
Implementation of accrual accounting concept in Indonesian government: is it the true concept?

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Abstract: This study aimed to assess the accrual concept applied by the government, whether it is in accordance with the accrual concept applied to corporations. Accrual-based accounting in the government is a global issue. This study used a conflict-ambiguity model perspective with a combined method, public document analysis, and Inspectorate survey. The study found that there was 1.94% from total receivable general allocation funds (GAFs) that had not been given to regional government. However, in the government's financial statements in Lampung region, there was no record of receivables within the GAF.

Keywords: accrual accounting; government; financial statements; ambiguity-conflict models.

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1 Background

The application of accrual accounting in the government of Indonesia has not been evaluated by researchers. Although some studies were already performed on this topic, the results merely discussed the impact of performance (financial, economic, and managerial) on the application of accrual concept in Indonesia. However, there is still a critical issue that must be resolved on the application of accrual concept itself. The important questions were whether the accrual concept used in the government performed as well as the accrual concept used in corporations and if there was a need to redefine accrual concept for the government. Furthermore, there might be a need for research and change as described by Bale and Dale (1998) in accrued issue in New Zealand government, where choices on the application of general principles and relevant specific elements were available to fulfil the needs of the state that aims to improve the quality, efficiency and cost-effectiveness of their public services sectors. Therefore, a careful analysis of these reforms can determine what might be transferred and which principles may apply.

This curiosity is born from the empirical evidence found during the implementation of financial management. In reality not all principles of accrual accounting are applied in government accounting. This is due to the implementation of accrual accounting in government is not only guided by the accrual based Governmental Accounting Standards issued by the Government Accounting Standards Committee, but must also consider the legislation on state finances management. Barton (1999) stated that from the beginning,

he had been suggesting that the adoption of accrual accounting for corporation cannot be adopted directly into governments. Regardless, the private sector and the government are not similar in the context of accrual concept which come from the private sector and can not be applied directly to the government. Barton's doubts on the possibility of applying accrual accounting in government need to be aligned with the application of accrual accounting in Indonesia. Accrual accounting in Indonesia has started since the issuance of Government Regulation No. 71 Year 2010 concerning Governmental Accounting Standards which must be implemented no later than 4 (four) years after 2010 fiscal year.

2 Literature review

New public management (NPM). NPM is referred to as the solution to management problem in various organisational contexts and policy making in education reform and healthcare. NPM was like a spring for administrative reform in the 1990s. The idea to use the NPM model in government was perceived as government adopting principles that apply in corporate environment which appears more efficient and flexible in managing administrative and financial matters. NPM promotes a change from bureaucratic administration to professional management akin to business. The basic principles of NPM can be described well when separated into seven different aspects as outlined by Hood (1991). Hood (1991) explained that there are seven components doctrines associated with the emergence of NPM:

- 'Hands-on professional management' in the public sector
- explicit standards and measures of performance
- greater emphasis on output controls
- shift to disaggregation of units in the public sector
- shift to greater competition in the public sector
- stress on private sector styles of management practice
- stress on greater discipline and parsimony in resource use.

Another theory that is also quite important to explain the issue of accrual accounting in government is *the theory of organisational change*. Aminah et al. (2016) explained that previous studies also used theories of organisational change in government bureaucracy (such as De Korte and van der Pijl, 2009; Boonstra, 2003) during the transition period at the Dutch Audit Department (Netherlands). Inefficient bureaucracy will create a high-cost economy and reduce investment which can ultimately hamper economic growth (Khusaini, 2019).

The accrual accounting. The International Federation of Accountants (IFAC) is the organisation that supports the development, adoption and implementation of international standards for accounting education, ethics, and public sector, including audit and assurance. IFAC supports four independent standard-setting boards, which set international standards on ethics, auditing and assurance, education, accounting, and public sector accounting. IFAC has issued guidance to encourage high quality

performance in organisations through professional accountants in business and practice of accounting. IFAC defines accrual accounting as the basis of accounting in which transactions and other events are recognised when they occur (and not only when cash or its equivalent assets are received or paid). Therefore, transactions and events are recorded in the accounting records and recognised in the financial statements of the period concerned. The elements recognised under accrual accounting are assets, liabilities, net assets/equity, revenue, and expenses (p.679). IFAC supports adoption of accrual accounting in the public sector, by issuing Handbook of International Public Sector Accounting Pronouncement, Volumes I and II, 2016.

If the concept of NPM and accrual accounting is implemented with harmony and mutual balance, government accounting will run ideally. The concept of accrual accounting encourages flexibility for local governments to arrange finance with NPM terminology. The obtained result is the flexibility of financial management which are professional, healthy, competitive, scalable, and controlled. Harun et al. (2015) explained that the accounting report has a series of rules and unclear accounting systems for local bureaucrats, who are just starting to understand the basics of accrual accounting especially those with no basis of accounting education. Most of the local government employees only have a small number of qualified accounting capabilities and are required to present financial statements not only by the government accounting standards but also the regulations issued by the Ministry of Home Affairs. NPM role in the reform of accrual accounting in government is well documented (Sevic, 2015), yet there was little evidence that the financial reform of the government managed to improve real accountability in public sector entities (Arnaboldi and Lapsley, 2009; Harun et al., 2015). The findings are surprising but supported by many other studies. However, not many studies discuss more about the treatment of accrual accounting in the accounts of the government's financial statements.

Most governments in many countries are trying to switch from cash accounting to accrual accounting, aiming to respond to the NPM. In other words, the issue of accrual-based accounting in government is a global issue and affecting also international market. Most countries expect to manage government finances just like corporate management that is focusing on performance (Hyndman and Connolly, 2011). In addition, the adoption of accrual accounting is expected to support the government to be more effective and efficient in decision-making. There is big hope of successful accrual accounting adoption for the government and this has raised fears over the success (Paulsson, 2006). However, not all countries successfully adopt the concept of accrual accounting. Hyndman and Connolly (2011) analysed the financial records of the government in the UK and interviewed several key actors who stated that accrual accounting in the public sector is a road rarely passed. In other words, accrual accounting cannot be implemented in all government financial transactions. Another study also found that accrual accounting is easier to handle on agency level (local government) in Sweden (Paulsson, 2006), and Pallot (2001) reported the same thing in the government of New Zealand.

Studies of doubt, conflict and ambiguity on the implementation of accrual accounting in government also has been carried out by Carnegie and West (2003); Arnaboldi and Lapsley (2009) by using ambiguity-conflict model perspective Matland (1995). In accrual adoption, Arnaboldi and Lapsley (2009) explained their major debate the benefits of accrual accounting in the public sector in general. The approach used by Arnaboldi and Lapsley (2009) in the study was a combined method, consistent with public document

analysis and surveys on capital supervisory accountant local authority (Inspectorate in Indonesia). Research by Arnaboldi and Lapsley (2009) revealed the results that the application of accrual accounting in government only has a minor impact on accrual information potential users. Carnegie and West (2003) challenged to have full accrual accounting unconditional implementation in the Australian public sector. Carnegie and West studies were focusing on the recognition and assessment for the purposes of financial reporting of public sector resources that are non-financial. Their study found that an effort to identify those resources on the monetary value in the financial statements of public sector organisations is an act that is contrived and inappropriate. The findings of these studies imply that the accrual accounting known in the corporation can only be implemented within a limited basis in government accounting.

3 Research method

This study uses ambiguity-conflict model perspective with combined method: analysis of public documents and surveys on the inspectorate. This method has been used in previous research conducted by Harun et al. (2015) and Arnaboldi and Lapsley (2009), in which both conducted research analysis of government documents and surveys on the parties deem to provide depth in document review. The data used were the Lampung provincial government's financial statements. All existing accounts in the government financial statements were assessed to define if it fit into the concept of accrual accounting. Furthermore, the study resumed in the nominal amount on the related account with the purpose of finding the percentage of nominal accounts and accounts in the financial statements which are in line with the concept of accrual accounting.

4 Discussion

Generally, the existence of receivable accounts and payable accounts is a proof that financial statements preparation process exists, which is affected by accrual accounting. The characteristic of the use of accrual basis in preparing the financial statements is the presence of receivable accounts (see Table 1) and debts/liabilities (see Table 2). Both accounts in the application of accrual accounting in the financial statements of local governments can be concluded as not pure accrual.

Receivables. Referring to the definition and the recognition of receivable account stated above, for revenue transfers from the central government on receivable accounts, accrual based recording method is excluded or not used. Table 1 shows the concept of accrual accounting for receivables. On the account of revenue recognition on the allocation of funds transfers from the central government to the regional government, in particular the general allocation fund (GAF) that is primarily designated to pay the salaries of civil servants in the area, if the recording is based on accrual accounting, once finance minister decree is issued or accepted, local governments are supposed to record the details of the allocation of transfers to regions and village fund as revenue on the debit side of receivable accounts. It is thus conducted for it has met the recognition criteria as described above. However, in reality it has not been performed as such.

Table 1 Accrual accounting concept for receivable of government accounting standards of Indonesia

| <i>Account</i> | <i>Definition</i> | <i>Recognition</i> |
|----------------|--|--|
| Receivable | The amount of money that must be paid to the local government and / or local government rights that can be valued in money as a result of agreement or others as a result of legislation or other legal consequence. | a Published decree; or b Notice of billing issued and billing has been implemented; or c Has not been paid until the end of the reporting period |

Source: Government Regulation No. 71/2010 of government accounting standards

Table 2 Accrual accounting concept for liabilities of government accounting standards of Indonesia

| <i>Account</i> | <i>definition</i> | <i>Recognition</i> |
|------------------|---|---|
| Debt/liabilities | Obligations arising from past events which resulted in outflow of economic resources by the government. | a Borrowed funds received by the government; or b The loan funds issued by the creditor in accordance with the agreement of local governments; or c As obligations arise. |

Source: Government Regulation No. 71/2010 of government accounting standards

Government financial record shows that supposedly in GAF, which will be distributed by the central government to the regions until the end of the year, there will be receivable in the form of GAF which has not been transferred to the region amounted to 1.94%. However, based on the provincial government’s financial report/regency/city in Lampung region, there is no record of receivable on the GAF. Meanwhile, according to GAF contribution to total revenues achieved in each local government, provincial/district/city in Lampung region, on average there were 45.78% of total revenue managed and recorded at 16 provincial/district/city in Lampung region that are not in line with accrual concept.

Studies and discussion related to the accrual accounting concept in receivable account:

- a There is a hidden discretion behind the inability of the government to apply accrual accounting concept in the GAF. It persistently appears that the predetermined GAF amount of allocations is not fully transferred to local governments in Lampung area.
- b There is a difference of 1.94% GAF that cannot be funded, which show the central government also avoids payable accounts to local government in the nominal amount.
- c Accrual concept for receivable accounts applies only for transactions that occur in the regional government. Examples are Hotel Income Taxes, which local governments can immediately admit the hotel tax revenue after the issuance of a tax assessment. Similarly, restaurant tax, a tax on land and building, and other incomes are local government revenue.

For revenue recognition on the allocation of funds transfers from the central government to the regions, especially in this case the GAF which primarily designated to pay the salaries of civil servants in the area, accrual based recording should have been performed once finance minister decree about the details of the allocation fund transfers to regional and rural local governments is issued/accepted and recorded as receivable revenue on the side of debit, just like the treatment of the records of other types of income. However, such accrual recording is excluded revenue transfers from the central government.

Debt (liabilities). Act No. 1 2004 about state treasury Article 3 paragraph (3), states that: "Every official is prohibited from spending at the expense of budget for national/region income and expenditure if the budget to finance these expenditures are not available or are not reasonably available". It means that governments are not allowed to carry out activities when the funds do not exist or in other words are not allowed debt. This indicates that the real concept of accrual accounting as a whole does not apply to payable accounts. Debt can arise from:

- transactions with exchange
- transactions without exchange, as required by law and the policies implemented, which have not been paid in full up to the reporting date
- events related to the government
- events recognised by the government (government-acknowledged events).

Studies and discussion related to the accrual accounting concept in debt account:

- a The local government does not have the flexibility to do the actual expenditure. In other words, development activity in the region is highly dependent on the availability of government cash – if the funds are not yet available, no purchase can be made. Khusaini (2016) found that public sector spending (expenditure) has a direct positive effect on local economic development, although not all public sector expenditure indicators have an indirect effect on local economic development;
- b Development funds are mostly absorbed in the last quarter of the financial year.
- c Control of expenditure in the last quarter of the financial year is slower due to the wide extent of government activity.

This study had conducted an analysis of Bandar Lampung government financial records and interviewed several key actors in accrual accounting (regional inspectorate) to find that in the Indonesian government accrual based accounting is not yet implemented as it is in corporations. Accrual accounting implemented in government finances is confined to the revenue recognised coming from local governments and cannot be implemented for the revenue whose funds sourced from the central government. By doing so, in the reporting of the central government no debt will be found on local government. On the other hand, local government recorded debt in the accounts at the central government.

Based on the details of the allocation of GAFs by Province/Regency/City 2017 Fiscal Year issued by the Directorate General of Fiscal Balance, Ministry of Finance Republic of Indonesia, The Government of 'ABCD' Province obtained Allocation Funds of the General Allocation 2017 Fiscal Year of Rp.1,786,524,769, and based on the Allocation Details of Less Pay the General Allocation Fund for the 2016 Fiscal Year, there was an underpayment of the General Allocation Fund for the 2016 Fiscal Year to 'ABCD'

Province in the amount of Rp.119,654,401,214. Thus, the General Allocation Fund received by the ‘ABCD’ Province in the 2017 Fiscal Year was Rp.1,906,179,170,214,00.

Based on the Audit Report of the Republic of Indonesia Number 31A/LHP/XVIII.BLP/05/2018 dated 31 May, 2018, the realisation of the General Allocation Fund received by ‘ABCD’ Province in the 2017 Fiscal Year was only Rp.1,851,595,354,000.00 or only 95.14%, as shown in Table 3.

Table 3 Province ‘ABCD’ budget realisation report (for the periods 31 December, 2017 and 2016) (see online version for colours)

| (In Rupiah) | | | | | |
|-------------|--|----------------------|----------------------|--------|----------------------|
| NO | DESCRIPTION | BUDGET 2017 | REALIZATION 2017 | % | REALIZATION 2016 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| 1 | REVENUE | | | | |
| 2 | | XXX | XXX | XXX | XXX |
| 3 | TRANSFER REVENUE | | | | |
| 4 | CENTRAL GOVERNMENT TRANSFER REVENUE-BALANCE FUND | | | | |
| 5 | | XXX | XXX | XXX | XXX |
| 6 | General Allocation Fund | 1.946.179.170.214,00 | 1.851.595.354.000,00 | 95.14% | 1.321.679.032.000,00 |
| 7 | | XXX | XXX | XXX | XXX |

There should have been a Central Government General Allocation Funds Receivable to the Provincial Government amounting to Rp.54,583,816,214.00, but in the “ABCD” Provincial Government Balance Sheet as of 31 December, 2017 presented in the Audit Report of the Republic of Indonesia Number 31A/LHP/XVIII.BLP/05/2018 dated 31 May, 2018 there was no Central Government General Allocation Funds Receivable presented to the Provincial Government, as shown in Table 4.

Table 4 Province ‘ABCD’ balance sheet (31 December, 2017 and 2016) (see online version for colours)

| (In Rupiah) | | | |
|-------------|----------------------------------|---------------------|---------------------|
| NO | Description | 2017 | 2016 |
| 1 | 2 | 3 | 4 |
| 1 | ASSET | | |
| 2 | CURRENT ASSET | | |
| 3 | | XXX | XXX |
| 4 | Tax Receivables | 261.881.755.825,40 | 237.989.972.415,00 |
| 5 | Allowance for Tax Receivables | -153.022.579.699,60 | -148.446.454.163,64 |
| 6 | Receivables Levies | 5.275.560.193,00 | 5.250.870.625,00 |
| 7 | Allowance for Levies Receivables | -2.785.217.826,00 | -1.986.076.564,80 |
| 8 | | XXX | XXX |

The results of this study indicate that in certain accounts in the financial statements of the regions, the concept of accrual accounting cannot be applied. In other words, the existing implementation in the current government accounting in Indonesia has not fully performed accrual accounting. This study is in line with studies carried out in Sweden (Paulsson, 2006) and in New Zealand (Pallot, 2001) which explain that accrual accounting is more easily applied at the agency level (local government) than at the principle level (the central government). Similarly, research in the UK (Hyndman and Connolly, 2011) found that accrual accounting is a road rarely passed by government finances. All of these studies indicate that the accrual accounting implemented in the current government is not a concept as defined by IFAC: basic accounting in which transactions and events are recognised when they occur (and not only when cash or its

equivalent is received or paid). Thus, the purpose of the implementation of accrual accounting as a driver of high-quality organisational performance by involving professional accountant in business and accounting practices needs to be questioned. Furthermore, previous research in Indonesia on the issue of accrual-based accounting still has not shown support for the quality of financial statements (Gamayuni, 2018), even local governments do not understand the benefits of accrual-based accounting (Mulyani et al., 2018).

Thus, if the Indonesian government still intends to use the term accrual in the current financial system, the government must have the courage to redefine, bring up an accrual account, and allow regions to carry out other accrual activities. Uçar and Yereli (2017) who found a re-discussion based on the Ottoman Justice court order (between the 17th and 18th centuries), discussed the regulations almost 300 years ago in the history of the Turkish economy for they were considered to still be relevant in current regulations. Indonesian government could revisit the concept of accruals implemented only four years ago, so that they are harmonious with the actual concepts.

5 Conclusions and suggestions

By considering a review of the implementation of the concept of accrual accounting in the government, we can conclude that the concept of accrual accounting in the government is not implemented as intended. In terms of receivable accounts, local governments never recorded GAF as revenue by recording it as receivables on the debit side. Meanwhile, for the payable accounts, local governments absolutely cannot purchase without the outlay of cash. The government's perspective should be redefined whether government accounting in Indonesia has adopted accrual accounting. We boldly admit that until today, the accounting rule in Indonesia is still in a period of 'toward an accrual' implementation as it is accrued in accordance to accrual basis. By using accounting concepts for corporate, government use of accounting concepts will increase the flexibility of purchases and avoid the accumulation of budget spending in the final quarter of the financial year. Thus, control of the use and expenditure of state money can be more optimal.

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