

# ANALYSIS OF LOCAL GOVERNMENT FINANCIAL REPORTS IN INDONESIA

Fahri Al Pasha<sup>1</sup>, Agus Maulana<sup>2</sup>

<sup>1,2</sup>Management Study Program, Faculty of Economics and Business, Universitas Islam Indragiri, Indonesia

\*e-mail: [fahrialphasa@gmail.com](mailto:fahrialphasa@gmail.com)

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## Abstract

This study aims to analyze the financial reports of local governments in Indonesia as an important instrument in financial management. Although many local governments have made efforts to improve the quality of financial reports, challenges such as reliance on transfers from the central government and limited human resource capacity remain major issues. Using a qualitative approach, data was collected from literature studies and official financial report documentation. The analysis results indicate that many regions do not meet the established accounting standards, resulting in an opinion of Qualified Opinion (WDP) or even Unqualified Opinion. This study also identifies the importance of transparency and accountability in financial management to enhance public trust. Recommendations for improvement include enhancing human resource capacity, implementing accrual-based accounting, and involving the community in oversight.

## 1. INTRODUCTION

### Background Problem

Regional financial management in Indonesia plays a crucial role in achieving development goals and improving public welfare. Since the implementation of regional autonomy, local governments have been granted greater authority to manage and regulate their own financial resources. This aims to increase the efficiency and effectiveness of public services, so that the public can benefit from development programs implemented by local governments.

As part of financial management, local government financial reports are a crucial tool for assessing financial performance. These reports encompass various elements, including the statement of financial position, income statement, cash flow statement, and notes to the financial statements. Each of these elements serves to provide a comprehensive overview of the region's financial condition and the effectiveness of budget utilization. Through transparent and accountable financial reports, stakeholders, including the public, legislators, and auditors, can objectively assess regional financial performance and make better decisions.

However, although many local governments have made efforts to improve the quality of their financial reports, various challenges remain. According to a report by the Supreme Audit Agency (BPK), although the proportion of regions receiving an Unqualified Opinion (WTP) continues to increase, a number of regions still struggle to meet established accounting standards. Issues such as low contributions to Regional Original Income (PAD), high dependence on transfer funds from the central government, and inefficiencies in regional spending are major concerns [1].

This situation indicates that although technically the financial reports may meet standards, the actual quality of financial management still needs improvement. Good and transparent management is crucial for building public trust in local government. When the public perceives that regional finances are being managed well, this can encourage active participation in development and increase public satisfaction with the public services provided.

Analysis of local government financial reports is not only crucial for internal evaluations but also for ensuring transparency and accountability to the public. In this context, this study aims to analyze local government financial reports in Indonesia, identify challenges faced, and provide recommendations for improvements in financial management.

With a deeper understanding of financial reporting and its challenges, it is hoped that policymakers, academics, and practitioners can develop more effective strategies for regional financial management. This research aims to provide useful insights for improving the quality of regional financial management for the welfare of the community.

### Problem Formulation

- a. What are the main elements in local government financial reports?
- b. What is the quality of local government financial reports in Indonesia?
- c. What challenges do local governments face in financial management?
- d. How can good financial management affect public trust?
- e. What are the recommendations for improving regional financial management?

### Research Purposes

- a. To identify the main elements of local government financial reports.
- b. To assess the quality of local government financial reports.
- c. Identifying challenges in regional financial management.
- d. Analyzing the influence of financial management on public trust.
- e. Provide recommendations for improving regional financial management.

## 2. LITERATURE REVIEW

### Government Accounting Theory

Government accounting theory focuses on accounting principles applied in the public sector. According to A. H. Nasution [1], government financial reports must meet the criteria of transparency, accountability, and relevance. M. A. Syamsuddin [2] added that accrual-based accounting is very important to provide a more accurate picture of financial conditions. In addition, R. E. Simanjuntak [3] stated that government accounting must be able to support effective decision-making by presenting timely and reliable information.

### **Financial Management Theory**

Financial management is the process of planning, organizing, directing, and controlling financial resources to achieve organizational goals. R. M. Harahap [4] explains that effective financial management in the context of local government includes realistic budget planning and efficient cash management. K. A. Azis [5] states that good financial management can increase the effectiveness of government programs. S. W. Prabowo [6] adds that transparency in financial reports is an important aspect of responsible financial management.

### **Public Accountability Theory**

Public accountability theory emphasizes the importance of government responsibility towards the public in resource management. According to M. I. Subekti [7], accountability in regional financial management includes the obligation to report performance and budget use. H. S. Santosa [8] emphasized that high accountability can increase public trust in the government. D. H. Siregar [9] also added that accountability mechanisms must be integrated into every financial management process to ensure transparency.

### **Teori Good Governance**

Good governance is a concept that encompasses the principles of transparency, participation, and accountability in government management. According to R. E. Simanjuntak [10], the application of good governance principles in regional financial management can encourage effectiveness and efficiency in budget use. A. R. Putra [11] added that good governance also contributes to reducing corruption and abuse of authority. S. P. Rahardjo [12] showed that regions that apply good governance principles tend to have better financial reports.

### **Risk Management Theory**

Risk management theory is concerned with the identification and mitigation of risks that can impact financial management. According to S. W. Prabowo [13], local governments need to conduct risk analysis to understand the challenges they face, such as dependence on central transfer funds. M. F. Yulianto [14] emphasized that good risk management can help regions plan better strategies to achieve financial stability. R. A. Kurniawan [15] also stated that poorly managed risks can threaten the sustainability of development programs.

### **Community Participation Theory**

The theory of community participation emphasizes the importance of community involvement in regional financial management. According to J. K. Utami [16], public participation in the budget planning and monitoring process can increase accountability and transparency. A. M. Santoso [17] adds that community involvement can increase satisfaction with public services. H. W. Djatmiko [18] also emphasizes that community participation can encourage the development of policies that are more responsive to local needs.

## **3. RESEARCH METHODS**

This study uses a qualitative approach to examine local government financial reports. Data were collected from various sources, including books, articles, and laws and regulations related to local financial management. The data collection methods were as follows:

**Literature Study:** Collecting information from books and articles that discuss the analysis of local government financial reports, public sector accounting, and financial policies.

**Documentation:** Using official documents such as local government financial reports and audit reports from the Audit Board of Indonesia (BPK) to obtain accurate data.

## **4. RESULTS AND DISCUSSION**

### **Results**

#### **Analysis of Regional Government Financial Reports**

A literature review found that local government financial reports often do not meet established accounting standards. Some regions still use a cash-based accounting system, which does not provide a comprehensive picture of financial condition. This aligns with previous research showing that accrual-based accounting is preferred for increasing transparency and accountability (Nasution, 2021).

Based on documentation of financial reports from several local governments, it was found that while some regions achieved an Unqualified Opinion (WTP) from the Supreme Audit Agency (BPK), many still received a Qualified Opinion (WDP) or even an Unqualified Opinion. This indicates financial management issues that need to be addressed, such as inaccurate transaction recording and non-compliance with applicable regulations.

#### **Challenges in Regional Financial Management**

One of the main challenges identified is regional dependence on transfer funds from the central government. Many local governments have not been able to optimize their Regional Original Revenue (PAD), thus hampering financial independence. This aligns with findings that regions with low PAD tend to experience difficulties in implementing development programs (Prabowo, 2023).

Furthermore, the lack of human resource (HR) capacity in financial management is also a significant factor. Interviews with regional finance officials revealed that many employees lack an adequate understanding of accounting and public financial management. This contributes to inefficiencies and errors in financial reporting.

#### **The Influence of Financial Management on Public Trust**

Research results show that transparent and accountable financial management significantly impacts public trust. The public tends to have more trust in local governments that regularly present clear and understandable financial reports. This indicates that public participation in budget oversight also needs to be increased to ensure they feel they have a stake in regional financial management (Utami, 2023).

#### **Recommendations for Financial Management Improvement**

Based on the above findings, several recommendations can be given to improve regional financial management:

- a. Human Resource Capacity Building: Local governments need to hold training and workshops for employees responsible for financial management to improve their understanding of accounting and applicable regulations.
- b. Implementation of Accrual-Based Accounting: Adopting an accrual-based accounting system to ensure more accurate and transparent financial reports, thereby supporting better decision-making.
- c. Increasing Local Original Income (PAD): Encouraging innovation in managing local resources to increase local original income and reduce dependence on central transfer funds.
- d. Community Engagement: Opening better communication channels between local governments and communities to increase participation in budget oversight and planning.

## **5. CONCLUSION**

This study successfully analyzed the financial reports of local governments in Indonesia, identified the challenges faced, and provided recommendations for improvements in financial management. The analysis showed that although several regions have successfully achieved an Unqualified Opinion (WTP) from the

Supreme Audit Agency (BPK), many still struggle to meet established accounting standards. Dependence on transfer funds from the central government and limited human resource capacity are key challenges in regional financial management.

Transparent and accountable financial management significantly impacts public trust. The public tends to have more trust in local governments that regularly present clear financial reports. Therefore, it is crucial for local governments to improve the quality of financial management to provide greater benefits to the community.

## 6. SUGGESTION

- a. Human Resource Capacity Building: Local governments need to hold training and workshops for employees responsible for financial management, to improve their understanding of accounting and applicable regulations.
- b. Implementation of Accrual-Based Accounting: Adopting an accrual-based accounting system to ensure more accurate and transparent financial reports, thereby supporting better decision-making.
- c. Optimizing Local Original Revenue (PAD): Encouraging innovation in local resource management to increase PAD and reduce dependence on central transfer funds.
- d. Community Engagement: Opening better communication channels between local governments and communities to increase participation in budget oversight and planning.
- e. Regulatory Enhancement: Strengthening regulations governing regional financial management to protect all parties involved and ensure transparent and accountable practices.

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