Lessons Learned From Early Implementation Stage of Accrual Accounting in Indonesia Local Government. 
A Case Study in Local Government of Province Jawa Timur

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Abstract: Starting from 1 January 2015, all local governments in Indonesia implement accrual accounting. There is a big question as of how good the implementation. Therefore, the objective of this study is to assess the implementation of accrual accounting in a local government in Indonesia for the first three months. This study utilizes descriptive-qualitative research method. This study finds that almost all of the working unit in the local government has not implemented the accrual accounting properly because the implementation is not conformed to the Government Accounting Standards. However, the local government showed a tendency to improvement. Problems in the implementation involved inadequate human resource capacity, poor commitment and poor intention of leaders of local government working units to implement accrual accounting, the poor infrastructure of accrual accounting, and poor organizational and internal coordination of local government working unit. Findings of this study will contribute benefits to other local governments by learning the successful critical variables in implementing accrual accounting. Based on results, the central government (i.e., the Ministry of Home Affairs), local government executives could utilize the evidence to improve the implementation of accrual accounting for the future time. For Indonesian scholars and practitioners in the field of public sector accounting, this study will represent the first attempt to assess the implementation of accrual accounting in Indonesia.

Keywords: local government, accrual accounting


Kata Kunci: pemerintah daerah, akuntansi akrual

1. Introduction

The implementation of accrual accounting in Indonesia was started in 2003 as mandated by Act 17 of 2003 on State Finance. The law states that the implementation of accrual accounting began in 2008. This mandate was reinforced by Act 1 of 2004 on State Treasury. However, until 2008, local governments in Indonesia have not been able to implement accrual accounting. One reason is that the absence of government regulation governing the accrual-based government accounting standards.

Government Regulation No. 71 of Accrual Based Government Accounting Standards was published in 2010. The regulation states that local governments must implement accrual accounting no later than the fiscal year 2015. Therefore, inevitably, all local governments in Indonesia must implement accrual accounting start from January 1, 2015.

One of 548 local governments in Indonesia is Local Government XYZ. The local government is one of the largest provincial governments in Indonesia. The local government has more than 70 working units. The local government has excellegoodnt financial management as indicated by the unqualified opinion for four consecutive years. Therefore, the government has become one of the references for other local governments in Indonesia. As a reference in local government financial management in Indonesia, it is interesting to know how well the Local Government XYZ in implementing accrual accounting.
Findings of this study will contribute benefits to other local governments by learning the successful critical variables in implementing accrual accounting. Based on results, the central government (i.e., the Ministry of Home Affairs), local government executives could utilize the evidence to improve the implementation of accrual accounting for the future time. For Indonesian scholars and practitioners in the field of public sector accounting, this study will represent the first attempt to assess the implementation of accrual accounting in Indonesia.

As explained in the previous section, the objective of this research is to assess the implementation of accrual accounting in a local government in Indonesia for the first three months.

2. Research Methods

Researcher started observation in the local government from the fourth week of November 2014 as a speaker in two events of dissemination of local government accounting policy. In these two-events researcher explained to the working unit officials and accounting function staffs about how to implement the accrual accounting. Unfortunately, the researcher "come late" at this stage because it was less than two months before the starting date to apply accrual accounting (i.e., 2 January 2015). Furthermore, the researcher did intensive monitoring and evaluation since the first day of the implementation (1 January 2015) by giving distance consultation and face-to-face consultation to all local government working units.

Distance Consultation

Distance consultation held at any time by email, fax, phone, and social media. All working units are given the opportunity to discuss any problems of accrual accounting that they face, although it is trivial, by researchers at any time.

Face-to-face Consultation

Face-to-face consultation is done through direct meetings between researchers and working units. Face-to-face consultation includes the following events:
1. Collecting working unit officials and accounting function staffs who are responsible for the implementation of accrual accounting on January 6, 2015, to coordinate the initial implementation of accrual accounting. In this event researcher, again, explained details of technical aspects of accrual accounting such as kinds of documents of transactions, the format of journal and ledger, accounting policy, accounting system and procedures, chart of accounts.

2. Together with the governor and secretary of the area to give direction to the heads of working units to commit to the implementation of accrual accounting.

3. Regular Mentoring.

"Face-to-face consultations" conducted every month during the first week for five days. Mentoring conducted from 8:00 am until 20:00 pm. Each "Revenue Centre Working Unit" get the allocation of time mentoring for 2 hours, while each "Expenditure Centre Working Unit" get the allocation for 1.5 hours. Researchers have been conducting mentoring for three times.

If the working unit has made the journal, the researchers are directly reviewing journal that has been created based on the source document. If the working unit has not kept a journal, researchers explain accrual accounting journals using a real transaction that has occurred. The researchers end mentoring by providing advice that should be done by the working unit to the next stage.

4. Aspects Evaluated

In assessing the implementation of accrual accounting, a researcher focusing on the ability of a working unit to identify and to record all accrual transactions occurs (i.e., non-cash transactions). If the working unit can identify all accrual transactions and to records the transactions correctly, the better is the degree of accrual accounting. Based on the local government's transactions, researcher groups the accrual transactions into five groups. Those groups are:

1. Converting assets to expenses transactions, such as recognition of inventory expenses due to the use of inventory, fixed assets depreciation expense recognition as a result of the use of fixed assets, and so forth.
2. Accruing unpaid expenses transactions, such as recognition of the expenses of salaries of employees who have not been paid, internet subscription fee that has not been paid, and so forth.

3. Accruing uncollected revenue transactions, such as revenue recognition on patients that already treated, but the patient has not paid yet; recognition of vehicle tax when the government issued a tax assessment, and so forth.

4. Converting liabilities to revenues transactions, such as the purchase of inventory or fixed assets on credit.

5. Findings and Discussion

In assessing the degree of soundness of accrual accounting, researcher groups working units of local government into three categories: poor/pessimistic, average, optimistic. During the implementation of accrual accounting from January to March, the researcher found that almost all of working units of the local government have not implemented the accrual accounting properly because the implementation is not conformed to the Government Accounting Standards. However, the degree of quality of accrual accounting shows an increasing trend. In January there were 9 out of 71 working units that grouped into an optimistic group, then increase to 20 working units in February and 34 working units in March. On the other hand, some working units in the pessimistic group show a decreasing trend.

The researcher believes that many variables are disturbing the successfulness of accrual accounting implementation in the local government. However, there are four main variables of findings that will be discussed in the following paragraph. These variables are human resources capability, commitment and intention of the leader of the working unit to implement accrual accounting, the infrastructure of accrual accounting, and organizational and internal coordination of the working unit.

5.1 Human Resources Capability

As predicted by many parties, human resources capability is one key variable that affecting the successfulness of accrual accounting implementation. Most of the accounting staffs still use cash accounting mindset in identifying the financial
transaction, so they only record financial transactions in case of cash-in or cash-out from or to the treasurer. Although they have had already trained and disseminated about accrual accounting, they still find difficulties in identifying accrual transactions.

Furthermore, the degree of correctness of the journal is not satisfactory because there are many errors occur. Quite a lot of accounting staffs still do not understand the technicalities of making accrual accounting journals. Moreover, they are often made mistakes in filling the journal attributes such as source documents, account code, and transaction information. Also, the researcher also found that accounting staffs in working units grouped as pessimistic show that their understanding of accounting process (i.e., recognizing, measuring, recording, posting, and reporting financial transaction) is not as good as accounting staff in working units grouped as optimistic.

Researchers speculate that this may occur because of the dependence of accounting staffs on automation journal produced by the accounting software that is applied when the time of cash-based accounting. A direct result of using accounting software is that the staffs of accounting function are not adequately understood the accounting process because it has been processed instantly by the application.

5.2 Commitment and Intention of Working Units Leader to Implement Accrual Accounting

The commitment of Working Leader
Leadership commitment is evaluated from the presence of working unit leaders (at least finance officials) in coordination meetings and mentoring that has been scheduled. Also, leadership commitment is also demonstrated by the willingness of working unit leader to coordinate units in its working unit to support the accounting function in implementing accrual accounting.

The intention of Working Leader
This variable is evaluated by looking at the initiative and responsiveness of the working unit to discuss and follow up on input from the researcher. Most of the working units do not take advantage of the opportunity of distance
consultation to discuss with a companion about the problems they face in the implementation of accrual accounting. The researcher has given working units email, phone number, and social media accounts for a means of communication. However, only a little working unit utilize this means of communication. Working units belong to the "optimistic group" is working units that actively communicate with a companion in solving the problems of implementation of accrual accounting. Furthermore, there are still many working units that do not respond immediately to input from the companion. Working units classified in the "pessimistic group" usually are working units that are slow to respond to inputs from a companion.

5.3 The infrastructure of Accrual Accounting

The central infrastructure of accrual accounting consists of accounting policy, accounting systems and procedures, chart of accounts, and budget implementation systems and procedures. All of them are released under regional head regulation.

Accounting Policy
Although the local governments have good accrual accounting policies, the accounting policies have not been appropriately socialized to local government working units. As a result, many working units are not well informed about the contents of the accounting policies. This will undoubtedly affect the quality of accrual accounting.

Accounting Systems and Procedures
Although the local government has developed accounting systems and procedures as a guideline for working units to implement accrual accounting, the guideline is not yet operational. The guideline is not user-friendly enough for accounting function staffs. In turn, the accounting function staffs cannot implement the accrual accounting process properly.
Budget Implementation Systems and Procedures

The local government has established a system and procedures of budget implementation that supports the implementation of accrual accounting. However, it is not equipped with detailed technical guidelines to recognize accrual transactions. Although the local government has disseminated the systems and procedures at the beginning of January 2015, the systems and procedures cannot be followed by local government working units. As a result, the majority of working units still uses the old cash basis systems and procedures. In turn, the problem arises in recognition of accrual transaction of expenses and revenues, such as what the source documents, when the recognition of expenses and revenues, and so forth.

Chart of Account

In January and February, the local government has not finished yet in developing a chart of accounts. Initially, the chart of account cannot accommodate accrual transactions. Incomplete Chart of Accounts resulting in accounting functions found difficulties in keeping a journal. For January and February, all working units using a chart of accounts found in Regulation 64/2013 or the old Chart of Accounts of 2014 in making a journal. Thus, the account codes or account names that are used to make the journal until 2015 February were still tentative.

5.4 Organizational and Internal Coordination of Working Units

In the first month of implementation of accrual accounting, there has been no common understanding of who should keep a journal, if the finance official of working unit or treasurer. This has resulted in many working units not to record financial transactions in January.

Also, many working units which has branch offices scattered throughout the region fund difficulties to recognize all financial transactions occur. The number of branches led to the more financial transaction frequency. Consequently, the Accounting Function of working units will have trouble in recording transactions because the workload is piling up at the end of the month. Recording that accumulated
transaction at the end of the month will reduce the accuracy of the journal and in turn, will reduce the reliability of the quality of accrual accounting.

Failure to recognize the accrual transactions are also influenced by weak coordination between accounting function and other functions in the working unit. For example, the asset management function does not send documents "acceptance of assets" to the accounting function of the asset received. As a result, the accounting function cannot recognize the acquisition of assets. Another example is that personnel function does not send decree on the promotion of employees, but the employee has not received payment of salary on promotion. As a result, the accounting function cannot recognize the transaction employee expenses.

This situation above occurs because of incomplete regulations that support the implementation of accrual accounting. As of April 2015, no regulation instructs functions in working units must submit their documents of activities to accounting function. For example, there is no regulation that requires the function of asset to submit documents of receipt of goods or use of the goods to the accounting function; absence of provisions to perform physical counts of inventory items on a monthly basis; absence of regulations that require personnel function to provide employment documents to accounting function, and so forth.

6. Conclusion and Recomendation

6.1 Conclusion

Based on intensive monitoring and evaluation of accrual accounting implementation from January to March 2015, the researcher concludes that the quality of accrual accounting for the first three months is not good. Many factors caused such a situation. The factors include inadequate human resource capacity, poor commitment and poor intention of the leader of working units to implement accrual accounting, the poor infrastructure of accrual accounting, and poor organizational and internal coordination of local government working unit.
6.2 Recommendation

Learning from the factors that hinder the success of accrual accounting implementation as discussed above, the researchers recommend the following things to do. 1). The local government has to improve the capacity of the accounting staff. It is necessary to re-technical training accounting function staffs in working units and their branches. 2). The local government has to enforce working units’ commitment to implement accrual accounting by the signing of the Integrity Pact by the leaders of working units and to place the accounting staff who have a passion to the accrual accounting. 3). The local government has to develop a robust infrastructure of accrual accounting: a). Provide a comprehensive chart of accounts so that working units can journal properly, b). Provide working units with accounting guidelines that are detailed, operational, and implementable for working units. These guidelines serve as the interpretation of accounting policies, c). Establish regulations or provisions that support the implementation of accrual. 4). The local governments should make a decree on accounting function in working units and accounting function assistant at the branch office. Accounting functions at the branch office in charge of the accounting process at the branch office so that accounting functions at the central office tasked to consolidate and control the quality of the accounting process at the branch office.

References

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