



The implementation of accrual basis accounting by Indonesia's local governments

Retno Yuliati^a, Yuliansyah Yuliansyah^b and Yang Elvi Adelina^a

^aSchool of Business and Economics, Accounting Department, Universitas Prasetya Mulya, Tangerang, Indonesia; ^bDepartment of Accounting, School of Business and Economics, University of Lampung, Bandar Lampung, Indonesia

ABSTRACT

To examine the implementation of accrual basis accounting by local governments in Indonesia following its mandatory introduction by Government Regulation (GR) Number 71 of 2010, we identify key actors in the process. Local governments earn either a 'qualified opinion' or an 'unqualified opinion' in audited financial report. They all state that the implementation of the accrual basis accounting in their governments is limited to the production of accrual accounting reports only. The process itself is not accrual-based, even four years after its mandatory implementation. Technical issues, such as imprecise valuations and shortages of qualified staff, plague governments regardless of their qualified or unqualified rating. Given that only 16 officials from nine local governments are interviewed and given that neither BPK auditors nor the local auditors are interviewed on the progress made by local governments in implementing the accrual basis accounting, the results of this study cannot be generalized. Indonesia joins other countries in accepting accrual basis accounting. Little or no research looks at the progress since 2015. We do that, and we compare the progress made by the governments earning *unqualified* opinion rating with that made by the governments earning *qualified* opinion.

KEYWORDS

Accrual accounting; local government; implementation development; qualified opinion; unqualified opinion

1. Introduction

Accrual-based accounting was first popularly implemented in developed countries such as Australia and New Zealand. The shift was part of the implementation of the new public management (NPM) movement in which accounting is a vital component of the public sector (Hood, 1991, 1995). New Zealand was the pioneer to publish full accrual basis financial reports for the whole government (Ha, 2002). NPM itself is a major reformation movement (Connolly & Hyndman, 2006). It is meant to increase transparency and accountability (Minogue, 2000). Accrual basis accounting enhances the effective and efficient usage of public funds worldwide (Guthrie, 1998; Hyndman & Connolly, 2011).

In Indonesia, accrual basis accounting was part of the political and economic reforms of 1998 (Harun, Van Peurse, & Eggleton, 2012). The demand for transparency and

accountability increased in the post-reform era, and the result was decentralization of management for local governments and an improvement in the quality of reporting on the public sector. The central government gave full autonomy to the local governments and required accounting to international standards. Alongside the reforms, international donor agencies such as the IMF and the World Bank also made it necessary for the Indonesian government to implement accrual basis accounting (Hassan, 2015) so that funds can be seen to be well managed.

A package of state finance laws, Law 17/2003 on State Finance, Law 1/2004 on State Treasuries, and Law 15/2004 on State Finance Management and Accountability Audits, in essence made all state finance managers prepare state and local budgets according to the National Accounting Standards (*Standar Akuntansi Pemerintahan/SAP*) and said that they must implement accrual basis accounting. Furthermore, Articles No. 12 and 13 of the Law 1/2004 on State Treasuries also specified accrual basis accounting.

The SAP was first implemented after the issuance of Government Regulation 24/2005 on the National Accounting Standards based on cash toward accrual (CTA). However, the government did not fully enforce the mandatory Accrual Basis SAP to all local governments until after the issuance of Government Regulation 71/2010 on SAP. The Accrual Basis SAP, as stated in the Annex I Government Regulation 71/2010, should have been implemented, at the latest, in the 2015 budget year. Further provisions on the implementation of Accrual Basis SAP in local governments appeared in the Regulation of the Home Affairs Minister 64/2013 on the Implementation of Accrual Basis SAP in Local Governments. The regulation became the guideline for local governments for the preparation of the instruments to implement SAP and the financial reports.

One country that serves as the benchmark for the implementation of accrual basis accounting is New Zealand. The government of New Zealand applied accrual basis accounting after the country's economic recession and the mounting accumulation of national debts. This financial reform was basically motivated by a philosophical commitment to decrease the size of government (Ha, 2002). This breakthrough brought the country out of a financial crisis. Moreover, best practices from other countries show that accrual is a good basis for increased accountability.

Implementing accrual basis accounting in Indonesia's local governments has not been an easy task. Prior to its implementation in GR 24/2005, the implementation of cash-basis and CTA systems had actually been postponed for the previous eight years. The postponement indicated unreadiness on the part of the state apparatus itself during the transitional period. Studies by several researchers of local governments' readiness for accrual accounting concluded that the public sector lacked not only human resources, that is, qualified accountants (Azmi & Mohamed, 2014; Connolly & Hyndman, 2006; Langelo, Saerang, & Alexander, 2015; Maimunah, 2016; Ritonga, 2015; Widayastuti, Sujana, & Adiputra, 2015), but also commitment from leadership (Azmi & Mohamed, 2014; Ritonga, 2015), infrastructure for accrual basis accounting (Langelo et al., 2015; Ritonga, 2015) and internal coordination between units (Adhikari & Garseth-Nesbakk, 2016).

In Indonesia, studies previous to ours focused only on the background of the implementation (Harun et al., 2012; Hassan, 2015), on readiness to implement accrual basis accounting before its full enforcement (Harun, 2007; Langelo et al., 2015;

Suparman, Siti-Nabiha, & Phua, 2015; Widyastuti et al., 2015), and on the implementation of accrual basis accounting at the beginning of full enforcement (Ritonga, 2015). We aim to fill the gaps in previous studies by analyzing the implementation of accrual basis accounting after its full enforcement as mandated by Government Regulation 70/2010. To this end, we raise these two questions:

- To what extent has accrual basis accounting been implemented in local governments? Have four years of implementation showed maturity in terms of human resources and supporting infrastructure?
- How have local governments addressed the difficulties of implementation?

Our work on ‘actual implementation’ follows a previous study by Connolly and Hyndman (2006) that points out areas needing further examination. We see how far accrual basis accounting is accepted by analyzing its process (Bruno & Lapsley, 2018). We group local governments in Indonesia according to the audit opinions, because audit opinions are a solid indicator of the quality of the financial reports. Financial reports that have gone through the audit process are legitimate and valid (Power, 2003). By comparing the implementations in local governments with their different audit opinions, we identify the extent to which local governments implement accrual basis accounting.

2. Indonesia’s public sector accounting reform

Political reform and changes in political power do greatly affect public-sector accounting and management systems (Chang, 2009; Putu, Van Helden, & Tillema, 2007). As a developing nation, Indonesia began reforming its public sector when a crisis hit Asia in 1998 and the incumbent regime led by Suharto collapsed (Harun, An, & Kahar, 2013; Pamungkas, 2018; Prabowo, Leung, & Guthrie, 2017). The IMF demanded good governance and reformation in the government’s accounting system (Akbar, 2013; Harun et al., 2012). As a donor agency, it encouraged local autonomy, eradicating corruption, empowering the Audit Board, and setting performance-based budgets (Harun et al., 2013). Local governments became decentralized, and the quality of their financial reports improved.

Financial reform was marked by the three laws on finance, namely Law 17/2003 on State Finance, Law 1/2004 on State Treasuries, and Law 15/2004 on the Examination of State Finance Management and Accountability. Accrual basis accounting, independent audits, and financial reporting – all of which are parts of the reformation – improve democracy and strengthen transparency and accountability in the government (Harun, Van Peursem, & Eggleton, 2015). Improving the role of State Audit Agency (BPK) was part of the reform, even though historically the executive has ignored the roles of BPK (Dwiputrianti, 2011). These changes were driven by the economic crises, pre-democratic change, and international pressures to reform the public sector (Harun & Robinson, 2010). Public sector accounting reform became a kind of a new norm to seek legitimacy for the institutional pressures (Harun et al., 2013, 2012).

The SAP was first implemented after the issuance of Government Regulation no. 24/2005 on the National Accounting Standard by applying the CTA system. The government began to fully enforce the mandatory Accrual Basis SAP to all local governments

after the issuance of Government Regulation 71/2010 on SAP. Although there has been very little evidence of the effectiveness of this type of accounting system (Arnaboldi & Lapsley, 2008; Connolly & Hyndman, 2006), the Accrual Basis SAP, as stated in the Annex I Government Regulation 71/2010, had to be implemented at the latest in the 2015 Budget Year. In 2011 and 2012, the government prepared a guideline and technical policies related to the development of the accounting system and the appropriate IT. Employees received regular training and technical guidance. In 2013, the government began pilot projects in several ministries and agencies and conducted evaluations to improve the system. In the same year, a few local governments conducted a trial for the implementation of accrual-based accounting. Then in 2015, all ministries, agencies, and local governments were supposed to implement this system fully. Local government must apply accrual accounting system as the obligation from central government. The coercive factor of implementation exists as the local government depends on a significant portion of the transfer fund from the central government (Harun et al., 2012). In the traditional institutional situation, an organization functions legitimately when it fulfills the government's rules and regulations (Geurtsen, 2014). Rules and regulations are understood as a method to direct decentralized systems (James, 2001). For that reason, from institutional point of view, the Indonesian local government implemented an accrual accounting system under coercion and a coercive isomorphism seems to be transpiring (Baker & Rennie, 2006; Harun et al., 2012).

3. Data and methodology

3.1. Research design and sample

This is a qualitative study to examine the implementation of accrual basis accounting in local government and the issues arising during the implementation. The two criteria used for the selection of the sample of the study are: first, local governments with unqualified and qualified opinion ratings, based on summaries of the semesterly audit results (IHPS) I of year 2018 and on the Audit Board of Indonesia audits of local government financial reports (LKPD) in 2017; and second, accessibility by the researchers in terms of time and distance.

To explain the second criterion, in 2018, in Indonesia, there are 548 local governments: 34 provincial, 416 district, and 98 municipal governments. Due to the large geographical area as well as limited time, staff, and money, accessibility is necessarily a criterion of selection.

Sixteen respondents from nine local governments (two provincial, four district, and three municipal governments) are interviewed. All nine local governments represent Western and Central Indonesia. Five of them have unqualified opinion and four have qualified opinion. All 16 respondents are directly involved in the implementation of accrual basis accounting in their governments. [Table 1](#) below provides detailed information.

Table 1. Overview of the sample $N = 16$.

Local Government (RG)	Type of Government	Position of respondent	Number of respondents $N = 16$	Audit opinion
RG1	Province	Head of Sub-Accounting and Reporting	1	Unqualified
RG 2	Province	OPD Accounting Staff	2	Unqualified
RG 3	Municipal	Head of Accounting Section	2	Unqualified
RG 4	District	Head of Sub-Asset Section	1	Unqualified
RG 5	Municipal	Head of Accounting Section	3	Unqualified
		Head of Asset Section		
		Head of Revenue Section		
RG 6	District	Head of Accounting Section	1	Qualified
RG 7	District	Head of Accounting Section	2	Qualified
		Head of Asset Section		
RG 8	District	Head of Accounting Section	1	Qualified
RG 9	Municipal	Head of Accounting and Asset Section	3	Qualified
		Head of Revenue		
		Head of Local Finance Body		
Total Respondents			16	

3.2. Data collection

We use the triangulation approach that consists of document analysis and interviews for data collection. The analyzed documents include local government financial reports (LKPD), summaries of semesterly audit results of the Audit Board of Indonesia, and press releases, that is, public announcements, of the audit results of the Audit Board of Indonesia. Since one of the goals is to understand the perspectives of the people involved, semi-structured interviews enquire into their different perspectives (Blumer, 1969).

Three different procedures obtain interviews with the respondents. First, requests are sent to Heads of Local Finance and Assets (BKAD) of the respective local governments, who then nominate for interview their staff who are the key actors in the implementation of accrual accounting. Then, researchers directly visit the local governments' BKAD offices and orally request the interviews. Other respondents are contacted personally by the researchers, using information supplied by their employers.

In several local governments, the interviews are sequential. An interview with the person originally contacted by the researchers leads to another interview arranged with their colleagues who are also involved. For example, a first interview is with a Head of Accounting (since it was related to assets and revenue). The Head of Accounting then arranges a meeting with the Head of Assets and the Head of Revenue.

All interviews are conducted in the respondents' offices between April and August 2018, taking 40 min to 2 h. Some respondents ask to see the list of questions before the interview. The semi-structured interviews are based on the interview guidelines previously prepared as an instrument to ease the interview process. Many interviews also stimulate open discussions. With permission – all respondents give permission – each interview is recorded and transcribed.

3.3. Data analysis

From the transcripts, the data are reviewed and analyzed. The analysis starts with the separation of issues according to questions addressed in the study following the standard procedure of qualitative content data analysis (Mayring, 2014). Two major issues are identified during the interviews:

- the progress of the accrual basis accounting implementation,
- the obstacles faced in the implementation

The views of the respondents and the results of the interviews are grouped by the audit opinions, i.e. unqualified and qualified opinion. Local governments with an unqualified opinion represent the governments which have implemented accrual basis accounting according to the national accounting standard.

4. Results

As above, the research questions are as follows:

- (1) To what extent has accrual basis accounting been implemented in local governments?
- (2) How have local governments addressed the issues rising from the implementation?

The following findings of each research question:

4.1. To what extent has accrual basis accounting been implemented in local governments?

The year 2015 was an important year for the implementation of accrual basis accounting for all local governments in Indonesia since it was the first year when the system was implemented. This study documents the implementation after four years. The respondents describe the actual implementation of the accrual basis accounting in the sample local governments. They acknowledge that the system is not yet fully implemented in governments with either qualified or unqualified opinion. Accrual basis is limited to reporting only, not the process. The accounting system itself is not accrual. As the Head of Accounting of a district in Western Indonesia (qualified opinion) says:

Suffice it to say here that first of all, local implementation of the accrual basis accounting was never just a requirement. Since it was mandatory, the recording component was prioritized, but not the implementation. Thus the report was made, but the accrual process itself was not applied because it was not easy to do. . . Thus, we've ended up having to make accrual-basis reporting, but not the process itself; so, it's not been purely implemented, so to speak.
(Respondent J, LG 6)

This respondent explained that the accrual basis accounting was not fully implemented. The report of accrual basis accounting does not reflect the system. Officials from local governments with qualified opinion admit that the recording is done manually only at the end of the semester and at the end of the year. The IT system cannot

accommodate the process. Furthermore, the IT system can record only cash-based revenues. For revenues due to local governments, but without immediate cash in hand, a record is made offline or manually using improvised, un-audited spreadsheets. The accrual is inputted at the end of the semester, or year, only when the local financial report is due.

Furthermore, the IT system used by each local government in our sample is different. Some use SIMDA (Sistem Informasi Manajemen Daerah) or local management information system, while some others use SIPKD (Sistem Informasi Pengelolaan Keuangan Daerah) or local *financial* management information system. Some even work with an outsourced consultant to create their own system. However, none of these systems is able to do accrual accounting. One OPD accountant in a municipal government (unqualified opinion) in Sumatra Island explains:

The system is more focused on the administration than on the reporting. The reporting is still offline and then entered into the system. The calculation is also offline; it's not automatic. (Respondent B, LG 2)

Aside from IT systems that do not support accruals, many government officials also complain about the lack of qualified staff. Some untrained staff in OPD do not even understand the basic idea of accrual. A Head of Accounting and Assets of a municipal government with qualified opinion in the central part of Indonesia says:

In the accrual system, each transaction must be recorded. The problem is they [the staff] did not record it immediately so they accumulated the recording at the end. They didn't do the recording until the semester report or the financial report was made. (Respondent N, LG 9)

This human resource issue is found in almost all the sampled local governments. Although preparation had been made long before the full enforcement in 2015, the issue was never solved. Prior to 2015, the local governments as implementers of accrual basis accounting had received training and technical guidance for their accounting staff. However, due to regular mutation and rotation in the government, staff come and go. Also, it is generally difficult to find accounting staff with an accounting background. Human resources are currently inadequate in terms of quantity and quality, as the Head of Accounting in a municipal government (unqualified opinion) says:

There is a shortage of accounting staff. If one staff is out, that is it; there is nobody to replace the person. (Respondent H, LG 6)

From the statement above, we conclude that there is no adequate replacement for the staff since there is no training since, apparently, 2015. Staff rotation and mutation hinder the ongoing implementation of accrual basis accounting. Training and technical guidance should be continuous.

Another technical issue encountered by almost all local governments in our sample is the recording of assets. The officials from governments (both unqualified and qualified) admit that assets are not recorded well and hence, depreciation is uncertain. They have difficulty establishing the value of transferred assets. Therefore, in the financial statement, assets were considered as worth one nominal rupiah. Some old 'bulk' data still have to be unpacked, another issue that the local governments have to face.

The Head of Accounting in a municipal government (unqualified opinion) in Java Island explains:

Related to the data of assets that are not well organized, the calculation of depreciation will depend on the data... The data on assets cannot be presented (validated) since there are issues. Assets which were transferred from the district, the main district, were (last year) valued as zero and one. (Respondent G, LG 5)

The statement above is corroborated by a Head of Accounting and Asset Section from a municipal government (qualified opinion) in Central Indonesia:

Since we are only a city, a smaller part of a district, many assets were given but the values were not mentioned. Markets, for example, were given to us, but we don't know their values. We don't even know the total area of the markets. The data were not given. (Respondent N, LG 9)

The issue of asset valuation was identified by the Audit Board during their audit process which caused a few regions to fail in obtaining qualified opinion.

Mistakes in recording assets in the past bedevil current reporting. For example, goods which should have been recorded as consumable were put down as a capital asset.

Another technical issue is the reporting of revenue. The Head of Sub-Accounting Section in one government (unqualified opinion) points out that a few revenues can be recorded only after the cash is received. For vehicle taxes, for example, the system releases the invoices when they are due. However, not every invoice can be claimed as payable because the vehicles themselves may have been sold quite legitimately to other people. Therefore, for this government, vehicle taxes are still cash-based. They say:

For vehicle taxes, if the Taxpayer doesn't show up when the payment is due, we cannot claim it... the invoice is there in our application. All we need to do is to print it. But giving it to the Taxpayer is difficult. Some even have changed ownership. We have no information on this matter. (Respondent A, LG 1)

If revenues are recorded only when the cash is received, implementation of accrual basis accounting in local governments needs to be reviewed.

The validity of data presented in the financial report is questionable. There are still data which are not presented, for example, some data related to assets and liabilities. Some liabilities are not recorded when debts between OPD and third parties are declared by OPD, and do not appear in the financial report. OPD is still a part of the local government. One accountant in an OPD explains:

The local governments record debts as an liabilities that they still need to pay, such as electricity and water. They record them as expenses that need to be paid. However, they don't record the liabilities to vendors, although they record the supply. For example, medicine worth 500 million (rupiah) is sent and recorded as a supply. The supply is recorded by local governments. It is in the form of debt, but not recorded. (Respondent B, LG 2)

It follows that the 'unqualified' opinion does *not* represent the quality of the financial report of the local governments. Although the four main criteria are compliance with the National Accounting Standard, adequate declaration, compliance with the law, and effective internal control, our evidence shows that accrual accounting in the West and Center of Indonesia still faces challenges.

Only a few local governments say that the lack of commitment from leadership is still an issue in the implementation of accrual basis accounting. Given that the implementation is mandated by the Law, the Heads of Regions must support it. This commitment can be seen from their consistent efforts to send the staff for training and technical guidance. Nevertheless, one region, in particular, still has an issue in leadership. Since this region was the result of local expansion, the implementation of the system did not become the priority of the new leadership. The Head of Accounting Section in that district government with qualified opinion in Sumatra explains:

The Regent was appointed only after the system was first implemented. He thought that he was not responsible to continue the past work. So, the implementation is on-going, but not properly. (Respondent J, LG 6)

This shows that new and developing local governments do not make accrual basis accounting a priority to improve their financial reports.

To sum up, generally, the implementation of accrual basis accounting in local governments in Indonesia is progressing relatively well, although some issues still need to be addressed. Successfully to earn unqualified opinion does not mean that governments are able to produce quality accrual reports. Recording of assets is still a challenge for many local governments, qualified or unqualified. Many parties must co-operate to address these issues.

4.2. How have the local governments addressed the issues?

The shortage of trained staff, the inadequacies of the IT system, and recurrent organizational issues, such as haphazard recording of assets and revenues, need to be addressed by the local governments.

To help staff, continuous training must be available, not always in formal classes. Competent internal parties can foster discussions between colleagues and with their superiors. The Head of Assets of a municipal government (unqualified) says:

... the staff learn on their own and learn by doing. Since this is their everyday work, they learn as they go. They learn on their own and through discussions (with other colleagues). If there is a difficult technical issue, they would ask me (as their superior). As long as they're about normal issues, they know what to do... (Respondent G, LG 5)

Since there is a lot of technical guidance offered, we welcome them to have consultations. Our colleagues in OPD are no longer afraid to ask, through phone calls or others. We are open 24 hours, any time... They don't need to ask formally. (Respondent D, LG 3)

Communication and coordination between staff and their superiors and other departments becomes the key to competence and confidence. The involvement of supervisors and senior employees to help juniors demonstrates participative leadership behaviors that are expected to contribute positively to improving organizational commitment (Park, Miao, & Kim, 2015). Local governments do not rely on formal, external training since the budget for this is limited.

Local governments needing asset valuations initially set the values at zero or unknown. This approach is, however, rejected by the Audit Board. The Board rules that a zero

appraisal can be put only on assets that are definitely written off and released for sale with no reserve.

To get an acceptable value for live assets, the local governments now value them by comparing them to similar assets in other regions. Almost all local governments in the sample consult with other parties such as the Audit Board to solve practical issues. The Head of Assets in a municipal government with unqualified opinion explains:

...We couldn't keep having this (valuation) issue. So, we intensively consulted the Audit Board. Thank God they're very helpful. Many people don't want to be audited by the Audit Board. Well, I do. (Respondent H, LG 5).

A number of respondents affirmed that with the support of the Audit Board, issues of valuation can be addressed.

Another challenge is the IT systems that do not support accrual accounting. A few local governments overcame this issue by creating their own system with the help of a consultant. Others even enabled an accrual recording of transactions manually on a spreadsheet.

We have a (new) system, but the financial report is made in two formats: the spreadsheet and the system. ...

The spreadsheet helps with our real work since the Audit board is not the only one checking. The Provincial Inspectorate will also check to accountability purpose. We need the spreadsheet, not the new system, to answer their detailed questions. (Respondent N, LG 9)

We see that the use of spreadsheets in some local governments to record accrual transactions helps them when the Inspectorate and the Audit Board arrive.

5. Discussion

We examine the four-year implementation of accrual basis accounting in local governments in Indonesia. Government Regulation number 71 of 2010 on SAP mandated the implementation of accrual basis accounting, and 2015 became a historic year in its implementation in local governments. Several local governments prepared to introduce this mandatory system even before 2015. One local government started in 2013; thus, when the system became the norm, they were already familiar with it.

Various issues arose during the implementation and governments with both qualified and unqualified opinion encountered the same issues. One issue raised by all respondents is still staff training and staff shortages. Human resources, or the lack of them in the public service, are an obstacle to progress (Synnerstorm, 2007). Not all accounting staff are qualified, and the backgrounds of civil servants appointed to be in charge of accounts do not always align with the work expected of them. Harun et al. (2013) blame this on poor coordination between central and local governments, which makes worse the shortage of competent accountants in the regions. Furthermore, that the central government constantly changes the regulations related to financial reporting, not to mention the rotation and mutation of trained staff, causes further difficulties for the local governments. Rotation and mutation cannot be avoided since staff are allowed to sit in certain functional positions for only a certain number of years. Therefore, when a trained staff member departs, their replacement very likely has to be trained anew. Coordination between the

accounting staff and their superiors and other departments is vital in addressing the human resource issue, since not all accrual basis accounting training can be done formally. Also, recruiting competent accounting staff is not easy when the salaries of civil servants are not competitive with salaries in the business sector (Harun, 2007).

Another challenge to implementation is the IT system. Current IT systems apparently still cannot accommodate accrual basis accounting. To tackle this, a few local governments supplement them with in-house spreadsheets. This makes it easier for the local governments and the Audit Board to trace accrual transactions.

One other technical issue for almost all local governments is the procedure for valuation of assets and declaration of liabilities. One respondent explains that they value their assets by using equivalent assets held by other local governments. Declarations of liabilities, too, also require common understanding. The validity of the liabilities of a local government must be tested. Further clarification is needed.

The Audit Board must not judge the financial report by only the four given criteria: compliance with the National Accounting Standard, adequate declaration, compliance with the Laws, and effective internal control. The current implementation of accrual basis accounting is not fully accrual. As mentioned above, even though vehicle taxes are due, some local governments do not record them as revenue since, they say, 'the vehicles might have changed ownership and the Taxpayer would be different.' Therefore, vehicle taxes are still recorded as cash-based. This example shows that there are uncertainties and doubts in the public sector (Bruno & Lapsley, 2018). Also, even though a final report using accrual is produced, the process itself is still cash-based. This is in line with the finding made by Bruno and Lapsley (2018) in Italy which reveals no well-defined accrual template. They say that the so-called accrual basis accounting system in Italy is currently (Bruno & Lapsley, 2018) an improvised fabrication of a complex system.

Various issues encountered in the implementation of accrual basis accounting in local governments are addressed by good communication and coordination among colleagues, with superiors, and across departments. Thus, they will mitigate the ill effects of lack of resources. The Audit Board helps to overcome the problems encountered, and its recommendations are welcomed by the people concerned.

6. Conclusions

This is a qualitative study to analyze the progress of the accrual basis accounting implementation in Indonesia's local governments after its full enforcement mandated by Government Regulation 71/2010, effective 2015. The implementation is seen from two perspectives: the perspective of local governments with unqualified opinion and the perspective of the local governments with qualified opinion. Sixteen respondents giving interviews for the study come from nine local governments, namely, two provincial governments, three municipal governments, and four district governments.

The study makes it clear that local governments – with both unqualified and qualified opinion – do manage to implement accrual basis accounting relatively well although they still encounter some challenges. Officials from governments with both qualified and unqualified opinion explain that they produce accrual reports, but the full system process is not yet accrual. They add that these challenges persist even after four years of attempted implementation, although they do manage to sidestep inadequate IT

systems and they do secure commitment from their leaders who, of course, have no option but to comply with the Law.

The limitations of this study will influence the next studies on the same topic. First, a small sample covers only the Western and Central Indonesia regions and cannot be generalized. Further work including local governments from Eastern Indonesia may produce different results.

Second, although the respondents are carefully selected, these qualitative results might still be biased due to the subjectivity of the respondents. Furthermore, this study does not seek the opinions of auditors and consultants, although these parties are very much involved. Further studies on the area, therefore, should include their viewpoints.

Our findings should prompt local governments to address the recurring issues related to human resources. They may work with local institutions of higher education to produce competent graduates to relieve the shortage. External auditors from Audit Board of Indonesia should also assess the financial reports not only from the four main criteria – adherence to the National Accounting Standard, adequacy of the reporting, compliance with the Law, and effective internal control – but also for the quality and accuracy of the accrual-based records themselves.

Acknowledgments

Authors thank to Universitas Prasetya Mulya and University of Lampung for the support during the research process. We also thank to all respondents from several local governments for cooperation in the survey.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

This research was fully funded by DIKTI Grant 2018 for Inter-University Collaboration Research Scheme (PTKP) of Ministry of Research, Technologies, and Higher Education, Indonesia, No: 0/3/10.4/720/03/2018.

Notes on contributors

Retno Yulianti is a lecture in Accounting, School of Business and Economics, Universitas Prasetya Mulya, Tangerang, Indonesia. Her research interests include public sector accounting and accounting education. Retno Yulianti is the corresponding author for this paper and can be contacted at: retno.yulianti@pmb.ac.id.

Yuliansyah Yuliansyah is a senior lecturer in Accounting, School of Business and Economics, University of Lampung, Bandar Lampung, Indonesia. Yuliansyah completed his PhD in accounting at the University of South Australia, Australia, in 2012. His areas of research interest include strategic management accounting, management control system and strategy, and performance measurement systems. He has published in several international academic journals and presented his research paper at reputed international conference. Email: yuliansyah@feb.unila.ac.id.

Yang Elvi Adelina is a lecture in Accounting, School of Business and Economics, Universitas Prasetiya Mulya, Tangerang, Indonesia. Her research activity is focused on Islamic banking and risk management. Email: yang.elvi@pmb.ac.id.

References

- Adhikari, P., & Garseth-Nesbakk, L. (2016). Implementing public sector accruals in OECD member states: Major issues and challenges. *Accounting Forum*, 40, 125–142.
- Akbar, B. (2013). *Akuntansi Pemerintahan*. Jakarta: Bumi Metro Raya.
- Arnaboldi, M., & Lapsley, I. (2008). On the implementation of accrual accounting: A study of conflict and ambiguity. *European Accounting Review*, 18(4), 809–836.
- Azmi, A. H., & Mohamed, N. (2014). Readiness of Malaysian public sector employees in moving towards accrual accounting for improve accountability: The case of Ministry of Education (MOE). *Procedia – Social and Behavioral Sciences*, 164, 106–111.
- Baker, R., & Rennie, M. D. (2006). Forces leading to the adoption of accrual accounting by Canadian government: An institutional perspective. *Canadian Accounting Perspectives*, 5(1), 83–112.
- Blumer, H. (1969). *Symbolic interactionism: Perspective and method*. Englewood Cliff, NJ: Prentice-Hall.
- Bruno, A., & Lapsley, I. (2018). The emergence of an accounting practice: The fabrication of a government accrual accounting system. *Accounting, Auditing, & Accountability Journal*, 31(4), 1045–1066.
- Chang, L. (2009). The impact of political interest upon the formulation of performance measurements: The NHS star rating system. *Financial Accountability & Management*, 25(2), 145–165.
- Connolly, C., & Hyndman, N. (2006). The actual implementation of accruals accounting: Caveats from a case within the UK public sector. *Accounting, Auditing & Accountability Journal*, 19(2), 272–290.
- Dwiputrianti, S. (2011). Scope of auditing on the quality of content in the Indonesian external public sector auditing reports. *International Review of Public Administration*, 16(3), 133–149.
- Geurtsen, A. (2014). Accountability standards and legitimacy of not-for-profit organization in the Netherlands. *International Review of Public Administration*, 19(2), 163–178.
- Guthrie, J. (1998). Application of accrual accounting in the Australian public sector – Rhetoric or reality? *Financial Accountability & Management*, 14(1), 1–19.
- Ha, Y. S. (2002). A comparative study of budgetary and financial management reforms: The cases of Australia, New Zealand, and Sweden. *International Review of Public Administration*, 7(1), 123–136.
- Harun, H. (2007). Obstacles to public sector accounting reform in Indonesia. *Bulletin of Indonesian Economic Studies*, 43(3), 365–376.
- Harun, H., An, Y., & Kahar, A. (2013). Implementation and challenges of introducing NPM and accrual accounting in Indonesian local government. *Public Money & Management*, 33(5), 383–388.
- Harun, H., & Robinson, P. (2010). The adoption of accrual accounting in the Indonesian public sector. *Research in Accounting in Emerging Economies*, 10, 233–250.
- Harun, H., Van Peurse, K., & Eggleton, I. (2012). Institutionalization of accrual accounting in the Indonesian public sector. *Journal of Accounting & Organizational Change*, 8(3), 257–285.
- Harun, H., Van Peurse, K., & Eggleton, I. (2015). Indonesian public sector accounting reforms: Dialogic aspirations a step too far. *Accounting, Auditing & Accountability Journal*, 28(5), 706–738.
- Hassan, M. M. (2015). Transformation to more-accrual-based accounting practice in Indonesian government. *Journal of International Business Research*, 14(1), 139–165.
- Hood, C. (1991). A public management for all seasons? *Public Administration*, 69(1), 3–19.
- Hood, C. (1995). The new public management in the 1980s: Variations on a theme. *Accounting, Organizations and Society*, 20(2–3), 93–109.

- Hyndman, N., & Connolly, C. (2011). Accruals accounting in the public sector: A road not always taken. *Management Accounting Research*, 22, 36–45.
- James, O. (2001). New public management in the UK: Enduring legacy or fatal remedy? *International Review of Public Administration*, 6(2), 15–26.
- Langelo, F., Saerang, D. P. E., & Alexander, S. W. (2015). Analisis penerapan standar akuntansi pemerintah berbasis akrual dalam penyajian laporan keuangan pada pemerintah kota bitung. *Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi*, 3(1), 1–8.
- Maimunah, M. (2016). Implementation of accrual accounting: Review of readiness and arising problem. *Procedia – Social and Behavioral Sciences*, 219, 480–485.
- Mayring, P. (2014). *Qualitative content analysis. Theoretical foundation, basic procedures and software solution*. Klagenfurt: Beltz.
- Minogue, M. (2000). *Should flawed models of public management be exported? Issues and practices*. Manchester: Institute for Development Policy and Management, University of Manchester.
- Pamungkas, B. (2018). Accrual-based accounting implementation in Indonesian's local governments compared to other countries' experiences. *Man in India*, 98(1), 1–23.
- Park, S. M., Miao, Q., & Kim, M. Y. (2015). The role of leadership behaviors for enhancing organizational effectiveness in the Chinese public sector. *International Review of Public Administration*, 20(2), 153–176.
- Power, M. K. (2003). Auditing and the production of legitimacy. *Accounting, Organizations and Society*, 28(4), 379–394.
- Prabowo, T. K. W., Leung, P., & Guthrie, J. (2017). Reforms in public sector accounting and budgeting in Indonesia (2003-2015): Confusions in implementation. *Journal of Public Budgeting, Accounting & Financial Management*, 29(1), 104–137.
- Putu, S. N., Van Helden, G. J., & Tillema, S. (2007). Public sector performance measurement in developing countries. *Journal of Accounting & Organizational Change*, 3(3), 192–208.
- Ritonga, I. T. (2015). Lesson learned from early implementation stage of accrual accounting in Indonesia local government – A case study in Province XYZ. Retrieved from <https://repository.ugm.ac.id/eprint/135218>
- Suparman, M., Siti-Nabiha, A. K., & Phua, L. K. (2015). Public sector accounting reforms: Assessing Indonesia's readiness towards implementing accrual accounting. *Problems and Perspectives in Management*, 13(2), 296–303.
- Synnerstorm, S. (2007). The civil service: Towards efficiency, effectiveness and honesty. In R. H. McLeod & A. MacIntyre (Eds.), *Indonesia: Democracy and the promise of good governance* (pp. 159–177). Singapore: Institute of Southeast Asian Studies.
- Widyastuti, N. M. A., Sujana, E., & Adiputra, I. M. P. (2015). Analisis kesiapan pemerintah daerah dalam menerapkan standar akuntansi pemerintah berbasis akrual di Kabupaten Gianyar. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi S1)*, 3(1), 1–12.