

Chapter I

Introduction

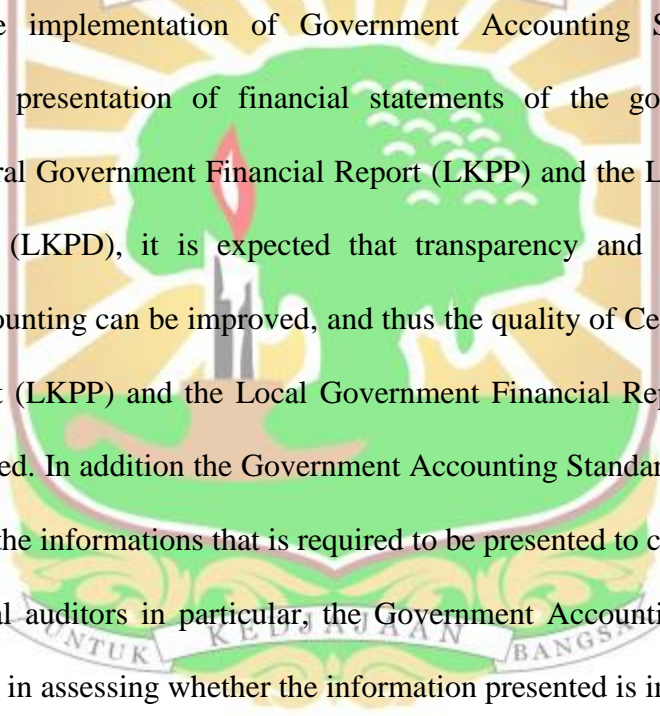
1.1 Background

In general, the government has institutions that play a role in delivering services to the public in accordance with their respective fields, both at central and regional levels. In order to implementation these services, these government institutions require funds from the public, therefore the government should hold responsibility for the management of those funds, one of the way is in the form of a report.

According to Law No.17 in 2003 about State's Finance, any regional financial managers must present a report on the accountability of its finance management in the form of financial statements, which should at least cover the Statement of Budget Realization, Statement of Financial Position, Statement of Cash Flow and Notes to the Financial Statements.

Regarding to this, Law No.1 of 2004 on State Treasury stated that the financial statements should be prepared based on the accounting process, which must be implemented by all budget users, those authorized by budget users and the main regional treasurer. Also the regulation in the administration of local government accounting system is also set by the Ministry of Home Affairs.

In addition, the Government Accounting Standards are also used as a reference in preparing the financial statements of the government, both central and regional governments, as in Government Regulation No.24 of 2005; it is stated that Government Accounting Standards is the accounting principles applied in preparing and presenting financial statements of the government which is prepared based on the conceptual framework of government accounting.

The logo of Universitas Andalas is a shield-shaped emblem. At the top, a banner reads "UNIVERSITAS ANDALAS". The central part of the shield features a green tree with a red flame-like top, set against a yellow sunburst background. Below the tree, a banner reads "UNTUK KEDARAJATAN BANGSA".

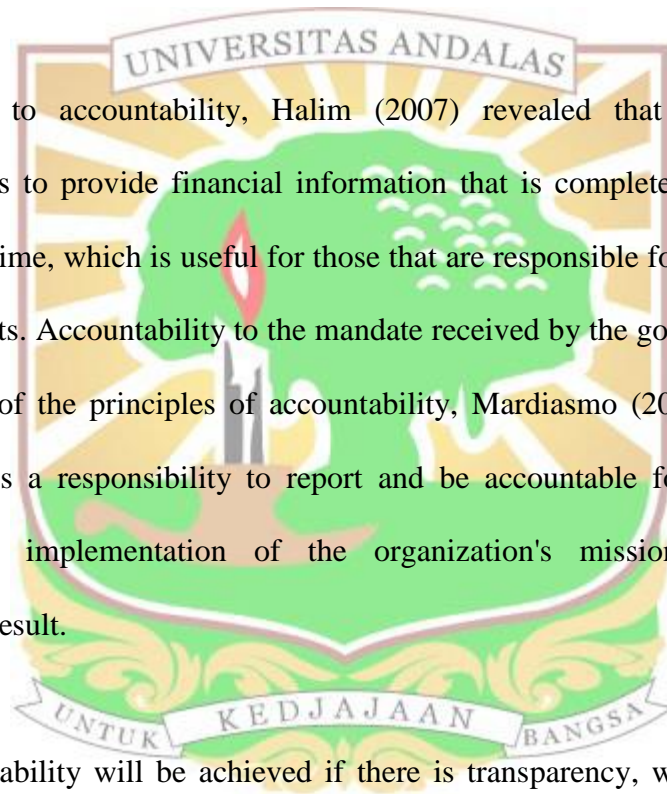
With the implementation of Government Accounting Standards in the preparation and presentation of financial statements of the government, which consists of Central Government Financial Report (LKPP) and the Local Government Finance Report (LKPD), it is expected that transparency and accountability of government accounting can be improved, and thus the quality of Central Government Financial Report (LKPP) and the Local Government Financial Report (LKPD) will be better presented. In addition the Government Accounting Standards are also useful for determining the informations that is required to be presented to certain parties. For auditors, external auditors in particular, the Government Accounting Standards are used as a criteria in assessing whether the information presented is in accordance with Generally Acceptable Accounting Principles, thus the Government Accounting Standards serve as guidelines to unify the perception among authors, users, and auditors.

With the governments accountability held in the form of financial statements that are in accordance with the mandate of the law sand government regulations, it is

expected to implement good governance. World Bank in Mardiasmo (2002) defines good governance as an implementation of a solid and responsible development management and in line with the principles of democracy and efficient markets, avoiding the possibility of incorrect allocation and investment, and the prevention of corruption both politically and administratively, run budget disciplinary as well as creating the legal and political framework for the growth of business activities.

Related to accountability, Halim (2007) revealed that the purpose of accountability is to provide financial information that is complete, accurate, in the right form and time, which is useful for those that are responsible for the operation of government units. Accountability to the mandate received by the government leads to the fulfillment of the principles of accountability, Mardiasmo (2002) explains that accountability is a responsibility to report and be accountable for the success or failure of the implementation of the organization's mission to achieve a predetermined result.

Accountability will be achieved if there is transparency, which implies that the presentation of financial statements should be conducted openly, especially regarding information receipt, storage, and spending of money by the regional financial management, thus it becomes easier for CPC to reveal places that have the possibility of corruption because already have standardized and comprehensive basis in auditing financial statements. Furthermore, the people through Regional



Representative Assembly (DPRD) are expected to control their Regional financial, so that the government can not record the use of resources as it wishes.

Therefore, the presence of standards, laws and regulations that support the central and local governments are expected to prepare and present financial statements in accordance with the established standards and also in accordance with laws and regulations, so as to produce a financial statements that are reliable and can be used as guidelines in the decision making process.

However, in practice, the government still often encounter obstacles or problems in the presentation of financial statements in accordance with the regulations and laws that can lead to many undesirable things to happen. If an error occurs in the process, then the information presented in the financial statements is misstated and as a result, such information can not be trusted and cannot be used as the basis for decisions making, and decisions that have been taken from the report becomes ineffective. In addition, this also leads to errors in the consolidated financial statements of either city, province or Indonesia as a whole; not only that, other impacts associated with the government's objectives in terms of good governance may also not be achieved.

The occurrence of obstacles or problems in preparing the financial statements can be caused by limited human resources, including difficulty following regulatory changes in the presentation of financial statements, the lack of their understanding of

the accounting process, which results in unintentional errors and fraud by employees. Other constraint is the limited quantity or quality of the supporting devices that are available for use.

Based on the description above, the author is interested in conducting a research with the title "**Analysis of the Process of Financial Statements Preparation in Local Government Institution (Empirical Studies in Local Government Institution, Padang City)**".

1.2 Problem Statement

Based on the background research that has been disclosed, can be prepared formulation problem or research question as follows:

1. How the process actually happens in practice preparation of financial statements on SKPD?
2. Is the accounting process that is run by employees of SKPD are in accordance with the accounting process that correct?
3. Do the financial statements have been prepared in accordance with Government Accounting Standards?

1.3 Research Purposes

Based on the problem statement, the purpose of this research is:

1. To find out how the process actually happens in practice preparation of financial statements on SKPD?

2. To determine whether the accounting process that is run by employees of SKPD are in accordance with the accounting process that correct?
3. To determine whether the financial statements have been prepared in accordance with Government Accounting Standards?

1.4 Research Benefits

The expected benefits of this research are:

1. For researchers, to add insight and understanding of the process of preparation of financial statements in local government.
2. For other researchers, is expected to be the basis for the development of reference materials and subsequent studies that are similar.
3. For local government, as a consideration in the process of preparing financial statements.

1.5 Writing Systematic

Systematic of writing that use in this research is:

CHAPTER I INTRODUCTION

Introduction of this thesis consists of background, the formulation of the problem, research objectives, the benefits of research, systematic writing, prior research, conceptual framework, as well as the research methods that describes the type of research, the object of research, data sources, data collection techniques, and data analysis method.

CHAPTER II RESULTS

On the results of this study explained the theories and concepts underlying thesis preparation, which is then linked to the results of research.

CHAPTER III CLOSING

In the closing section explains the conclusions, suggestions and the implications of this research.

1.6 Previous Research

Similar research has been done previously by Edi herman, ilmainir, and paradise Zainuddin in 2014, the title "*Mengungkap Penyimpangan Dalam Proses Penyusunan Laporan Keuangan Instansi Pemerintah Daerah Studi Empiris pada SKPD di Provinsi Sumatra barat*" by the results of the study show that there have been irregularities significant in accounting practices that run on SKPD (Agencies in West Sumatra Province) when compared to theory/basic of law.

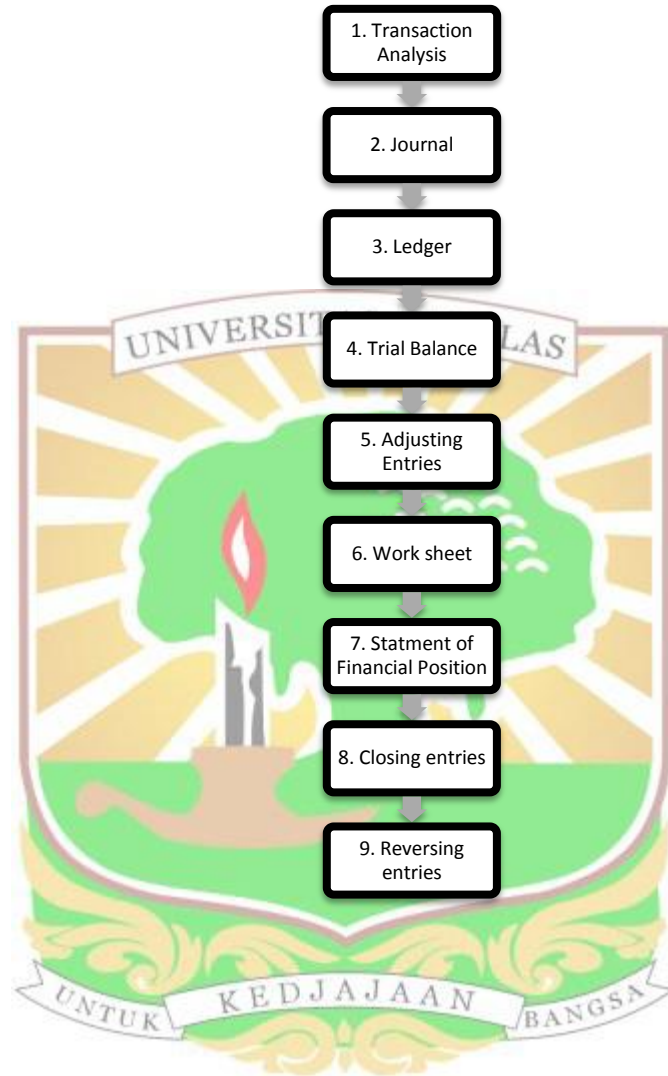
Silka Hartina in 2009 also conducted research with the title "*Analisis Penyajian Laporan Keuangan Daerah Pada Pemerintahan Kabupaten Langkat*" with the results of research that shows that Langkat government in presenting the financial statements of the region has not fully guided by the Government Accounting Standards and has not been timely.

Endah Novianain 2009 conducted a study titled "*Analisis Pencatatan dan Pelaporan Keuangan pada Satuan Kerja Perangkat Daerah di Pemerintah Kota Medan (Studi Kasus pada Dinas Tata Kota Tata Bangunan)*", with the results showing that the City Planning Office Building Management Medan has implement a system for recording and financial reporting in accordance with Government Regulation No. 24, 2005 and Regulation No.13, 2006 which began to fiscal year in 2007.



1.7 Conceptual framework

The conceptual framework of this study is shown in flowchart form below.



1.8 Research Method

1.8.1 Types of Research

Type of research is descriptive qualitative, Winartha (2006) defines as a descriptive qualitative research study to analyze, describe and summarize a variety of conditions, and the situation of the various data collected in the form of observations regarding the matter under investigation or that occur in the field.

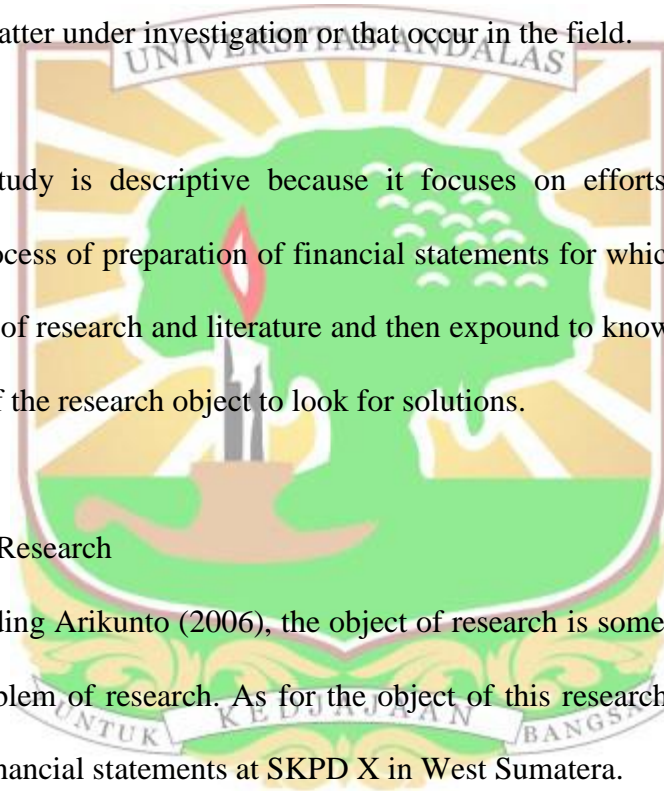
This study is descriptive because it focuses on efforts to describe and interpret the process of preparation of financial statements for which data is obtained from the object of research and literature and then expound to know the real situation and problems of the research object to look for solutions.

1.8.2 Object of Research

According Arikunto (2006), the object of research is something that is at the core of the problem of research. As for the object of this research is the process of preparing the financial statements at SKPD X in West Sumatera.

1.8.3 Source of Data

The data used in this study are primary data. Primary data is data obtained directly from the source (the respondents) that data taken directly from SKPD X in the form of documents required.



1.8.4 Data Collection Method

Data collected through multiple techniques, that is:

1. Field Research

Field research by collecting primary data by coming directly to the department concerned and then collecting a number of data recorded/ registered which shows the characteristics of part or the whole of a system. So it can be said to be a series of actions taken to collect data such as budget realization reports, balance sheets and notes to the financial statements.

2. Library Research

Library research is to study the laws, regulations, books and papers relating to issues to be discussed, as well as perform searches of the documents supporting the research.

1.8.5 Data Analysis Methods

This study in the final analysis and conclusion to follow the way in which previous investigators Herman et al (2014) who conducted the analysis and conclusion in several stages:

"Final conclusion that we pull through to several stages; the first stage is our set of criteria (standard), the basic theory of the minimum set by reference authorized by laws and regulations in force in the Republic of Indonesia, such as laws, government regulations, and regulation. If we do not find a strong legal basis in the law and regulations, we refer to the theoretical minimum set by accounting experts through books published. The criteria,

standards or minimum value theory weighs 100. And then each weight assigned variable analyzed (Providing this value may be of subjective or objective) then the percentage weight of each will be summed together with the weight of the theory, criteria, or basic concepts. For example accumulative weight of theory is 11,000 while the weight of the analysis of practices is 11,200, then the net variance is 200. The final conclusion is 11,200 minus 11,000 = 200. The interpretation of the final conclusions is set by the accounting process SKPD better studied by 200 points from theory basic, minimal criteria or minimum standards"

From the quote above can be seen that the weight or score given is Subjective investigator in giving weight or score in this study prior discussion with tutors so that a score or weight given and then presented in the study are scores or weights not only from researchers alone but also from the consideration of the opinions and input of lecturers.

