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## Implementation of Accrual Accounting: Review of Readiness and Arising Problem

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### Abstract

Started on January 1, 2015, all government agencies should have implemented the accrual basis. The purpose of this study is to provide the results of a review of readiness and the problems arising from the introduction of accrual accounting on Local Government Unit. This study used mixed methods. The results of the data collected by the method of quantitative survey showed that only 68.8% of the 25 sectors in Palembang which are already implementing accrual accounting on its Financial Statements. The result of interviews which is the method of collecting qualitative data indicates that there are some problems.

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### 1. Introduction

Transparency and public accountability in the era of regional autonomy has been the most important purpose of the public sector reform in Indonesia. UU No. 17/2003 states that the preparation of financial statements by central and local government according Government Accounting Standards (SAP). SAP in the form of the issuance of Government Regulation (PP) No. 71/2010 is a response to the demands of the people of Indonesia towards the creation of good governance in government accountability to the public, especially the financial sector. It is intended that the contents of the report APBN/APBD produced far more complete and provides detailed information about assets and liabilities.

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By 2015, all government agencies both in the center and in the regions must prepare accrual-based financial statements. Strategy implementation accrual basis in areas that the government is with socialization and training stages of policy-level leadership to the technical implementation. The aim is to improve executive skills, build awareness, and involving all parties. Findings Harun (2008) is the government agencies have not been able to completely adopt SAP in 2005 without cooperating with outsiders. In addition, Harun (2008) also suggested an inhibiting factor SAP 2005, that aspect of the technical complexities of financial reporting area, the lack of experience of the participants, and the educational background of the staff were not appropriate. Current research on the readiness of the region in implementing accrual accounting has been studied for several regions in Indonesia. The results showed that many areas are not yet ready for human understanding is still low. But there are also areas based on the results of the study feel ready. Research results F. Stevens Redburn (1993) found that the government accrual accounting can find the best way to control spending. Furthermore Sheila Ellwood and Susan Newberry (2006) found that accrual accounting public sector developed in the UK and New Zealand, beginning with the rise of privatization to reduce government debt to public companies privatized eventually must use accrual accounting that financial statements can be compared with the private sector. Mark Christensen (2007) examined the unsatisfactory situation faced by practitioners and academics about the PSAA public sector (public sector accrual accounting). That is because the lack of literature that can analyze the effect of the application of accrual accounting for the public sector (general government sector). Further research on the application of accrual accounting in various countries have also been made, such as in Australia (Allan Barton, 2007), in Turkey (Dr. Ekrem Kara and Jonah Kilik, 2011), Iran (Saman Mohammadi, Mohammadi Maher, and Sahar Zare, 2012), in Belgium (R. Johan Christiaens, 2013), and Brazil (Rossana Guerra de Sousa et al., 2013) provide many references about the benefits of accrual accounting and comparative material for further research. Constraints in the implementation of accrual accounting in the public sector were also found, namely the problem of human resources, financial resources, IT capacity, duration and complexity of the process of the implementation of the accrual basis in the public sector. So The question is "how the readiness of local governments in the implementation of accrual accounting in the financial statements of the local government?" And "if there are any problems in the implementation of accrual accounting in the financial statements of the local government?"

## 2. Literature Review

### 2.1. Theoretical basis

Elaborated on the theoretical basis of relevant theories and supporting this research, ranging from the theory of New Public Management, Entity Theory and Agency Theory. Also an explanation of the public sector reform and the development of accrual accounting in the Indonesian government. These theories is what form the framework.

- Theory of New Public Management

Beginning in the 1990s the science of public administration introduced a new paradigm that is often called New Public Management (NPM) (Hood, 1991). Although it is also called by other names eg Post-bureaucratic Paradigm (Barzelay, 1992), and Reinventing Government (Osborne and Gaebler, 1992), but in general are called NPM as departing from the idea of Christopher Hood as the beginning of an alternative paradigm. This alternative paradigm emphasis on behavioral change of government become more effective and efficient with the principles of his *The Invisible Hand* of Adam Smith, namely to reduce the role of government, open government and private roles more focused on the interests of the wider public. With the change in the public sector, there is also a change in public sector accounting, the changes in the accounting system of cash accounting into accrual accounting.

- Theory Entities (Entity Theory)

In theory the entity proposed by Paton (Suwardjono, 2005), stated that the organization is considered as a unit or enterprise economic stand-alone, acting on its own behalf, and position separate from the owner or other party funds invested in the organization and unity of the economic of the be the center of attention or an accounting standpoint. From this perspective, the accounting concerned with financial reporting entity, not the owner. The units work as a unit of government that receives budget or manage goods are obliged to keep accounting entity accounting for financial transactions, and periodically prepare financial statements according to the Government Accounting Standards.

- Theory Agency (Agency Theory)

In the agency theory, Jensen and Meckling (1976) define an agency relationship as a contract in which one or more (principal) hire another person (the agent) to perform some services for their benefit by delegating some decision-making authority to the agents. According to Lane (2003) agency theory can be applied in public organizations, he stated that the modern democratic state based on a series of principal-agent relationship. Problems relating to the quality of financial reporting is often caused by a conflict of interest of management with the interests of stakeholders. Use accrual accounting basis is expected to increase the accountability of the financial statements as a form of the agent to the principal.

## 2.2. Public Sector Reform

Reform of the public sector is characterized by the presence of New Public Management (NPM). NPM adopt private sector management techniques into the public sector (Christiaens, J., Reyniers, B., and Rolle, C, 2010; Lapsley, I., Mussari, R., and Paulsson, G., 2009; Hood, 1995). Carnegie and West (2005) states the adoption of the financial model of the private sector into the public sector is motivated by the lack of accountability in the sector. Christensen (2002) states that the most relevant of the renewal of the public sector in New South Wales (NSW) is increased accountability, streamlining public sector organizations from the functional side, control of assets, as well as an emphasis on productivity and the economy. In Indonesia, the experience of public sector reform include decentralization of the functions of economic and political central government to local governments, public and private partnership in the provision of public services, restructuring state-owned enterprises to reform the accounting system of government. The last thing to do with the classification of records of state assets, improved budgetary system, as well as the accountability of state spending following the accounting practices of the business world (Aaron, 2009).

## 2.3. Accrual Accounting Developments In Indonesia Government

Government accounting reforms gained momentum with the enactment of UU No. 17/ 2003 on State Finance which requires the existence of a Government Accounting Standards as the basis of preparation of the financial statements of government agencies, and reinforced by UU No. 15/2004 on Management and Responsibility of the State Treasury. The law led to an urgent need for accounting standards as a basis for preparing and auditing the financial statements of government agencies by the CPC. Without a standard, CPC can not issue an audit opinion. Form of accountability APBN/APBD is a financial statement that should be in accordance with Government Accounting Standards. UU No. 17/2003 on State Finance of Article 32 mandates that the form and content of the report accountability of APBN/APBD prepared and presented in accordance with Government Accounting Standards. The government accounting standards drawn up by the Government Accounting Standards Committee. Accrual-based accounting is one of the means of support required in order transparency and accountability of government (KSAP, 2006). SAP implementation strategy accrual-based financial statements of government can be done in two ways: (a)The first way is to implement it at once (big bang) in which the accrual-based SAP simultaneously implemented in all ministries or agencies, (b) The second way is to do a gradual implementation, where the implementation of accrual-based SAP implemented in stages in conjunction with the preparation of human resources (HR) and all devices required by each ministry / agency when all ministries or agencies must implement accrual-based SAP. Full implementation will be applied in all ministries or agencies in 2015.

Table 1. Accrual-Based Implementation Strategies SAP Degrees.

Year	Activities
2010	1. Publishing Accrual Based Government Accounting Standards
	2. Develop Accrual Based Accounting Framework
	3. Accrual-Based SAP socialization
2011	1. Preparation of implementation of rules and accounting policies
	2. Development of Accounting Systems and IT The first part (the business process and detail requirement)
	3. Capacity building of Human Resources

2012	1.	Ploting some KL and BUN
	2.	Review, Evaluation and Consolidation entire LK
	3.	Capacity building of Human Resources
2013	1.	Run parallel and Consolidation entire LK
	2.	Review, Evaluation and Consolidation entire LK
	3.	Capacity building of Human Resources
2014	1.	Full implementation
	2.	Capacity building of Human Resources (continued)

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### 3. Research Methods

In this study used mixed methods with sequential explanatory strategy, namely the collection and analysis of quantitative data in the first stage followed by the collection and analysis of qualitative data in the second phase builds on the initial results of the quantitative. This design is especially useful when it appeared the results are not expected from a quantitative study (Morse, 1991). Some sources identify that this mix of research stems from its matrix multitraid-multimethod Campbell and Fiske (1959) who are interested in mengonvergensi and mengtriangulasi sources of quantitative and qualitative data (Jiks, 1979 in Cresswell, 2010). But others say that the mixed method was driven by the desire to develop a different methodology in the study (Cresswell & Plano Clark, 2007; Tashakkori & Teddlie, 1998). The use of mixed methods in this research is to gain an integrative approach that is able to gain a better understanding of how the readiness of local governments in the implementation of accrual accounting in the financial statements of local governments and explore what is an obstacle in the implementation of PP 71 Year 2010 concerning Government Accounting Standards.

#### 3.1. Population Research

The population of the unit of analysis in this study is the unit of work-work units in a working area of the State Treasury Services Office (KPPN) Palembang and as a respondent is Budget Authority (KPA) of each of the work units. KPA selection criteria as respondents because they are expected to know and understand about the implementation of the new accrual accounting system within their organization, so that answers to the questionnaire unreliable. In this study, the authors took the entire population that the entire work unit in the working area of the Treasury Office of Palembang.

#### 3.2. Research Data

Data used in this study are primary data. Primary data is the research data obtained directly from the original source. The primary data obtained is the result of questionnaires by respondents and interviews with informants, namely the Budget Authority of the working unit in the region of the Treasury Office of Palembang. The collection of data is needed to support this study using a questionnaire survey. The questionnaire survey is a survey method using a questionnaire study.

#### 3.3. Data Analysis

Analysis is conducted based on the results of the test frequency to obtain data readiness and implementation of the Financial Statements with accrual accounting. Gathering data using questionnaires distributed to 57 work units, respectively 5 questionnaire for each work units. The quantitative research results, will further confirmed by the results of the qualitative data. Results of the qualitative data was conducted by means of in-depth interviews with informants 5 of 5 work units chosen. Qualitative data retrieval is based on data from the previous frequency test results. Next will be obtained data that can confirm the results of previous quantitative data that can be made a conclusion. As for the stages Qualitative data analysis in accordance with the model of Miles and Huberman (1992) in Sugiyono (2010: 91), namely data collection, data reduction, data presentation, and decision-making or verification.

#### 4. Analysis Results

Based on the test results in 64 frequency questionnaire of 25 SKPD seen 68.8% have implemented accrual accounting in their financial statements. The result of the frequency of the readiness of the show factor 'knowledge' of 21.9%, a factor 'education' 40.6%, a factor of the 'system' 95.3%, a factor the existence of 'application systems' 84.4%, factors' help consultants' 18.8%, and the factor of mentoring by consultants' 14.1%. Frequency test results can be seen in Table 4 below:

Table 2. Frequency test results.

Variables	Frequency	Percent
Implementation	44	68.8
Readiness:		
Knowledge	14	21.9
Education	26	40.6
Accounting Information System	61	95.3
Accrual Accounting Application Program	54	84.4
Guidance	12	18.8
Mentoring	9	14.1
Total	64	100

When referring to PP 71/2010 mentioned the preparation of accrual-based financial statements implemented four years after the year 2010, that means implemented in 2015 for all local and central government simultaneously. The implementation of the accrual-based financial statements should have been 100% implemented, but the data showed that only 68.8%, so that additional data are needed to confirm the results that have been there. This data is taken qualitatively, by way of in-depth interviews with three informants from SKPD belonging to the previous sample. In this study, the name of the informant and holds the sample in the collection of qualitative data (in-depth interview) camouflaged, because the purpose of the study is to confirm the test results of the quantitative data and not to assess the entity in this case SKPD into the sample. Three informants were elected are Mr. A as KPP (official financial administrator) in SKPD X, Mrs B as an employee of the finance department at SKPD Y, and informants latter is Mr. C as KPP SKPD Z. The purpose of the interview is to confirm the factors barriers in the application of accrual accounting in the financial statements on SKPD.

The interview with Mr. A indicates that employee education factors and weak socialization inhibiting adoption of accrual accounting in the financial statements on SKPD X. Of the 10 employees of the finance department only 2 people were educated accounting. Socialization is done less intensive and not evenly to all employees of the finance department. Next the interview with Mrs B is a factor that employee education be a major obstacle for all employees of the finance department at SKPD Y not educated accounting. It is a factor inhibiting the implementation of accrual accounting due to the lack of understanding of the employee. Lastly Mr. C says that employees of the finance department at SKPD Z helped by the application program prepared by BPKP (financial supervisory bodies and development) called Saiba (system of accrual accounting and information). SKPD Z also gets assistance from a consultant who is an accountant educators from the State University in the city of Palembang were also members of IAI (Indonesian accountant bond).

#### 5. Conclusion

PP 71/2010 mandate that all SKPD in central and local government implement accrual accounting in the financial statements is not yet successfully implemented 100%. It is due to the constraints that the lack of understanding of employee financial part of the implementation of the accrual-based financial statements. Inhibiting factors were found

is still a lack of socialization and education of employees who do not fit with the job. Although the government has provided a system of accrual accounting and information, but does not guarantee the implementation of the financial statements can be successful. So that intensive training for employees of the finance department remains to be done. Further rotation of employees that necessary to put employees with education on the part of financial accounting.

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