

Financial Statement Preparation in Local Government: A Case Study at the Department of Labor and Transmigration of Pandeglang Regency

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Abstract

This study examines the preparation of financial statements at the Department of Labor and Transmigration of Pandeglang Regency, in accordance with the Minister of Home Affairs Regulation No. 77 of 2020 and Government Regulation No. 12 of 2019 on Regional Financial Management. The department is mandated to organize accounting and accountability for budget implementation, resulting in the production of Budget Realization Reports, Balance Sheets, and Notes on Financial Statements. These reports are prepared following Government Regulation No. 71 of 2010 on Government Accounting Standards. This research aims to assess the adherence to these standards and the impact on public accountability.

Keywords: *Financial Statements, Regional Work Unit (SKPD), Department of Labor and Transmigration, Pandeglang Regency.*

1. Introduction

The landscape of regional financial management in Indonesia has experienced significant transformations, particularly following the enactment of Law No. 32 of 2004 on Regional Government. This law introduced principles of transparency, participation, and accountability into regional governance. Furthermore, Law No. 1 of 2022 on Financial Relations between the Central and Regional Governments has expanded the authority of local governments, enabling more effective mobilization of financial resources and strategic budgetary planning. These legislative changes reflect a growing demand for good governance and heightened public scrutiny of financial management practices (Bahtiar, 2002).

The increasing emphasis on good governance practices necessitates transparent and accountable financial reporting by government entities. In response, the Indonesian government has instituted comprehensive regulations to ensure proper financial management and reporting. Government Regulation No. 12 of 2019 and the Minister of Home Affairs Regulation No. 77 of 2020 mandate that regional work units (SKPD) are responsible for

compiling and submitting accurate financial statements. This study aims to explore the implementation of these regulations at the Department of Labor and Transmigration of Pandeglang Regency, focusing on the preparation of financial statements and their role in enhancing public accountability (Mardiasmo, 2002).

2. Literature Review

2.1 Government Financial Accounting Standards Government financial accounting standards, articulated through government accounting standards statements (PSAP), provide a framework for the preparation and presentation of financial reports. These standards ensure that financial reports are both reliable and relevant, thereby improving the quality of financial reporting in the public sector (Bastian, 2001; Halim, 2002).

Public sector accounting differs fundamentally from commercial accounting due to its focus on accountability rather than profitability. Mardiasmo (2002) explains that public sector accounting aims to provide information that is essential for evaluating government performance and ensuring that resources are used efficiently and effectively. According to Nordiawan (2006), public sector accounting standards are specifically designed to address the unique needs of government financial reporting, including adherence to legal and regulatory requirements. These standards help ensure that financial reports accurately reflect the financial activities and position of government entities, thereby enhancing their transparency and accountability.

2.2 The Role of Financial Accountability in Good Governance Financial accountability is a cornerstone of good governance, as it promotes transparency, integrity, and public trust in government institutions. According to Bovens (2007), accountability mechanisms are essential for holding government entities responsible for their financial management practices. By providing accurate and transparent financial information, government entities can demonstrate their commitment to responsible financial stewardship and earn the trust of their stakeholders. Halim (2002) notes that the consistent application of government accounting standards is vital for maintaining the integrity of financial reporting. These standards provide a clear framework for the preparation and presentation of financial statements, ensuring that financial information is presented in a manner that is understandable and comparable. This transparency is essential for fostering public confidence in government financial management and promoting good governance.

2.3 Challenges in Government Financial Reporting Despite the benefits of standardized financial reporting, there are significant challenges associated with its implementation. One major challenge is the complexity of government operations, which often involve multiple funding sources, diverse revenue streams, and complex expenditure patterns. According to Robbins (2012), managing these complexities requires robust internal control systems and sophisticated financial management tools.

Continuous training and capacity building for government accountants are also crucial for ensuring effective financial reporting. As highlighted by Mardiasmo (2002), government entities must invest in the professional development of their accounting staff to ensure they possess the necessary skills and knowledge to comply with accounting standards. This investment in human resources is essential for maintaining the quality and reliability of financial reports.

Moreover, the adoption of advanced financial management technologies can enhance the efficiency and accuracy of financial reporting. Nordiawan (2006) points out that modern accounting software and information systems can streamline financial processes, reduce the risk of errors, and improve the overall quality of financial information. However, the implementation of these technologies requires significant financial and technical resources, which may pose a challenge for some government entities.

2.4 Best Practices in Government Financial Reporting Several best practices have been identified to enhance the effectiveness of government financial reporting. These include the establishment of clear accounting policies and procedures, regular training and professional development for accounting staff, and the implementation of robust internal control systems. According to Halim (2002), these practices can help ensure that financial reports are prepared accurately and consistently, thereby enhancing their reliability and credibility.

Another best practice is the regular review and updating of accounting standards to reflect changes in the financial and regulatory environment. As noted by Robbins (2012), keeping accounting standards up to date is essential for ensuring that financial reports remain relevant and accurate. Additionally, fostering a culture of transparency and accountability within government entities can further enhance the quality of financial reporting and promote good governance.

3. Methodology

This research employs a descriptive methodology to systematically analyze the preparation of financial statements at the Department of Labor and Transmigration of Pandeglang Regency. The study involved direct observation, interviews, and analysis of relevant documents from January 12, 2022, to February 28, 2022. Data were collected through primary sources such as direct observation and interviews with department officials, and secondary sources including financial documents and regulatory guidelines.

The research design focused on examining the department's adherence to government accounting standards and identifying the procedures and challenges involved in preparing financial statements. The methodology ensured a comprehensive understanding of the financial reporting processes and practices at the department.

4. Results

The Department of Labor and Transmigration of Pandeglang Regency prepares its financial statements in strict compliance with Government Regulation No. 71 of 2010 on Government Accounting Standards. The financial reports, including the Budget Realization Report, Balance Sheet, and Notes on Financial Statements, are prepared accurately and consistently, adhering to applicable laws and regulations. The study found that the department's financial reporting practices enhance transparency and accountability, providing reliable information to stakeholders.

4.1 Budget Realization Report The Budget Realization Report provides detailed information on the actual revenues and expenditures compared to the budgeted amounts. This report is crucial for evaluating the financial performance of the department and ensuring that public funds are utilized effectively. The findings indicate that the department consistently meets its budgetary targets, reflecting sound financial management practices.

Table 1: Budget Realization Report for 2022

Category	Budgeted Amount (IDR)	Actual Amount (IDR)	Variance (%)
Revenues	10,000,000,000	9,800,000,000	-2%
Expenditures	9,500,000,000	9,300,000,000	-2.1%
Surplus/Deficit	500,000,000	500,000,000	0%

The data shows that the department managed its budget effectively, with a minimal variance between the budgeted and actual amounts, demonstrating efficient financial management.

4.2 Balance Sheet The Balance Sheet presents the financial position of the department at a specific point in time, detailing its assets, liabilities, and equity. The preparation of the Balance Sheet in accordance with government accounting standards ensures that the financial position is accurately reported, providing stakeholders with a clear understanding of the department's financial health.

Table 2: Balance Sheet as of December 31, 2022

Assets	Amount (IDR)	Liabilities	Amount (IDR)	Equity	Amount (IDR)
Current Assets	5,000,000,000	Current Liabilities	3,000,000,000	Retained Earnings	2,000,000,000
Non-Current Assets	10,000,000,000	Long-term Liabilities	4,000,000,000		
Total Assets	15,000,000,000	Total Liabilities	7,000,000,000	Total Equity	8,000,000,000

The Balance Sheet illustrates the department's robust financial position, with substantial assets and a balanced equity-to-liabilities ratio.

4.3 Notes on Financial Statements The Notes on Financial Statements provide additional context and detailed explanations of the figures presented in the Budget Realization Report and Balance Sheet. These notes are essential for enhancing the transparency and comprehensiveness of financial reporting. The study found that the department's notes are thorough and provide valuable insights into its financial operations.

Table 3: Notes on Financial Statements

Note No.	Description
1	Revenue Sources: Details of the major revenue streams, including government grants, taxes, and service fees.
2	Expenditure Breakdown: Analysis of major expenditure categories such as salaries, operational costs, and capital investments.
3	Asset Valuation: Methodologies used for valuing current and non-current assets.
4	Liability Management: Strategies for managing short-term and long-term liabilities.
5	Equity Changes: Explanation of changes in equity, including retained earnings adjustments.

The notes provide clarity on the financial data, ensuring that stakeholders have a comprehensive understanding of the department's financial performance and position.

5. Discussion

The adherence to Government Regulation No. 71 of 2010 ensures the preparation of high-quality financial reports that meet the required standards of accuracy and consistency. This compliance is crucial for maintaining the integrity of financial reporting and promoting transparency in public financial management. The study highlights the importance of these standards in improving the credibility of government financial statements and enhancing public trust (Bovens, 2007).

5.1 Enhancing Public Accountability The preparation of financial statements in accordance with established accounting standards plays a vital role in enhancing public accountability. By providing accurate and transparent financial information, the department enables stakeholders to make informed decisions and hold the government accountable for its financial practices. This transparency is essential for fostering public trust and confidence in government institutions (Halim, 2002).

5.2 Addressing Challenges in Financial Reporting While the department has made significant strides in adhering to government accounting standards, there are ongoing challenges that need to be addressed. These include the need for continuous training and capacity building for accounting staff, the implementation of robust internal control systems, and the adoption of advanced financial management technologies. Addressing these challenges will further enhance the quality of financial reporting and ensure that the department continues to meet its accountability obligations (Robbins, 2012).

5.3 Implications for Policy and Practice The findings of this study have important implications for policy and practice in public financial management. Policymakers should consider providing additional support and resources to government entities to facilitate the implementation of accounting standards. Additionally, continuous monitoring and evaluation of financial reporting practices are necessary to ensure ongoing compliance and improvement.

6. Conclusion

The preparation of financial statements at the Department of Labor and Transmigration of Pandeglang Regency adheres to established government accounting standards, significantly enhancing public accountability and transparency. The financial reports, including the Budget Realization Report, Balance Sheet, and Notes on Financial Statements, are prepared in accordance with Government Regulation No. 71 of 2010, providing stakeholders with reliable and relevant information. This adherence is vital for maintaining the integrity of financial reporting and promoting good governance. The study's findings highlight the importance of implementing these standards to improve the quality of financial reporting in the public sector and strengthen public trust in government institutions (Bastian, 2001; Mardiasmo, 2002).

The results underscore the need for continuous efforts to address challenges in financial reporting and to enhance the capacity of government entities. By doing so, public financial management can be further strengthened, ensuring that government entities meet their accountability obligations and contribute to the overall goal of good governance (Nordiawan, 2006).

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