DIFFICULTIES OF ACCRUAL ACCOUNTING IMPLEMENTATION IN INDONESIAN GOVERNMENT: A COMPARATIVE STUDY

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Abstract: Difficulties of Accrual Accounting Implementation in Indonesian Government: a Comparative Study. The research aims to compare the condition in Indonesia and other country that apply accrual accounting. The research method employed is qualitative descriptive. Data collected by the literary study, and interview. The research was conducted from November 2008 until January 2009. Analysis methods used were qualitative for data that was collected using literary study as well as content analysis for data that was collected using interview. The conclusions of this research are: the Human Resources Competencies, Public Finance Practice, and Regulation are factors that determined difficulties in the implementation of accrual accounting in Indonesia and also in other country which implement the accrual accounting.

Keywords: Accrual Accounting, Public Finance, Regulation, Human Resources.

In the business activities of organizations, accounting information plays an important role for decision-making. Organizations can make appropriate decision based on good quality of accounting information. One of the information that is used in decision-making is the information provided in financial statement. The financial statements produce by an accounting system.

To record the transaction in an account, accounting recognized two bases for recording transaction, namely: cash basis and accrual basis. Cash basis deliver information by referring to cash flow, cash inflows and outflows. While using accrual basis of accounting, information delivered at the point where revenues earned/realized and expenses incurred, not when cash is received or cash paid (Jones and Pendlebury 2000: 166).

Characteristic of public sector accounting system is the use of cash-based accounting system (Mardiasmo 2005:13). In the 1980s the reformation the public sector began, one of major change is the cash-based accounting system to accrual based accounting system. Previous research conclude that implementation of accrual-based accounting will affect these components: Budgeting, Accounting, Financial Reporting, and per-
Accrual accounting system is believed will result in financial a statement that is more reliable, more accurate, comprehensive and relevant for economic decision-making, social, and political (Mardiasmo 2002:154). According to the Memorandum of Discussion on Implementation Accrual Basis in Governmental Accounting in Indonesia, made by Government Accounting Standard Committee of Indonesia, reliable accrual basis of accounting will provide, firstly, ability of providing more accountable and transparent financial information than cash-based accounting. Secondly, ability of supporting the calculation of public service cost. Thirdly, recognition that the income/expenses numbers reflect all operational activities in a government. Fourthly, ability to provide better measurement, timely recognition and disclosure and lastly, ability to provide information about the use of real economic resources.

Disadvantages of Accrual basis accounting are the complexity and high cost of implementation. According to the Chairman of the International Federation of Accountants-Public Sector Committee (IFAC-PSC), Ronald Point, about 90% of the countries in the world still uses the cash basis of accounting. There are at least two reasons to maintain a cash basis as compared to the use of the accrual basis, which are that the annual budget of the government is based on real cash flow, so the accountability report (financial statement) must be prepared consistent with the budget; and that cash basis approach has been used in order to avoid difficulties arising thorough especially among lawmakers when discussing budgets and accountability reports.

Government Regulation No. 24 of 2005 has mandated that cash towards accrual basis would serve as a transition to full accrual basis. The transition process is now entering a new phase, with the issuance of Government Regulation No. 71 of 2010 concerning the Government Accounting Standards. The newest Governmental Accounting Standard has mandated the use of the accrual basis of accounting in the government in 2015, or within 5 years after the new regulation published.

Accrual based accounting implemented carefully, with the largest consideration is the accrual basis accounting is a new concept for government and have not been fully understood by the central and local government. Beside, the side effect of the implementation is the necessity of the changes / improvements in the areas of planning / budgeting, which may affect regulatory / policy / practice in a current public finance. Introductory part of Government Accounting Standard stated there are at least three factors that lead to failure to apply accrual accounting system, namely: Financial Practices, Human Resource Competencies, and the Regulation. Government Accounting Standard do not provide a more detailed explanation of the significance of the problem or a description of the factors mentioned.

Governmental accounting phenomena that exist in Indonesia can be taken from the Jakarta city, according to Koran Tempo article, on July 22, 2008, until the year 2007 the city government of Jakarta has not implemented GAS, thus gaining disclaimer opinion on Local Government Finance Report (LKPD) issued. Still in the same source, it also mentioned that Jakarta needs 4.000 accountants, and mentioned that the number of accountants who work in the city administration just reached 17 accountants, to serve 722 work units and sub-provincial level, as well as 52 regional work units (SKPD). Jakarta Capital City Government has its downside potential to interfere with the performance and quality of accounting information. On the other hand, the application of the accrual basis requires great resources and infrastructure support.

Based on the above phenomenon, I am interested in conducting research with a focus on the implementation of accrual accounting in Indonesia, and make similar comaprison of what happened in other countries implemented accrual accounting in their governmental system, as well as the existing problems in the implementation. The purpose of this study was to analyze the competencies of human resource, public financial practices, and regulations as factors causing difficulty implementing accrual accounting in the government of Indonesia, and made a comparison to other countries implemented accrual accounting in their governmental system.

In accounting, there are two bases that are commonly used, namely cash basis and accrual basis. At first, the basis for accounting system is cash basis. Accrual based accounting system developed later after discovery of double entry accounting. Jones and Pendelbury (2000) states that public sector
accounting system used cash basis to recognize cash in and cash out. Advantages of cash-based accounting system is the amount of revenue and expenditure is real, actual, and objective (Mardiasmo 2005), cash-based accounting system is simple (Jones and Pendelbury 2000). Wild et al. (2005) states that cash accounting is more reliable. Because it reflects what is happening today (reflect current situation).

The Most disadvantage of cash-based accounting system is not considered as Generally Accepted Accounting Principles (GAAP). The reason is, cash accounting cannot reflect the actual financial performance; cash basis accounting also cannot measure the efficiency and effectiveness of a program, activity, or event (Mardiasmo 2005).

Modern accounting system used accrual basis. Accrual basis of accounting is a basis of accounting in which economic transactions and other events are recognized, recorded and presented in the financial statements at the time of the transaction, regardless of the time of cash received or paid.

In accrual basis revenues are recognized when earned, and expenses as they occur. (Wild et al. 2005:70). An accrual accounting is formed from two fundamental principles, namely Revenue Recognition and Matching (Wild et al. 2005:77).

The advantages of accrual accounting are summarized as follows. Accrual accounting is more relevant in assessing the capacity of an entity’s cash flows. Relevance of accounting shown in Financial Performance, Financial Condition and Predicting Cash Flow (Wild et al. 2005: 79). Accrual basis of accounting provides information to users about resource entities, the cost of conducting operations (or the cost of providing services to the public), and other information contained in the financial position and changes, as well as information that can be used to assess whether the entity has operate economically and efficiently (Bastian 2005: 131).

The disadvantage of accrual accounting is very subjective and often conceal crucial / important information about the performance of the organization (Lee 1984). Jones and Pendelbury (2000) mention three main problems related to accrual accounting, namely: Subjectivity in the financial statements, the relevance of accrual accounting with historical value (historical cost) in the period of inflation, and the accrual adjustment (accrual adjustment) requires a cost and time.

Human Resources defined by Werther and Davis (2006) is the human inside an organization, where the human has a role in the organization to achieving its goals. The role of Human Resource in the organization can be measured from the following factors Skill, Responsibilities, Working Condition, Effort.

In the implementation of a strategy, human resource is one of the contributing factors. A management strategy or business policy will fail if management give too less attention to human resources (David 2005). Some factors that could cause the failure of a human resource are: when social and political structures are disrupted, there is a failure to adapt with the assignment, there is lack of support and attention from top management to the activities.

Human resources should be developed so that it can help organization implement their strategy. Human Resource Development, referring to David (2005), has focused on education, training, and development in the effort to achieve individual goals, organization, and community. Education, training, and development done by orientation in the workplace or in training and development.

Some human resource experts have agreed that human resource development has great influence in the creation of a total quality management. Glinow (2004) suggested five professional characteristics of human resource, namely: (1) Experts in their fields (Expertise) (2) Be independent (Autonomy) (3) Responsible for the job (Commitment to the work) (4) Uphold professional ethics, to be honest and not cheating (Ethical) and (5) Able to maintain good relations with others (Relationship). In the context of the implementation of a government policy, human resource development must be done so that it is ready and human resource professionals in implementing the existing policy, so the policy can work well.

Public Finance can be defined in a narrow and broad sense. Public Finance narrowly defined as only cash receipts and expenditures through the State Treasury for the fiscal year. The terminology used in the Public Finance Act No. 17 of 2003 is a broad definition, the definition cover terms of objects, subjects, processes, and goals.

The public finance has a process cycle. Public Finance Cycle is basically follow the general management function. Planning is the beginning of the cycle, followed by imple-
mentation and monitoring. In public finance, the cycle consists of Planning and budgeting, Treasury, Accounting, Responsibility, and Examination.

Regulation is one of the legislation product whose purpose is to preserve, maintain, and enforce the rule of law for the people, so as to achieve order in the country. The regulation becomes a guide, both theoretical and practical implementation of financial management policies. In order to regulate the public finance, Indonesia has imposed many regulations.


METHOD

The objects of this research are the factors that cause difficulty in applying accrual accounting, namely: Human Resource Competencies, Public Finance Practice, and Regulations. The object can be categorized as follows:

The research use qualitative methodology. In a qualitative methodology perspective, this research can be classified as qualitative descriptive, as it aims to construct a detail description, and reveals the meaning behind the data that appears (Bungin 2007). Data collected in this research using literature study and interviews. The literature study use a textbook literature, scientific journals, and on-line documents.

Interviews will be conducted using personal interviews techniques. Informants in this interview are actively involved in a public finance process and become a user of government accounting. Informants in the study were:

1. From the implementers/governmental agency (participant), is Drs. Iwan Kurniawan, SE, M.Si, Ak. from Bureau of Financial, Sub-Sections Accounting and Calculation in Regional Government of Jakarta.
2. From the supervisor (oversee), is Mr. Simon BP Panjaitan, SE, Regional Monitoring Agency/Inspector in Regional Government of Jakarta.

RESULT AND DISCUSSION

Human Resource competencies in the governmental accounting area, especially accrual accounting show some significant weakness. In the research report written by Mulyana (2008) and Widjadjarso (2008) regarding the implementation of accrual accounting in Indonesia government, describe the two aspects of the human resource

<table>
<thead>
<tr>
<th>Category</th>
<th>Dimension</th>
<th>Indicator</th>
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<tbody>
<tr>
<td><strong>Public Finance Practice</strong></td>
<td>1. Budgeting</td>
<td>Budget preparation procedure and technique</td>
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<td></td>
<td>2. Treasury</td>
<td>Treasury procedure and technique</td>
</tr>
<tr>
<td></td>
<td>3. Accounting</td>
<td>Accounting system and technique</td>
</tr>
<tr>
<td><strong>Human Resource Competencies</strong></td>
<td>1. Knowledge and Skill</td>
<td>Knowledge level in accounting</td>
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<tr>
<td></td>
<td>2. Understanding</td>
<td>Training and development level in accounting</td>
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<tr>
<td></td>
<td></td>
<td>Skill level in accounting</td>
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<tr>
<td></td>
<td></td>
<td>Understanding of accrual basis accounting</td>
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<tr>
<td><strong>Regulations</strong></td>
<td>1. Availability of regulations</td>
<td>Availability of regulations regarding accrual accounting</td>
</tr>
<tr>
<td></td>
<td>2. Scope of regulations</td>
<td>Scope of regulations regarding accrual accounting</td>
</tr>
</tbody>
</table>

Table 1. Categories, Dimensions and Indicators
weaknesses. First, Human Resource in government do not have adequate accounting knowledge. Most of them know accounting as a tool for making financial statement, but don't have any good technical competencies. Second, the number of Human Resource who has degree in accounting is relatively low, especially in a finance department. The capacity development conducted by government also can't provide government with expert who possess good skill in accounting (to analyze transaction, to design accounting system) and so on.

In other countries which implemented accrual accounting, problems related to human resource competencies also happened. In Italy, Capercione (2005) studied about accrual accounting implementation in Italy, the research show that not all municipalities prepared the financial statement in accrual basis, the main cause of it, was the limitations of human resource. Study conducted in Romania, by Tudor and Faceatan (2008) show that 70% of accounting staff in government don't understand about accrual accounting. 81% of them also don't understand about double entry accounting system (the basis for accrual accounting).

In the case of the Jakarta city government, from the answers to 6 questions raised during interview, both implementers and supervisors stated that officials at the Bureau of Finance who has a background in accounting amount is not sufficient, only 1.35% from total staff. Human resources capacity development done by the mechanism of seminars / training / courses are also inadequate as evidenced by the statement of the implementers as follows:

“It seems that we have not been able to conduct or perceive socialization of accrual accounting in government. The main cause is due to a lack of sufficient human resource knowledge about accounting in general, more specifically accrual basis. The current human resource still follow the old rules, so the Jakarta city government must increase training on the use of accrual basis in governmental accounting and also recruit new human resources who understand accounting. Because human resource is currently mostly do not understand about accounting.

Facilities and support for development of human resource, in form of training, seminars, and technical consultation unable to provide comprehensive understanding of accrual accounting, so human resources unable to develop capacity in the field of accounting. Human resources in the field of accounting has also never tried to understand accounting knowledge and technique on their own. As stated by the supervisor:

“Human Resource never tried to learn accounting on their own, they are depend on outside consultants to conduct governmental accounting matters.”

Comparation between Indonesia and overseas regarding human resource competencies showed the similarities, the human resources who have accounting background is still rare or little, and most officers do not have the basic knowledge and skills of accounting, such as recording a double-entry accounting system.

In public finance practices, literature study indicated that the public finance practices today in Indonesia still has a tendency to follow cash in and cash out mechanism (cash basis transaction) (KSAP 2008). in their report about Indonesia readiness to implement accrual accounting, stated that budgeting mechanism is still done using cash basis, which is recorded as a revenue budget of the entire cash receipts in the budget, and the budget as a whole recorded cash expenditures in the budget. It is uncommon to conduct accrual accounting while still using a cash basis budget.

KSAP (2008) also stated in the same report that, Budget treasury focused on cash receipt and cash payment, and transaction document still using cash receipt and cash payment form, not any other document that can show transaction when its occured (for example tax warrant for tax revenue). Accounting is still limited by complexity of transaction in government and lack of infrastructure to produce a good accounting information.

In other countries, several research conducted show accrual accounting has increased the complexity of governmental financial transactions. The orientation of treat a transaction still depend on cash basis financial practices. In a study conducted by
the OECD, most of the countries declined accrual budgeting because it increases the risk of the transaction complexity and risk budget appropriation and can lead to budget number manipulation (Mulyana 2008). A study conducted by Hoek (2006), suggested that the implementation of the accrual basis budget by relying on the performance and achievements of the work plan, fails. Government's unable to identify the performance indicator, and the absence of performance indicators lead to misused accrual-based budget. In cross-country studies conducted in Australia, Britain and New Zealand audit institutions and practices of public administration into the factors that affect the application of the accrual basis in the government.

In the case of the Jakarta city government, from 8 questions given during interview, the implementer and the supervisor stated that the condition of public finance practice exist in Indonesia unable to support the application of the accrual basis. Budgeting still using cash basis and accrual-based budget development raise opposition because it will lead to instability in financial practice. As said by implementer:

“There is a polemics between the budget and accounting department, Because accounting must report using what transaction already occurred, but the budget stated cash receipt and payment only. If the budget is implemented using accrual basis it will bring “chaos”. And also, according to the rules the budget was prepared on cash basis “

In case of Jakarta Province government, budget treasury is still focused on recording cash inflows and cash outflows. The Jakarta province government still confused understanding practice of accounting, which is characterized by the absence of the practice of accounting with double entry bookkeeping. The focus of the implementer and supervisor is still on compliance and not on the basis of accounting used.

In terms of regulations, literature studies conducted showing that the official regulations for the application of the accrual basis is available, but not implemented yet. Currently, Government Regulation 71 year 2010 stipulates that the government can choose to apply full accrual basis or cash toward accrual basis (cash modification basis), with obligation in 2015, all government must used accrual basis.

Of any supporting regulations, many overlapping regulations, or regulations that still govern the financial management of cash basis, as the following examples (Suryanovi 2008): 1) Presidential Decree No. 42 Year 2002 on “Guidelines for the Preparation of State Budget,” clearly suggests the use of cash basis, when revenue projected by cash receipt and expenditure projected by cash payment. 2) Article 3 paragraph (3) of Law No. 17 of 2003 which states, “Every officer is prohibited from spending the state budget if the budget to finance such expenditures are not available or are not reasonably available.” Based on the article, recognition of accrual expense somehow describing a violation of the law. 3) According to Law no. 17 of 2003 chapter 1 verses 13 and Law no. 1 of 2004 article 12, paragraph 1, it can be concluded,
### Table 3 List of regulations regarding accrual based accounting implementation

<table>
<thead>
<tr>
<th>No</th>
<th>Regulation name</th>
<th>Country</th>
<th>Date of Issuance</th>
<th>Detail description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Local Government Accounting (LGA) Act</td>
<td>Italy</td>
<td>1995</td>
<td>- The scope of reform is budget, financial accounting, performance measurement system and reporting system. (Caperchione 2001)</td>
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<td></td>
<td></td>
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<td></td>
<td>- The reform started gradually from 1997 – 2001 in a local government, with regard to population size in a local government (Pessina and Stacollini 2001)</td>
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<td></td>
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<td></td>
<td>- Accrual accounting is a part of state finance reform and to build a new performance measurement system (Caperchione 2001)</td>
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<td></td>
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<td>- Critics of the regulation is the regulation requires the use of accrual-based reporting without implementation of accrual accounting and bookkeeping system is not applied double entry system, and the use of two accounting systems (cameral and accrual) simultaneously, tend to be enforced (Pessina and Stacollini 2001)</td>
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<td></td>
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<td></td>
<td>- Financial accounting and cost accounting used accrual basis, while budgetary accounting still used cash modified basis. (Carvalho, et. al. 2006)</td>
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<td>- The regulation became effective in 2000, but at the beginning only 3.2 % of municipalities can applied the regulations. The rest of the government applied the regulation in the next 2 years. The regulations critics is &quot;cash basis&quot; culture still strong in government finance. (Jorge 2006)</td>
</tr>
<tr>
<td>3</td>
<td>Local Government Reform</td>
<td>Belgium</td>
<td>1995</td>
<td>- Local governments divided into municipalities dan Official Centres for Mutual Welfare (OCMW) (Christaens, 2005; Christaens and Rommel 2006)</td>
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<td></td>
<td></td>
<td>- The scope of reform in municipalities are accrual basis implementation for accounting and budgeting (Christaens 2005)</td>
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<td>- The scope of reform in OCMW are accrual basis implementation for accounting and budgeting, and reform in other sectors, such as cost accounting, management planning and organization, management accounting, internal and external audit. (Christaens 2005)</td>
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<tr>
<td></td>
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<td></td>
<td>- The weakness of regulations is the missing of conceptual framework for financial reporting, and different scope of reform in local government (Christaens 2005)</td>
</tr>
</tbody>
</table>
that the basis of accounting used in the state is recognized revenue accrual basis, revenue is recognized when the right to the income arises, regardless of when cash will be received. However, in Article 11, paragraph 3 of Law No. 17 of 2003 which states that state revenues consist of tax revenues, non-tax revenues and grants, and projected using cash received. There is overlap between the cash basis to the accrual basis, in the same legislation.

The literature study shows that the regulations related to public finance overlapping and conflicting with each other. The same thing happens in other countries, regulations related to accrual accounting in various countries emerged in late 1999 and lasted until now. Regulations related to accounting and budgeting generally contains transitional provisions, so that all local governments don’t immediately apply the accrual basis.

Other additional information: 1) Actually, European Union Country in 1995 already implement the single standard of financial reporting calles European System of Account (ESA), ESA imposed the government to apply accrual basis in presenting their financial information. 2) European Union (EU), International Monetary Fund (IMF), OECD, United Nation (UN) dan World Bank joint together to releasing System of National Accounts (SNA). SNA compile finance statistics for all economic activities. SNA also rely on accrual based accounting information. 3) IMF release Government Finance Statistics (GFS) to compile and present public sector performance

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<tr>
<th>No.</th>
<th>Document</th>
<th>Country</th>
<th>Year</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>4</td>
<td>Government Ordinance No. 61/2001 as a amendment for Accounting Law no. 82/1991</td>
<td>Romania</td>
<td>2001</td>
<td>Object of state finance reform is accrual accounting, but the implementation can began fully in 2006 or 5 years after the regulation issued (Tudor and Fatecean 2006) The regulation hadn’t govern the adequate step to implement accrual accounting in government. (Tudor and Fatecean 2006)</td>
</tr>
<tr>
<td>5</td>
<td>Presidential Decree 31/1999</td>
<td>Greece</td>
<td>1999</td>
<td>The reform started 2000 in a local government, with regard to population size in a local government (Cohen 2006) Regulation explain about development of two system, cash basis and accrual basis, simultaneously in government accounting. Accrual basis used to record business-like transaction, while cash basis is still used for budget realization transaction and budget preparation (Cohen 2006) Regulations enacted in 1990 and obliged local government to implement full accrual basis accounting and disclose all relevant financial information in local government financial statement. (Crown Financial Statements) (Lye, et. al. 2002) Regulation also govern the human resource capacity to conduct the implementation, the accounting policy, information gathering and so on. (Mulyana 2008) New Zealand is more ready to implement accrual accounting, because in a single set of regulation, it already govern all the infrastructure to implement accrual accounting system. (Lye, et. al. 2002)</td>
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<tr>
<td>6</td>
<td>Public Finance Act</td>
<td>New Zealand</td>
<td>1989</td>
<td>The regulations that impose local government to apply accrual based accounting, historically had been available since 19th century. The accrual accounting system is only adapted partially, especially to record expenditure in what we called as a resource accounting. (Connoly and Hyndman 2005)</td>
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<tr>
<td>7</td>
<td>The White Paper</td>
<td>United Kingdom</td>
<td>1995</td>
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analysis, so the information can be comparable across countries. GFS used accrual basis information. 4) International Federation of Accountants (IFAC) issues International Public Sector Accounting Standards (IPSAS) in 2000. IPSAS use accrual basis.

The common critiques of regulation listed above are, such as lack of a conceptual framework on the accrual basis, cash system is still maintained in the accounting and budgeting system, accrual accounting as a political agenda, and application of accrual accounting system without adequate supporting infrastructure.

In cases that occurred in the Jakarta Province Government, the executive and the parties acknowledge that the current supervisory regulations of accounting are still mandated cash basis, so all budget preparation, transaction, and performance measurement are based on cash basis. Jakarta Province government also recognizes the existence of regulatory overlap and conflict that exist, due to regulations are always changing. This is confirmed by the implementers of accounting as follows:

“We (government) became confused, even all local governments, why our financial statements always had disclaimer opinion. This happens because the rules (public finance) rules are always changing, if we apply accrual basis, we definitely have to work on modifying rules, this regulatory issues will not be settled. It is typical in our country”

CONCLUSION

From the research conducted, we can conclude that human resource competencies, public finance practice, and regulations are a factor that causes difficulties in the application of accrual accounting in Indonesia. The three factors happen in Indonesia also the cause of difficulties in applying accrual accounting in various countries.

Based on the study, it can be concluded that human resource competencies, public Finance Practice, and regulations causing difficulty in applying full accrual accounting in the Government of Indonesia and also in other countries that implement accrual accounting. Thus there is need for improvement in 3 of these factors so that the application of accrual accounting can be done.

In the case of human resource, where most of the accounting entity at the central level (unit of work) has had little or no accounting personnel (at least diploma level). In order for both of these can be achieved, it is necessary to coordination between the central government, local governments and universities to provide governmental accounting education so it can create the good human resource. Capacity building is also needed to produce human resource that have the ability to analyze transactions, understanding policy related to accounting transactions. To finance practice, it can be suggested is the use of accrual-based budgeting and budget execution performance-oriented achievement, and not just cash basis. In terms of regulation, government check all the overlap or conflict in the regulations to avoid confusion in government level.

This study has not revealed the overall macro factors that may cause difficulty applying accrual accounting in government. Future Researchers can added environmental factors, such as politics, culture, economics, and demographics. This study used a qualitative paradigm for data collection, data analysis, to draw conclusions. Future Researchers can then consider using quantitative research methods using techniques of data collection, data analysis, and conclusion using quantitative techniques. For further research number of respondents, as well as considering the position of respondents, both for implementers and supervisors can be added.

REFERENCE


