

# Implementation of Accrual-Basis Accounting In the Indonesian Public Sector

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**Abstract—** *The rise use of accrual basis accounting spread in the public sector could be linked to many related factors, including the increase of many weaknesses and limits in cash-based accounting. This type of research is qualitative research using a descriptive approach. This research is included in the literature review research, using secondary data, namely reviewing the results of previous studies related to accrual basis and cash basis topic. In this literature study, the implementation of accrual basis accounting has 2 dimensions, which include factors that influence the success of accrual basis implementation in the public sector and the challenges that will be encountered during the adoption and implementation process.*

**Indexed Terms—** *Accrual Basic, Public Sector Accounting, Implementation.*

## I. INTRODUCTION

In the last two decades, there has been significant global change taken by most countries from cash basis accounting to accrual basis accounting. This transformation becomes accrual accounting from a pure cash basis to obtain higher levels of public sector entities accountability and transparency. Because there is a belief that accrual-based accounting provides information for financial management more reliable, relevant, and useful compared to a cash basis accounting system (Public Sector Committee, 2012).

Strengthening public sector accounting is of concern to many governments and countries around the world, where both New Zealand and Australia are considered to be the most comprehensive adopters among other countries regarding accrual basis accounting (Nistor, 2019). Other countries followed the adoption of accrual bases, such as the UK, Spain,

Brazil, Netherland, Romania, Malaysia, even Indonesia, and many others. Those countries use a different approach and have a different level of implementation (IFAC, 2018). However, many governments and countries still adopt cash accounting in their public sector institutions rather than accrual. It proved by the report released by the IMF in 2015, indicated that the use of accounting methods in the public sector, namely cash basis, modified cash basis, modified accrual basis, and full accrual basis. Only 41 governments worldwide or 21% have completed transition to full accrual basis accounting, while 16 government or 8% adoption on a modified accrual basis, 17% are still on a modified cash basis with 28 governments, and while 114 of governments or 57% and become the highest rate remain on cash basis system (Cavanagh, 2016). The data shows that the use of a cash basis as the financial system within the government is quite a lot.

The rise use of accrual basis accounting spread in the public sector could be linked to many related factors, including the increase of many weaknesses and limits incash-based accounting. the development of International standard for accrual basis and financial reporting for government; the adoption of techniques of the private sector into public sector entities; the emergence of a computerized information system for financial management (Cavanagh, et. al. 2016).

Accrual accounting considered as a tool that can increase efficiency of public administration and effective assets and resources management in government organizations that contribute to improved performance. At present, accrual accounting implementation in the public sector is proposed for governments around the world. IFAC has developed the full of accrual basis in public sector standards through International Public Sector Accounting Standards Board (IPSASB) and ensuring that provided standard is adopted and implemented as

wide as it possible (Ika, Siti Rochmah., Widagdo, Ari Kuncara., 2013)

Basic accounting methods usually used to determine both income and expenses report, both are cash basis and accrual basis. Besides, there are also two intermediate stages between the cash and accrual, are modified cash and modified accrual. The main difference between accrual basis and cash basis accounting is the matters of time in which expenses and income are recorded and recognized (Klinefelter, et al, 2018).

On the one hand, in the cash basis method, income was not recognized until cash is received, and expenses are not accumulated until settled. In cash basis, revenues and expenses are fully recognized when payment is received or made. Cash basis accounting has several advantages, such as simple to implement, easy to understand, easiest to operate, very objective, with few choices to take (Klinefelter, et. al., 2018). So, it doesn't take long to make it and the human resources who do it also don't have to be professional. But cash-based accounting has several shortcomings, among others, less informative because it only contains information about receipts, expenses, and cash balances, and does not provide about assets and liabilities information. However, the cash base also has weaknesses, so no effort can be made to match spending with the income generated. Meaning to say that the income statement and balance sheet cannot be considered as a reference for current activity conditions. Cash basis accounting does not accurately reflect company revenue and can also distort the actual operation of activities

On the other hand, in the accrual basis, all transactions are recognized when an order is made, goods are delivered, or service occurs, regardless the money has been received or has been paid (Public Sector Committee, 2012). In other words, revenue will be calculated if the transaction has already done and expenses will be calculated after the services and goods have been received. Accrual basis accounting could measure current income more accurate rather than in the cash basis. Meaning to say that the balance sheet can represent an estimate of the financial position more accurately. Accurate and up-to-date information makes it easier to predict the

future income and financial positions. However, accrual accounting is more difficult to understand than the cash basis, because net income does not match the changes in the cash flow statement for the period. The use of accrual basis accounting will provide fair and true value in the financial situation of profit and loss and equity in the financial statements (Tiran Tudor &Blidisel, 2017).

## II. THEOTERICAL REVIEW

Indonesia began to reform the public sector when the crisis that hit Asia in 1998 and the collapse of the Suharto regime (Harun, An, &Kahar, 2013). The International Monetary Fund demands the application of good governance and reforms in the government accounting (Harun, 2012). The request from the IMF is useful to encourage government and regional autonomy, empower the audit board that has been formed, eradicate corruption, and use performance-based budgets. As such, local governments have become decentralized, and the quality of financial reports in local governments has also improved. Financial management reforms in Indonesia continue to be carried out by the government through the improvement of policies and legislation, preparation of hardware and software financial system infrastructure, preparation of human resources, and improvement of governance structures.

Starting at the end of 2017, government accounting received attention and a legal basis, namely Law No.17/2017. Law No.17/2017 about State Finance became an important basis for the development of government accounting in Indonesia. The law on state finances was followed by Law No.1/2004 about State Treasury and also Law No.15/2004 about Management and Responsibility Audits of State Finance. With these three laws, the demand for government accounting is increasingly apparent. The existence of Law No.17/2017 is to establish accrual basis government accounting standards stipulated in the form of Government Regulation No.71/2010 as a replacement of Government Regulation No.24/2005 about cash basis standards (Harun, 2013).

Implementation of Government Regulation No.24/2005 concerning national accounting standards on cash to accruals (CTA) is still temporary, this is

under the mandate stated in article 36 paragraph (1) of Law No.17/2017 which states that during recognition and measurement expenses and income on an accrual basis have not yet been made, the recognition and use of measurements may be cash basis. However, the government did not fully uphold the mandate for accrual basis accounting to all local governments until the issuance of Government Regulation 71/2010 concerning Accounting Standards. The accrual basis, as stated in Attachment I of Government Regulation 71/2010, should have been applied, no later than the 2015 fiscal year. Meanwhile, for the recognition and measurement of accrual basis on income and expenses according to article 36 paragraph (1) of Law No.17 / 2017 no more than 5 years.

### III. METHODS

This type of research is qualitative research using a descriptive approach. This research is included in the literature review research, using secondary data, namely reviewing the results of previous studies related to accrual basis and cash basis topic.

### IV. RESULTS AND DISCUSSION

The standard accrual basis accounting adoption in the public sector must be carried out carefully with careful and structured preparation related to regulations, systems, and quality of human resources. Successful implementation of accrual basis is needed to produce more transparent and accountable financial reports. To achieve this need, it is necessary to understand the supporting factors that can influence the adoption successfully.

- Quality of Human Resources

Several studies have examined the accrual basis accounting implementation to local and central government. The results of their study found that human resources factor influence the implementation of accrual basis accounting (Azman, 2015; Norfaliza, 2015; and Safitri, 2017). Also, human resources quality, education, and training provided to improve the human resources quality become a very important factor in the government's readiness for the implementation of accrual-based accounting (Usman, 2014). However, the results obtained from the

research conducted by Widyastuti, et al (2015) are slightly different. Human resources do not affect the readiness of government to implement of accrual basis accounting, because of the inadequate resources.

- Commitment

The second factor is the leadership of the organization's commitment as a decision-maker. The key to a successful change from an old system to the new system is strong support from leadership and all related elements of the organization. Weak commitment from the leadership of the work unit becomes a negative factor for financial statements prepared in several Ministries. The greater the support is given by the leadership of the organization; the implementation of a system will run well. In same topic research state that commitment in an organization affects the readiness of accrual basis accounting implementation for the public sector (Norfaliza, 2015; Azman, 2015; and Widyastuti, 2015). But unlike Ardiansyah (2012) that the commitment from organization does not affect the readiness of the government in applying accrual accounting.

- Information System

A third factor is a supporting tool in the form of Information Systems. An adequate information system will help the implementation of accrual basis accounting with hardware and software availability. This was proven by Norfaliza, 2015 in her research which stated that supporting devices influenced the successful adoption of accrual-based accounting systems. But in Azman's research (2015) found that information systems do not give any effect on the implementation of accrual-based accounting. Usman, et al, (2014) and Nasution, et al (2016) who examined the analysis of the readiness of applying accrual basis accounting to financial bureaus also found that information systems had not yet affected the adoption of accrual basis accounting standards.

- Communication

The fourth factor that also supports successful application of accrual basis accounting standards is communication. Effective communication policy is the implementation of policies that involve all kinds

of processes from the communication itself. The intended process is the process of delivering information, the clarity and accuracy of provided information and the consistency of information that delivered to the public. Safitri (2017) states that communication also positively influences the readiness of the implementation of accrual basis accounting standards. But in the research Iznillah (2015) states that communication does not influence the accrual basis adoption within the government.

Thus, based on the research above, the successful accrual basis implementation in central and local government determined by several factors, such as the good human resources quality, the institutions and leadership commitment, supporting infrastructure in form of information system, and the internal communication. The better the supporting factors offered, the better of accrual basis implementation level in the public sector.

- **Challenges and Obstacles**

Although reforms have been already undertaken to contribute the accrual basis adoption, the study identifies that the government is still faced with implementation challenges and obstacles to achieve a more transparent public sector accounting system. In this section, the challenges of accrual basis in the public sector will be explained based on the previous research.

- **Lack of Political Will and Parliament Support**

There are some interviews conducted by Harun (2010) in terms of the Indonesian context. The first result, this factor will weaken all efforts to increase financial management accountability in the public sector. Because the political will caused failure reform of accounting during Suharto's era. Moreover, the government did not conduct audit findings and recommendations from the State Council Auditors. Also, the implementation of a new system of accounting does not follow by high government commitment toward accountability. So, the higher commitment provided by the government, the higher level of accountability will achieve.

- **Lack of Qualified and Experienced Human Resources**

The implementation in Australia and New Zealand about full accrual basis was backup by the human resources system to support its adoption. However, Indonesia has no such system to provide. Research conducted by Harun (2013) found that control of the local government has always been carried out by the central government in terms of performance measurement, wages, and promotion. Therefore, all decisions related to local government are fully held by the central government or no independence for the local government. This is the reason why the problem of short experienced and qualified accountant happened in Indonesian local government. In other research, the lack caused by the difference in remuneration rates for accountants compared with the private sector, inducing many of them to find higher-paying jobs in the private sector (Harun, 2010). In contrast to previous studies, the research by Ika (2013) and Sari (2012) focuses more on the quality of education and experience of human resources in accounting. Usually, staff only know the cash basis for a single-entry system, even though the implementation of an accrual basis requires skill and experience.

- **Inconsistent and Unstable Regulation**

There are two different regulations relates to the accrual accounting implementation in Indonesia. On the one hand, Government Regulation No.24/2005 as practical guidance of Law No. 17/2017 regarding government accounting standards that the reporting should issue in the format of the organizational level. On the other hand, the Home Affairs Ministry Decree No. 13/2006 as practical guidance of Law No. 33/2004 regarding Public Financial Management of Local Government mandates that reporting format based on program and activity level. The contradiction in regulation becomes a serious challenge for the accrual accounting effective adoption by local government (Harun, 2013; and Ika, 2013).

- **Lack of Coordination**

Lack of coordination between the central and local governments was also become a barrier to the accounting adoption at the local level, according to

Harun and Robinson (2010). The implementation of a centralized reporting system at the regional level can be a solution to deal with the above problem (Harun, 2013). In line with the explanation above, Sari (2012) stated the same thing. The country that first implements the accrual basis in government accounting needs more communication about the implementation process. This communication includes socialization about changes in organizational culture. In this case, the results and benefits to be achieved by applying the accrual basis must be intensely communicated to the other parties. Thus, communication and coordination become the challenges to be concerned during the adoption.

- Lack of Independent Regulator

In Australia, public sector accounting standards are formulated and announced by the Australian Accounting Research Foundation (AARF). Meaning to say that in Australia, the standard of the Public sector was regulated by an independent institution (Ika, 2012). In contrast, the formulation of accounting standards in Indonesia was fully controlled by the president and the government. It means that the public sector accounting standards were not set independently. Therefore, Dewi (2001) suggest in Ika (2012) that the government should appoint an independent organization to develop the accounting standard to gain good credibility from other parties.

- IT-Based System

One aspect that challenges the adoption to accrual basis is the readiness of the government in information systems. In Sari (2012), Changes in the accounting system in government entities are always taken by information technology changes. In applying the accrual basis, information technology systems must also be approved to add additional information related to the accrual basis. The use of software that can be used by the software used by commercial companies or entities that can be used by the IT system itself to be implemented.

### CONCLUSION

Accrual basis accounting system is a modern accounting system that is currently widely applied in developed countries, including Indonesia. As

mandated in Law No.17/2017 which requires that the measurement and recognition of income and expenses on accrual basis must be made no later than five years after the issuance of this Law. The issuance of government regulation No. 71/2010 is the implementation of Law No.17 / 2017, although the implementation cannot be done directly, but it is done in stages. Implementation of the accrual basis is expected to improve the performance in public sector and government entities.

In this literature study, the implementation of accrual basis accounting has 2 dimensions, which include factors that influence the success of accrual basis implementation in the public sector and the challenges that will be encountered during the adoption and implementation process. Therefore, implementation of accrual basis accounting to be fully implemented, several conditions are required, including: good human resources quality, the institutions and leadership commitment, supporting infrastructure in form of information system, and the internal communication. The better the supporting factors offered, the better of implementation of accrual basis accounting level in the public sector.

In addition to these supporting factors, there are also challenges and obstacles of accrual basis implementation in public sector in Indonesian. The challenges and obstacles are lack of political will and parliament support, lack of qualified and experienced human resources, inconsistent and unstable regulation, lack of coordination, lack of independent regulator, and it-based system..

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