial statements provide confidence that the company can meet its obligations, while poor statements can cause suppliers to reconsider their relationships.

3. Company Management

Company management utilizes financial reports to monitor operational performance and ensure that every aspect of the organization is running efficiently. This report serves as a reference in planning and making strategic decisions going forward.

4. Investor

Investors use financial statements to assess how the capital they have invested is being managed. Healthy financial statements increase investor confidence and support decisions to increase investment or further cooperation.

5. Government

The government needs financial reports to monitor tax obligations that must be paid by companies. Better financial reporting can reduce potential tax problems, including tax avoidance.

6. Customer

Customers who are bound by long-term agreements with the company need to know the financial statements to evaluate the sustainability of the company. Good financial statements can increase customer trust and support long-term relationships.

7. Employee

Employees are very interested in financial reports because they relate to the company's ability to provide salaries and benefits. Healthy reports also form the basis for human resource management planning, especially in difficult economic times.

8. Public

The public generally has an interest in the financial reports of companies, especially those that affect the local economy. A good report will provide a clear picture of the sustainability of the company and can provide benefits not only for the company, but also for the community as stakeholders.

Comparison of Public Sector and Private Sector Financial Reports

Public sector and private sector financial reports have several fundamental differences, as follows:

Table 1. Public and Private Sector

Public Sector Financial Report	Private Sector Financial Report
Focusing on financial and political aspects	Focus on financial aspects
Prioritize the interests of the organization and the public	Focus on the interests of shareholders and the company as a whole
Assess performance not only from a financial perspective, but also a non-financial perspective	Most performance is measured financially
Responsible to the wider community and government elements	Accountable to shareholders and creditors
Financial reports are audited by the relevant ministry (e.g., Ministry of Finance)	Financial reports are audited by independent auditors
Reporting regulations are determined by government agencies, such as the Department of Finance.	Reporting rules are determined by applicable laws, accounting standards, capital markets and accounting practices.
Using cash accounting (cash-based accounting)	Using accrual accounting (accrual-based accounting)

These differences indicate that public sector financial reports are more complex and aim to ensure transparency in public budget management, while private sector financial reports are more focused on the company's financial performance for profit and investor benefit purposes.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of the research conducted on the Analysis of Public Sector Financial Reports to Assess Accountability and Performance of Regional Governments, it can be concluded that public sector financial reports have an important role in creating accountability and transparency in regional financial management. Well-prepared financial reports will provide a clear picture of the financial and non-financial performance of regional governments, which are useful for both external parties (such as creditors, investors, and the community) and internal parties (such as management and the government itself).

Public sector financial reports serve as a performance evaluation tool, a basis for decision-making, and a means to increase public and investor trust in regional financial management. A comparison between public and private sector financial reports shows that the public sector not only prioritizes financial aspects, but also political factors and the interests of the wider community. Therefore, it is important to continue to improve the regional financial reporting and management system in order to achieve better, more transparent, and accountable management, and to support sustainable regional development.

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