

Innovation of Public Sector Financial Management: Towards Accrual Accounting

Zarah Puspitaningtyas
Universitas Jember
zp.zarahpuspita@gmail.com

Abstract—Accrual-based accounting is an innovation in the financial management of public sector organizations. The application of accrual accounting is seen to have many benefits. Why? Because, the resulting accounting information would be useful in the decision-making process. Application of cash accounting is seen as less able to provide relevant and reliable information as the basis for strategic decision making. Thus, we need innovation in financial management of public sector organizations that can provide more transparent information. This study aims to explain how the innovation of accrual accounting in the financial management of public sector organizations. The approach used in the analysis of this study is qualitative descriptive. The implications of this study are expected to provide an overview of the innovations of accrual accounting in the financial management of public sector organizations that are able to present information that is relevant and reliable.

Keywords—*accrual accounting, public sector accounting*

I. Background

Cash accounting and accrual are two alternatives in the financial statements as a form of accountability of financial performance. Useful for generating accounting information which is used for decision-making. The resulting accounting information into one tool to measure the level of performance as well as one of the tools of financial management accountability (Sadjiarto, 2000; Rofikoh 2006; Sa'adah, 2015). Disclosure of information to the public to be very important role in realizing the form of the bureaucracy, that is, toward good governance. One goal is to bring transparency bureaucratic reform, the openness that is built on the free flow of information, including the transparency of public sector financial management.

During this time, the basis of accounting used in the public sector is cash-based accounting. However, along with the development of modern financial management in the public sector which aims to provide financial information more transparent and to improve the quality of decision making, the preparation of financial statements is expected not just to present information on a cash basis. Reporting generated from cash basis are considered less able to provide relevant and reliable information to serve as a basis for strategic decision making. One drawback of the cash basis is not reflect the amount of cash available. Why? Because, on a cash basis every cash receipts are recognized as revenue and any cash expenditure is recognized as an expense. Whereas,

on the accrual basis income and expenses are recognized when the transaction occurs, so that the resulting information is more relevant and reliable.

This study aims to explain how the innovation of accrual accounting in the financial management of public sector organizations. Accrual-based accounting is an innovation in the financial management of public sector organizations. The application of accrual accounting is seen to have many benefits. Why? Because, the resulting accounting information would be useful in the decision-making process. Application of cash accounting is seen as less able to provide relevant and reliable information as the basis for strategic decision making. Thus, we need innovation in financial management of public sector organizations that can provide more transparent information. It is this background that turns the accrual basis of accounting was adopted into the public sector as part of public sector financial management innovations.

II. Literature Review

A. Public Sector Accounting

Public sector organizations is a state institution both central and local governments whose operations are financed from public funds. The Ministry of Finance as the central government work units that are below. Each unit of work to obtain funds from the central government through the Ministry of Finance. Furthermore, the fund is managed in a decentralized manner working unit together with the working units below it. Funds managed by a unit of work must be accounted for accountable, transparent, effective, and efficient (Asfiansyah, 2015).

Accounting is a process of recognition, presentation, and communication of financial information that is useful for decision-making and assessing the performance of the organization. Public sector accounting is closely linked with the implementation and accounting treatment in the public domain. The main role of the public sector accounting is to present the financial statement information that is relevant and reliable in the public domain which among other things allows you to: 1) the decision making process, 2) as proof of financial management accountability, and 3) as an evaluation tool managerial performance. Riyanto (2015) states that the financial statements of public sector (government) is one form of government responsibility in managing public financial resources. Therefore, the financial statements of public organizations should reflect the comprehensive condition relating to the operations, financial position, cash flows, and disclosure of accounts presented in the financial statements.

B. Cash Basis vs Accrual Basis

Basis of accounting is one of the accounting principles in determining the period of recognition and reporting of economic transactions in the financial statements. Basically, there are two options accounting basis, namely: cash basis and accrual basis. Accounting basis chosen will determine the form of a report to be presented. On a cash basis, economic transactions are recognized and presented in the financial statements on a cash or cash equivalents received or released. Whereas, on the accrual basis, economic transactions are recognized and presented in the financial statements at the time of the transaction. Accrual basis used to measure the assets, liabilities, and equity in the period. In the public sector accounting, the choice of accounting basis to develop into four, namely: 1) accounting basis, 2) the modified cash basis of accounting, 3) a modified accrual basis of accounting, and 4) the accrual basis of accounting. However, the division of the accounting basis is not absolute. The fourth is ongoing accounting basis from cash basis to the accrual basis (Asfiansyah, 2015). On development, the accrual basis is seen as financial management in accordance with the principles of New Public Management (NPM) that prioritizes accountability and transparency.

C. Public Sector Financial Management Innovation

Public sector accrual-based accounting is an innovation in the management of public sector finances. Changes are seen as important in the public sector financial management innovation is how to account for the funds that are managed in a transparent manner, which is related to how economic transactions are recognized and presented in the financial statements. Why public sector financial management innovation so important? Because, through the recognition and presentation of economic transactions in the financial statements will be generated accounting information available to parties for use in the decision making process. Management of public sector finances are on a cash basis is considered not fully support the realization of good governance (Sari & Putra, 2012; Amriani, 2014).

The birth of the concept of NPM has encouraged innovation of public sector financial management, one of which is towards the implementation of accrual based accounting. Public sector financial management innovation aims to provide financial information more transparent and to improve the quality of decision making by using the expanded information, not just basing on cash information. The use of the accrual basis to be one characteristic of the practice of public sector financial management innovations. Accrual accounting has spread to many countries in line with the development of NPM. Currently, the implementation of accrual accounting become a trend in public sector organizations in the various countries. Some countries that have implemented accrual accounting, among others, New Zealand, Australia, Nepal, and Fiji.

D. Towards Implementation of Accrual Based Accounting Public Sector

The Indonesian government has mandated the implementation of accrual accounting through Undang-Undang (UU) No. 17 of 2003 on State Finance and UUNo. 1

of 2004 on State Treasury. This was confirmed in Peraturan Pemerintah (PP) No. 71 of 2010 concerning the Government Accounting Standards (Substitute PPNNo. 24 of 2005) which states that the accrual accounting implemented not later than on the financial statements of fiscal year 2015. Especially for Local Government, the implementation of accrual accounting is set in Peraturan Menteri Dalam Negeri No. 64 of 2013 on the application of accrual-based government accounting standards for local governments.

UUNo. 17 of 2003 states that income and spending both in budgeting and accountability reports are recognized and measured by the accrual basis. Pasal 1 of UU No. 17 of 2003 states that income countries/ regions is the right of the central government/ regions recognized as an addition to net asset value, and shopping country/ region is the obligation of the central government/ regions are recognized as a reduction to net asset value.

Changes in public sector accounting basis in Indonesia on cash basis be done gradually accrual basis. Government through Komite Standar Akuntansi Pemerintahan (KSAP) prepares the Government Accounting Standards. The standard is the basis for the implementation of changes in public sector accounting basis. Government issued PP No. 24 of 2005 regulating government accounting standards in the transition from the cash basis to the full accrual basis. Based on the PP, the preparation of the accountability of the APBN/ APBD 2005 fiscal year using the cash basis to the accrual (cash basis toward accrual), meaning that it uses the cash basis for the recognition of revenue, expenditure and financing in the Budget Realization Report (LRA) and the accrual basis for the recognition of assets, liabilities, and equity in the balance sheet.

The Indonesian government through Direktorat Jenderal Perbendaharaan Kementerian Keuangan, in cooperation with Pusdiklat Anggaran dan Perbendaharaan has been providing training on the implementation of accrual accounting public sector as part of efforts to realize the preparation of the financial management of public sector innovation. The quality of human resources is important in increasing understanding in efforts to achieve the successful implementation of accrual-based public sector accounting (Putra & Ariyanto, 2015; Setyaningsih, 2013).

III. Research Method

This study analyzes used descriptive qualitative approach. The data collection technique using semi-structured interviews, as the informant was an employee of Badan Pengelolaan Keuangan dan Aset Daerah (BPKAD) Banyuwangi. Selection of informants using purposive technique. Why Banyuwangi selected as an object of study? Because, Banyuwangi listed as the only region in the province of East Java that have implemented accrual-based financial statements (beritajatim.com, 2015). The analysis is also based on a literature review of published several news sources.

IV. Results and Discussion

A. Tasks, Principles and Functions BPKAD Banyuwangi

Regulation of Bupati Banyuwangi No. 59 of 2011 states that BPKAD has a fundamental duty to implement the development and implementation of regional policies in the

field of finance and asset management area. To carry out basic tasks as referred to in Pasal 2, BPKAD has the function (<http://banyuwangikab.go.id/skpd/bpkad.html>):

- 1). formulation of technical policy in the field of finance and asset management areas;
- 2). coordinating the preparation tasks in the field of finance and asset management areas;
- 3). development and implementation of tasks in the field of finance and asset management areas; and
- 4). execution of other tasks given by the regents in accordance with its duties and functions.

B. Innovation of Financial Management of Public Sector Organizations through the Implementation of Accrual Based Accounting

In 2015, Banyuwangi has implemented a pure accrual based accounting. Earlier, in 2012 and 2014 to apply the cash basis to the accrual (cash toward accrual basis) with the results of the audit opinion Unqualified (WTP) for three consecutive years (Results Interview with Informant).

Informants also revealed that preparations are underway to implement the accrual basis is to change the system and the accounting policies are used as the basis for preparation of the Local Government Finance Report (LKPD), as well as prepare human resources. There are at least two competencies required to devise LKPD accrual basis, ie accounting competence and the competence of financial applications. The application of the accrual basis needs to be supported by the Internal Control System (SPI) is strong so that the financial statements will gain public confidence higher. The informant statement supporting Tohirin (2015) which states that in order to apply accrual accounting it is necessary to set up strategies including educational employees to participate in education and training of accrual accounting, as well as strengthen SPI.

How the results of financial management by implementing accrual accounting? The informant stated that the application of accrual accounting has resulted in financial statements that is more informative than the cash basis. Cash basis only provide information about the amount of the balance and the turnover of funds in the local treasury, thus presenting LKPD have not been able to describe the real conditions. Prior to apply accrual accounting, LKPD presented using cash toward accruals basis, where the presentation of a report drawn up in the form of LRA, balance sheet and notes to the financial statements. Meanwhile, the accrual-based financial statements in addition to presenting the third report, also presents the operational report and statement of changes in equity. In cash toward accrual basis, ie accounts receivable, fixed assets, accounts payable shown in the balance, the process of recognition and presentation on an accrual basis. On an accrual basis, third-party assistance should also be reported. Furthermore, the published financial statements, whereby all financial activities are uploaded every day and can be accessed at the website, which is expected to bring transparency to the public. Banyuwangi also contain a program that implements innovations transparency of financial management.

Operational report in question is the same as the profit/loss on the private sector, provides about revenues and expenses. Revenues accrued. Meanwhile, the load is different

with the expenditure reported in the LRA. The results of operational reports showed a surplus or a deficit. Furthermore, changes in equity in question is the same as the statement of changes in capital in the private sector. If the operational report shows a surplus, the results will be reported as an addition in the statement of changes in equity, and vice versa (Tohirin, 2015).

V. Conclusion

Public sector accrual-based accounting is one form of innovation of financial management within the scope of public sector organizations. Innovation of public sector financial management through the implementation of accrual accounting is essential to improve the transparency of financial information. Public sector accounting accrual able to contribute in improving the quality of financial information is relevant and reliable. Based on the information presented in LKPD, the public can make an assessment on the financial performance of local governments.

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