

# Accrual Basis Landscape: The Absence of Political Will in Preventing Dysfunctional Behaviour in Indonesia

Syarifuddin\*

Faculty of Economics and Business, University of Hasanuddin, Indonesia

---

## ABSTRACT

---

**Objective** –This research aims to reveal the failure of accrual accounting to create good governance and clean government in local governments in Indonesia. Additionally, the research seeks to examine the increase in accrual based rapid growth in Indonesia and the instance of corruption among government officials.

**Methodology/Technique** – In connection with this objective, the study explains the practical perspective of political intervention during the adoption of accrual accounting and examines the role of the community in the implementation of accrual accounting using a critical phenomenology method.

**Findings** –The findings of this study show that accrual-based accounting encourages deviant behaviour within the public sector and hence, good governance and clean government cannot be achieved. Accrual basis in this regard becomes a means for actors to conceal fraud by exploiting the weaknesses of accrual-based accounting to allow for creative accounting.

**Novelty** – This study uses a qualitative method to describe the implementation of accrual-based accounting in local governments in Indonesia, which is a new approach to this phenomenon.

**Type of Paper:** Empirical.

**Keywords:** Accrual; Accounting; Public Sector; Good Governance; Clean Government; Indonesia.

**JEL Classification:** M10, M14, M19

---

## 1. Introduction

The debate concerning the implementation of accounting techniques and accrual financial reporting has been extensively examined over the past decade and is now referred to as "the extinction in the risk of inaccuracy". This phenomenon raises the question of whether such accrual-based techniques should be implemented in any public sector organizations, which has generated considerable controversy (Pallot, 1994; English, Guthrie and Carlin, 2000).

---

\* Paper info: Revised: June 16, 2018

Accepted: September 30, 2018

\* Corresponding author:

E-mail: [syarifuddin@fe.unhas.ac.id](mailto:syarifuddin@fe.unhas.ac.id); [syarif1963@yahoo.com](mailto:syarif1963@yahoo.com)

Affiliation: Faculty of Economics and Business, University of Hasanuddin, Indonesia

The issue of extensive implementation of accrual basis accounting in financial management and reporting frameworks, for example in the UK (Likierman, 2000), is still heavily debated and some countries are still in the process of moving toward accrual basis accounting, such as Hong Kong (Awty, 2002).

This debate has impacted the development of accrual accounting and financial reporting literature in the public sector over the last decade or so. The literature discusses 3 main topics, namely, the reasons for and concerns about the introduction of accrual accounting in public sector organizations, the assumption that accrual accounting is taken for granted and the adoption process (Brorstrom, 1998; Ryan, 1998), and the implementation of techniques for, and the model of, accrual accounting. One of the primary questions in this space is whether the methodology applied to private sector organizations should also be applied to public sector organizations?

Moreover, some experts have studied the development of accrual accounting applications in public organizations (Christiaens and Vanhee, 2003; Pallot, 2001; Rice and Kohvakka, 2001; and Newberry and Pallot, 2004). Although the results of such each study vary, most question the expectations and concerns of accrual accounting in public organizations. This stems from concerns regarding the occurrence of creative accounting which has a negative impact in the private sector.

Accrual accounting is applied because of its capacity to provide better information for fiscal transparency and accountability (Perrin, 1998), its ability to illustrate the real financial situation (Chan, 2003; Guthrie, 1998), and its ability to report improvements in organizational performance (Christiaens and de Wie lemaker, 2003; Likierman, 2000). Furthermore, accrual accounting can also facilitate quality decisions regarding available resources allocation (Hoque and Moll, 2001) and may also support more accurate performance measurements (Hodges and Mellett, 2003), and assist in calculations of service costs (Guthrie, 1998; Pallot, 2001). However, the adoption of accrual accounting in public organizations raises some difficulties, such as the measurement problem and the cost implications (Chan, 2003).

For example, the reformation of financial management and accountability in Indonesia is an important sequence in accountable and transparent state financial governance systems. One form of good governance is the changes in accounting standards adopted by government from cash-based accounting standards to accruals-based accounting standards. For example, Government Regulation No. 71 year 2010 regarding Government Accounting Standards replacing Government Regulation No. 24 Year 2005 gave legal force to the accrual-based government accounting standards. The validity of Government Regulation No. 71 year 2010 regarding accrual-based SAP brought about a huge change in financial reporting systems in Indonesia, namely, the modification of cash-based accounting to accrual based accounting and then to full accrual basis in disclosure of government financial transactions. Through this accrual-based accounting, local governments are expected to provide quality management of local finances to the community. In addition, the accrual basis encourages transparency, governance, and accountability of local financial institutions.

Furthermore, in 2017, the number of local governments that received unqualified opinions was around 300 out of a total of 540 in Indonesia (Kompas, 2017, July 13). However, the rate of corruption also increased. A Indonesian national newspaper reported that 240 heads of local government were suspected to be involved in corruption in Indonesia. Based on this, the current research aims to reveal the failure of accrual accounting in creating good governance in local governments in Indonesia. This research will undertake the following process: (1) provide an explanation of the practical perspectives of political intervention in the process of accrual accounting and (2) examine the community's position during the implementation of accrual accounting.

## **2. Accrual Accounting in Developing Countries**

Accounting plays an important role in providing efficient and rational information and to enact social action over the rationalization of organizational politics. In the organizational context, accounting

information functions as a way to promote decision-making, in addition to exercising control over the behavior of an organization's members (Zimmerman, 2008).

Accrual accounting initiatives in the public sector has been debated in accounting literature over the last 2 decades. Many modifications were introduced in the public sector, classified as 'reforms neo-liberal economy' (Connolly and Hyndman, 2010), aimed at inhibiting and reducing the capacity and influence of government, as well as supporting and encouraging business growth (Ellwood and Newberry, 2006). These reforms aims to promote economic development in the private sector, with the aim of bringing it into line with the private sector. New Public Management (NPM) is the main agenda of these reforms. According to Hood (1995), NPM is associated with the theme of change, focused on private sector managerial practices and their application to public sector organizations. The implications of NPM show that there is a demand for accrual accounting (Olson, Guthrie and Humphrey, 1998).

Therefore, it can be said that the motivation behind the adoption of accrual accounting is productive aimed at providing comprehensive knowledge to the enhancement of the accountability, financial transparency, and efficiency of the public sector whilst facilitating public finance reforms (Adhikari and Mellembvik, 2008; Christiaens and Rommel, 2008; Timoshenko and Adhikari, 2010). The EU argues that the transition from cash-based accounting to accrual-based accounting is necessary in order to "avoid some of the possibilities allowed in cash based accounting, where payments can be forwarded or postponed in order to be recorded in the period according to government decision".

Meanwhile, the situation in developing countries differs from that in Western countries where the movement towards accrual accounting does not require a rational basis because in many developing countries, moves such as this are the result of international pressures. However, in this case, developing countries seem to be slower to adopt the international developments in their local practice (Allen, 2009).

### **3. Phenomenology: A Telescope to Identify the Facts**

This study uses a phenomenological method to analyze the issues. This method is the most appropriate to explore the context behind the phenomenon of rampant corruption that occurs once accrual accounting is implemented. Alfred Schutz is a social scientist who is capable of realizing the development of such phenomenology. There are social scientists other than Schutz that address this phenomenology however, Schutz remains the pioneer of this approach. Additionally, Schutz has developed a more systematic, comprehensive, and practical phenomenology approach which can be used to capture various phenomena in the social world (Schutz, 2011).

The data collection techniques used in this study include observation of the Gowa local government. In-depth interviews were also conducted with local government officials in Gowa. The interview follows the flow of the informants as long as the outcome of the interviews are in line with the research objectives. Throughout the interview process, interviewers and informants engage in a relatively long discussion. In addition, a document study is conducted by examining a direct record of documents or archives relating to the research problem.

### **4. Results and Discussion**

This study was conducted in local governments in South Sulawesi, Indonesia. The informants included politicians, local government agencies, and community observers of local government finances. According to the results of the in-depth interviews, some characteristic and symptoms arising from the introduction of accrual accounting in Indonesia were identified.

This section will illustrate those characteristics, which are briefly illustrated in Table 1 below.

Table 1. Accrual Accounting Landscape in Indonesia

Landscape	Indicator	Informant Content
Failed to enforce good governance	Rise of corruption happening	Accrual accounting is used as a shield that everything is going according to the regulation. While in reality the corruption is happening behind the scene
Harmonization without sincerity	Accrual adoption are too rushed without any seriousness to understand why it is implemented	Government only following international trend
Creative accounting opportunity	Accrual based financial reporting that confuse users	Stated owned enterprise and local owed enterprise funds transferred temporarily to show window dressing
Exclusively Rhetoric	Decrease in information provision capability for decision making	Information is unread and cannot be understood, or even used by decision maker
Deviant Behavior (corrupt)	Accrual accounting report as merely a symbol of accountability	Government agency hiding behind numbers that shows transparency while in reality is to deceive the community

#### 4.1 Failure to Enforce Good Governance

Looking at the development of reformation which has been running for 12 years, the applications of good governance in Indonesia have not reached their intended potential. Fraud and other harmful practices still occur in accounting management practices. According to various informants, accrual-based financial reports are actually a tool used by the government to mask their unlawful accounting practices. This implies that the preparation of reports and disclosure of financial performance is manipulated to hide the true state of financial affairs.

Olson, Guthrie and Humphrey (1998) explain that people participating in corrupt practices will do everything in order to keep their transgressions a secret. This leads to the inaccessibility of information, which has a necessary impact on the market. Further, corruption also leads to information leakage outside of the marketplace.

#### 4.2 Harmonization Without the Sincerity

Accrual accounting practices in Indonesia offer an accrual-based adaptation that aims to achieve harmonization of accounting practices. This is because the accrual accounting system is seen as a "good thing" for public management and its implementation is based on feelings rather than mature thinking (Carlin, 2003). Its implementation is therefore a statement of "why" public sector organization embrace a new reporting structure model, as opposed to an explanation of "how" such an enactment is put into practice, or an explanation of " what "impact will be obtained as a result of its implementation.

### 4.3 Creative Accounting Opportunities

It is claimed that accrual accounting offers broader transparency due to its objective nature. However, issues emerging in Indonesia show the existence of accounting vulnerabilities (eg, creative accounting) such as confusing financial reports which result in reduced transparency (Clarke, Dean and Oliver, 1997; Jensen, 2001; Schilit, 2002). In addition, no existing literature explains why accrual accounting is meaningful or important to public sector organizations.

### 4.4 Exclusively Rhetoric

Recent observations in Indonesia indicate a decrease in the ability to provide information generated for decision making. The main criticism here is not on accrual based accounting and financial reporting, but instead to certain technical aspects of its implementation. Thus, it can be said that accrual based accounting in the public sector is merely rhetorical.

One such issue that has gained popularity in public opinion is the absence of legal certainty in Indonesia on the assumption that perpetrators of criminal acts, particularly perpetrators of corruption, are free from the threat of punishment. The community is expected to participate actively in good governance by not only reporting the activities of state officials, but also within the private sector, which may result in or potentially cause the state a financial loss.

### 4.5 Deviant Behavior (Corruption)

In a system such as Indonesia's, moral renovation and cultural changes through accrual-based accounting and raising awareness for the prevention of corruption is often confronted with the inability to implement these positive changes.

Furthermore, professional and local government agencies are expected to address various weaknesses in the application of accrual-based accounting. In Indonesia, its implementation is always thwarted by the moral development of the agent being left behind. In this case, local government agents have not been able to adequately address the legal problems arising from accrual-based accounting, and often times they simply avoid it by saying that the rules are inadequate, or the issue has not been regulated. In the understanding of good governance, the local government agents tend to work alone in the enforcement of good governance, meaning the community are not able to actively engage in the process.

### 4.6 Political Will and Deviant Behavior

This study observes how accrual-based accounting has prompted deviant behavior within the public sector thereby hindering the achievement of good governance. Accrual based accounting in this case becomes a means for actors to concealing fraudulent behavior by exploiting accrual-based weaknesses that allow for creative accounting.

In carrying out its role, the Indonesian government has not always succeeded which raises concerns that the government may be the main perpetrator of such deviant behavior. The failures of the Indonesian government can be categorized into 2 types: regulatory and law enforcement failure.

Law enforcement issues are not as easy as they seem; the complexity of proving corruption is often exacerbated by the limitations of the applicable law, the insufficient quantity and quality of law enforcement officials, the political will of law enforcement, the political will of the central government with weak central government activities and the plethora of accounting information involved. Further to this, Damayanti (2014) states that decision makers often fail to understand accounting information. A result of both types of governmental failures, corruption rates have increased significantly. This is the result of budget uncertainty and the use of government funds for public benefit for approximately 540 local governments in Indonesia. It

is estimated that around 115 heads of local governments are involved in corruption in Indonesia (Kompas, 2016, March 3).

The importance of government regulation in Indonesia appears only to show dominance over the subordinate government through the leadership of false moral slogans. This hegemony is intended to consider how to control deviant behaviors.

## 5. Conclusion

The dominant perspective of accounting in Indonesia's business sector is actively progressive in nature. Indonesian municipalities have applied a dynamic accrual model since 2010, which is still the case in the present day, however, it appears to be unsuccessful due to the weak political will of the Indonesian government. Accrual accounting in this regard is used as a kind of "means of play" to hide corruption. A driving force is required to ensure accounting reforms are actually implemented.

## References

- Adhikari, P., & Mellemvik, F. (2008). Changing ideology in Nepalese central government accounting reform.
- Allen, R. (2009). The challenge of reforming budgetary institutions in developing countries (No. 9-96). International Monetary Fund.
- Awty, A. (2002). Hong Kong moves on. *Australian CPA*, 72(1), 50-51.
- Brorström, B. (1998). Accrual accounting, politics and politicians. *Financial Accountability & Management*, 14(4), 319-333.
- Carlin, T. (2003). Accrual accounting & financial reporting in the public sector: reframing the debate.
- Chan, J. L. (2003). Government accounting: an assessment of theory, purposes and standards. *Public Money & Management*, 23(1), 13-20.
- Christiaens, J., & Wielemaker, E. D. (2003). Financial accounting reform in Flemish universities: an empirical study of the implementation. *Financial Accountability & Management*, 19(2), 185-204.
- Christiaens, J., & Rommel, J. (2008). Accrual accounting reforms: only for businesslike (parts of) governments. *Financial Accountability & Management*, 24(1), 59-75.
- Christiaens, J., & Vanhee, C. (2003). Accounting reform in Flemish municipalities: An empirical study of the evolution of the outcomes. In EAA 26th annual Congress.
- Clarke, F. L., Dean, G. W., & Oliver, K. G. (1998). Corporate collapse: Regulatory, accounting and ethical failure.
- Connolly and Hyndman. (2010). *Getting Good Government: Capacity Building in the Public Sector of Developing Countries*. Boston: Harvard Institute for International Development.
- Damayanti, R.A. (2014). Akuntansi Akruar di sektor publik dan Isu-Isu disepertanya (Issues Around Accrual Accounting in the Public Sector). Paper Presented in the National Seminar 7th Hasanuddin Accounting Days, 20th January. Makassar. Indonesia.
- Ellwood and Newberry, S. (2006). Effects on Budgetary Goal Characteristic on Managerial Attitudes and Performance. *The Accounting Review*, LIV (4), 707-721.
- English, L., Guthrie, J., & Carlin, T. (2000). Transformation of public sector financial management: reflection on the Victorian experience downunder.
- Guthrie, J. (1998). Application of accrual accounting in the Australian public sector—rhetoric or reality. *Financial accountability & management*, 14(1), 1-19.
- Hodges, R., & Mellett, H. (2003). Reporting public sector financial results. *Public Management Review*, 5(1), 99-113.
- Hood, C. (1995). The "New Public Management" in the 1980s: variations on a theme. *Accounting, organizations and society*, 20(2-3), 93-109.
- Hoque, Z., & Moll, J. (2001). Public sector reform—Implications for accounting, accountability and performance of state-owned entities—an Australian perspective. *International Journal of Public Sector Management*, 14(4), 304-326.
- Jensen, M. (2001). Corporate budgeting is broken, let's fix it.
- Compass. (2016, March 3). 115 regional heads are involved in corruption cases (115 heads of local governments are involved in corruption cases).
- Compass. (2017, July 13). Local government opinion (Opinion of the local government).

- Likierman, A. (2000). Changes to managerial decision-taking in UK central government. *Management Accounting Research*, 11(2), 253-261.
- Näsi, S., & Kohvakka, J. (2001, April). Perceived usefulness of accrual accounting information in central government agencies in Finland—A survey study. In paper at the 24 th Annual Congress of the European Accounting Association, Athens (pp. 18-20).
- Newberry, S., & Pallot, J. (2004). Freedom or coercion?: NPM incentives in New Zealand central government departments. *Management Accounting Research*, 15(3), 247-266.
- Olson, O., Guthrie, J., & Humphrey, C. (1998). International experience with ‘new’ public financial management (NPFM) reforms: New world? Small world? Better world? In O. Olson, J. Guthrie, & C. Humphrey (Eds.), *Global warning! Debating international development in new public financial management*.
- Pallot, J. (1994). The development of accrual-based accounts for the government of New Zealand. *Advances in International Accounting*, 7(2), 287-308.
- Pallot, J. (2001). A decade in review: New Zealand’s experience with resource accounting and budgeting. *Financial Accountability & Management*, 17(4), 383-400.
- Government Regulation Number 71 of 2010 concerning Government Accounting Standards (Government Regulation No 71/2010 about Government Accounting Standard).
- Perrin, J. (1998). Resource accounting and budgeting: from cash to accruals in 25 years. *Public Money and Management*, 18(2), 7-10.
- Ryan, C. (1998). The introduction of accrual reporting policy in the Australian public sector: an agenda setting explanation. *Accounting, Auditing & Accountability Journal*, 11(5), 518-539.
- Schilit, H. (2002). *Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports*. 2nd Ed. New York: McGraw-Hill.
- Schutz, A. (2011). *Collected Papers V. Phenomenology and the Social Sciences*. London, New York. Springer Dordrecht Heidelberg.
- Timoshenko, K., & Adhikari, P. (2010). A two-country comparison of public sector accounting reforms: same ideas, different paths?. *Journal of Public Budgeting, Accounting & Financial Management*, 22(4), 449-486.
- Zimmerman, B. J. (2008). Investigating self-regulation and motivation: Historical background, methodological developments, and future prospects. *American educational research journal*, 45(1), 166-183.