

THE INFLUENCING FACTORS ON THE LEVEL OF ACCRUAL ACCOUNTING ADOPTION: A CONCEPTUAL APPROACH

Khoirul Aswar,
Siti Zabedah Saidin*

Abstract

Beginning from the assumption that accrual accounting is useful in ensuring the high performance of management systems, this study attempts to determine to what extent municipalities comply with new accounting standards in Indonesia with a focus on municipalities in the provinces of Sumatera and Java. Drawing from institutional theory, this study has two objectives: (i) to investigate to what extent municipalities comply with the accounting standards stipulated in PP No. 71 of 2010, (ii) to examine the relationship between explanatory factors such as, training programs, information technology, and internal communication, and the level of accrual accounting adoption in Indonesia's municipalities. Therefore, this study contributes to identifying input into the adoption of Government Regulation No. 71 of 2010 in order to apply accrual accounting to the fullest and to minimize errors in financial reporting with the analysis of possible obstacles faced in implementing accrual accounting.

Keywords: Accrual Accounting, Compliance, Government Regulation, Explanatory Factors.

JEL Classification: I28, M15, M48.

1. Introduction

Financial management reform in Indonesia had been running for more than a decade since the enactment of Law No. 17 of 2003 on State Finance and Law No. 1 of 2004 on the State Treasury. By implementing this reform, the financial management of the government was meant to be able to be executed in an orderly, efficient, economical, effective, transparent and accountable manner, abiding by laws and regulations as stated in Article 3 Para (1), Law No. 17 of 2003. The Law mentioned that the adoption of an accrual accounting system should cover a period of five years starting from 2003 until 2008.

Furthermore, the Indonesian government issued a regulation or “Peraturan Pemerintah” (PP) No. 24 of 2005 concerning Government Accounting Standards or “Standar Akuntansi Pemerintah” (SAP) as the basis for the migration of the government's accounting system from a cash basis towards an accrual basis. This regulation provided a transition period for the application of accrual accounting based on the SAP of not more

* Khoirul Aswar is PhD Candidate, and UPN “Vetereran”, Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Malaysia, Jakarta. E-mail: aswar_law@yahoo.com
Siti Zabedah Saidin is at the Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Malaysia.

than four years before the budgeting process of 2010. This meant that the transition period was from 2005 until 2009.

Furthermore, in 2010 the government published PP No. 71 mandating the SAP as the basis for accrual accounting to improve the quality of government performance accountability to replace PP No. 24 of 2005. This regulation also included a Statement of Government Accounting Standards or “Pernyataan Standar Akuntansi Pemerintah” (PSAP) which stated that these standards and accrual accounting methods should be used for the budget process of fiscal year 2010. However, those reporting entities that had not been able to apply the accrual-based PSAP were allowed to migrate from a cash-based system towards accrual-based PSAP at least four years after 2010. Thus, the government accounting system had to fully adopt accrual accounting by 2015.

In the international literature, it is claimed that the use of accrual accounting has many advantages [(Funnel & Cooper, 1998; IFAC, 2002)]. However, some literature also criticizes the theoretical grounds [Christiaens, (1999)] and the practical considerations [Carlin & Guthrie, (2003); Hodges & Mellett, (2010)] related to the adoption of accrual accounting in public organizations.

The adoption of accrual accounting in the public sector is often accompanied by various weaknesses and problems. The problems during the transition process are associated with organizational and procedural factors [Cohen Kaimenakis & Zoraios, (2007)]. These include the lack of trained human resources, motivation and incentives, information technology capabilities, professional accounting or audit professionals, and political support [Arnaboldi & Lapsley, (2003); Carlin & Guthrie, (2003); Cohen, Keimenakis & Venieris, (2012); Irvine, (2011)].

In Indonesia, there are few empirical studies on the adoption of accrual accounting. For example, [Marwata & Alam (2006)] investigated how various drivers of reform with different interests and preferences compete and cooperate in the process of the reform of government accounting policies. They found that the accounting reform process was marked by both rivalries and alliances between the drivers of reform. Harun (2008) provided an overview of public sector reform in Indonesia. He focused on the barriers, improvements, and actions taken by Indonesia to move to accrual accounting. Harun and Kamase (2012) described the institutional capacity of provincial governments and the adoption problems in accrual accounting. Harun, VanPaarsem and Eggleton (2012) evaluated the institutionalization of the accrual accounting system in Indonesian local governments using case studies to gain insights in relation to the process of institutionalization in the public sector. McLoed and Harun (2014) described and analyzed the challenges faced in trying to reform public sector accounting in Indonesia. Additionally, previous research has been done in the public sector to look at the process of adopting accrual accounting. Simanjuntak (2010) and Bastian (2006) suggested that the adoption of accrual accounting in Indonesia requires adequate information technology, and human resources.

In particular, this paper focuses on a conceptual model which will form the basis of an upcoming study in exploring the level of accrual accounting adoption with a focus on Indonesian municipalities. There are two objectives for this study, namely: (i) to investigate to what extent municipalities comply with the new accounting standards

stipulated in PP No. 71 of 2010, (ii) to examine the relationship between explanatory factors such as training programs, information technology, and internal communication and the level of accrual accounting adoption in Indonesia's municipalities.

2. Theoretical Perspective

The theoretical perspective of this study is based on institutional theory. Based on the new institutional theory, one of the factors that might affect the success of the organization is its capacity to achieve and maintain legitimacy in its environment. DiMaggio and Powell (1983) identified the three mechanisms in which institutional isomorphic changes occurred: coercive isomorphism, mimetic isomorphism, and normative isomorphism. In developed and developing countries, this institutional theory has been used in some studies of public sector accounting reforms. For example, Lapsley and Pallot (2000) examined the effect of the accrual regime applied in the United Kingdom, New Zealand, and Canada [Baker & Rennie, (2006)]. In the Netherlands, [Ter Bogt & Jan van Helden (2000)] investigated the effect of public sector accounting in local government on the actions of politicians and managers. In the context of developing countries, [Nor-Aziah and Scapens (2007)] also examined the implementation process of the private sector accounting technology adopted by government organizations in Malaysia using institutional theory.

However, this study will use institutional theory to investigate the influence of factors (training of accounting staff, information technology, and internal communication) on the compliance level of accrual accounting in reference to previous studies [Christiaens, (1999); Christiaen & Peteghem, (2007); Eriotis et al., (2011); Harun, (2008); Marwata & Alam, (2006); Stamatiadis, (2009); Windels & Christiaens, (2006)]. Institutional theory provides a reasonable explanation of the relationship between these factors and the level of accrual accounting adoption. Therefore, this study will use institutional theory as an appropriate approach.

3. Hypothesis Development And Conceptual Schema

Hypothesis development for this study is based on the factors that allegedly possess an influence on the level of accrual accounting adoption in Indonesia municipalities; this is formulated as follows:

3.1 Training Programs

Currently, Indonesia municipalities continue to improve accountability for public financial management in accordance with principles of good governance. Empirical research has found that adequate training programs have a positive and significant effect on the compliance level of accrual accounting [Christiaens & Peteghem, (2007); Christiaens, (1999); Eriotis, Stamatiadis, & Vasiliou, (2011); Windels & Christiaens, (2006)]. Based on the above discussion, this study would like to re-examine the relationship between the two variables and propose the following hypothesis:

H₁: There is a positive relationship between adequate training program and the level of accrual accounting adoption.

3.2 Quality of Information Technology

Previous research revealed the importance of IT support in the creation of a new accounting system [Bloomfield & Danieli, (1995); Järvinen, (2006)]. As local authorities are not usually familiar with the accounting applications, the application of additional IT support is assumed to be important in the new system. In line with this, studies by Eriotis *et al.* (2011) show a positive and significant correlation between the quality of information technology and the compliance rate of accrual accounting. Thus, high quality information systems that exist in organizations should be considered as an essential requisite for the successful adoption of NPM initiatives [Ouda, (2008)]. This argument leads to the propose the following hypothesis:

H₂: There is a positive relationship between the quality of information technology and the level of accrual accounting adoption.

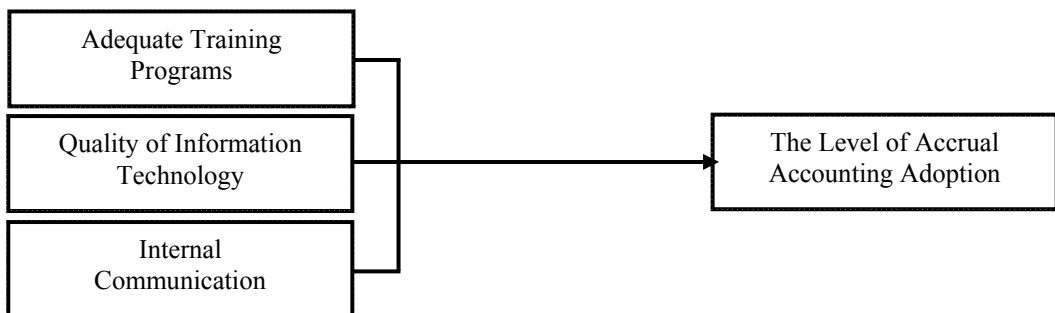
3.3 Internal Communication

According to research by Holland *et al.* (1999), it was found that communication is a critical success factor in the adoption of any new system. Hence, [Shanks, Parr, Hu, Corbitt, Thanasankit, and Seddon (2000)] found that there is increasing likelihood of failure of implementing the new system when it is not communicated effectively to stakeholders. Based on the above discussion, this study lead to the following hypothesis:

H₃: There is a relationship between internal communication and the level of accrual accounting adoption.

Conceptual Schema

Figure 1: Conceptual schema underlying the testable hypotheses



4. Proposed Method

It is recommended that future empirical studies could be conducted quantitatively with primary data. This study attempts to get the opinion by head of accounting sections in Indonesia municipalities who are involved in preparing financial statement of local governments. It is further suggested that future empirical studies should target a sample of Java and Sumatera municipalities due to the wide land area coverage of the country, the major big island in Indonesia.

Table no. 1: List of Java and Sumatera Municipalities

Geo-Political Zone	Number of Municipalities
Jawa	119
Sumatera	154
Total	273

Source: *Manistry of Internal Affairs*, (2016).

5. Conclusion

This conceptual paper investigates questions related to identifying the level of accrual accounting adoption in Indonesian municipalities by using a compliance index. This is important because Indonesia has recently undergone major government financial reforms and is seeking to greatly enforce financial accounting transparency [Rosser, (2009)]. The level of compliance in this thesis is measured using a 43-item index derived from the key Indonesian Government Accounting Standards (PP No.71 of 2010) to explore in greater depth the relationship between the level of accrual accounting (as measured by the compliance index) and key predictor variables both outside and inside government institutions. This study finding are expected to make a significant contribution to improve transparency and accountability of the government by exploring the impact of various explanatory factors on the level of accrual accounting adoption, particularly for the Indonesian municipalities. It is hoped that the objective of this study will be achieved in order to contribute to the functioning of accrual accounting in particular and to the whole government financial management system in general. The government has to ensure a satisfactory level of readiness among its staff for better results. It must also find the right way to overcome the obstacles of accrual accounting adoption found in this study to ensure an optimal reform process. Overall, the results of this conceptual paper should also produce important insights for municipalities in Indonesia and support the call for continued research in this exciting and unexplored area.

References

- Arnaboldi, Michela and Lapsley, Irvine. 2003. "Activity Based Costing, modernity and the transformation of local government". *Public Management Review* 5(3), 345–375.
- Baker, Ron and Rennie, Morina D. 2006. "Forces Leading To The Adoption of Accrual Accounting by the Canadian Federal Government: An Institutional Perspective". *Canadian Accounting Perspectives* 5(1), 83–112.
- Bastian, Indra. 2006. *Sistem Perencanaan dan Penganggaran Pemerintahan Daerah di Indonesia*, Salemba Empat, Jakarta.
- Bloomfield, Brian and Danieli, Ardha. 1995. "The role of management-consultants in the development of information technology - the indissoluble nature of sociopolitical and technical skills". *Journal of Management Studies* 32(1), 23–46.
- Carlin, Tyrone and Guthrie, James. 2003. "Accrual output based budgeting systems in Australia The rhetoric-reality gap". *Public Management Review* 5(2), 145–162.
- Christiaens, Johan. 1999. "Financial accounting reform in Flemish municipalities: an empirical study of adoption and annual financial reports". *European Accounting Review* 15(1), 803–804.
- Christiaens, Johan and Peteghem, Van Vincent. 2007. "Governmental accounting reform: Evolution of the adoption in Flemish municipalities". *Financial Accountability & Management: In Governments, Public Services and Charities* 23(4), 351–466.
- Cohen, Sandra, Kaimenaki, Efrosini and Zorghiou, Yannis. 2007. "Assessing it as a key success factor for accrual accounting adoption in Greek Municipalities". *Financial Accountability & Management* 23(1), 91–111.
- Cohen, Sandra, Kaimenakis, Nikolaos and Venieris, George. 2012. "Reaping the benefits of two worlds". *Journal of Applied Accounting Research* 14(2), 165–179.
- DiMaggio, Paul J and Powell, Walter W. 1983. "The iron cage revisited: institutional isomorphism and collective rationality in organizational fields". *American Sociological Review* 48, 147–160.
- Eriotis, Nikolaos, Stamatiadis, Filipos and Vasiliou, Dimitrios. 2011. "Assessing accrual accounting reform in greek public hospitals: an empirical investigation". *International Journal of Economic Sciences and Applied Research* 4 (1), 153–184.
- Funnel, Warwick and Cooper, Kathie. 1998. *Public sector accounting and accountability in Australia* (University of New South Wales Press, Sydney).
- Government Regulation 24. 2005. Government Accounting Standards.
- Government of Indonesia. 2004. Undang-Undang: Pembentukan Peraturan Perundang-Undangan. No. 10/2004. Jakarta, Indonesia.
- Government Regulation 24. 2005. on Government Accounting Standards "Standar Akuntansi Pemerintahan" (SAP)
- Harun, Harun. 2008. "Obstacles to Indonesian public-sector accounting reforms". *Bulletin of Indonesian Economics Studies* 43 (3), 365-375.
- Harun, Harun and Kamase, Haryono. P. 2012. "Accounting change and institutional capacity: the case of a provincial government in Indonesia". *Australasian Accounting Business & Finance Journal* 6(2), 35–50.
- Harun, Harun, Peurse, Karen Van and Eggleton, Ian. 2012. "Institutionalization of accrual accounting in the Indonesian public sector". *Accounting & Organizational Change* 8(3), 257–285.
- Hodges, Ron and Mellett, Howard. 2010. "Reporting public sector financial results". *Public Management Review* 5(10), 99–113.

- Holland, Christopher, Light, Ben and Gibson, Nicola. 1999. "A critical success factors model for enterprise resource planning adoption". In: *Proceedings of the 7th European Conference on Information Systems* 1, 273-297.
- International Federation of Accountants - Public sector committee (2002). *study 14: transition to the accrual basis of accounting: Guidance for Governments and Government Entities* (IFAC, New York).
- Irvine, Helen. 2011. "From go to woe how a not-for-profit managed the change to accrual accounting". *Accounting, Auditing & Accountability Journal* 24(7), 824-847.
- Järvinen, Janne. 2006. "Institutional pressures for adopting new cost accounting systems in Finnish hospitals: two longitudinal case studies". *Financial Accountability & Management* 22(1), 21-46.
- Khan, Abdul and Mayes, Stephen. 2009. "Transition to accrual accounting", *International Monetary Fund*, 1-19.
- Lapsley, Irvine and Pallot, June. 2000. "Accounting, management and organizational change: A comparative study of local government". *Management Accounting Research* 11(2), 213-229.
- Marwata, & Alam, Manzurul. 2006. "The Interaction Amongst Reform Drivers in Governmental Accounting Changes". *Accounting & Organizational Change* 2(2), 144-163.
- McGuinness, W L. 1988. "The adoption of accrual accounting for government departments". August, 1-139.
- Nor-Aziah, Abu Kasim and Scapens, Robert W. 2007. "Corporatisation And Accounting Change. The Role of Accounting And Accountants In A Malaysian Public Utility". *Management Accounting Research* 18(2), 209-247.
- Ouda, Hassan. 2008. "Towards a generic model for government sector reform: the New Zealand experience". *International Journal of Governmental Financial Management* 8(2), 91-115.
- Rosser, Andrew. 2009. "The political economy of accounting reform in developing countries. The case of Indonesia". *Asia research Centre. Working Paper No. 93*. Murdoch University. Perth. Australia.
- Ryan,Christine, Stanley, Trevor and Nelson, Moton. 2002. "Accountability disclosure by Queensland local government councils: 1997-1998". *Financial Accountability and Management* 18 (3): 261-289.
- Shanks, G, Parr, A., Hu, B., Corbitt, B., Thanasankit, T and Seddon, P. 2000. "Differences in critical success factors in ERP systems implementation in Australia and China: A cultural analysis". *Proceedings of the 8th European Conference on Information Systems, Vienna, Austria*, 537-544.
- Simanjuntak, Binsar H. 2010. "Menyongsong era baru akuntansi pemerintahan di Indonesia". In *Disampaikan pada Kongres XI Ikatan Akuntan Indonesia*.1-15.
- Stamatiadis, Filippos G. 2009. "Governmental Accounting Reform In The Greek Public Hospitals: Some Preliminary Results of Its adoption". In *Paper presented at the 4th Hellenic Observatory PhD Symposium*. 1-22.
- Ter Bogt, Henk J and Jan van Helden, G. 2000. "Accounting Change In Dutch Government: Exploring The Gap Between Expectations And Realizations". *Management Accounting Research* 11(2), 263-279.
- Tickell, Geoffrey. 2010. "Cash to accrual accounting: one nation's dilemma". *The International Business & Economics Research Journal* 9(11), 71-78.
- Windels, Paul and Christiaens, Johan. 2006. "Management reform In Flemish public centres for social welfare: Examining organisational change". *Local Government Studies* 32(4), 389-411.