

How do Government Financial Statement Preparers Adapt to Accrual Accounting?

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Abstract—This paper aims to explore how government financial report preparers adapt to accrual accounting. This study uses data on interviews, observations, and documents about city governments in Indonesia. This study uses a case study method to explain the phenomena that occur. Categorization techniques use open coding, axial coding, and selective coding. This study reveals that financial report compilers not only deal with technical issues such as a basic understanding of accrual accounting systems, but they also face problems of social interaction such as inertia and sectoral egos in preparing accurate and timely financial reports.

Keywords—government; accrual accounting; adaptation; socio-technical

I. INTRODUCTION

The implementation of full accrual accounting in the Indonesian government entity was only carried out starting in the 2016 reporting year. The results of the 2016 Local Government Financial Report (LGFS) audit by the Supreme Audit Agency showed that only 58% of local governments had received unqualified opinions [1]. The percentage shows that the reliability of government financial reporting in Indonesia is still weak.

The results of previous studies showed that there are still many obstacles and challenges for local governments to apply accrual accounting in terms of technical, social and political. Local government accounting reforms in Indonesia are more due to political pressure [2]. There is an imbalance in demand, supply, and quality assurance of accrual accounting information [3]. The lack of staff with adequate accounting skills is a significant obstacle. [4]. The usefulness level of information from the cash report component is higher than accrual information in the local development planning process [5].

Unlike previous research, this study focuses on how actors involved in accounting reporting adapt to accrual accounting. This research only looks from the perspective of the actors involved in the compilation of financial statements, not involving the perspective of the actors using accrual information. This research conducted in a city that first applied accrual accounting in Indonesia. By focusing on the process of

adaptation to the actors, this research can provide a complete picture of the implementation of accrual accounting and can fill the gap from previous research.

The monetary crisis that hit Indonesia in 1998 triggered an economic crisis that caused the Indonesian Government to be indebted to the International Monetary Fund (IMF). In providing the loan, the IMF requires reform of the banking and financial system and improves overall public sector management [6]. One requirement is to adopt Government Financial Statistics (GFS) developed by the IMF in 2001 [7,8]. GFS asks all governments that receive assistance using accrual-based accounting.

While some international organizations pressured governments in various countries to use accrual accounting, organizations such as the Asian Development Bank (ADB), the IMF, the World Bank, and the United Nations Development Program (UNDP) fund the International Federation of Accountants (IFAC) to create accrual-based accounting standards which became known as the International Public Sector Accounting Standards (IPSAS). Some countries adopt accrual accounting using IPSAS as their guide. IPSAS developed a standard for micro-level government accounting which will later be used as a basis for macro-level fiscal policies by the IMF and the United Nations [7,9].

With the pressure from some of these world institutions, the Indonesian Government began to make a set of rules and institutions to adopt accrual-based government accounting. Law Number 17 of 2003 concerning State Finance states that the Indonesian Government will adopt accrual-based accounting in 2008. Then through the Minister of Finance Decree 308/2002 a Government Accounting Standards Committee (GASC) was formed which is responsible for creating government accounting standards.

The first government accounting standard was Government Regulation number 24 of 2005 concerning Government Accounting Standards. This standard made as a guide for reporting entities both in the central government and local governments in preparing financial statements. This standard uses the recognition basis of modified cash, in this standard referred to as the Cash Towards Accrual (CTA) basis.

Then to comply with Law Number 17 of 2003 which states that government financial statements must be fully accrual-based, the first CTA-based standard replaced with full accrual-based standards. This full accrual-based standard is Government Regulation number 71 of 2010 concerning Government Accounting Standards. This standard is required to implement in the 2015 reporting year for all government reporting entities, both central and local.

II. METHOD

This study chose the city government that first applied accrual accounting in Indonesia. There are three main reasons for choosing this city as a place of research. First, the city government has experience compared to other local governments. Second, the city government is a place of training and reference for other local governments. Third, during the last five financial reporting periods, the performance of the city government financial reporting was quite good.

Data obtained through in-depth interviews with actors involved in financial reporting. Following are some of the actors interviewed: ahead of a local financial and asset manager, an accounting manager, an asset manager, a treasury manager, a financial manager, two accounting staff at the local financial and asset management office, three accounting staff in the unit work, three internal auditors, and an accounting consultant. The study also examines documents such as government accounting standards, accounting policies, accounting systems and procedures used by the city government.

In qualitative research, data analysis is a process of interpreting the data that has been collected [10]. This study uses several data analysis steps as follows: First, organize data; in this stage, the results of the interview are transcribed in detail and systematically organized along with records of observations and documentation [11]. Second, making basic coding categories, namely open coding, axial coding, and selective coding [12]. Third, understanding of existing data tested by inductive reasoning and is linked to theory as a lens to assist in interpretation in order to answer research questions. In this case, the theory sought as a deductive lens that is suitable to explain and relate between concepts that occur from an inductive process that has reached the point of saturation.

III. RESULTS AND DISCUSSION

The results of the initial open coding produced 219 categories. The second open coding filtered by the research objectives produced 44 categories. The next process is connecting between open coding categories to get core codes. From this process, there are seven core codes, namely: businesslike reporting, adoption of accrual accounting, knowledge transfer, incomprehensive perspective, inertia, sectoral ego, accurate and on time reporting. Figure 1 shows the relationship between core codes. Figure 1 shows the relationship between core codes.

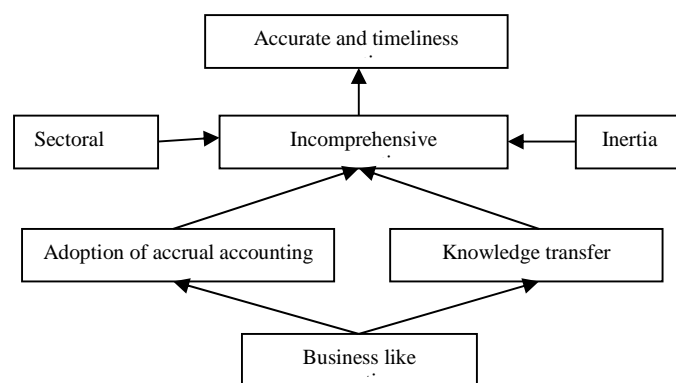


Fig. 1. The framework of the relationship between core codes.

The mayor around 2002 triggered the implementation of accrual accounting in the city government. At that time, the mayor is someone who has a business background. At the beginning of his tenure, he saw that the government financial report was straightforward, unlike what he got in his business organization. So he wants financial statements like in business entities. It requires competent personnel, sound systems and procedures, reliable accounting policies, and sophisticated information technology.

The most important thing to do is transfer knowledge to the actors who will be involved in financial reporting. This transfer of knowledge is carried out by a consultant and academics in order to provide a foundation of knowledge that is very useful for the implementation of accrual accounting. Socialization, training, and technical guidance are efforts to transfer knowledge. From the results of in-depth interviews, work interactions and direct discussions with consultants and colleagues contributed to a better understanding of the accrual concept. Previous background in accounting knowledge is useful in accelerating the understanding of accrual accounting in the context of government. Even though some actors who do not have an accounting background show sufficient ability in carrying out their duties, this happens because they actively discuss, interact, and ask a qualified actor.

A non-comprehensive perspective on accounting is an obstacle that has not been revealed from previous research. The actors who compile financial statements believe that accounting is only administrative. They do not understand that accounting is an interrelated system, both interrelationships between accounts and the interrelationships between organizational units. The lack of information system integration between organizational parts is proof that they do not understand accounting comprehensively. For example, it is still necessary to conduct data reconciliation between the accounting unit and the asset unit, the income unit with accounts receivable, the budget unit with the asset unit. The sectoral ego between work units caused integration problem. Each work unit is not aware of the data linkages between them. When one work unit is mistaken in recognition or measurement, it will have an impact on the entire organization. It also applies when one of the work units is late in reporting it will cause delays in reporting the organization as a whole.

The next problem is inertia. Accrual accounting system design still refers to the general cash book which is a subordinate of the cash accounting system. Software design is still based on general cash books as if a budget account has no connection with accounts in the balance sheet and operational reports. Also, there is a reluctance of work units to change the old administration pattern. It caused a lot of data reconciliation between work units when compiling financial statements.

Reliable and relevant information is accurate and timely information. Information has no value if the information is wrong and late. From the results of in-depth interviews with the actors, there has been a bottleneck in the accounting unit at the end of the reporting period. That happens because the actor's perspective is not comprehensive so that work accumulates in the accounting unit at the time of reporting deadline.

IV. CONCLUSIONS, LIMITATIONS, AND SUGGESTION FOR FURTHER RESEARCH

This paper finds that the adaptation of actors in preparing accrual-based financial statements is related to socio-technical. The actors must fulfill technical competencies. Work unit managers must realize that the accuracy and timeliness of financial reporting will occur if they work together. All work units must internalize the understanding of accounting comprehensively. Harmonization of understanding accounting between work unit managers is very necessary.

This research only focuses on the actors involved in preparing financial statements. Further research can add a perspective from the users of financial statements. The involvement of users of accrual government information will enrich our knowledge of the implementation of accrual accounting.

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