

# Application of Accrual Accounting to Government

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**Abstract:** Accounting has a broader potential for the government, so the failure of accounting practices of a country or region is blamed as a cause of corruption and worsening financial, socio-economic and political conditions. Another phenomenon, financial statements as outputs of accounting practices have not been used by stakeholders. The research answers the question of the criteria that financial statements can be used by stakeholders, can accounting reduce corruption and what basis is ideal for use in government budgeting and accounting? The research also illustrates the phenomenon of accrual basis implementation in the last ten years in several countries. Researchers used the library analysis method for the last ten years, namely 2008 to 2018. Conclusions and results of the research found that the application of a combination of cash basis and accrual basis managed to meet the criteria so that it could be used by stakeholders, accrual accounting improved administration, especially those related to fixed asset management, receivables and liabilities. Accounting has not been able to detect corruption even through an accounting approach, accounting can be a tool for corruption. In addition to the accounting system, the culture and integrity of accounting actors in budgeting are also factors that influence corruption behaviour. For governance, researchers should recommend a combination of cash and accrual basis in budgeting and accounting.

## 1 INTRODUCTION

The research describes the criteria for financial statements so that they can be utilized by stakeholders and the phenomena of implementing accrual basis in the last ten years in several countries. The general purpose of preparing financial statements is to be able to present financial information that is useful for users in making and evaluating decisions regarding the allocation of resources. General purpose financial statements also have predictive and prospective roles, providing information that is useful for predicting the number of resources needed for sustainable operations, resources resulting from ongoing operations, and associated risks and uncertainties. Specifically, the purpose of government financial reporting is to present information that is useful for decision making and to show the accountability of reporting entities for the resources entrusted to it (Indonesia, 2010).

Public sector accounting reforms and budgeting for decades have tried to adopt accrual accounting into the government accounting system in order to

overcome the information constraints of the cash-based budgeting and reporting system. The aim is to promote greater fiscal responsibility and sustainability in public spending and managing public resources. However, despite 30 years of discussion, questions about the usefulness and usefulness of accounting information and financial reports by all levels of public management (public officials) and political structures/politicians remain unanswered. Do people who prepare financial information in the public sector understand and respond to the needs and demands of users of information? Can users of information better recognize the nature and quality of accounting information provided to them? How can we reduce the gap between the production of financial / accounting information and the use of financial / accounting information? (Ferry & Eckersley, 2018).

## 2 LITERATURE REVIEW

The characteristics of the information itself can be the main cause of information overload, so the use of

financial statements for decision making. politicians refer to financial data for their decision making, but not for data presented in financial statements. Apart from the professional background of politicians, the data in financial statements are considered incomplete and obsolete. (Christensen, et al., 2018). Qualitative characteristics that determine the benefits of information in financial statements. Financial statements are mainly used to determine the value of economic resources that are used to carry out government operational activities, assess financial conditions, evaluate the effectiveness and efficiency of a reporting entity, and help determine compliance with laws and regulations. Government financial reporting should present information that is useful for users in assessing accountability and making decisions both economic, social, and political decisions. The qualitative characteristics of financial statements are normative measures that need to be realized in accounting information so that they can fulfill their objectives. The following four characteristics are normative prerequisites that are needed so that government financial reports can meet the desired quality: (a) Relevant; (b) Reliable; (c) Can be compared; and (d) Understandable. The financial statements resulting from the application of Accrual-Based SAP are intended to provide better benefits to stakeholders, both users, and government financial report examiners, compared to the costs incurred. This is in line with one of the accounting principles, namely that the costs incurred are proportional to the benefits obtained (Indonesia, 2010).

Often there is a mismatch between the information needed accounting and performance measurement for internal and external needs assessed on the basis of on-site administrative systems and accounting and performance information regardless of identified incompatibility, our results provide evidence that accounting reforms against accruals have been adopted without informing the related system with administration, accountability, everyday decisions and judgments from the supervisory authority. Unless this situation changes, limited use of accruals should not be surprising (Cohen *et al.*, 2018). The financial statements resulting from the application of Accrual-Based SAP are intended to provide better benefits to stakeholders, both users, and government financial report examiners, compared to costs incurred. This is in line with one of the accounting principles, namely that the costs incurred are proportional to the benefits obtained (Indonesia, 2010).

Although accrual accounting systems in government and public sector entities are introduced

in Europe, cash or cash toward (Reichard and van Helden, 2016) play an important role in political decisions at both local and national levels (Cohen *et al.*, 2018). Therefore, although accrual accounting provides a tool that can offer a large amount of useful information for decision making and control, not all local governments exploit it because decision making is sometimes based on other forms of information (eg cash information). Despite the introduction of accrual accounting systems in government and public sector entities, for example, cash information). As a result, local administrators may not be interested in accrual accounting information because their performance assessments are carried out on the basis of quantitative or qualitative measures. From this perspective, the lack of demand for accrual accounting data can be explained by the regulatory requirements of a country. As a result, local administrators may not be interested in accrual accounting information because their performance assessments are carried out on the basis of other quantitative or qualitative measures. (van Helden *et al.*, 2016).

Bad conditions in a government are often seen as a result of weak accounting practices. Public corruption, which is experienced by many developing countries, has been arguably exacerbated by weak government accounting practices (Ríos *et al.*, 2018). Critics of government accounting from failure to address user needs. For example, unable to detect fraudulent activities, and in hiding corruption scandals (Neu *et al.*, 2013). Effective public sector governance encourages better availability of information for long-term decision making and the efficient use of resources. This strengthens accountability for managing these resources. Good governance is characterized by strong supervision, which places important pressure on improving public sector performance and tackling corruption. (Ace, 2014). Accounting plays a role in preserving corruption, this is done through an accounting approach that is aligned with intentional abuse by the government, market and social/intellectual us by hegemonic interests that change visible and invisible forces while denouncing 'corruption' by individuals and demanding 'transparency' (Lehman and Thorne, 2015).

If the stakeholder aims to find out the full cost of the output to be purchased or to make another decision, then accrual accounting information is needed and useful. No doubt, this type of management accounting information presents government management but differs from financial accounting information disclosed in financial

statements. However, government organizations that do not have business activities, do not have to adopt accrual accounting. An analysis from Belgium and the Flemish accrual accounting experience show different problems with regard to adoption and implementation. Although local governments have been faced with a number of reforms since the late 1980s, these reforms have proven to be very inconsistent. Previous research has noted the technical nature of accrual accounting for financial management in public sector organizations in Belgium (Christiaens and Rommel, 2008). decision and accountability, research at Switzerland (Laughlin, 2012). Accounting can be said to have broader governance potential (Ahrens, Ferry and Khalifa, 2018). The low compliance with the accrual accounting system and budgeting system is a result of the lack of accrual accounting culture in the Italian public sector (Gigli and Mariani, 2018).

Oraphan Nakmahachalasint and Kanogporn Narktabtee evaluated the results of the implementation of accrual accounting in the central government of Thailand. A new conceptual framework is used to research the obstacles to their transitions and effects. Transparency and financial accountability have been shown to have improved. Significant barriers to transition to accrual accounting include lack of incentives, management culture, lack of accounting manuals, and failure to understand accrual information (Nakmahachalasint and Narktabtee, 2018).

The limited use of accounting information and accrual performance in practice has been linked to several factors, such as: the gap between requirements and implementation in Spain (Brusca, Montesinos and Chow, 2013); the complexity of accrual accounting information so that it is complicated and difficult to understand by accounting actors in the UK (Hyndman, 2016); or the complexity of the organization itself (Bracci *et al.*, 2015); in Italy there is still resistance from government accountants to change their routines. lack of a blueprint for the adoption of accrual accounting and the experimental nature of its implementation, providing new information about the controversy of accrual accounting in the extant literature (Bruno and Lapsley, 2018).

The budget as a statement of public policy, fiscal targets and control tools. Budget functions in the government environment in Indonesia have an important influence in financial accounting and reporting, among others because (a) The budget is a statement of public policy, (b) The budget is a fiscal target that describes the balance between expenditure, income, and desired financing, (c) Budget becomes

the basis of control that has legal consequences, (d) Budget provides a basis for evaluating government performance, (e) The results of budget implementation are stated in government financial statements as statements of government accountability to the public (Indonesia, 2010).

The effect of the level of budget transparency in the Spanish city foresees deviations in current tax and expenditure revenues. On the one hand, cities are less transparent in overestimating their income, which allows them to provide more general services without a direct increase in taxes. On the other hand, local governments, which are aware of their excessive income, may spend less than the budget. Meanwhile, cities that are more transparent, seem wiser in estimating their income, because they underestimate their income, meaning they can spend more than projected. The Behavior of politicians is influenced by the phase of the election cycle in which they find themselves, with politicians overestimating expenditure in the year before the election (Rios *et al.*, 2018).

Research in Germany in 2018 by Eulner and Waldbauer concluded that accrual accounting facilitates information making because it presents all relevant information, rather than being limited to information that is 100% reliable, this paves the way for more effective and efficient public administration and provides transparency to whom even those who are familiar with accrual-based balance sheets. A single database eliminates the need for citizens to refer to several (accounting and statistics) reporting frameworks consisting of hundreds of pages. Accrual accounting is at the heart of democracy, as citizens as taxpayers and voters have access to the same information (aggregate) as politicians. With modern accounting, the government no longer gives the impression that they have something to hide, and they are transparent about the intergenerational impacts of their decisions and policies. Modern financial reporting will continue to international comparisons (Eulner and Waldbauer, 2018).

### 3 RESEARCH METHOD

This research is a qualitative method and uses descriptive techniques by analyzing research on the implementation of accrual accounting in various countries from 2008 to 2018 and Indonesian government regulations on government accounting standards. This method is not to test the hypothesis but produces a hypothesis that will be tested later.

## 4 RESULT AND DISCUSSION

There is still much debate about whether or not the application of accrual-based accounting is necessary, the debate revolves around the costs and benefits of applying accrual accounting. Given that investment is not small and the benefits have not been felt in several countries. Politicians as part of stakeholders have not used financial statements as a basis for decision making. Financial statements are not used by stakeholders because the information presented is not relevant to information needs for decision making, meaning that financial statements do not provide the information they need. The information presented is only limited to the mutation of the number of accounts presented on the face of the financial statements, because adequate indicators have not been understood by the financial report compilers themselves. To be able to present accrual-based financial statements, it must be prepared not only human resources, roadmap or blueprint implementation, investment budgeting information and provide human resources and applications, accounting policies and systems and administrative procedures, but from planning, basic budgeting transparency is demanded, the demand for transparency changes the working patterns of the parties involved. Accrual financial statements are still considered complicated, therefore there is still resistance to these changes among local government accountants. The financial statements are prepared and presented only to fulfill the obligation to present financial statements. The preparation is only aimed at obtaining a good opinion. The low compliance with accrual accounting systems and budgeting systems in Italy also occurs in other countries and regions, besides because culture is also due to the human integrity involved in the system.

Government financial statements should be able to predict and project the number of resources needed for sustainable operations, resources resulting from ongoing operations, and associated risks and uncertainties. Predictive and projective characteristics are commonly encountered in management reports, not financial statements, therefore it is more appropriate if the report becomes a supporting report or an attachment of financial statements but becomes an inseparable part of the financial statements themselves. Accrual basis requires local government to organize its administration, especially balance sheet accounts such as assets and liabilities. The government regulates accrual accounting practices in Indonesia as outlined in Government Regulations and derivative

rules. Accounting has not been able to detect corruption even through an accounting approach, accounting can be a tool for corruption. Accrual-based budgeting is based on data or potential income in budgeting income so that it is more transparent and does not occur in the practice of incremental budgeting which is lately implemented in the regional government. From incremental budgeting implementation, the government often determines expenditure and income without sufficient calculation and basis, changes in the budget are based solely on inflation/deflation and population, so that there is often over-income only to offset spending. Efficient budgeting is a public demand, and the budgeting efficiency theory applies in Japan and is a challenge for future researchers whether this efficiency of budgeting theory is also effective in central and regional governments in other countries?

For the advantages and disadvantages of the accounting system and cash budgeting and accrual basis, the combination of the two is still more important than choosing one of them.

## 5 CONCLUSION

The conclusion is that the application of accrual basis is successful if the financial statements meet the criteria so that they can be utilized by stakeholders.

Accrual accounting practices in the Government guide parties related to government financial management to behave accruals to support financial accounting. The application of basic accruals improves administration because to obtain information needed when preparing accrual-based financial statements, especially regarding the management of fixed assets, accounts receivable and liabilities must be corrected. Accounting has not been able to detect corruption even through an accounting approach, accounting can be a tool for corruption. In addition to the accounting system, the culture and integrity of accounting and budgeting actors are also factors that influence corruption behavior. The combination of cash systems and accrual basis for both budgeting and accounting is better.

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