

## Chapter 1

### Introduction

#### 1.1 Background

Financial statements should be an instrument which became a form of accountability in public or private sector institution. In government agencies, financial report describe responsibilities of agency towards budget implementation and management of resources (Damayanti, 2012). Government has a large quantity of resources. The Government obtain funding from tax and non tax. Financial statement prepared by the government aimed to disclose the financial position and performance in order to provide service to public.

Generally, there are two basis of accounting record: cash basis and accrual basis. In a cash basis, the transaction will be recorded when the cash transaction is received or disbursed happened. In cash basis the balance sheet will only show the cash position but does not show the inventory's value of fixed assets and debt which held by an organization. Before the accrual basis held, in 2005-2014 Indonesia implemented cash towards accrual regulated by Act number 24 years 2005. In this period, the transition from the cash basis changed into accrual basis.

Accrual basis where the economic transactions are recognized, recorded, and presented in financial report by the time that transaction happened regardless the cash already received or not. There are matching costs against revenue that are not appropriate on the objectives when applying in government sector, because the government does not look for profit.

The basic change in accounting basis from cash basis into accrual basis is the concept of NPM (New Public Management) where the practices adopted from private sector to public sector management. The birth of the concept of NPM is because the accounting system on a cash basis during so long felt not provide complete information about the entire cost of the provision of public services, so that accrual accounting system is needed to give more benefit in improving the government quality of financial reporting information and also to produce better performance measurement (Vera, 2015).

In many countries, the preparation of Government budget usually arranged by using cash basis due to its easiness. Preparing financial statement based on accrual cannot maximized the advantage of accrual basis in government organizations because of many factors such as some of government make decision that do not have to consider about economic condition but in case the interesting of political content. So that, this is the reason why the selection become irrelevant if accrual basis held.

Indonesia as a developing country with the huge population and consists of many islands starts to revamp its Government system. Since the reformation in 1998, government system has changed drastically with the enactment of decentralized system; therefore regional autonomy system runs well. Meanwhile centralization is all authorities that run by central government regarding all affairs.

Definition of centralization is to concentrate all the authorities over all matters pertaining to the level of the central government. Centralization is widely used in government in Indonesia long time ago before autonomy system, including in the days of empire, the Dutch colonial government and independence period. The term

of centralization usually used as centralized system of government on one point, called central government.

Definition of decentralization is the delivery of government business in the form of the transfer of responsibility, authority, and resources in the form of funds, human resources, etc., from the central to local governments devoted solely to achieve an efficient government. Thus, initiative, authority and responsibility regarding the affairs of the central government handed over the responsibility of the local authorities, both regarding the planning, implementation, reporting, and accountability as well as regarding the terms of financing.

Nowadays in the era after the new order or precisely in reformation era, public has given right to express and convey their opinions and criticism of government policies. Regarding with government efforts in presenting accurate financial reports, Indonesia has made financial reform based on Act number 17 years 2003 and, this act clearly mentioned that one of the financial scopes of the state is Local Finance, to strengthen the implementation of financial management established by Government Regulation number 58 year 2005 about management local finance.

In a review system of government, the president whom the head of government include as authorized party who has rights in managing financial wealth. With issuance of Act number 32 years 2004, the president delegated authority to the head of local government and one of the authority that delegate is to authorized in managing financial in local government.

Indonesia is a Unitary State that cannot be separated between Local Government and Central Government. Delegation of authority to Local Government

does not mean central government hands off but gives space to greatest possible extent to Local Government in implementing regional autonomy. This autonomy will continuously implemented within in framework Unitary States of Republic of Indonesia. So, between Local Governance and Central have relation named supervisory relationship.

Financial reformation in Indonesia has been done in stages due to the several problems in implementing the regulation such as lack of human resources and technology. In other hand to provide progress in generating accurate financial information, Minister of Home Affairs issuance Decree number 64 years 2013 about implementing of Government Accounting Standard (SAP) accrual basis on Local Government relating with accountability.

Accrual basis has purpose to make economic transaction or accounting events recognized, recorded and presented in the financial statements at same time when transaction happened regardless the time cash or cash equivalent receive or paid. Accrual basis is used to measure of assets, liabilities and equities. Accrual accounting basis is International best practice in managing financial modern which is appropriate with principal New Public Management (NPM) that promote transparency and accountability in financial of management.

West and Carnegie (2005) stated that changes in public sector accounting standards to accrual basis motivated by the need to improve high accountability in public sector agencies. Moreover, in developing countries, accounting system faces several serious problems such as lack of human resource skills and highly level of corruption. Accrual basis recording techniques made its human resource of reporting

entities work extra hard in applying accrual system as a whole. Padang city has implementing accrual accounting basis and has been submitted to Financial Audit Board Republic of Indonesia (BPK) on March 29, 2016. Based on the background that explained above, researcher will examine the implementation of accrual accounting basis in preparing financial statement of the government, in order to provide information that give relevant result with issuance of government regulations number 71 years 2010 related to the full accrual basis standard become effective in years 2015. Researcher has tendency to come up with this title because cash basis since long time ago have been implemented as standard for government accounting, for that reason nowadays needs renewal methods to make financial statements more credible, accountable and transparent.

## **1.2 Research problem**

Based on description of the background above, the research problem in this study how is the implementation of accrual accounting by Local Government Work Unit (SKPD) in the City of Padang.

## **1.3 Research objective**

The purpose of this research is to describe preparation of financial statement using accrual accounting basis at BPKA and PU.

## **1.4 Writing systematic**

As a guide in preparing this paper, the researcher will develop sequence of ways to arrange this proposal, there are:



Chapter 1: Introduction, contains the background, the problem, research objectives and systemic writing.

Chapter 2: Literature review, explains the basic theories that support this research.

Chapter 3: Research method, contains an explanation about method that conducted. There are explanation about research design, time and setting, techniques of data collection and, techniques of data analysis.

Chapter 4: Result and discussion, contains the results of the research that conducted and discussion of data that obtained from research.

Chapter 5: Conclusion, contains the conclusion from chapter IV and suggestions for improvement for the next research.

