International Journal of Economics, Commerce, and Management

E-ISSN: 3047-9754
P-ISSN: 3047-9746

Research Article

Equity Analysis of Local Government: A Case Study of Deli Serdang Regency, North Sumatra Province, Based on Government Financial Reports and IFRS Principles

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Abstract: This study provides a detailed equity analysis of the Deli Serdang Regency local government by evaluating its financial statements from 2020 to 2023 and interpreting results through the lens of International Financial Reporting Standards (IFRS) and public sector accounting principles. The analysis examines trends in assets, liabilities, and equity, computes key financial ratios, and discusses implications for fiscal sustainability, transparency, and governance. The study combines quantitative ratio and trend analyses with a qualitative review of notes to the financial statements and a reconciliation exercise mapping local government reporting (SAP/APBD disclosures) to IFRS/IPSAS concepts. Findings (illustrative data) show a positive but modest growth in equity, persistent dependence on intergovernmental transfers, and opportunities to improve asset valuation and liability recognition practices. The paper concludes with practical recommendations for policy-makers and local finance managers and suggests a road map for incremental IFRS-aligned reporting in the local government context.

Keywords: Equity Analysis; Fiscal Sustainability; IFRS; Local Government Finance; Public Sector Accounting;

Received: September 07, 2025
Revised: September 25, 2025
Accepted: October 11, 2025
Published: October 14, 2025
Curr. Ver.: Oktober 14, 2025

1. Introduction

Fiscal decentralization in Indonesia has expanded the responsibilities and financial autonomy of local governments. Local governments must therefore present financial statements that are reliable, transparent, and comparable so that stakeholders can assess financial sustainability and governance capacity. Equity the residual interest in assets after deducting liabilities is a central indicator of net financial worth and long-term fiscal capacity in the public sector (Inata et al., 2022). In practice, the presentation and measurement of equity depend on accounting policies for asset recognition/measurement, revaluation, and liability recording.

Deli Serdang Regency, in North Sumatra Province, is one of Indonesia's growing subnational regions, with increased demands for infrastructure, public services, and economic development. According to Deli Serdang Regency in Figures 2022, the regency publishes periodic statistical and financial data to support governance transparency (Laporan Keuangan Deli Serdang, 2022). From audit records, the Local Government Financial Statement (LKPD) of Deli Serdang has consistently received the "Unqualified/Clean Opinion" from the Supreme Audit Agency (BPK) for many years, including 2021, 2022, and 2023.

This suggests that the statements meet the general standards of fairness and compliance under national auditing frameworks.One concrete data source is the 2022 Deli Serdang Regency Regional Government Financial Report, publicly available via the regency's portal, which provides details on balance sheet items, notes, and disclosures.The existence of these financial statements offers a basis for empirical equity analysis in this paper (Laporan Keuangan Deli Serdang, 2022).

2. Literature Review

2.1 The Concept of Equity in Public Sector Accounting

Equity in public sector accounting, often termed "net assets" or "accumulated surplus," represents the residual interest in assets after deducting liabilities. Unlike private sector equity, which primarily reflects shareholders' ownership, public sector equity indicates the government's fiscal capacity and intergenerational sustainability. Scholars argue that equity is an essential measure of financial resilience and solvency in the public sector, providing insights into whether governments can meet their current and future obligations. According to (Ferry & Eckersley, 2015), equity serves not only as an accounting figure but also as an accountability mechanism toward taxpayers and legislators.

2.2 Transparency and Accountability in Equity Reporting

The adoption of IPSAS is widely seen as a mechanism to strengthen **transparency** and **accountability** in public sector financial reporting. For example, *The Role of IPSAS in Enhancing Transparency and Accountability in the Public Sector of Jordan* argues that IPSAS adoption fosters clearer, more comparable disclosures of assets, liabilities, and net assets (equity) in public sector financial statements, thereby improving stakeholder confidence (Maayah et al., 2025). Similarly, the study *IPSAS Implementation, Accountability and Transparency in Public Sector Organizations in Bayelsa State, Nigeria* finds that IPSAS implementation has a positive effect on accountability and transparency in local government reporting, making the reported equity figures more credible (Sunday & Ovuakporaye, 2020).

2.3 Enhanced Relevance and Quality of Financial Information

A key rationale for adopting IPSAS is improving the **relevance** and **quality** of financial information, which directly influences how equity is assessed and interpreted. In *The Impact of Adopting International Public Sector Accounting Standards (IPSAS) On the Relevancy of Financial Information in the Public Sector of India*, the authors show that IPSAS adoption is positively associated with the relevance of financial reports, meaning that distinctions in reported assets and liabilities better reflect economic reality (Al-Kharabsheh, 2021). This improved relevance also means that changes in equity over time more reliably reflect management decisions, depreciation, revaluations, and recognition of obligations, rather than purely accounting adjustments.

2.4 Efficiency of Resource Allocation and Equity Growth

Beyond reporting, IPSAS adoption may influence the **efficiency of resource allocation,** which in turn affects the accumulation or depletion of net assets (equity). In *Exploring the effect of International Public Sector Accounting Standards adoption on national resource allocation efficiency in developing countries*, Alessa finds that countries adopting IPSAS tend to achieve better allocation of public resources, which supports stronger asset management and more sustainable equity growth (Alessa, 2024). Thus, equity is not just an outcome of accounting rules but is intertwined with the substantive management of public resources.

2.5 Governance, Corruption Control, and Reported Equity

The link between IPSAS adoption, improved governance, and the reliability of equity figures is also documented in research. *Impact of IPSAS Adoption on Governance and Corruption* explores how adoption can strengthen public oversight and curb corruption, thereby bolstering the credibility of reported equity. (Tawiah, 2023) argue that comprehensive and reliable financial information enabled by IPSAS gives citizens and oversight bodies stronger tools to hold governments accountable, making reported equity less vulnerable to manipulation.

2.6 IFRS and IPSAS Frameworks for Equity Reporting

The International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) provide the conceptual basis for measuring assets, liabilities, and equity in public sector entities. Both frameworks emphasize faithful representation and relevance in financial reporting, encouraging the use of fair value or revalued amounts when appropriate. IPSASB (2018) defines net assets/equity as the residual interest after liabilities are deducted from assets, aligning closely with IFRS principles. Adoption of IPSAS is argued to enhance transparency, comparability, and global harmonization of public sector reporting (Caperchione & Emilia, 2016). However, literature also highlights that the transition from cash-based to accrual-based IPSAS poses significant technical and institutional challenges.

2.7 The Impact of IPSAS Adoption on Transparency and Reported Equity

Empirical evidence suggests that IPSAS adoption enhances transparency and significantly alters reported equity by improving recognition and valuation of assets and liabilities.In Indonesia, IMF (2019) applied a balance sheet approach showing that public net worth was considerably underestimated when natural resources and infrastructure were excluded from reporting. These findings underscore the transformative impact of IPSAS adoption on equity reporting and fiscal decision-making (El Rayess et al., 2019).

3. Materials and Method

This research adopts a mixed-method design combining quantitative and qualitative approaches. The quantitative dimension analyzes numerical data drawn from the audited financial statements of Deli Serdang Regency over the period 2020 to 2023. These statements include the balance sheet (statement of financial position), statement of financial performance (or change in net assets), cash flow statement, and notes to the financial statements. Complementarily, the qualitative dimension involves a careful review of accounting policies, disclosures, and reconciliation exercises that map local government reporting practices (SAP/APBD) onto IFRS/IPSAS concepts, particularly focusing on areas of divergence such as asset revaluation and recognition of contingent liabilities.

The key variables in the quantitative analysis are defined as follows: *Total Assets* includes all current and non-current assets as reported in the financial statements; *Total Liabilities* comprises current and non-current obligations, including debts, contractual obligations, and recognized long-term liabilities; and *Total Equity* is the reported residual (accumulated surplus or net assets) after subtracting liabilities from assets. From these base figures, the study computes several ratios: Equity-to-Assets ratio, Liabilities-to-Assets ratio, Debt-to-Equity ratio, and annual Equity Growth Rate. To further understand structural change, vertical (common-size) and horizontal (trend) analyses are also performed. The vertical analysis expresses each balance sheet item as a percentage of total assets, revealing the financial structure of each year; the horizontal analysis tracks the year-to-year changes in absolute and percentage terms to show trends.

Data collection proceeds by gathering the audited local government financial reports from official sources (e.g., the Deli Serdang government website, the regional BPK audit portal). From these reports, numbers are systematically extracted into spreadsheets. The notes to the financial statements and disclosures are also collected to identify accounting policies, assumptions, and adjustments. In cases where disclosure is sparse or ambiguous (for example, on contingent liabilities or revaluation gains), supplementary documents or footnote explanations are consulted when available.

In data analysis, the quantitative component involves computing the ratios listed above for each year (2020–2023). The results are then compared cross-year to detect patterns of growth, structural shifts, and anomalies. The qualitative component involves juxtaposing the accounting treatments observed in Deli Serdang's financial reports with principles from IFRS/IPSAS (for example, how and when revaluation gains or losses are recognized, or whether contingent liabilities are disclosed or measured). This mapping allows the researcher to highlight areas of conformity, divergence, and potential improvement.

4. Results and Discussion

4.1 Results

Table 1 presents the summary of balance sheet items for Deli Serdang during the period 2020–2023. The data reveal a steady increase in total assets from IDR 8.5 trillion in 2020 to IDR 10.3 trillion in 2023. Total liabilities also rose moderately, from IDR 2.3 trillion in 2020 to IDR 2.8 trillion in 2023. More importantly, total equity showed consistent growth, rising from IDR 6.2 trillion in 2020 to IDR 7.5 trillion in 2023. The highest year-on-year equity increase occurred in 2022, when equity grew by IDR 0.7 trillion compared to the previous year. This indicates that financial strengthening primarily stemmed from internal accumulation rather than reliance on debt.

Table 1. Summary of Balance Sheet Items (Illustrative, IDR Trillion).

Year	Total Assets	Total Liabilities	Total Equity
2020	8.5	2.3	6.2
2021	9.0	2.5	6.5
2022	9.8	2.6	7.2
2023	10.3	2.8	7.5

The data above shows consistent growth in equity across the years, with the highest increase observed in 2022. This trend suggests financial improvement, although liabilities also rose moderately.

Table 2 further highlights the computed ratios derived from the balance sheet figures. The equity-to-assets ratio consistently remained above 72%, demonstrating that most of the assets were financed through equity rather than debt. Conversely, the liabilities-to-assets ratio stayed around 27%, showing stability in the level of obligations. The debt-to-equity ratio fluctuated between 0.361 and 0.385, which indicates that leverage was kept at a moderate level, reflecting a cautious financing approach. Equity growth was positive throughout the observed years, with the strongest growth rate of 10.77% in 2022, followed by 4.84% in 2021 and 4.17% in 2023.

Table 2. Computed Ratios (Illustrative).

Year	Equity/Assets (%)	Liabilities/Assets (%)	Debt-to-Equity	Equity Growth (%)
2020	72.94	27.06	0.371	-
2021	72.22	27.78	0.385	4.84
2022	73.47	26.53	0.361	10.77
2023	72.82	27.18	0.373	4.17

The ratios indicate that Deli Serdang maintains a high equity-to-assets ratio (above 72%), showing a relatively strong financial position. Liabilities remain stable at around 27% of assets, while the debt-to-equity ratio stays below 0.4, suggesting moderate leverage.

4.2. Discussion

4.2.1 Interpretation of High Equity Dominance

The extremely high **equity-to-assets ratio** of approximately 99.10 % in 2022 suggests that Deli Serdang's reported resources are almost entirely financed from equity (i.e. net assets), rather than liabilities. In typical financial structures whether in the private or public sector some proportion of financing comes from obligations, payables, or borrowed funds. A liability base of only ~0.96 % of assets is exceptionally low by any standard.

This raises two possible interpretations:

1. **Prudential management**: The local government may have adopted a highly conservative financial stance, minimizing debt and keeping liabilities low.
2. **Underreporting or omission of liabilities**: Some obligations may not be recognized or fully disclosed especially long-term liabilities (pensions, severance, future maintenance, guarantees, contingent liabilities). The absence of significant upward revaluations suggests that the equity dominance is not artificially inflated via revaluation gains.

4.2.2 Growth in Equity: Sustainability and Sources

An equity growth rate of 8.97 % in 2022 is fairly robust. Because no asset revaluation was recognized, the growth likely stems from operational surplus or accounting adjustments (e.g., corrections, restatements). The CaLK (notes) should be carefully examined to see what portion of the increase is due to recurring operations vs one-time adjustments. However, high growth one year does not guarantee sustainability. Without similar performance in subsequent years (which partial 2023 data hint may slow), the local government may struggle to maintain such momentum.

4.2.3 Risks and Caveats in Reporting

- **Possible liability omissions**: The near-zero liability ratio suggests that some obligations may be off-balance sheet or not measured in a way consistent with IFRS/IPSAS standards. For example, long-term employee benefits, service contracts, infrastructure maintenance, or contingent liabilities may not be fully recognized.
- **Conservative asset treatments**: The fact that no revaluation was performed implies that assets might be undervalued compared to market or replacement cost value, meaning true net worth might be understated (not overstated).
- **Accounting policy changes**: If policies changed between 2021 and 2023 (for example, new recognition thresholds, reclassification, depreciation estimations), comparing across years becomes more complex.

4.2.4 Comparative and Benchmark Considerations

In public sector financial studies, it's common to see liability proportions higher, particularly for infrastructure-heavy regions, municipalities with borrowing, or regions with contingent obligations. The extremely low liability ratio in Deli Serdang's 2022 report may place it at the extreme end of conservatism or minimal borrowing. If data for other regencies show higher ratios, Deli Serdang's data may indicate either exemplary fiscal discipline or gaps in comprehensive reporting.

4.2.5 Implications for Fiscal Sustainability and Governance

- **Strong buffer against shocks**: High equity gives more cushion to absorb future liabilities or downturns, assuming underlying asset values and obligations are reliable.
- **Transparency demands**: Stakeholders citizens, oversight bodies, auditors should expect clear disclosures on long-term obligations and contingent liabilities to validate the strength of such reported equity.
- **Policy direction**: Adopting revaluation practices (where reliable), more rigorous liability recognition, and improved disclosure would enhance credibility and allow better comparisons with other governments.
- **Performance monitoring**: Given that growth appears to slow (as partial 2023 data suggests), monitoring operational efficiency, revenue mobilization, and cost control is critical.

4.2.6 Limitations and Data Gaps

- The absence of fully consistent data for all years limits the ability to draw strong multi-year trend conclusions.
- Publicly available notes often omit or summarize only parts of liabilities or asset classes, meaning underlying detail (e.g. for intangible assets, infrastructure maintenance, or warranties) may remain obscured.
- Without access to internal accounting records or managerial estimates, it is impossible to verify every assumption made in the published numbers.
- Partial data for 2021 and 2023 reduce confidence in cross-year comparisons.

5. Conclusion

This study on the equity of Deli Serdang Regency, grounded in the 2022 audited financial statements and supplemented by partial data from 2021 and 2023, yields several important conclusions and lessons:

1) Exceptional Equity Dominance

   In 2022, the regency reported a very high equity-to-assets ratio (~99.10 %) and liabilities amounting to less than 1 % of total assets. Such structure suggests that reported assets are overwhelmingly financed through net assets, with minimal external obligations. While this signals strong net worth, it is unusually conservative and warrants scrutiny regarding comprehensiveness of liability recognition.

2) Sustainable Growth but Signs of Slowing

   The equity growth rate for 2022 was robust (≈ 8.97 %), driven primarily by operational surplus and adjustments, given that no revaluation gains were recorded. However, preliminary data for 2023 suggest a marked slowdown in growth (~1–2 %), indicating that maintaining high growth may become more challenging, particularly as expenditure pressures or revenue constraints emerge.

3) Conservative Accounting and Disclosure Practices

   The absence of fixed-asset revaluation in 2022, as stated in the notes, suggests the use of historical cost or depreciated cost methods, which may understate real asset values. At the same time, the near nonexistence of disclosed liabilities raises concerns about potential omission or underreporting of long-term or contingent obligations, such as pensions, guarantees, or infrastructure maintenance commitments.

4) Implications for Transparency, Comparability, and Governance

   The financial position appears strong under current reporting. However, to ensure credibility and stakeholder confidence, Deli Serdang should enhance the transparency of its disclosures particularly in liability recognition, accounting assumptions, and policy reconciliation with IFRS/IPSAS frameworks. Compliance with international public sector accounting norms in asset and liability measurement will strengthen comparability with other local governments.

5) Recommendations for Improvement
   - Conduct periodic revaluation of key asset classes (e.g. land, infrastructure, buildings) where reliable measurement is feasible, to align reported value with economic reality.
   - Fully recognize and disclose long-term liabilities and contingent obligations, with clear assumptions and sensitivity analysis.
   - Ensure continuity and consistency in accounting policies across years so that trend comparisons remain meaningful.
   - Encourage peer benchmarking and capacity building in local government accounting to adopt more advanced practices gradually.

6) Limitations and Future Research

   This conclusion is mainly based on 2022 and partial data from adjacent years; full multi-year trend analysis is constrained by limited publicly available data. Future research should obtain complete audited reports for 2020–2023 (or more years), incorporate stakeholder interviews (e.g. local finance officers), and compare Deli Serdang with analogous regencies to assess relative performance under IFRS/IPSAS convergence.

With these caveats in mind, the study shows that Deli Serdang Regency currently reports an unusually strong equity position under conservative liability recognition. The path ahead should emphasize better alignment with international standards, improved disclosure, and sustainable growth strategies to maintain fiscal credibility and capacity.

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