

ACCRUAL-BASED ACCOUNTING IMPLEMENTATION IN INDONESIAN'S LOCAL GOVERNMENTS COMPARED TO OTHER COUNTRIES' EXPERIENCES

Bambang Pamungkas*

This study aims to identify similarities and differences of the strategic approach implemented by the Indonesian Local Governments in executing the accrual-based accounting transformation agenda compared to other countries' implementation experiences. Started from the 2015 financial year, the Indonesian Local Governments has taken one of the fundamental steps in the application of the new public management reforms, which is the adoption of the accrual-based accounting system. The shift of the accounting basis considered to be successfully achieved based on a parameter of the increment in the number of local governments received unqualified audit opinions from the State Audit Board of Indonesia.

The results of this study indicate that a mandatory approach in applying the accrual-based accounting system, which has been imposed to the Indonesian's Local Governments, has determined the achievement of the implementation, and thus consumed less time-span compared to the voluntary-based approach applied in other countries. Furthermore, the Indonesian's government accounting regulations with detailed, rigid and inflexible application have brought result in the usefulness of accrual-based accounting to improve government transparency and accountability as reflected in audit opinion of Local Governments' Financial Statements. Nevertheless, the strict regulatory-based of government finance and bureaucracy are limiting the Indonesian Local Governments in innovation and decision-making process, as they require Central Government's approval to make several strategic decisions such as in employee recruitment. In addition, the preservation of the cash-based budgeting is one of the reasons for the somewhat facile implementation of the government accounting reform.

Keywords: accrual-based, accounting reform, local governments

1. INTRODUCTION

Over the last decades, the public sector field has been through a revolutionary phase which brought a new paradigm to the public sector administration globally, in which acknowledged as the New Public Management (NPM). Hood (1991) argues that the NPM generates from combinations of ideas of the transactions cost theory, the principal-agent theory, and the professional business management type in the public sector. Furthermore, Connolly and Hyndman (2010) describe the figures of the NPM reforms, which include the application of private sector managerial techniques, the development of market mechanisms and the elaboration of government into smaller quasi-autonomous units. In practice, those types of the reform have been widely adopted internationally (Lapsley, 2009).

Generally, the public sector itself can be divided into four main layers such as central government, local government, government-owned public institutions, and

* Sekolah Tinggi Ilmu Ekonomi Kesatuan, Bogor, *E-mail: Pamungkas62@yahoo.com*

public business entities connected to the government yet jointly funded by private capital (Sargiacomo and Gomes, 2010). The implementation of public sector accrual accounting intended to support internal management by producing better information for decision making, such as cost and price calculation, make-or-buy selections, outsourcing or external use, escalate transparency, accountability and performances assessment (Soverchia, 2012). Furthermore, the use of the NPM methods of accounting shall improve public sector financial management by making more efficient and competitive public policies and accountability (Bellanca *et al*, 2015).

Prabowo (2017) argues that the NPM consists of five aspects namely, market-oriented management, budgeting, performance management, government financial reporting, and public sector audit. Furthermore, Jones *et al* (2004) explain that there are several strategies which can be used to achieve public management reforms, including decentralization and delegation of authority and responsibility, utilization of information technology to accelerate government responsiveness, development and improvement of management control systems, introduction of strategic actions to reduce corruption, establishment and utilization of performance indicators, and the integration of performance measurement and management.

The conversion from cash-based to accrual-based in government accounting system perceived as a part of the NPM agenda which also addressed to introduce a private sector model to the public sector, as a demand of more efficient and effective public services and to provide more appropriate information for decision makers (Connolly and Hyndman, 2010). Arslan (2017) argues that the government accounting modifications were raised based on the necessity of creating harmonized government financial statistics and reports by international financial institutions such as United Nations, OECD, IMF, World Bank, and regional economic or political units, due to the impossibility of comparing and consolidating them in a different type of accounting reporting systems.

2. RESEARCH METHODOLOGY

This research is built on a descriptive comparative method with a qualitative approach by conducting literature study using secondary information provided by previous studies and data. This study is presented by reviewing documents, in forms of books, papers, journals, data, presentations, and other sources, related to the application of government accrual accounting in Indonesian Local Governments and other countries. An analysis of the data and information obtained is presented in the discussion chapter, conducted by comparing the relevant information collected among the sample countries and discuss them. Furthermore, the formulation of the results is presented in the conclusion chapter by identifying similar issues and the differences in the government accrual accounting implementation among the reviewed countries and try to identify the causes of differences and similarities.

The objective of this research is to provide lesson learned from Indonesian Government's accounting reformation agenda, particularly at the local government level, in comparison with other countries who have established or currently running the reform. The expectation of this study is to contribute to the enrichment of the government accounting literature and also to be useful for further studies.

3. LITERATURE REVIEW

3.1. Accrual-based Accounting in Public Sector

Fundamentally, government accounting practices are classified into two categories of pure cash basis and pure accrual basis which applied widely in private sectors. But in the development, the base of the accounting system broke down into four classifications namely, cash accounting, modified cash accounting, modified accrual accounting, and accrual accounting (PwC, 2015).

The accrual accounting systems acknowledge economic transactions when they occur instead of when money is exchanged, incomes are normally recognized when goods and services are delivered, costs are recorded for the time period in which assets are used, while liabilities arise when generating revenue (Champoux, 2006). Briefly, accrual accounting can be understood as the recognition of costs when incurred and when income acquired in a given period of time, neglecting the money transactions (Guthrie, 1998).

Thus, the adoption of an accrual accounting system is particularly useful when the exchange of goods or services exchanges exceeds one reporting period (Champoux, 2006). Therefore, the main difference between cash-based and accrual-based lies in the timing of recording transactions, in which accrual accounting emphasizes the recording at the moment of the transaction (Guthrie, 1998).

Using the cash basis, in context of long-term government expenditures and liabilities, such as pension obligation, is not depicted in cash-based financial statements up to the maturity date and the pension is paid (Champoux, 2006). Furthermore, governments that still use cash-based accounting tend not to maintain the recording of their asset and liability, which enables the government to transfer assets or liabilities to third parties without disclosing their financial implications on their report (Cavenagh, 2016).

Unlike the cash basis, the accrual-based accounting required to present two key financial statements namely, *the* operating statement, which describes the economic results of an institution's activities for a reporting period, and the balance sheet, which indicates all financial items an entity possesses and owes at a certain position of time (Athukorala and Reid, 2003).

3.2. The Benefits of Accrual Accounting

Proponents argue that accrual-based accounting provides more robust information than cash accounting (Guthrie, 1998) and produces more reliable information for

decision-makers, which eventually leads to a more efficient and effective public sector (Connolly and Hyndman, 2010). Soverchia (2012) outlines some of the key benefits of accrual in management accounting context, including cost measurement of public services and political programs in order to improve efficiency and productivity, asset monitoring, performance measurement and more accurate report, assessment of the long-term financial sustainability of the entity, as well as the consolidation of the entire government financial report.

Accrual accounting is a critical part of the NPM discourse, with the benefit of providing a comprehensive picture of the organization's activity, as well as enhancing the information quality of overall costs incurred, which required in decision making (Kobayashi, 2016). However, the main motive of the accrual-based accounting adoption may vary in many countries; but in general, the accrual system is one way of improving the government efficiency through performance-based management, and also improving transparency, in particular, to disclose information on long-term assets and liabilities (Champoux, 2006).

Performance information describes the extent to which an organization meets the organization's goals and objectives, also to assess which policies and activities have functioned well (Hendricks and Botha, 2015). However, they explain that it is inherently more complicated to implement performance measurement and evaluation in the public sector since the form of the achievement of success is not profit but, service delivery. Furthermore, the performance of the public sector is theoretically measured by economic achievement, efficiency and effectiveness in using resources to produce services and conduct government activities, in which the measurement of those indicators can be presented through accrual financial information (Hendricks and Botha, 2015).

Government accounting also aims to minimize activities that do not provide value-added in relation with government services and creates a balance between services and cost by effectively utilizing available government resources, which can only be realized by making full use of punctual and accurate information (Arslan, 2017). In addition, the accrual accounting application also has the potential to increase transparency and accountability for stakeholders, particularly who has the authority in determining the budget, evaluating and controlling the government activities (Kobayashi, 2016).

3.3. Accrual-based Accounting Applications on Governments Worldwide

Implementation of new public management across nations can be more easily identified from the use of its accounting base. Accounting practices vary in many countries around the world, although the tendency to apply accrual accounting has increased (PwC, 2015).

Cavanagh *et al* (2016) describe that by 2015, 41 governments had adopted accrual-based, 16 governments on a modified accrual basis, 28 governments used

a modified cash basis, while 114 governments (57 percent) still applying pure cash-based accounting. While among the OECD countries, currently, 73% of the 34 members have adopted accrual accounting for their public finances, with three countries currently considering a transition, while six countries including Germany, Ireland, Italy, Luxembourg, Netherland and Norway are still maintained the cash-based accounting (OECD/IFAC, 2017). Furthermore, a survey by PwC (2015) indicates that many countries initiate and express their intention in the accrual accounting reforms, thus they estimate that the implementation process of the accrual basis to reach 71% of all governments in 2020, with biggest prospective among non-OECD countries.

3.4. Previous Studies on Preconditions and Preparations of Accrual-Based Accounting

IFAC (2003) describes factors that can influence the characteristics and the speed of the accounting basis transition process which include the governmental system and the political environment, the policy to choose whether the transformation focused only on the accounting basis changes or also includes accrual budgeting, the decision on how the method imposed whether mandatorily through higher authority or voluntary initiated by lower governments, the current basis of accounting used by the entity, the level of political commitment, and the capacity and skills of the people and organizations.

Athukorala and Reid (2003) outline several policies that need to be considered in the application of accrual basis, including awareness in choosing an accrual application strategy where there were generally implemented through big bang or gradual model, political commitment of all stakeholders, communication strategy of the objectives of the reform, the availability of qualified accountants and adequate accounting information system, appropriate resources in the supreme audit institution, and the understanding that the change in the accounting basis is not merely about changes of the accounting method, *yet also* in the form of cultural reform to what extent the information produced is used.

Furthermore, Hepworth (2002) comprehensively explains several preconditions required to achieve the accomplishment in accrual accounting introduction to the public sector and to minimize the probability of major constraints that may occur. His recommendations consists of extensive consultation and acceptance among all governments involved as well as to external stakeholders, participation of the accounting profession for technical support and training, development of government accounting standards which consistent with private sector accrual accounting standards concepts by professional accounting community, support the State Audit Office to improve understanding between auditors of the governmental regarding new accrual accounting system, comprehensive management training program for personnel involved, appropriate cultural

approach, existence of robust audit process on both the internal and the external, the absence of corruption, realistic time frame, sufficient information technology capacity and appropriate information system strategy, willingness to employ incentives and punishments for promoting efficient and effective, and the recognition that accrual accounting is only one part of the whole reform process.

In addition, Athukorala and Reid (2003) explain that the accrual application generally consists of developing charts of account and accounting policies, communicating the system and conducting training, ascertaining opening balance sheets by identifying and valuing all assets and liabilities, modification of the information systems, conducting audits on opening balance sheets, and improving internal control and audit arrangements.

3.5. New Public Management in Indonesia

The 1998 Asian crisis considered as the beginning of the public sector reform in Indonesia (Prabowo, 2017; Harun *et al*, 2013; Suparman *et al*, 2015; Suwanda and Santosa, 2015). As the legal framework of the financial administration system prior to the reform, in which inherited from the Dutch colonial regulation, considered to be ineffective (Prabowo, 2017). Hence, the system needs to be developed to be in line with the governmental system reform of decentralisation and also to commensurate with the international public sector practices (Suwanda and Santosa, 2015).

Harun *et al* (2013) and Suparman *et al* (2015) argue that the 1998 reforms introduced in Indonesia was the adoption of NPM practices imposed by the IMF to undertake a series of reforms consists of political, local government autonomy, empowerment of the State Audit Board, adoption of an accrual accounting system, combating corruption, and implementation of a performance-based budgeting as part of financial rescue packages. Furthermore, the IMF aid packages include the requirements to establish good governance, financial management reform, and particularly the government accounting reform (Akbar, 2013).

Prabowo *et al* (2017) state that the Indonesian government reforms are an attempt to implement NPM particularly in five financial management aspects such as market-oriented, budgeting, performance management, financial reporting and auditing systems, but the reforms are inconsistent with the NPM philosophy of efficiency and effectiveness in public service provisions by requiring the use of the existing system. Although adoption of an accrual accounting system in Indonesia considered as part of the NPM implementation, Prabowo *et al* (2017) argue that the Government of Indonesia sets very elaborate, stiff and preemptory rules-based accounting system which inverse to the notion of the flexibility of the public sector management accounting system, which can be customized to be used for decisions making.

The NPM implementations in Indonesia were intended to foster democracy and corroboration of accountability and transparency in the public sector by imposing accrual accounting practice, conducting an independent audit and requiring disclosure in government offices at central and local levels (Harun *et al*, 2015). In addition, the reforms were also intended to foster greater public participation and empowerment, encourage a more democratic system based on legal supremacy that respects human rights, and also diminishing corruption practices at all governmental aspects (Suparman *et al*, 2015). The reform also reflected the essentials of good governance principles definitions adopted by the World Bank (Harun *et al*, 2015).

3.6. Accounting system reformation in Indonesia Governments

The Indonesian financial management reforms were conducted through the enactments of public sector regulations, institutional refinement, restructuring of the state financial management system, and the development of human resources expertise in financial (Rusmana *et al*, 2017). The state financial governance reforms were initiated through sets of state finance acts such as Act No.17/2003 of State Finance which obligates the government to adopt accrual accounting, Act No.1/2004 of State Treasury, and Act No.15/2004 of Audit of the State Financial Management and Accountability. Subsequently, the Government Regulation No.24/2005 enacted cash toward accrual Government Accounting Standard to accommodate the transformation during the transition from cash to accrual-based accounting, as superseded by Government Regulation No.71/2010 which sets the accrual-based Government Accounting Standard developed by the Government Accounting Standards Committee, applied for both the central and local government.

Prior to 2005 the central and local government only required to produced budget realization report, after 2005 they required adding balance sheets, cash flows, and notes of financial statements on their reports (Harun *et al*, 2013). The Accrual-based Government Accounting Standard enacted in 2010, the standard required the central and local government to generate additional reports such as a statement of changes in budget balance, operating statement, and statement of changes in equity Statement. Although the 2010's accrual-based Government Accounting Standard was effectively applied for the 2010 annual report, the regulation allowed government entities who have not been able to apply the accrual accounting to refer to the cash toward accrual standard up to 2015 financial reporting year (Sari and Putra, 2012).

Wijya *et al* (2017) study found that the Indonesian Government Accounting Standards mostly in line with the International Public Sector Accounting Standard by presenting 71.05% of the 76 items recommended by IPSASB, and also fulfilling the five elements of financial reports consist of balance sheet, cash flow statement,

operating statement, statement of changes in net assets/equity, and accounting practices and financial statement notes.

Suparman *et al* (2015) describe the yearly-based time frame of accrual accounting in Indonesian as follow. The issuance and the socialization of the Accrual-based Government Accounting Standards and the conceptual accounting framework in 2010. The 2011 and 2012 were the phase where the government prepared the technical policies and guidance while developing accounting system and information technology, alongside with the human resources development. In 2013, the government started to undertake pilot projects over several ministries and institutions while simultaneously review, evaluate and improve the system. And in 2014, undertake the parallel run of the system for all government agencies up to the full accrual implementation in 2015.

Harun *et al* (2013) considered the lack of coordination between the central and the local government as one of the main barriers aside to the absence of an adequate human resource management system resulting in lack of qualified accountant. In addition, and rapid changes in reporting rules imposed by central government causing conflicting and unstable rules.

Furthermore, Suparman *et al* (2015) studied several aspects on the readiness of the public sector in Indonesia towards the adoption of accrual accounting using framework adopted by the New Zealand government namely, management changes, political and bureaucratic support from the legislative and executive powers, professional and academic support, communication strategy, willingness to change, consultation and coordination, adoption of cost budgeting, specific accounting issues, information technology capacity or financial management information system, and international financial support. The study reveals the although the Indonesian Government has taken several initiatives to support the adoption of the accrual accounting such as the enactment of new regulations, utilize various communication channels to elucidate the system, and obtaining inputs from the professional and academic accounting community. However, his research doubts the preparation due to insufficient training, lack of professional public sector accountants particularly at the local level, the continued implementation of cash-based budgeting and non-integrated various information technology systems were the major deficiencies.

3.7. Role of Audit Institution in Indonesia

One of the agenda of Indonesian reformation was the empowerment of the State Audit Board (Harun *et al*, 2013). As part of the financial reformation, the third amendment of the Indonesian's Constitution had restored the State Audit Board position as the only external government auditor in Indonesia by giving them the authority to perform an independent and professional audit on the state finances management and accountability for all of the public sector institution across the nation. Government institutions on the central and local level required to publish annual financial statement audited by the State Audit Board (GoI, 2003).

The audits formed by the State Audit Board intended to provide opinions on the fairness of financial information presented in the financial statement based on compliance with Government Accounting Standard and/or accounting principles established by laws and regulations, adequacy of disclosure, compliance with statutory regulations, and the effectiveness or reliability of the internal control. The State Audit Board’s opinions of government financial statements reflect the quality of management and presentation of the financial report (The Audit Board of the Republic of Indonesia, 2014). The opinion of governments’ financial statement given by the State Audit Board classified as unqualified, qualifies, disclaimer, and adverse opinion.

3.8. Auditing on Accrual Accounting in Indonesian’s Local Governments

One of the means of the audit on Local Governments by the State Audit Board is to assess whether the Local Governments’ Financial Statements comply with the Government Accounting Standard. All government institution, both the central and local, required to perform accrual-based accounting for their financial statement five years after the accrual-based Government Accounting Standard enacted. By 2015, all local governments have implemented accrual basis accounting as the implementation of Government Accounting Standards (The Audit Board of the Republic of Indonesia, 2016).

The Audit Board of the Republic of Indonesia (2017) report indicate that majority of the Local Governments’ Financial Reports have complied with the accrual-based Government Accounting Standard based on the audit opinions as shown in figure 1 below. The number of Local Governments’ Financial Reports received unqualified opinion continued to increase despite the changes of the accounting basis from cash to an accrual basis.

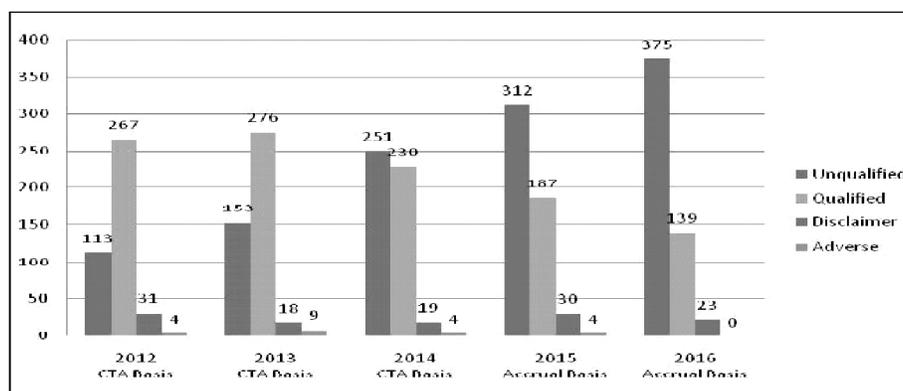


Figure 1: Opinions of Local Governments’ Financial Statement 2012 - 2016

Source: IHPS 1st Semester 2017, the Audit Board of the Republic of Indonesia

The numbers of local governments received unqualified opinions have been increased from 251 on 2014's financial year to 32 on 2015's financial year, where the accrual-based accounting implemented, and continue to rise to 375 on 2016's financial year. The composition of unqualified opinions based on the audited financial statements on 2014, 2015, and 2016 financial years are 50%, 59%, and 70%, respectively.

The fact that the number of an unqualified opinion on Local Governments' Financial Reports continue to increase can be considered that the implementation of accrual-based accounting on Indonesian's local governments has been successfully achieved despite.

In 2016, the State Audit Board of Indonesia has conducted an audit to assess the local governments' efforts in the preparation of the accrual-based accounting system implementation with a sample of 109 out of 542 local governments. The report highlighted several issues such as the inadequate formulation of the policies on local governments' accrual-based Government Accounting Standard application and incomprehensive regulation to cover all financial transactions resulting in some dissonance with other regulations and implementation hindrances (The Audit Board of the Republic of Indonesia, 2016). The report had also criticized the insufficient socialisation and the inadequate monitoring and evaluation on the forwardness of the implementation.

In relation to the performance measurement, the Indonesian Central Government implements a reward system by providing local governments with incentive regarding to the performance improvements in the areas of financial governance, public basic services, and community welfare, which one of the indicators is the audit opinion of local governments' financial statements by the State Audit Board of Indonesia (MoF, 2017).

In addition, in the preparation or amendment of the Government Accounting Standard required the Minister of Finance to communicate with the State Audit Board to obtain recommendations and opinions on development and the alteration. While Indonesia itself has conducted a reform in the government auditing structures as set by the Law of Supreme Audit Institution number 15/2006, which puts the Supreme Audit Institution of the Republic of Indonesia as the only organisation with the authority to conduct auditing in local and central government and other state higher institutions (Prabowo *et al.*, 2017).

3.9. New Zealand Experiences

The accrual accounting on public sector reform in New Zealand argued as the most exhaustive programme compared to other countries (Champoux, 2006) and the most radical set of public sector reforms ever undertaken in a modern democracy (McKinlay, 2006). As the first nation to conducted public sector reforms and consolidated accounts for the entire central government, New Zealand accrual-

based experiences have been widely used as a reference by organisations such as the OECD and other countries (Aggestam *et al*, 2014).

The New Zealand's NPM agenda began in the mid-1980s through series of reforms including exchange rate liberalization, labour-market deregulation, privatization and public sector management reforms by implementing accrual basis budgeting and accounting over 6-year periods from 1987 to 1994 (Athukorala and Reid, 2003). On the local level, the reforms stressed on reorganisation schemes such as dividing the service delivery and regulatory roles (McKinlay, 2006).

The New Zealand's Government initiated the big bang approach, which proves that the accrual basis can be implemented in short periods for all government units (Athukorala and Reid, 2003). Simpkins (1998) and Das (2008a) identified the causes of New Zealand reforms in the 1980s, where were common conditions occurred in other developed countries at that periods namely, growing fiscal deficit, demand on better transparency and accountability, discontent on centralized input control on public service, the need of information for decision making among the ministers, public sector inefficiency and the concern on the size of the government sector.

The reforms initial goals were to enhance technical efficiency and improve the accountability while subsequently carry out collective fiscal discipline (Athukorala and Reid, 2003). Several results can be seen from the reduction of more than 200 territorial and 600 special-purpose local authorities to 74 territorial and 13 regional councils and the implementation of accrual-based accounting (McKinlay, 2006).

The 1989's the Public Finance Act was enacted to redefine the government budget process into a performance-based and required all departmental level adopted accrual-based tract in budgeting and reporting (Champoux, 2006). Simultaneously, the 1989's Local Government Act amendment was also introduced accrual-based accounting on the generally accepted accounting principles for the local level (McKinlay, 2006). The government accounting practice for the New Zealand central and local government was required to congruence with generally accepted accounting practice of the private sector, so the accrual basis in accounting could easily be applied in many areas of all government institutions (Arslan, ý2017). As a result, the consolidated government reporting on an accrual basis was carried out in 1993, to include all of the government assets covering roughly 3000 institutions from the largest to the smallest government institutions (Aslan, 2017), known as the Crown financial statements (Champoux, 2006).

Athukorala and Reid (2003) describe issues and lessons of New Zealand accrual-based accounting implementation namely, improvement of the personnel capability by reducing the number of staff and replaced them by professional staff, developed computerised integrated accounting system which intended for time saving by reducing double data-processing, developed coordination with Land

Transfer Office and each related departments to determine value of an asset, provide an assurance on the reliability of the information on each department by utilising audit reports by the Audit Office, promote the use of accrual information for decision making, and utilised the private sector accounting system.

The Finance Ministry alongside with the Financial Management Assurance function took the responsibility for the accrual implementation by coordinating the education and communication campaigns, provided the strategic internal audit role, and served a consultancy service to departments (Das, 2008a). However, contradict to strong notion on the necessity of the personnel's training, the New Zealand central government did not provide training for departmental financial managers (Athukorala and Reid, 2003 and Das, 2008a). Thus, the implementation cost of the accrual-accounting system during the reform periods considered insignificant compared to preceding centralized cash accounting processes, due to ineffective unintegrated branch elements on the previous system (Athukorala and Reid, 2003).

3.10. Australia Experiences

Due to Australia's economic growth by the early 1990s and the effect of New Zealand's Government reform, pressure arose on the Australian Government to increase efficiency and improve fiscal performance (Champoux, 2006). Das (2008b) explains that the introduction of accounting reform in Australia was a response to the need for product costing, the desire to run government departments as businesses, the need to increase effectiveness, efficiency and transparency of public services, and increase in accountability. Those impelled conditions also supported by a recommendation from a joint federal-state working party alongside the Australian Accounting Research Federation in which they required government's departments to prepare financial reports in accordance with the accrual-based Australian Accounting Standards (Das, 2008b).

The New South Wales Government took the initiative to ran the project started in 1990, made them the first government in Australia and the second in the world on the adoption of accrual-based financial reporting (Christensen, 2002). The process followed by other states and territories simultaneously until the Australia Commonwealth Government produced comprehensive accrual-based financial statements and fully implemented accrual output budgeting for the 1999-2000 financial years (Champoux, 2006).

Prior to the reforms, Australian Governments traditionally operated on annual cash basis accounting and budgeting, hence the spending of public funds was confined to the annual budget appropriations by the parliament (Guthrie, 1998). Subsequent to the reforms, there are two accrual-based standards used by the Australian Governments. The Australian Accounting Standard required for the federal, state, and territorial governments, while the Government Finance Statistics

Standard intended to portray statistics for all government departments, statutory authorities, government businesses and local government (Das, 2008b).

Halton (2016) specifies precondition strategies on the Australian's government accrual accounting implementation consist of, defining the implementation benefits, assured the transformation agreed by all level of stakeholders including political and the supreme audit institution, ensuring that the project timeline is realistic, assuring that finance staff are skilled and adequately trained, and ensuring that the IT systems are reliable to produce the financial statements.

Although the accrual accounting in Australian central governments has implemented more than two decades ago, the progress is currently still underway at the local government level (CESifo, 2007).

3.11. Sweden Experiences

The Swedish Central Government started to introduce the accrual accounting to all of their agencies in 1979, but not until 1991 when the accrual basis became a compulsion through their ordinance. Ever since, all of their government agencies have been moved to accrual basis gradually each year until completed in 1994 (Das, 2008c). The Sweden accrual accounting adoption was part of the new public management in term of performance management for decision making, intended to determine the costs of all kinds of government products or activities through cost accounting (Lundqvist, 2001).

Similar to the central government accrual accounting introduction, Sweden local governments began experimenting the business-like accrual accounting structure from the early 1980s before became regulated by 1992's Municipal Act (Haraldsson, 2016). Nevertheless, the accrual accounting implementation for local governments has been merely voluntary during those years, until it became mandatory by the 1998's Municipal Accounting law (Falkman and Tagesson, 2008).

Great efforts have been made in the application of accrual accounting at all levels of government, including the modification of accounting systems, development of the accounting policies, reconstruction of the balance sheets, changes of routines, and improvement of the accounting personnel professional skills through large-scale of communication, education, and training (Das, 2008c).

Lundqvist (2001) explain the implementation issues during the accrual accounting adoption in Sweden namely, the utilisation of widely used private sector accrual accounting systems to support the transition from centralization to decentralization, formulation of accounting policies that devolved the government to imitate the private sector accounting principles, education and training to provide an overview of transformation, and information dissemination to illuminate the reasons of the changes, seminars for personnel involved in financial administration, and provides personnel in charge to handle inquiries.

The Sweden accrual accounting transition considered relatively facile because they did not adopt accrual budgetary process on the reform and there was no necessity to change their administrative structures since they already had comprehensive autonomous agencies prior to the reform (Das, 2008c).

3.12. Italy Experiences

The modernization process of the Italian public sector initiated in the 1990s through regulations imposed by the central government by means of encouraging local governments to employed performance and accrual principles in their reports (Salvatore and Gesso, 2013). The goals were to make local governments work better in terms of efficiency and effectiveness, so as to improve relations with their constituents (Nasi and Steccolini, 2008; Salvatore and Gesso, 2013). The reforms were held through several steps including reorganisation in form of decentralization, downsizing through privatisation and liberalization, adoption of different forms of public service providers such as outsourcing or partnerships, and the application of managerial tools and techniques via accruals reporting and performance measurement (Nasi and Steccolini, 2008).

Before the accounting reform, the local governments used a budgetary cash and commitment-based accounting system (Nasi and Steccolini, 2008). Subsequently, the 1995's Legislative Decree enacted to introduce accrual accounting, as a supplement of the traditional accounting system, without obliging them to applied double-entry bookkeeping, thus it allowed local governments to opt what type of accounting system used to produce financial statement (Salvatore and Gesso, 2013). The financial accounting reforms were intended to promote more transparent information, increase the effectiveness of the decision making, strengthening the expenditure control and the external accountability (Nasi and Steccolini, 2008).

During the early reform, there were two alternative accounting systems namely, the first one was the traditional system, where the local governments generate balance sheets and operating statements from cash-commitment-based system, the second one was the integrated system, where they record their transactions using both single-entry budgetary accounting and double-entry bookkeeping which allowing them to produces two sets of financial statements before reconciled (Anessi-Pessina *et al*, 2008). Those methods only applied to local governments, while other public service agencies, such as public healthcare organizations, already undertake a comprehensive accruals accounting standard (Nasi and Steccolini, 2008).

Nasi and Steccolini (2008) elucidate the progress of the reform where there were only 56.6% of the Italian local governments had adopted an integrated system accruals accounting by 2004, while the rest still maintained the traditional system. To overcome this condition, in 2011 the Italian Parliament imposed regulation of

accounting principles harmonization to local governments that required them to comply their financial accounting with accrual accounting and compulsory them to adopt an integrated accounting system (Salvatore and Gesso, 2013).

Unlike accrual accounting implementation in other countries, the adaption of accrual accounting in Italy only applied local government level, thus no present consideration for the central level (CESifo, 2007).

3.13. India Experiences

Although the Central Government of India has not yet committed in the adoption of the accrual basis accounting system, the Indian's local governments have been engaging the accrual-based to their accounting system more than three decades ago. During the early stages, various approaches have been employed by urban local bodies in experimenting accrual basis, including the centralised, decentralised, and independent models (Abraham, 2013).

The NIUA (2010) categorised the local government accounting reforms in India into three phases, the first one can be traced from 1981 to 1991 where there were only two municipal involved in the experiment of the double-entry accrual accounting based on the World Bank example, the second period was around 1990 to 1995 in seven cities of Gujarat as a part of its financial assistance to the Gujarat Urban Development Project facilitated by the World Bank consultants, and the third step brings up large-scale of statewide accounting reform across the entire country since 1998.

To support the accounting reforms process, in 2000, the Institute of Chartered Accountants of India published a technical guideline of urban local bodies accounting and financial reporting which provide comprehensive structures for the accounting reforms and also as guidance for double-entry accrual system application (ICAI, 2010). Subsequently, in 2001, the India Supreme Court acknowledged the deficiencies of cash-based accounting where they recommended the Government of India to develop guidelines of the accrual-based accounting system that could provide an overview of the complete costs of the services provided by the government institutions (Abraham, 2013).

In the formal form, nationwide accrual accounting reform began as the Government's Comptroller and Auditor General established the Government Accounting Standards Advisory Board in 2008, where they then published a report containing recommendations on the accrual basis accounting application and was responded by the willingness of twenty-one State Governments to engage in the application of accrual basis accounting (Singh, 2015).

Due to the variety of accrual accounting implementation approaches employed by numbers of urban local bodies in India, Abraham (2013) identifies laxities in the early stages of the reforms namely, the absence of a central supervising institution to oversees the transformation, the unconformity in the accounting

modules and reports, and the lack of efficiency and sustainable effort of the previous projects. Those deficiencies led to the importunate need of the comprehensive uniformity and standardized municipal accounting reforms, which should include a robust supervision and monitoring structure, an exhaustive accounting system to sustain financial recording, analysis, auditing, and review (Abraham, 2013).

4. DISCUSSION

Based on the previous studies and information described in the earlier chapters, we conduct comparative description with reference to previous studies which review the strategic policies, prerequisites, and experiences of accrual application in other countries in comparison to the application of accrual accounting in Indonesia.

The indicators used for the comparison refer to some part of the factors that may influence the nature and speed of the transition to accrual accounting as described by IFCA (2003), which include the type of government system and the political environment, whether the reforms are focused solely on accounting change or whether they encompass other wider scale reforms, and whether the changes are being driven from the top to lower level institutions or otherwise. In addition, we also added a discussion on the issues on the utilization of accrual information by the Indonesian compared to other governments. However, this research is focused on the accrual accounting application on local governments level.

4.1. Government System and Political Environment in the Selection of Accrual Application Approaches

IFCA (2003) argues that the decision on how the method imposed, whether mandatorily driven by the higher level of government or voluntary initiated by lower governments, is one of the factors that can influence the characteristics and the speed of the accounting basis transition process. However, the advantages of a gradual approach are that they are able to recognise the problems that may arise and how to solve them during the transition period; the cash basis can still be done in parallel to the accrual in the parallel approach to reducing the risk of failure (Athukorala and Reid, 2003). However, the mandatory approach can be applied simultaneously at all government level and may provide fixed time frames and deciding when the adoption should be executed (IFCA, 2003).

Furthermore, IFAC (2013) states that the governmental system and the political environment in one of the conditions which can influence the characteristics and the speed of the accounting basis transition process. Thus, the system and environment will influence political commitment of all stakeholders in the application of accrual-based accounting (Athukorala and Reid, 2003). In addition, Harun *et al* (2015) also explain that the political traditions of a nation can influence the intent of the reform.

Similar to the New Zealand Government, Indonesia held mandatory approach by enforcing all local governments simultaneously implemented accrual accounting

through the enactment of financial regulations and by establishing the timeframe of the transition. While the central government of Sweden, Italy, and India initially applied voluntary methods, but since the methods did not seem to function, they established a regulation that made the accrual application of local government become compulsory.

Furthermore, the adoption of accrual accounting in Indonesia and New Zealand were simultaneous for all levels of government, whilst the imposition on the local government of Sweden was subsequently implemented after the central government level. Furthermore, the Australian government is still in the process of implementing accrual accounting for its local government (CESifo, 2007), while Italy, as well as India, has not yet show initiation to implement accruals at the central government level (OECD/IFAC, 2017).

Referring to the enactment of the statute of 17/2003, the Indonesian governments took 12 years to apply the accrual basis to local government. However, if measured by the issuance of the accrual-based Government Accounting Standards in 2010, the implementation took 5 years time-span for local governments in Indonesia to prepare and adjust to the accrual basis. The time-span on transformation in Indonesia was relatively lengthy compared to New Zealand, Australia, and Sweden, yet it was shorter compared to Italy and India who applied the voluntary approach.

In the relation to the accrual application method applied, although the bureaucratic reform has been established through decentralisation and regional autonomy, the Central Government of Indonesia still has strong authority. Harun *et al* (2015) argue that the Indonesian's government system appears to be influenced by historical traditions of centralized control, determined by the fact that Indonesia has been subjected to colonialism for centuries and military leadership for decades. Thus, the mandatory application of accrual was adequately applicable since it is supported by the political environment and the government system which still has historical traditions of centralized control.

4.2. Implementation of Accrual on Accounting and Budgeting

IFAC (2003) argues that the policy to choose whether the transformation focused only on the accounting basis changes or also includes broader reform in accrual budgeting can influence the characteristics and the speed of the accounting basis transition process.

Similar to Sweden, Indonesia was also applied accrual basis in the accounting field, thus still maintained cash basis in the budgetary process. While Australia and New Zealand have applied budgeting accruals along with its accounting reform process simultaneously in relatively short phase. However, the adoption of accruals only in the accounting process, as applied in Sweden and Indonesia, leads to a simpler transformation process and may influence the characteristics and the speed

of the accounting base transition process IFAC (2003). The full accrual budgeting itself only applied by three countries, namely Australia, New Zealand, and the United Kingdom (OECD, 2002).

4.3. Utilization of Information Generated from Accrual Basis Reports

As mentioned by various studies in the Literature Review Chapter, some of the main benefits of accrual accounting applications are to increase the efficiency and effectiveness of government service activities, improve accountability and transparency, supported performance measurement, and provides reliable information for decision making (Champoux, 2006; Soverchia, 2012; Kobayashi, 2016; and Arslan, 2017).

Sweden utilizes accrual accounting to determine the costs of all kinds of government products and services through cost accounting (Lundqvist, 2001). While Australia and New Zealand employ accrual information for decision making in relation to budgeting process which has been presented on a full accrual basis (OECD, 2002). While one of the uses of the accrual information in Indonesia is in the provision of incentives for local governments that have prepared their financial statements in accordance with the Government Accounting Standard based on the audit opinion provided by the State Audit Board (MoF, 2017).

However, Prabowo *et al* (2017) argue that one of the objectives of the accrual accounting adoption in Indonesia is aimed to reduce corruption, for which it sets very detailed, rigid and inflexible accounting system regulations. Hence, the strict rules are contrary to the notion of NPM, which states that the application of accrual accounting should be flexible and provide discretion to government officers in order to be useful for internal managers decision making. Furthermore, Prabowo *et al* (2017) explain that the rules-based systems in Indonesia are curtailed the local government innovation and flexibility, which are required to promote competitive public services. Thus, it is almost impossible to produce managerial reporting from a rules-based system because it offers rigid and strict procedure without flexibility.

In addition, although Indonesia has applied decentralized systems to local governments, yet employee recruitment still requires central government approval. This policy is hindered local governments in recruiting necessary employees, in which confine the local government flexibility to innovate and to improve efficiency and effectiveness (Harun *et al*, 2013). Those have resulted that the new accounting reforms in Indonesia are mere to increased transparency and accountability, but not yet optimally utilized in the decision-making process.

5. CONCLUSION

This study aims to identify the similarities and differences of the strategic approach in the accrual accounting adoption in Indonesian compared to other countries'

experiences. The objective of this research is to provide lesson learned from Indonesian Government's accounting reformation agenda, particularly at the local government level, in comparison with other countries who have established or currently running the reform.

Started from the 2015 financial year, the Indonesian Local Governments has taken one of the fundamental steps in the application of the new public management reforms, which is the adoption of the accrual-based accounting system. The shift of the accounting basis considered to be successfully achieved based on a parameter of the increment in the number of local governments received unqualified audit opinions from the State Audit Board of Indonesia.

Based on the discussion session, we find that the mandatory approach, as initially applied by New Zealand, Australia, and Indonesia, could provide more assurance in the success of accrual accounting adoption rather than voluntary method. Thus, by obligating the adoption, a government could build appropriate time frames and the decision on when the adoption should be executed (IFAC, 2003).

Indonesia, Sweden and all other countries, except New Zealand, Australia, and the United Kingdom, who have implemented accrual basis, mostly applied accrual basis solely in the accounting practice. Thus, they still maintained cash basis in the budgetary process. The adoption of accruals only in the accounting process led to a simpler transformation process (IFAC, 2003).

However, the Indonesian's government accounting regulations comprised of detailed, rigid and inflexible requirement, which limits the Indonesian Local Governments in innovation and decision-making process. The strict regulatory-based on government finance and bureaucracy intended to diminish corruption practices (Prabowo *et al*, 2017) and to ensures that the local governments are compliance with regulation, as can be seen by the increment of local governments achieved unqualified opinion for their financial statements. Unlike in Sweden where the accrual information used to determine the cost of government services, thus promote government agency to innovate in order to improve efficiency (Lundqvist, 2001) and to promote competitive public services (Prabowo *et al*, 2017). The utilization of accrual accounting information in Indonesian Local Governments has not yet used in management accounting decision like in Sweden. For instance, in the intention to improve public services, the Indonesian's Local Governments still required to get approval from the Central Government to make an addition of their employee (Harun *et al*, 2013).

This research builds in comparative descriptive approach through discussion on particular issues in a comparison format, with the expectation that this study could contribute to enriching literature in government accounting field and also to be useful for further studies. However, the limitation of this study is relied on the availability of literature discussing the government accounting reform, particularly

in local governments. Since not many studies focusing on local government accounting reform in international scale, we encourage other researchers to conduct further studies so that the issues of government accounting can be compared in a broader scale.

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