

The Role Of Government Accounting Standards On The Quality Of Regional Financial Reports

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Abstract

This study aims to determine and analyze the role of Government Accounting Standards in improving the quality of regional financial reports. This study uses a descriptive approach with a literature review method. Based on the results of the analysis from various sources, it is concluded that the implementation of Government Accounting Standards consistently contributes significantly to the quality of financial reports. This finding is supported by research showing that factors such as human resource competence and accounting information systems play an important role in Government Accounting Standards implementation. However, there are challenges in implementation, such as limited infrastructure and lack of training, which can hinder the quality of financial reports. Thus, although Government Accounting Standards provides a clear framework, its effectiveness is highly dependent on policy support and capacity building at the regional level.

Keywords: Government Accounting Standards, Quality of Regional Financial Reports

INTRODUCTION

Government Accounting Standards are a set of principles applied in the financial reporting of government entities to ensure the reliability and consistency of the financial information presented. These standards are designed to meet the needs of accountability and transparency in public financial management. Along with the implementation of regional autonomy, local governments are given the authority to manage their finances independently, which requires a clear and measurable accounting system. Ratna et al. (2023) emphasized that the implementation of appropriate accounting policies is very important in improving the quality of regional financial reports. Consistent application of these standards can help in creating reliable and relevant financial reports. According to Kuntadi et al, (2022) One of the main elements that affect the quality of government financial reports is the use of good accounting standards. These standards help reduce ambiguity and increase the confidence of report users in the financial data provided (Nasution et al, 2024).

The quality of regional financial reports is a description of the ability of a regional government to present accurate, timely, and understandable financial information for users of financial reports, thus assisting in decision making. According to a study conducted by Ratna et al. (2023) in the Journal of Public Administration, the accounting standards used have a significant impact on the quality of financial reports produced by local governments. This policy provides a framework for documenting and presenting organized and transparent financial reports. This is in accordance with research by Kuntadi et al, (2022) which shows that effective internal control and the use of good accounting principles can increase credibility and trust in financial reporting. Therefore, internal factors such as control systems and accounting policies have an important role in determining the quality of financial reports as mentioned in previous

studies, providing evidence that the implementation of these standards is not only a technical formality, but also the principle of information reliability (Nasution & Welly, 2023).

Then, Arza et al., (2021) emphasized that competent human resources and the use of effective accounting information systems also determine the quality of regional financial reports. This indicates that in addition to policies and standards, the role of individuals who manage financial reports is crucial in ensuring that the reports produced are reliable and accurate.

The implementation of good Government Accounting Standards ensures that financial reports are accurate, transparent, and accountable. Clear and consistent accounting policies encourage the creation of quality reports that form the basis for making the right decisions. This builds public trust in regional financial management, increases accountability, and ensures efficient and appropriate use of public funds (Nasution et al, 2021).

Agency theory explains the relationship between the company owner (principal) and management (agent) which is often colored by conflicts of interest due to *asymmetry of information* and *moral hazard*. Internal audit plays an important role in bridging this gap by ensuring transparency, accuracy of financial reports, and compliance with accounting standards. In addition to being a monitoring tool, internal audit also helps detect irregularities, improve corporate governance, and provide recommendations for improvement. Thus, internal audit encourages management to act accountably, creates synergy, and supports sustainable business growth (Nasution et al, 2024).

Because management has greater access to a company's internal information than shareholders, agency theory recognizes this information asymmetry. By offering owners an unbiased assessment of the limitations and quality of financial data, internal audit helps reduce information asymmetry. Internal audit helps ensure that contracts and incentives are aligned with the organization's long-term goals. Internal audit also highlights the importance of contracts and incentives in directing agent behavior. Internal audit helps companies evaluate the effectiveness of incentive programs, ensure that management is acting in the best interests of owners, and prevent detrimental behavior and support more accountable and sustainable management (Nasution, 2023).

Agency theory emphasizes the importance of accountability and transparency in the relationship between agent and principal. To ensure that owners and other stakeholders can easily access and understand financial information, internal audit plays a critical role in enhancing transparency. By exercising careful oversight and providing clear reporting, internal audit helps create effective channels of communication, which in turn supports better decision-making and increases public confidence in the management of resources. Furthermore, by independently assessing and documenting a company's compliance with established norms and standards, internal audit promotes accountability.

Government Accounting Standards are guidelines for the preparation of public sector financial reports, regulated in Government Regulation No. 71 of 2010. Government Accounting Standards ensures that government financial reports are accurate, transparent, and accountable, and regulates disclosure and the use of the accrual method. Its implementation supports the efficiency of financial management, increases accountability, and builds public trust in the management of public funds. According to Herawati & Nopianti, (2017), financial reports are presented to the highest authority in accordance with generally accepted principles using Government Accounting Standards as a guideline.

The main objective of designing Government Accounting Standards is to increase transparency and accountability in public financial management. Through the Government

Accounting Standards, both local and central governments are expected to be able to prepare financial reports that describe the true financial conditions so that public trust in state financial management can be built.

To improve the effectiveness of the implementation of Government Accounting Standards, rules are enforced in the form of 8 (eight) principles for preparing financial reports based on Law No. 71 of 2010. The eight principles in the implementation of Government Accounting Standards include:

- a. The principle of consistency
- b. The principle of periodicity
- c. Principle of realization
- d. Accounting basis
- e. Full disclosure principle
- f. The principle of historical value
- g. Principle of fair presentation
- h. The principle of substance trumps formal form

The financial performance of a company or business entity over time is summarized in detail in a formal document called a financial statement. Revenue, expenses, net income, cash flow, financial status, and other related financial data are all included.

The purpose of financial statements is to provide stakeholders (shareholders, creditors, internal stakeholders, and other external stakeholders) with a clear and transparent picture of the company's financial situation. Generally, financial statements are divided into three main parts:

1. Profit Statement

Presents the company's revenue, expenses, profit, or loss during a certain period to show financial performance.

2. Balance or Statement of Financial Position

Describes a company's assets, liabilities, and equity at a specific point in time to show its financial condition.

3. Cash Flow Statement

Shows cash inflows and outflows from operating, investing, and financing activities during a certain period to evaluate the company's liquidity.

Some companies include additional information in the notes to the financial statements in addition to the three primary statements. These notes may include a thorough explanation of accounting procedures, estimates, and policies, among other details that can aid in a deeper understanding of the financial statements.

According to the financial reporting rules applicable to a region or country, or Generally Accepted Accounting Principles (GAAP), financial statements must be prepared. Ensuring uniformity, transparency, and conformity in financial reporting across businesses and specific industry sectors is the goal.

The quality of regional financial reports is a normative benchmark that must be achieved in reporting accounting information in order to meet its objectives, as stated in PP No. 71 of 2010 concerning Government Accounting Standards. A number of interested parties will base their decisions on the financial reports produced by the regional government. Therefore, the data in the regional government financial report must be of high quality, practical, and in accordance with user needs. If the information can assist in decision making and is easy for users to understand, then the information will be useful. Erlina (2017: 25) states that the results of identification, measurement, recording, and economic transactions that indicate economic

activities involving funds from regional government accounting entities are used as data in the context of accountability for the financial management of accounting entities and economic decisions by parties who need them. The quality of financial reporting from regional governments is assessed using this metric

RESEARCH METHODS

This study uses a literature study approach, with data sources taken from various sources, including laws and regulations, local government report documents, accounting policy research, and references. Descriptive analysis will then be used to examine the data collected during the study procedure. The qualitative data analysis process involves testing, selecting, classifying, assessing, contrasting, combining, and considering information that researchers have collected to develop findings and conclusions that lead to comprehensive knowledge.

RESULTS AND DISCUSSION

The qualitative descriptive analysis process is carried out through several stages, namely testing, selection, categorization, evaluation, comparison, synthesis, and reflection. The purpose of each of these stages is to have a comprehensive understanding of how the quality of regional financial reports and the implementation of Government Accounting Standards are interrelated. This study conducts a comprehensive analysis of a number of elements, including Government Accounting Standards adoption, human resource (HR) competency, accounting information systems, and internal control, which affect the quality of regional financial reports.

Testing and Data Selection

The data obtained came from various literature, including scientific journals, books, laws and regulations, and local government financial report documents. The testing process was carried out to ensure the relevance and validity of the data. Data that was less relevant or had no direct relationship to the research topic was excluded from the analysis process.

The test results show that the implementation of Government Accounting Standards has a central role in improving the quality of financial reports. In the literature, such as research by Ratna et al. (2023) and Kuntadi et al. (2022), Government Accounting Standards is identified as the main instrument that supports the presentation of relevant, reliable, and understandable financial information for stakeholders. However, challenges were also found in its implementation, such as limited HR competency and suboptimal accounting information systems in several regions.

Data that has passed the testing process is then categorized into the following main themes:

1. Government Accounting Standards Implementation and Basic Principles

Government Accounting Standards is designed based on eight main principles, namely:

Accounting basis: Setting the time for recording financial transactions.

Historical value: Emphasizes recording based on the original value of the transaction.

Realization principle: Revenue and expenses are recognized in the period in which they occur.

- Substance over form: Emphasizes the content of a transaction over its formal form.
 - Principle of periodicity: Reports are prepared periodically to facilitate evaluation.
 - Consistency: Consistent recording procedures between periods.
 - Full disclosure: The information presented must be complete and transparent.
 - Fair presentation: Financial statements must reflect the actual situation.
2. Supporting Factors for the Quality of Financial Reports
 - HR Competence: Competent and trained workforce in government accounting is the key to successful Government Accounting Standards implementation.
 - Accounting Information Systems: Utilizing modern technology can increase the speed, accuracy, and efficiency of financial reporting.
 - Internal Control: A good control system prevents fraud and ensures compliance with applicable regulations.
 3. Government Accounting Standards Implementation Challenges
 - Limited technological infrastructure in some areas.
 - Lack of understanding of Government Accounting Standards principles, especially in remote areas.
 - Lack of training to improve HR competency in the field of government accounting.
 4. The Impact of Financial Report Quality on Decision Making
 - Quality financial reports help local governments make strategic decisions, increase accountability to the public, and build public trust in regional financial management.

In the evaluation process, categorized data was compared to find patterns and differences in Government Accounting Standards implementation in various regions. Some important findings from this evaluation are: The Role of Government Accounting Standards: Research by Kuntadi et al. (2022) shows that Government Accounting Standards increases transparency and public trust. However, its effectiveness is highly dependent on consistent and comprehensive implementation. HR Competence: According to Arza et al. (2021), regions with competent HR are able to produce more accurate financial reports compared to regions with less trained workers. Influence of Technology: Regions that adopt modern accounting information systems show significant improvements in the quality of financial reports, as supported by research by Herawati & Nopianti (2017). The synthesis process integrates findings from previous evaluations to provide a comprehensive picture. Some important conclusions from this synthesis process are: Government Accounting Standards provides an essential foundation for creating transparent and reliable financial reports. HR competency and internal control are strengthening factors in effective Government Accounting Standards implementation. Barriers to implementation, such as technological limitations and lack of training, need to be addressed through supportive policies, such as budget allocation for human resource training and infrastructure modernization.

Reflection on the analyzed data provides additional insights into the importance of synergies between policies, resources, and technologies. This process yields several conclusions:

1. Consistent Government Accounting Standards implementation is a major factor in improving the quality of financial reporting.
2. The success of Government Accounting Standards implementation requires the support of adequate HR competencies and modern technology.
3. Strong internal controls ensure data integrity and prevent irregularities in financial reporting.

Quality financial reports play a very important role, not only as a basis for government decision-making, but also as a tool to increase transparency in state financial management. Accurate, clear, and accountable reports provide an accurate picture of the government's financial condition, which in turn will strengthen public trust. With good financial reports, the public feels more confident that public funds are managed effectively and efficiently, and in accordance with the principles of good governance and transparency.

CONCLUSION

Based on the results of the analysis and discussion conducted, it can be concluded that Government Accounting Standards play a very significant role in determining the quality of regional financial reports. Government Accounting Standards, as a guideline designed in accordance with Government Regulation Number 71 of 2010, provides a foundation for regional governments to prepare relevant, reliable, understandable, and consistent financial reports. The application of eight main principles in Government Accounting Standards, such as accounting basis, historical value, full disclosure, and fair presentation, forms a framework that ensures transparency and accountability in financial reporting.

However, the quality of financial reports does not only depend on the implementation of Government Accounting Standards itself, but also on various supporting factors. Human resource (HR) competence is one of the key elements. Local governments that have workers with expertise and in-depth understanding of government accounting tend to be able to produce higher quality financial reports. In addition, the use of modern accounting information systems helps speed up the reporting process, improve data accuracy, and minimize manual errors.

On the other hand, a strong internal control system acts as a very important tool in ensuring compliance with government accounting standards. This system also functions to prevent data manipulation or fraud in the preparation of financial reports. With effective control, every transaction and accounting process can be monitored and supervised closely, thus minimizing the risk of errors or deviations that can harm the organization. Strengthening the internal control system is a strategic step to increase transparency and accountability in public financial management.

However, there are a number of challenges in implementing Government Accounting Standards at the regional level. Limited technological infrastructure and minimal HR training are still major obstacles, especially in remote areas. These challenges often hinder the ability of local governments to optimally adopt Government Accounting Standards, which has an impact on the quality of the financial reports produced. Therefore, greater support is needed in the form of central government policies, budget allocations for HR capacity development, and modernization of information technology infrastructure at the regional level.

From an agency theory perspective, the implementation of Government Accounting Standards also helps reduce information asymmetry between local governments as agents and the community or other related parties as principals. Government Accounting Standards ensures that the information presented in the financial report is accurate, transparent, and in accordance with actual conditions, so that the community and other stakeholders can better assess the performance of regional financial management. In addition, quality financial reports also serve as the basis for strategic decision-making for local governments in planning development programs based on valid financial data.

Overall, consistent Government Accounting Standards implementation not only improves the quality of regional financial reports but also contributes to the development of a more transparent and accountable financial management system. With policy support, strengthening of human resources, and optimal use of technology, it is expected that regional governments will be able to prepare financial reports that not only meet technical standards, but also reflect public trust in public financial management. This conclusion confirms that Government Accounting Standards is not just a set of technical rules, but also a strategic instrument to improve good governance in Indonesia

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