

Analysis of the Subnational Governments of Indonesia's Adoption of Accrual-Based Accounting

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Abstract. This research examines the impact of the Accrual-Based Accounting Implementation in Sub-National Governments in Indonesia. The research was conducted using a qualitative method. Data was collected from respondents in district/city regional governments representing the four most extensive and densely populated islands: financial report preparers, regional government functionals, and financial report users. The research result is that most respondents believe that the expected benefits from implementing accrual-based accounting have been achieved, and regional government financial reports produced by an accrual-based accounting system can be used for decision-making. However, most respondents believed that implementing accrual-based accounting had more significant challenges than cash-based accounting. The biggest challenge faced is a common understanding of accrual-based accounting. Due to the vast range of accrual-based accounting, these building applications can support accrual-based accounting and complexity in the audit process.

Keywords: Accounting, Accrual Basis, Cash Basis, Sub-national government

1. Introduction

Government accounting policies in Indonesia are developing very dynamically. In the period before the Proclamation of Independence, state financial management referred to the provisions of the Indische Comptabiliteitswet (ICW) prepared by the Dutch Colonial Government, which continued to be used several decades after the declaration of independence. Furthermore, accountability reports for the APBN in the form of Budget Calculations began to be prepared by the government in 1967, which then turned into State Budget Calculations (PAN) in 1969. Recording of financial transactions in PAN is still cash-based and is carried out using the single-entry method, which only presents budget realization reports. The financial crisis in Asia in 1997-1998 and chronic debt problems in Greece have revived the debate regarding the role of reporting and accountability information systems for economic sustainability and savings management [1], [2]. Meanwhile, the economic crisis that occurred in Indonesia triggered reform of state financial management through the issuance of three legislative packages, namely the State Finance Law, the State Treasury Law and the 2004 State Financial Management and Accountability Audit Law from the Budget Realization

Report, Balance Sheet, Cash Flow Report, and Notes to Financial Reports were successfully prepared after the preparation of the PAN ended in 2003 [3].

The issuance of PP Number 24 of 2005 became the standard for the central government and regional governments to prepare financial reports using Cash Toward Accrual (CTA) basis. Recognition and recording of income, expenditure and financing in the Budget Realization Report is carried out on a cash basis, while recognition and recording of assets, liabilities and equity in the balance sheet is carried out on an accrual basis (Herdiyana, 2018). Furthermore, the Central Government succeeded in preparing the first accrual-based financial report, namely LKPP, as accountability for the 2015 FY APBN and subsequently in 2016-2021, obtaining WTP opinions from the BPK successively [5].

Mir et al. (2019) have conducted research on CTA based accounting. This research was conducted to examine the implications of implementing CTA on the central government and regional governments through a multiple case study approach. The results of the study concluded that although CTA implementation became mandatory, there was little use of accrual-based reports for decision-making. Therefore, financial reports are not yet practical for use in decision-making, effective use of assets, budget formulation, and evaluation of the performance of local government programs. Furthermore, these findings broadly highlight the lack of accrual information used in the public sector [2], [7]. Meanwhile, according to Andriani et al. (2010), in the Australian context, a more extended period may be necessary for users of Indonesian local government reports to better understand the usefulness of accrual information in decision-making and other purposes. Overall, CTA reports are not very useful for preventing corruption. This is ironic, considering that one of the main objectives of implementing the CTA is to eradicate corruption at the local government level. In addition, current research that has been conducted finds that there is a lack of institutional capacity and readiness for the implications of implementing the Accrual basis, which is still being debated and investigated [2], [8], Indonesian local government human resources [9]. It is not surprising that the implementation of CTA has not contributed to users of accrual information for decision-making.

In the context of public sector reform initiatives, Indonesia has implemented an accrual-based accounting system (PP Nomor 71 Tahun 2010). This accounting system is used to improve decision-making, transparency and accountability [8]. All accounting and financial reporting entities, both central and regional governments, have been required to implement the accrual basis since 2015 [11]. Therefore, researchers want to conduct research related to the evaluation of the implementation of accrual-based accounting in local governments, whereas previous research conducted by Mir et al. (2019) regarding regional governments is only limited to implementing the CTA basis.

2. Literature Review

Government Accounting Standards (SAP)

The development of government accounting in Indonesia occurs dynamically. Prior to the reform of state financial management which was marked by the issuance of Law Number 17 of 2003, Law Number 1 of 2004, and Law Number 15 of 2004, the Indonesian government implemented cash-based accounting. [NO_PRINTED_FORM] [12] stated that cash basis

accounting is applied to record economic transactions when cash changes occur. If a transaction does not result in a change in cash, then the transaction has not been recorded.

Government accounting standards in Indonesia were first implemented through PP 24 of 2005, where the Cash Toward Accrual (CTA) was implemented. Subsequently, government accounting standards were refined again through PP 71 of 2010. This PP has two attachments, the first is the government accounting standard for the Accrual Basis, while the second is the government accounting standard for the Cash Toward Accrual (CTA) basis. According to PP 24 of 2005 and attachment 1 PP 71 of 2010, the CTA basis is a Government Accounting Standard that recognizes income, expenditure, and financing on a cash basis while recognizing assets, debt, and equity funds on an accrual basis.

Based on PP 71 of 2010, Government Accounting Standards (SAP) are accounting principles implemented to prepare and present Government Financial Reports, which include Central Government Financial Reports (LKPP) and Regional Government Financial Reports (LKPD). Therefore, SAP is a requirement that has legal force in order to improve the quality of government financial reports in Indonesia.

Accrual Based Accounting

Starting in 2015, government accounting entities including central and regional governments have implemented accrual-based accounting. [NO_PRINTED_FORM] [12] stated that accrual-based accounting is an accounting basis that recognizes transactions and other events when the transactions and events occur and not just when cash or cash equivalents are received or paid.

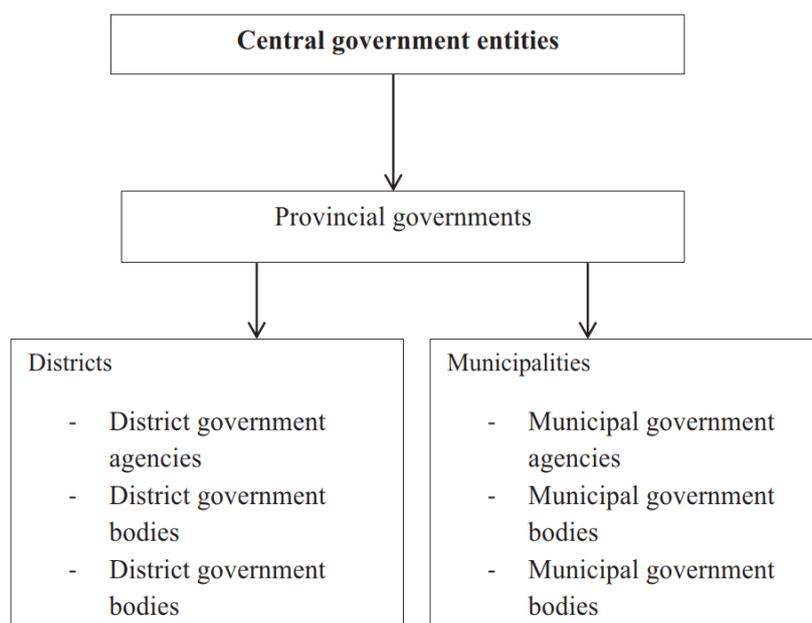
Research on accrual basis accounting in several countries has been carried out. [NO_PRINTED_FORM] [13] concluded that the use of accrual-based accounting in Finnish cities cannot help users of financial accounting information and has recommended that accrual-based accounting be designed nationally and unique solutions be created to adopt and apply these standards so that they are generally accepted. This is similar to research [NO_PRINTED_FORM] [13] that shows that public sector decision-makers in the UK need help to understand the use of accrual accounting and argue that adopting accrual accounting in the public sector impacts only a few people who understand and are involved. [NO_PRINTED_FORM] [14] further argues that if accrual accounting reforms were adopted again in the UK public sector, the manner and extent of accrual accounting principles in the Government would be very different.

Meanwhile, [NO_PRINTED_FORM] [15] noted that the Republic of Ireland (RoI) has adopted a different path for its public sector to reform financial management, unlike most other developed countries. They argue that although ROI falls within the definition of an advanced economy, its political and ideological drivers significantly differ from many countries adopting accrual accounting. Therefore, RoI chose to partially adopt accruals for accounting in its public sector [16]. Furthermore, [NO_PRINTED_FORM] [17] is concerned about implementing accrual accounting, where before considering the introduction of accrual accounting into the economy, there must be a substantial cash accounting system with secure controls, well-functioning external audits and a legislature that can hold accountable executives.

[NO_PRINTED_FORM] [18] echo the same argument and suggest that economies must fulfil several prerequisites before adopting a complete accrual accounting system and that most economies, particularly in developing countries, cannot fulfil these prerequisites. They further argue that the decision to implement accrual accounting in the public sector should not be considered an end but the beginning of new technical and managerial considerations. Likewise, [NO_PRINTED_FORM] [19] observed that accrual accounting creates ambiguity at the Norwegian government level and requires further thinking and alternative accounting solutions in the public sector. Meanwhile, [NO_PRINTED_FORM] [20] found that the adoption of accrual accounting in Nepal failed miserably, and as a result, the system was replaced with a better version of cash accounting.

3. Methodology

The research method used in the current study is to understand how the accrual basis has been adopted at the local government level in Indonesia and what the implications are. Furthermore, the conceptual approach to the study is taken from Brusca and Montesinos (2013).



Source: Brusca and Montesino (2013)

Figure 1. Framework of Thought from Brusca and Montesino (2013)

The research method uses qualitative data originating from stakeholders related to the preparation of financial reports. The selected district/city governments represent four large and densely populated islands, namely Java, Sumatra, Kalimantan and Sulawesi. In order to collect data, researchers used a survey by filling out a Google form which was distributed to respondents from district/city regional governments representing the four most extensive and

most densely populated islands. Respondents consisted of financial report preparers, regional government functionals and users of accrual-based financial reports produced by regional governments.

The research is based on the multiple case study method. This approach is helpful for understanding the context of the phenomenon being investigated. Accounting changes cannot be understood in isolation without linking them to socio-political, cultural and environmental changes or the internal functioning of the organization being studied [22], [23], [24]. The NVivo 12 tool was used in order to analyze data, which is software for analyzing qualitative data developed by Qualitative Solution and Research (QRS) International. Initially, NVivo came from non-numeric Unstructured Data, Index Searching, and Theorizing (NUD*IST) software in 1981 [25].

4. Results and Discussion

4.1. Selection of Sample Areas

The selection of sample areas was carried out using the Stratified Purposive Sampling method obtained from respondents from regional governments representing districts/cities on each large island, namely Sumatra, Java, Kalimantan and Sulawesi.



Source: data processing results (excel)

Figure 2. Distribution of Sample Areas on the Map

Based on the picture regarding the distribution of sample areas, the sample areas from each district/city in each province can be seen in detail in the list below.

Table 1. Sample list of districts/cities in each province

Province	Regency / City
Sumatera Utara	Nias Barat Regency Padangsidempuan City Asahan Regency

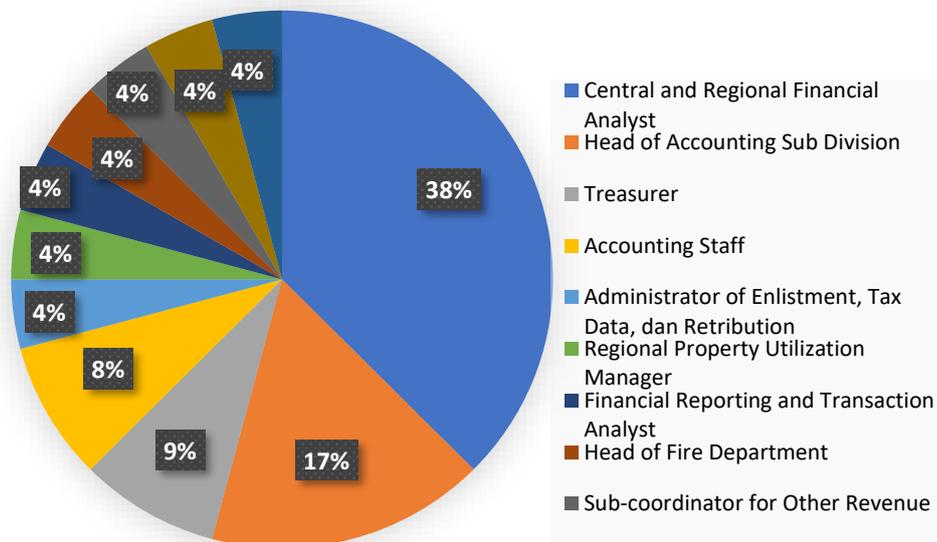
Province	Regency / City
Sumatera Barat	Tanah Datar Regency
	Payakumbuh City
	Agam Regency
Jawa Barat	Bandung City
	Bekasi City
Banten	Tangerang City
Jawa Tengah	Temanggung Regency
Jawa Timur	Batu City
Sulawesi Tengah	Tolitoli Regency
Kalimantan Barat	Singkawang City
	Kapuas Hulu Regency
	Melawi Regency

Source: data processing results (excel)

4.2. Respondent Profile

Based on the results of the survey that was conducted, there were 11 (eleven) respondent profiles consisting of JF Central and Regional Financial Analyst, Head of Accounting Sub-Division, Treasurer, Accounting Staff, Registration Manager, Tax and Retribution Data Collection, BMN Utilization Management, Financial Reporting and Transaction Analyst, Head of the Fire Department and Sub-Coordinator for Other Reception Coordination.

Chart 1. Respondent Profile

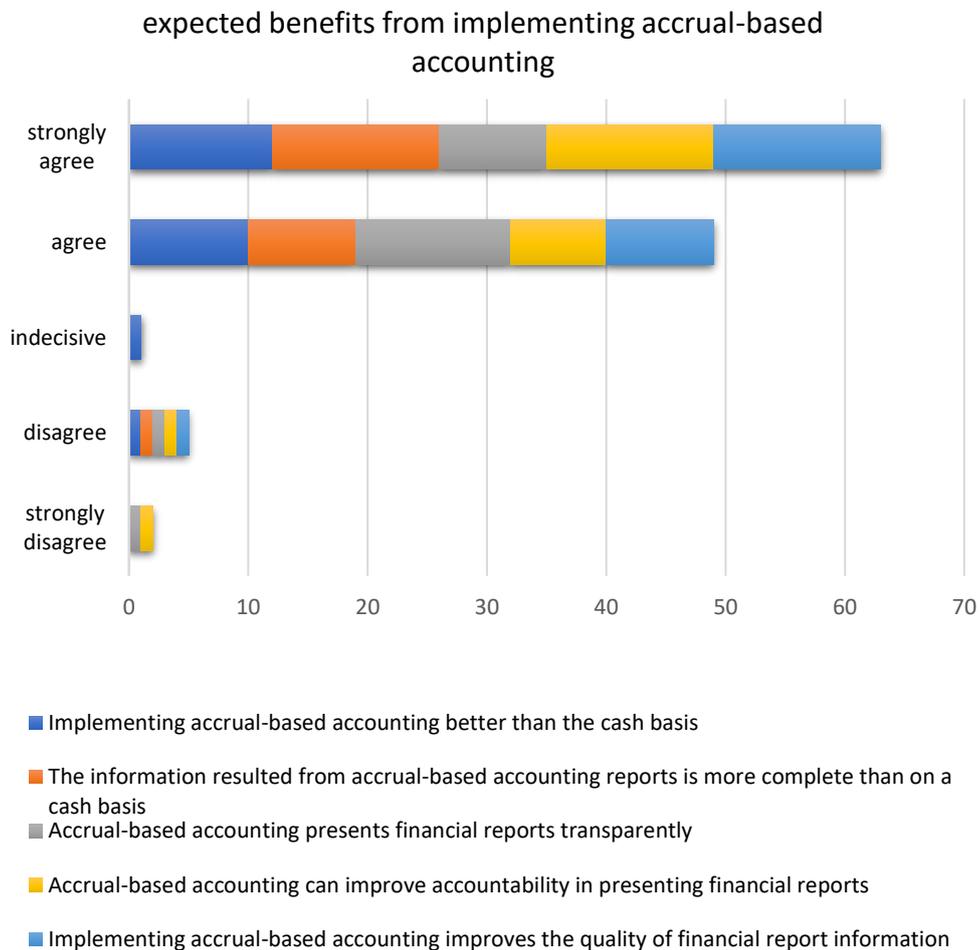


Source: data processing results from gform

4.3. The expected benefits from implementing accrual-based accounting have been achieved (transparency and accountability)

Based on the topic regarding whether the expected benefits from implementing accrual-based accounting have been achieved, five questions have been asked to respondents including, whether the implementation of accrual-based accounting is better compared to cash basis, the information produced from accrual-based accounting reports is more comprehensive than with a cash basis, accrual-based accounting has presented financial reports transparently, accrual-based accounting can increase accountability in the presentation of financial reports, the implementation of accrual-based accounting improves the quality of financial report information. Data obtained from 24 respondents was further processed as follows.

Graph 1. Expected benefits from implementing accrual-based accounting



Source: results of data processing from respondents

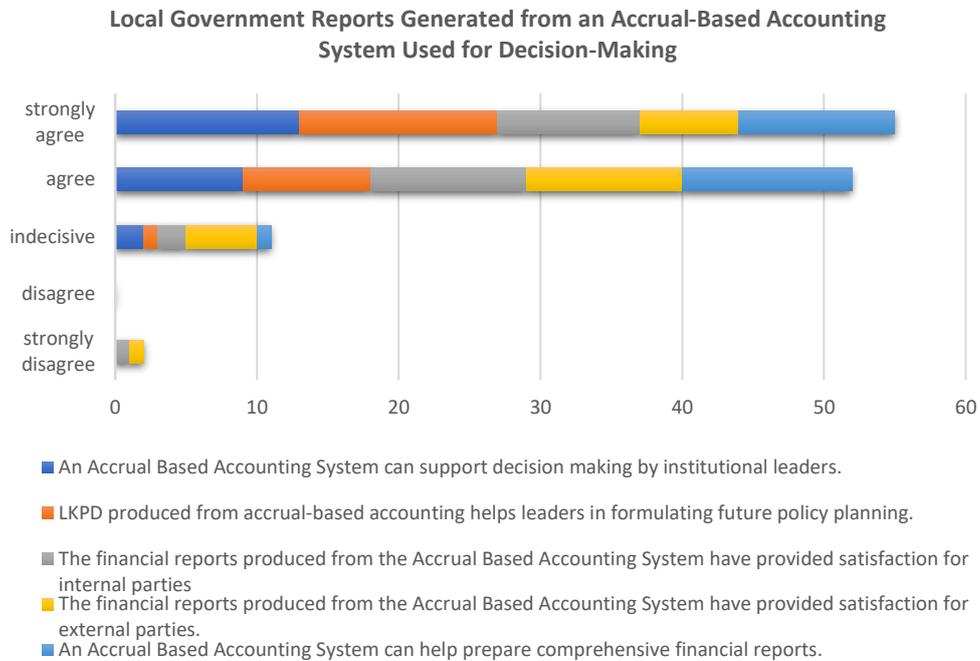
The graph above shows that most respondents believe that implementing accrual-based accounting is better than cash basis. It can be seen from the data, which shows that 12 respondents (50%) chose "strongly agree" and ten respondents (41.7%) chose "agree", while only one respondent (4.2%) each chose "doubtful" and "disagree". Furthermore, most respondents believe that the information produced from accrual-based accounting reports is more complete compared to cash basis. It can be seen that 14 respondents (58.3%) chose "strongly agree" and nine respondents (37.5%) chose "agree", while one respondent (4.2%) chose "disagree".

Regarding transparency and accountability, the majority of respondents believe that accrual-based accounting has presented financial reports transparently, as seen with 13 respondents (54.2%) stating "agree" and nine respondents (37.5%) stating "strongly agree". Furthermore, the majority of respondents stated that accrual-based accounting could increase accountability in the presentation of financial reports, as seen by 14 respondents (58.3%) choosing "strongly agree" and eight respondents (33.3%) choosing "agree". Regarding the quality of financial reports, the majority of respondents believe that implementing accrual-based accounting can improve the quality of financial report information; this is based on 14 respondents (58.3%) choosing "strongly agree" and nine respondents (37.5%) choosing "agree".

4.4. Regional Government Reports Generated from an Accrual-Based Accounting System Used for Decision-Making

There were 5 (five) questions asked to 24 respondents regarding Regional Government Financial Reports (LKPD) produced from an accrual-based accounting system that can be used for decision-making, consisting of an accrual-based accounting system that can support decision-making by institutional leaders; the resulting LKPD accrual-based accounting helps leaders in formulating future policy planning, financial reports produced from an accrual-based accounting system have provided satisfaction for internal parties, an accrual-based accounting system has provided satisfaction for external parties, and an accrual-based accounting system can help prepare reports comprehensive finance.

Graph 2. Local Government Reports Generated from an Accrual-Based Accounting System Used for Decision Making



Source: results of data processing from respondents

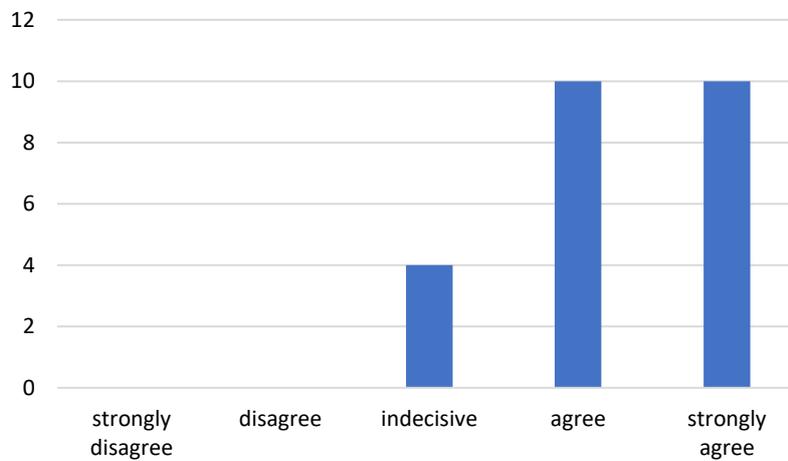
According to the graph above, the majority of respondents believe that an accrual-based accounting system can support decision-making by management, where 13 respondents (54.2%) chose "strongly agree" and nine respondents (37.5%) chose "agree". Next, the majority of respondents believe that LKPD produced from accrual-based accounting can help leaders in formulating future policy planning, as indicated by 14 respondents (58.3%) choosing "strongly agree" and nine respondents (37.5%) choosing "agree".

Meanwhile, the majority of respondents stated that the financial reports produced by the Accrual-Based Accounting System had provided satisfaction for internal parties, as indicated by 11 respondents (45.8%) choosing "agree" and ten respondents (41.7%) choosing "strongly agree". Furthermore, the majority of respondents believe that the Accrual-Based Accounting System has provided satisfaction for external parties, which can be seen from 11 respondents (45.8%) choosing "agree" and seven respondents (29.2%) choosing "strongly agree". Most respondents believe that an accrual-based accounting system can help prepare comprehensive financial reports. This was indicated by 12 respondents (50%) choosing "agree" and 11 respondents (45.8%) choosing "strongly agree".

4.5. Main Challenges Faced by Regional Governments in Implementing Accrual-Based Accounting

Four questions were asked of respondents regarding the main challenges local governments face in implementing accrual-based accounting, including whether the challenges of implementing accrual-based accounting are more significant than those of implementing cash-based accounting and what challenges are faced in implementing accounting. Accrual-based is related to the implementation of SAP; what challenges are faced in implementing accrual-based accounting related to the readiness of the accounting system? The final question concerns the challenges faced in implementing accrual-based accounting from outside parties, such as internal and external auditors.

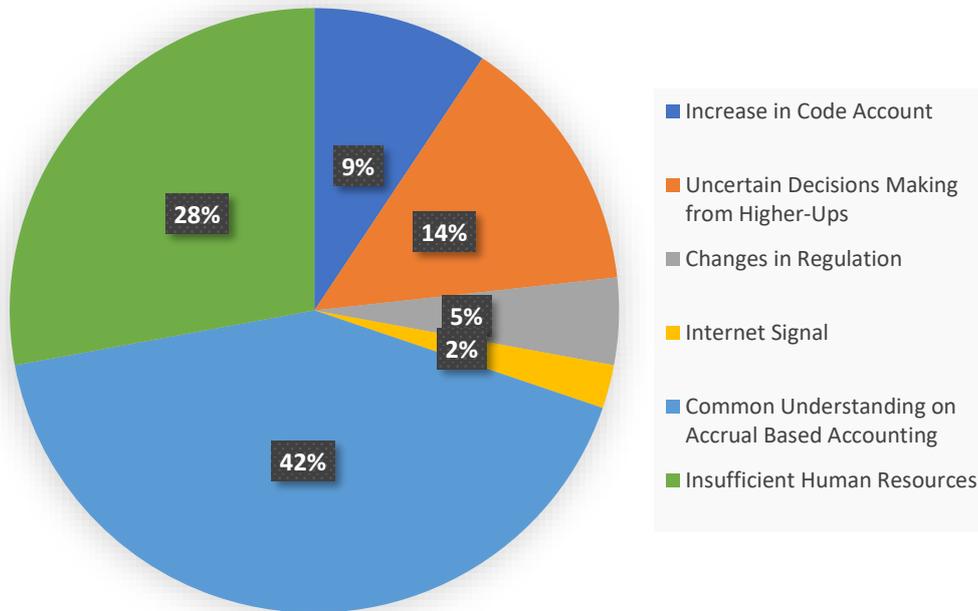
Graph 3. The challenges of implementing accrual-based accounting are greater than implementing cash basis



Source: results of data processing from respondents

Based on the result, the majority of respondents chose "agree" and "strongly agree", with 20 respondents (83.4%) believed that the challenges of implementing accrual-based accounting are more significant than implementing cash basis, while the rest are indecisive. As for managing open-ended answers, primary data processing was carried out by coding and word frequency via Excel and NVivo 12 to simplify the answers from 24 respondents.

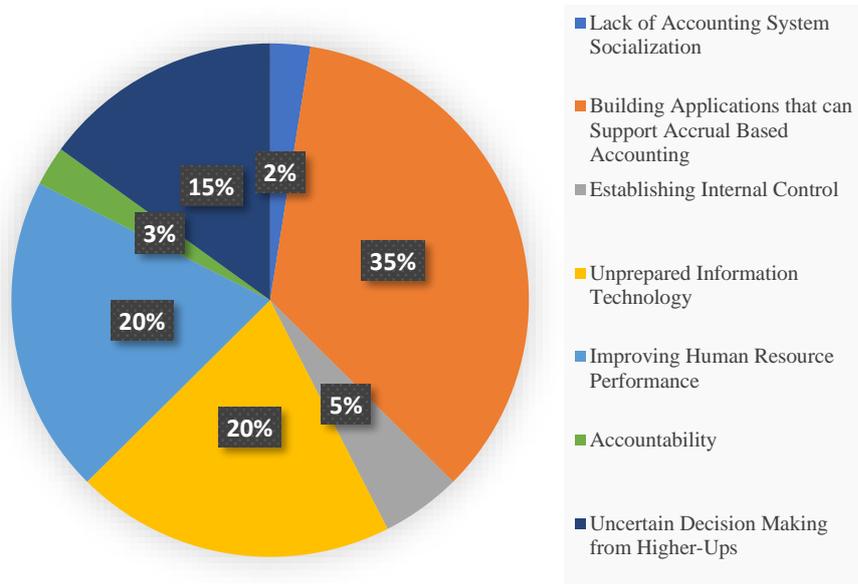
Graph 4. What are the challenges faced in implementing accrual-based accounting related to SAP implementation?



Source: results of data processing from respondents

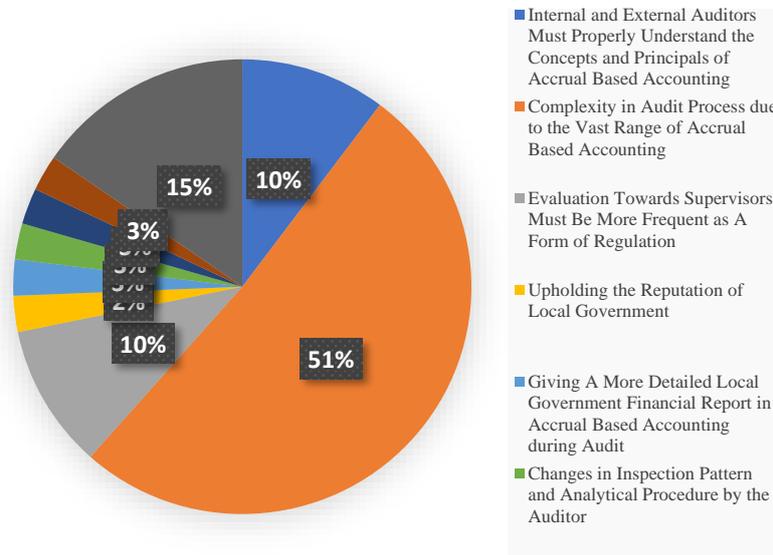
According to the graph 4, the first open question regarding "What challenges are faced in implementing accrual-based accounting related to SAP implementation?", most respondents with 42% gave answers in the form of "Common Understanding on Accrual Based Accounting", then 28% respondents gave answers in the form of "Insufficient Human Resources", and the rest chose "Uncertain Decisions Making from Higher-Ups", "Increase in Code Account", "Changes in Regulations", and "Internet Signal". On the other hand, graph 5 shows "what challenges are faced in implementing accrual-based accounting related to the readiness of the accounting system?". The most respondents with 35% answered "Building applications that can support accrual-based accounting". In comparison, 20% respondents respectively chose "Improving Human Resource Performance" and "Unprepared Information Technology".

Graph 5. What challenges are faced in implementing accrual-based accounting related to the readiness of the accounting system?



For the final open question, Graph 6 shows "What challenges are faced in implementing accrual-based accounting from external parties, for example internal and external auditors?". The option "Complexity in Audit Process due to the Vast Range of Accrual Based Accounting" has the highest percentage of respondents compared to the others. In contrast, 15% respondents answered, "Incapable of Unifying Various Perception Will Result in Inadequate Financial Report Including An Unpleasant View from the Auditor." Ten percentage respondents each emphasized more on "Internal and External Auditors Must Properly Understand the Concepts and Principals of Accrual Based Accounting" and "Evaluation Towards Supervisors Must Be More Frequent as A Form of Regulation". Then the rest explains "Upholding the Reputation of Local Government", "Giving A More Detailed Local Government Financial Report in Accrual Based Accounting during Audit", "Changes in Inspection Pattern and Analytical Procedure by the Auditor", "Questions and Verification Must Be Thoroughly", and "Interference in Calculation of Assets".

Graph 6. What challenges are faced in implementing accrual-based accounting from external parties, for example internal and external auditors?



5. Conclusion

Results of processing data on respondents from each district/city represent Indonesia's four most extensive and densely populated islands. The majority of respondents believed that the expected benefits from implementing accrual-based accounting have been achieved, consisting of implementing accrual-based accounting is better compared to cash basis, the information produced from accrual-based accounting reports is more comprehensive than with a cash basis, accrual-based accounting has presented financial reports transparently, accrual-based accounting can increase accountability in the presentation of financial reports, the implementation of accrual-based accounting improves the quality of financial report information.

Furthermore, most respondents believe that Regional Government Financial Reports produced from an accrual-based accounting system can be used for decision-making, which includes an accrual-based accounting system that can support decision-making by institutional leaders; the resulting LKPD accrual-based accounting helps leaders in formulating future policy planning, financial reports produced from an accrual-based accounting system have provided satisfaction for internal parties, an accrual-based accounting system has provided satisfaction for external parties, and an accrual-based accounting system can help prepare reports comprehensive finance.

Meanwhile, most respondents (83.4%) believed that implementing accrual-based accounting had more significant challenges than cash-based accounting. The biggest challenge in implementing accrual-based accounting regarding SAP implementation is "Common

Understanding on Accrual Based Accounting." Meanwhile, the challenge faced in implementing accrual-based accounting related to the readiness of the accounting system is "Building applications that can support accrual-based accounting." Finally, the challenge faced in implementing accrual-based accounting from outside parties is "Complexity in Audit Process due to the Vast Range of Accrual Based Accounting."

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