ACCRUAL BASED REGIME ADOPTION IN THE INDONESIAN PUBLIC SECTOR

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Abstract

A global trend indicates the emerging role of the private style reporting system as part of New Public Financial Management reforms in the public sector in developed and emerging economies. This study documents that the Indonesian Government policy to formally adopt an accrual accounting reporting for the public sector in 2003 was part of wider public financial reforms imposed by international donor communities and domestic aspiration as a means to strengthen the accountability, transparency and efficiency of public sector operation. Drawing from empirical data issued by the Government Institutions (e.g. the State Audit Board) and the experience of a municipal government in implementing the new reporting system and other relevant information, the institutionalization of the new government reporting system in Indonesia has been encountered with a number critical issues: local governments have been positioned as the passive adopter of the accounting regime against the decentralization policy, the low level of compliance to reporting standards, the lack of using financial information for managerial purposes, and the emerge of an illegal practice as an unintended outcome of the public financial management reform. This paper concludes with practical recommendation and suggestion for future studies.

Keywords: Accrual reporting system, transparency and efficiency, new public management.

Introduction

Following the financial crisis in 1997 and 1998 Indonesia and other Asian countries received the financial packages from the International Monetary Fund (IMF) to recover their economy. These countries had no choice, but to improve their banking regulations, fiscal system and public sector management overall. As highlighted in a report by the Barclays Economic Review (1998:24): “In return for the IMF sponsored international multi-billion dollar rescue packages, the government of South Korea, Indonesia, Philippines and Thailand have pledged to undertake a series of reforms aimed at removing the barriers to enhance efficiency, productivity, transparency and accountability”. In Indonesia, apart from reforming the financial and banking sector and the implementing the decentralization policies (Hill 1999), of great concern amongst the reforms was the enactment of new government rules aimed to reformulate budgetary and government report systems and strengthen the audit function within the public sector.

standards. In essence, with respect to the budgetary and reporting system and audit framework in the public, these government rules underlie three aspects:
1. The use of performance based budget system.
2. The adoption of an accrual based reporting system (henceforth ARS).
3. The increased role public sector audit.

By reforming the public sector policies with the adoption of the private sector management practices, it clearly indicates that the post-Suharto regimes have followed a similar pattern in other countries, where the NPM-based principles are adopted in planning, reporting, and measuring activities in the public sector institutions (Alam 1997; Guthrie et al. 1999; Saleh & Pendlebury 2006; Marwata & Alam 2006). Moreover, it is argued that the use of ARS is aimed at increasing the efficiency, effectiveness and transparency of the public sector agencies (GR 24 2005). In explaining these developments, the World Bank (2006) reports that Indonesia already has in place an adequate basic legal framework for public expenditure management in accordance with good international practice, which promotes transparency and accountability on all levels of the state.

Nonetheless, although international donor organizations (e.g. World Bank, 2006) and international media (e.g. Newsweek 2009; Time Magazine 2009) praise Indonesia as the country has successfully installed democratic principles in the election of executives (e.g. president, governors and mayors) and parliamentary members coupled with decentralization policies, the study finds a number of contrasting results which run counter the intended purposes of the adoption of ARS as part of public sector reforms. The implementation of ARS in the public sector has been encountered by a number of critical issues: local governments have been positioned as the passive adopter of ARS, the low level of compliance to reporting standards; the production of government reports were mainly used for fulfilling regulatory requirements, and the emerge of an illegal practice as an unintended outcome in the adoption process of the new reporting system.

These findings support the notion, that the institutionalization process of a new NPM-based practice (i.e. an accrual reporting system) may produce an outcome that contradicts the intended purposes of its adoption (Ansari & Euske 1987; Carpenter & Feroz 1992, 2001; Nor-Aziah & Scapens 2007; Dambrin et al. 2007). Moreover, these findings conform the view that both technical and cultural issues influence the nature of accounting changes (Abernethy & Chua 1996; Ter Bogt & Van Helden 2000) and how an accounting system is institutionalized (Sharma & Lawrence 2008). The rest of the paper discusses the purpose and context of the study; prior literature and theoretical foundation underlying the study; the methods employed in collecting the data; how ARS in the public sector was adopted; how ARS was institutionalized; how the findings of the study are interpreted and discussed against the NIS lenses; conclusion and theoretical implication of the study. The last part of the paper sheds lights on the implication of the study on the policy formulation of government reporting system, limitation and suggestion for futures studies.

**Context and the Purposes of the Study**

The study was designed to explore the institutionalization process of the adoption of an accrual accounting system in the Indonesian public sector. Hence, an accounting system is seen as a product of the interplay among the actors within the social, economic and political context (Hopwood 1983, 2000; Modell 2001, 2002; Siti-Nabila & Scapens 2005). However, recent literature concerning the adoption of private sector managerial systems in the public sector context also saw a growing number of studies that were designed not only
to understand how broader social and political context influences the policy formulation of a reporting system (Ryan 1998, 1999; Baker & Rennie 2006) but also how the adoption of a new reporting system is internalized through the actions and behaviors of actors in an organization (Nor-Aziah & Scapens 2007; Dambrin et al. 2007). By taking into account the notion, this study was also designed to explore how the influence of interplay among the key actors within the social and economic context on the formal adoption of ARS, and how the formal adoption of ARS was internalized into the actual behaviors and actions of actors implementing the new accounting system in the Indonesian public sector.

This study contributes to a better understanding of the institutional and social aspects of financial accounting and related aspects of management accounting which are still relatively unexplored (Hopwood 2000). Furthermore, Nor-Aziah & Scapens (2007) suggest that such a study is also required to understand how the calls for greater efficiency in the public sector are translated into actions at the organizational level (Siti-Nabila & Scapens 2005). Moreover, this study also contributes to enrich our understanding on the diffusion and implementation of NPM based practice from a developing country, as prior studies were mainly focused on developed economies (Hassan 2005) and how the implementation of a new accounting system is actually implemented in a local government setting in Indonesia as suggested by Marwata & Alam (2006). In providing a complete picture regarding the process of the public sector accounting reform in Indonesia, the study explored (1) the influence of the social, political and economic backgrounds leading to the adoption of ARS, (2) how the ARS was formally adopted, (3) how ARS was institutionalized against the intended purposes.

Prior Literature and Theoretical Foundation

Prior studies in public sector accounting concerning the debate about the implementation of business-like accounting systems for government entities have existed since the 1970s. Earlier studies in the public sector accounting (e.g., Zimmerman 1977; Ingram 1984) have employed the economic based theories in providing explanation for accounting innovations in the public sector. Zimmerman (1977) suggests economic factors that influence the practice of government financial reporting in the United States. He argues that any adoption of specific accounting practices within the government context is aimed to signal the quality of management to external stakeholders. Ingram (1984:130) also adds a similar notion that "...the higher quality of management may lead to benefits in the form of lower interest costs on municipal debt, and increase in the politician's popularity as a result of recognized performance".

Nonetheless, Ansari & Euske (1987) argue that although the use of accounting information is a rational way in providing information useful in making economic decisions but these studies have been limited in providing understanding of the behaviors and actions of actors or individual decision-makers within organizations (Scapens 1990). Therefore, given the limitation of the economics-based theories in explaining the organizational and social roles of accounting, some literature has used other perspectives (Carpenter & Feroz 1992). Carpenter & Feroz (1992) suggest that accounting may be viewed as a means of legitimizing the current social and political structure of the organization. In this regard Cooper (1980:182) states:

Accounting systems encourage imitation and coercion by defining the problematic (by choosing which variables are measured and reported) and
they help to fashion solutions (by choosing which variables are to be treated as controllable). Of course, the way accounting systems are used is highly significant, but nevertheless the structure and elements of accounting systems help to create the appropriate and acceptable ways of acting, organizing and talking about issues in organizations. Accounting systems are a significant component of the power system in an organization.

Other accounting researchers also stress that future studies should examine accounting innovations in specific settings by employing other alternative theoretical frameworks. In this regard, Ribeiro & Scapens (2006) assert that the simplistic and static character of previous studies examining accounting innovations in specific organizations have led accounting researchers concerned with internal organizational changes to use alternative theoretical frameworks. In responding to the criticism, NIS theory has been prominent in extending the study of accounting change to include the social and institutional dimensions of organizations and their environments (Ansari & Euske 1987; Moll & Major 2006).

In investigating the adoption of a new performance measurement system in a multinational gas company operating in South East Asia (Siti-Nabiha & Scapens 2005) found that although the new performance measurement system was formally implemented and modified in accordance with the proposed managerial reform in the company, it was used only for ceremonial purposes. The ceremonial practice of the new performance measurement systems aimed at maintaining the stability within the organization. In this context, the existing idea (i.e. the production orientation) and old practice have been regarded as an obstacle to the implementation of a new managerial system and to affect the day-to-day activities of actors within the company.

Nor-Aziah & Scapens (2007) offer an extended framework based on NIS theory in explaining how a new accounting and budgetary system were implemented in a specific public sector organization in Malaysia for greater efficiency. In that study they explored the way the actors in an organization respond to the imposition of a new managerial tool. It was found that the respond to the calls for greater efficiency in the Malaysian public sector resulted in the tensions and conflicts between accountants and operations managers. The conflicts automatically obstruct an effective use of a new accounting and budgetary system for managerial purposes. In that study, they suggest that the implementation of new managerial tool within an organization is a complex process as result of conflicting ideas, interests and powers from the actors. Drawing on their findings, they offer an extended framework based on NIS theory that the loose coupling can be both the result and outcome of an imposition of a new commercial tool in an organization.

Similarly, Dambrin et al. (2007) suggest that to fully understand how an accounting system is institutionalized in an organization, it is important to understand the sequential process by which an accounting system is developed, implemented and internalized. Their view is drawn from Hasselbladh & Kallinikos (2000) who criticized prior literature in the institutional theory that "...failed to account for the distinctive character of the process of institutionalization" (Hasselbladh & Kallinikos, 2000:701). Consequently, as suggested by Kostova & Roth (2002) and Dambrin et al. (2007), the institutionalization of a new accounting system not only occurs at the macro-social economic level, but also at the organizational level. In the context of a government adopting ARS, to be fully institutionalized, it would not only involve the emerging of ideals that require the implementation of ARS which is followed by a formal adoption of an new reporting system, but also how the actual
behaviours of actors (people or organizations) who are engaged in the internalization process of the accounting system reflect the intended purposes. These NIS-based perspectives are used as the lenses to examine the institutionalization process of ARS in the Indonesian public sector.

Method

As a case study, the data was collected from multiple sources to achieve a triangulation as suggested Yin (2003). The data was drawn from government rules about the Indonesian Government reporting system, relevant publicly available information and semi-structured interviews. The participants were chosen from those who involved in the internalization process of the accrual accounting system in the Indonesian public sector in general and how the system was institutionalized at a municipal government. As suggested by Modell et al. (2007), the use of data from the national level along with information from a specific agency can facilitate the examination on how a new accounting system "...interplays with similar phenomena in broader political and institutional environments" (Modell et al. 2007:457). Moreover the participants were chosen from different organizations (or stakeholders) in order to see the views from separate constituents as suggested by Lapsley & Pallot (2000).

There were thirty-six interviewees. At the national level the participants were the senior officials in the Ministry of Finance (henceforth MOF), the Ministry of Internal Affairs (henceforth MIA), the State Audit Board, the members of the National Parliament and the members of the working committee in the Government Accounting Standard Committee.

Table 1
 Profiles of the participants by organization

<table>
<thead>
<tr>
<th>Organizations</th>
<th>Number of participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>3</td>
</tr>
<tr>
<td>Ministry of Internal Affairs</td>
<td>1</td>
</tr>
<tr>
<td>State Audit Board</td>
<td>4</td>
</tr>
<tr>
<td>National Parliament</td>
<td>3</td>
</tr>
<tr>
<td>Government Accounting Standards Committee</td>
<td>3</td>
</tr>
<tr>
<td>Municipal Government under study (MG)</td>
<td>10</td>
</tr>
<tr>
<td>Local Parliament in MG</td>
<td>3</td>
</tr>
<tr>
<td>Central Sulawesi Provincial Government</td>
<td>2</td>
</tr>
<tr>
<td>Universities</td>
<td>2</td>
</tr>
<tr>
<td>Accounting and consultant firms</td>
<td>4</td>
</tr>
<tr>
<td>Media and non-government organizations</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
</tr>
</tbody>
</table>

At the local level, the participants were the senior officials and those at the lower level positions in a municipal government under study (henceforth MG), officials in the Central Sulawesi Provincial Government (in which MG is part of its jurisdiction), and the representatives (i.e. the auditors) from the State Audit Board in MG. Moreover, the interviews were also held with accounting academics, consultants and certified accountants and representatives from
media and non-government organizations in MG. Allowing participants from various group of people from government organizations, professional accountants, managers, media and parliamentary bodies to give their views on a specific accounting issue is encouraged to provide a comprehensive understanding on how an accounting system practice is implemented as undertaken in prior public sector accounting studies (e.g. Jones & Puglisi 1997; Van Peursem & Pratt 1998; Mignot & Dolley 2000; Christensen 2002; Mack & Ryan 2007).

The themes of the interviews were drawn from both the Government official documents that address the implementation issues of ARS in the Indonesian public sector along with academic sources as suggested by Connolly and Hyndman (2006). These academic sources were used including the studies by Ryan 1999; Mignot & Dolley 2000; Christensen 2002; Pallot 1996; Van Peursem 1998; Ansari & Euske 1987; Baker & Rennie 2006; and Ter Bogt & Van Helden 2000; Nor-Aziah & Scapens 2007.

These themes were used as a reference for the questions in the interview list. However, during the interviews, the interview list was used in flexible ways to encourage the participants to convey information freely. Eighty percent (28 out of 36) of the interviewees were tape-recorded and all of them were backed up with notes taken during the interviews. Those who refused the interviews being recorded, the information from interviews were backed up with notes. The length of each interview was various but each interview lasted 45 minutes to 90 minutes. The transcriptions of the interviews were transcribed as soon as possible and follow up interviews were also held with the participants in order to clarify any information that was captured in a previous interview. The interviews were carried out in Indonesia from January to July 2009 and the collection of other relevant data (e.g. government reports, media news) was extended up to November 2009.

Following the examination of relevant documents (government accounting rules, official reports, media reports, etc) and interview transcripts, the patterns of the information collected as suggested by Yin (2003) were used as the basis to analyze and understand the phenomena under study, in accordance with NIS perspectives.

Findings and Discussion

This part of the paper presents the actual data related to the institutionalization process of ARS in the Indonesian public sector as the basis to understand a complete picture of the adoption and implementation of ARS with the Indonesian Government. Three issues are presented: (1) recent developments of the Indonesian Government reporting framework; (2) the compliance of government reports to GAS at the national and local level; and (3) how GAS is actually internalized in a municipal government.

Recent developments in government reporting framework

Following the monetary crisis in 1997, along with adoption of greater autonomy policies for local governments, a significant change has occurred in the public sector reporting system. The increased demand from the public for better governance prompted the government to adopt a more informative reporting system for the public sector (Nasution, 2008). Furthermore, the

1 Apart from interviews, the themes based on the academic sources were also used in searching the information from other sources of data.
initiation to reform the government reporting system was part of wider public sector reforms as expressed in the Government of Indonesia's Letter of Intent (GOI's LoI) in August 2001. According to the LoI, the World Bank and the Asia Development Bank were given the opportunity to support the Government to formulate economic policies and the Government was urged to work closely with these institutions in pursuing public sector reforms aimed at strengthening medium-term economic growth (MOF 2001).

Furthermore, although local governments were granted a greater financial and political autonomy based on Law 22 and 24 issued in 1999, prior to the enactment of Law 17 (2003), there was no significant further development of a detailed framework on the government reporting system. According to one of the interviewees at MOF, in 2003 initiated by MOF and in cooperation with the State Board Audit, the Indonesian Institute of Accountants, and universities, MOF issued the Decree 337 (2003) as the first “Accounting Standards for the Central and Local Governments” (2003) in the country. These standards were revised with the issuance of Government Accounting Standards (Standar Akuntansi Pemerintahan, henceforth GAS) in 2005 formulated by a committee called “Government Accounting Standard Committee, Komite Standar Akuntansi Pemerintahan”. The committee is directly responsible to the President (GR 24, 2005).

The new government accounting standards have substantial differences from the previous reporting system inherited from the Dutch that only required the Government to present realized budget reports. The contents of the new reporting rules are primarily drawn from the International Public Sector Accounting Standards promulgated by the International Federation of Accountants (IFAC), the Indonesian Government Statistics Manual promulgated by IMF and governmental accounting standards in USA (GR 24 2005). In essence, the objective of the adoption of the new reporting system is to provide information that is useful in evaluating the performance of the Government organizations and making decisions about the allocation of resources. The objective is achieved by:

1. Providing information about the resources, allocation and uses of the resources.
2. Providing information about how a entity has financed its activities and met its cash requirements.
3. Providing information that is useful in evaluating a entity’s ability to finance its activities and to meet its liabilities and commitments.
4. Providing information about the financial condition of an entity and changes in it.
5. Providing a better and more informative reporting system as a means to prevent the abuse of public recourses (e.g. corruption).

GAS requires that the central and local government (including their agencies) to produce balance sheets, changes in equity, cash flows, notes to the financial statements, and budget realized reports. Nonetheless, the government-owned companies use the private sector accounting standards in preparing their reports.

Although GAS also intently designed as a set of reporting rules for local governments as stated in GR 24 (2005), but later in 2006 local governments were required to use MIA Decree 13 (2006) and its revision; MIA Decree No. 59 issued in 2007 as the guidance for local government to plan, administer and report local government programs and activities. Although the MIA’s rules are not formally stated as a set of accounting standards, but these rules also specifically outline the types of government expenditures, details of charts of accounts and types of reports that have to be adopted by local governments. As explained by the interviewees in the local government observed, State Audit Board and MOF, the MIA rules add the complexity and difficulties of the reporting system at local level. Table 2 summarizes the main the types of government reports based on the old and currently adopted within the Government.
Table 2
A Comparison on Government Reports in Indonesia

<table>
<thead>
<tr>
<th>Old system</th>
<th>New System</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Budget realization</td>
<td>- Budget realization reports</td>
</tr>
<tr>
<td>reports</td>
<td>- Balance sheets</td>
</tr>
<tr>
<td>(Nota RAPBN/RAPBD)</td>
<td>- Cash flows</td>
</tr>
<tr>
<td></td>
<td>- Changes in equities</td>
</tr>
<tr>
<td></td>
<td>- Notes on financial statements</td>
</tr>
</tbody>
</table>

The compliance of government reports to rules at the national and local level

The extent to which the compliance of the Government’s reports to GAS can be mainly identified by the types of audit opinions issued by the State Audit Board on these reports. From factual data (as presented in Table 2 and 3) the level of government reports’ compliance to GAS is still low, in other words, there is limited evidence which indicates that the new government reporting standards have been fully used in preparing the Government reports.

As presented in the Table 2, from 2006 to 2008 it can be seen that less than a half (41.46 percent) of the central government reports were fully complied with GAS in 2008. This figure rose from 7.23 percent in 2006. On the other hand, the Central Government reports with adverse qualification decreased from 45.12 percent to 21.95 percent in 2007. At the local government side, at presented in Table 3, there is a contradicting progress compared to that of central government. There were only 4.7 percent of local governments’ reports were issued with unqualified status in 2005, and it worsened to 2.7 percent in 2008. Moreover in 2008 there were 7.2 percent of local government reports issued with adverse opinion more than doubled from 3.3 percent in 2005. These data signal two main issues; limited evidence regarding the overall level of government compliance to its own rule, and the difference level of compliance of the Government reports at the central and local level.

Table 3
The State Audit Board’s Opinions Issued on Central Governments Reports (%) *

<table>
<thead>
<tr>
<th>Year</th>
<th>Unqualified</th>
<th>Qualified</th>
<th>Disclaimer</th>
<th>Adverse</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7.32</td>
<td>47.56</td>
<td>0.00</td>
<td>45.12</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>20.48</td>
<td>37.35</td>
<td>12.2</td>
<td>50.45</td>
<td>100</td>
</tr>
<tr>
<td>2008</td>
<td>41.46</td>
<td>36.59</td>
<td>0.00</td>
<td>21.95</td>
<td>100</td>
</tr>
</tbody>
</table>

*Based on government reports of 18 ministerial and agencies at central level (Nasution 2008).

Table 4
The State Audit Board’s Opinions Issued on Local Governments’ Reports (%) *

<table>
<thead>
<tr>
<th>Year</th>
<th>Unqualified</th>
<th>Qualified</th>
<th>Disclaimer</th>
<th>Adverse</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4.7</td>
<td>85.1</td>
<td>6.9</td>
<td>3.3</td>
<td>100</td>
</tr>
<tr>
<td>2006</td>
<td>0.6</td>
<td>70.8</td>
<td>23.3</td>
<td>5.2</td>
<td>100</td>
</tr>
<tr>
<td>2007</td>
<td>0.9</td>
<td>60.6</td>
<td>25.9</td>
<td>12.6</td>
<td>100</td>
</tr>
<tr>
<td>2008</td>
<td>2.7</td>
<td>74.1</td>
<td>16.0</td>
<td>7.2</td>
<td>100</td>
</tr>
</tbody>
</table>

*Based on government reports of 469 local governments (Nasution 2009).
The State Audit Board (2008) observes a number of reasons leading the audit agency issues disclaimer opinion for the Government reports:
1. Limited access given to auditors on tax revenues and payable tax.
2. The weakness of internal control system and review mechanism within the Fragmented Government bank accounts.
3. Insufficient information system technology.
4. Low compliance of the Government officials to related regulations regarding the revenues and disbursements.
5. The lack of coordination within the Government at the central and local level and rapid changes in regulations leading to different interpretations.

An actual implementation of ARS in a municipal government

One of the purposes of the study was to identify how ARS (i.e. GAS) was actually implemented. As identified previously, the internalization process of ARS within the Indonesian public sector, largely has not yet achieved its objectives with respect to the low level of government compliance to GAS at the central and local level; the usage of government reports is mainly motivated by the wish to fulfill regulatory requirements; the users' orientation of government reports toward cash-based reports, and the raise of an illegal practice as an outcome of ARS adoption.

Low level of compliance to rules

The basis for understanding the extent to which the financial statements prepared by MGUS is to look at the audit opinion and recommendations that were issued by State Audit Board. Since 2006 MGUS has produced its financial statements based on GAS 2005 and related rules. However, the financial statements of MGUS in 2006 and 2007 were issued with qualified opinion along with notes and recommendations from State Audit Board (The State Audit Board 2006, 2007). Moreover, the State Audit Board identifies a number of audit findings which related to irregularities in MG that run counter the goal of the adoption ARS aimed at increasing the quality of accountability, transparency and improved efficiency within the local government. For example, it was reported that 383,599,998 rupiah (approximately 38,360 US Dollars) of the local government budget in 2006 allocated for the annual costs of the housekeeping of the Mayor was not properly used, recorded, administered and reported in accordance with relevant rules. According to the report, it was only one of audit findings in 2006 totaling 2,439,810,266 rupiah (or equivalent to 248,931 US Dollars) which indicate a poor financial management practice (State Audit Board 2007).

As reported by State Audit Board (2006, 2007), one of the root problems faced by MG in implementing GAS is the lack of skilled human resources. This study identifies that of 30 officials in the Financial and Asset Management Division (henceforth FAM Division) in which one of its roles is to prepare MG’s reports), only two of them were recently recruited graduated from accounting. Even two of the senior officials in that FAM Division were graduated from tertiary trainings that are not relevant to their recent position in the division. Following statements support these assertions:

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2 The findings presented here support a previous study by Harun (2007)
3 Based on the market exchange rate at Rp 10,000 for 1 US Dollar issued by the Bank of Indonesia on 25 November, 2009 (Bank Indonesia, 2009).
"The main problem [in the implementation of the accrual accounting system] in this country] at the local level ...is [the] lack of qualified accountants..." (Interviewee No. 10).

"...it is very difficult for local the government employees to accomplish the accounting functions if their background is not in accounting. As far as I know, in this region it is difficult to find qualified people that can accomplish their task either at the top position or technical level. Their backgrounds in general have nothing to do with accounting." (Interviewee No. 26).

Therefore, although the rules require these reports should be produced in each division, until the data collection finished (late 2009), there is no division in MG that had produced financial statements. Moreover, as acknowledged by the Vice Mayor of MG, given the lack of expertise among the staff in FAM division, the preparation of these reports was carried out with the assistance of consultants and certified accountants.

It is important to note, the lack of human resources with accounting skills is not only evident in MG, but also across the Government across the nation as reported by the Minister of Finance (Kompas 2008). He states that the Government desperately need more accountants. A senior auditor at the State Audit Board also suggests that the Government now requires (in 2008) at least 21,700 accountants to support the implementation of GAS. The State Audit Board also stresses if the Indonesian Government seriously wishes to implement the new government reporting system, at the local level only, approximately 38,000 accountants are recently required which is practically could not be fulfilled even in a decade (Prodjorharjono 2008).

The lack of financial information usage for managerial purposes

This study identifies the use of government reports prepared based on GAS in MG is primarily motivated by the wish of the high officials (the Mayors and the Head of Division) to comply the imposed rules. In this regard, the new reporting system has been regarded as the main too for accountability to external institutions (local parliament or the State Audit Board), which is in this case in accordance with one of the purposes of the GAS adoption. However, given the lack human resource with accounting skills, which is not only evident in financial and accounting functions, but also in other area such as planning and inspectorate divisions -- the information contained in the balance sheets, cash flows and other related reports has not been used for managerial purposes. In other words, the decision makers in MG still are still relied on budget realized reports in making decisions on formulating new government projects also measuring the performance of each unit within the local government observed.

Two of the interviewees state:

"We are very much relied on the budget realized report. ...it is easier for them to understand." (Interviewee No. 30).

"...[I] honestly [should say] we are still more familiar the budget realized reports. We have used it since a long time..." (Interviewee No. 30).

Moreover, at the local parliamentary side, the lack of understanding in accrual based reports (as there is not specific parliamentary committee established accounting and auditing issues), also contributes to the fact that they are solely relied on cash-based reports in evaluating the performance of local government
agencies. In addition, although the production of MG’s reports has been used for accountability proposes, the evidence presented above signals a low level of the usage of these reports for managerial purposes. MOF itself is still constrained by political reasons that make them reluctant to use local governments’ reports as the basis to allocate the grants from the Central Government. Two interviewees from the provincial level, also suggest that they have yet to use the accrual based reports in overseeing local governments’ performance in the region (including MG).

The emergence of an illegal practice

The emerging of an illegal practice highlighted here is related to the term “management fee” as a new practice surrounding the implementation of ARS in MG. As stated by two consultants involved in assisting the local government prepare its reports, the “management fee” refers to a certain amount of money as bribes paid by consultant or an accounting firm in order to get a government project (i.e. the preparation of government reports) in MG. As also explained by the interviewee who was also a journalist, consulting or accounting firms that assist the local government prepare the financial statements of MG pay about ten to five percent of total monetary value of a project to the local government officials involved in the tender process of the project.

"...it is a normal practice in Indonesia, where the owners of companies or senior officials in consulting firms give their counterparts in the Government a kind a prize if they have won a government project..." (Interviewee No. 30).

The value of the management fee is not included in a formal project agreement between consultant firms and the MG. Rather, it is an informal agreement between consultants firms and officials in the MG which means that the those who are given the project to pay a certain amount of money to the officials. The payment of the management fees is carried-out in an informal way and not using the bank service. He also suggests that the “management fees” is a “normal” practice that happens anywhere in Indonesia and takes places when anyone or any companies involved in a government-funded project. A senior official of the MG states:

Because they can get management fees from the providers of the service [accounting firms or private consultants]. If it is done [the preparation of reports] by the staff themselves... there would be not tendering process which in many cases are vulnerable to bribing and corruption practices]. [And you need to know, the value of the bribes is similar to monetary value added to an actual cost of a project. So there is a mark up... (Interviewee No. 34).

It is also important to note, although the “management fee” practice costs the local government (as the amount of bribes is similar to the amount of a project cost increased from an actual cost) it benefits senior officials personally who involved in the tendering process of the project as suggested by a journalist interviewed. The use of government reports prepared based on GAS in MG is primarily forced by the wish of the high officials (the Mayors and the Head of Division) to comply the rule. In this regard, the new reporting system has been regarded as the main too for accountability, which is in this case in accordance with one of the purposes of GAS implementation, as stated by a senior financial
official in MG. However, given the lack human resource with accounting skills, which is not only evident in financial and accounting related units in MG, but also in Planning and Inspectorate Division. Moreover, the officials in these units also only relay on budget realized reports in evaluating the performance of MG’s sub-organizations.

**Discussion and Conclusion**

From evidence and discussion presented in the previous sections, a number of conclusion and its theoretical implication can be drawn: First, in relation to the roles of social and economic factors in the context of the adoption of ARS within the Indonesian public sector it is found that the economic crisis along with the pressure from international organizations as well as public demand for a greater accountability and transparency, were the main impetus that led the Government to reforms political system. The political reforms then were followed by a series of public sector reforms included the adoption of decentralization policies for local governments and the use of performance-based budgeting system. Moreover, with the purpose to strengthen the accountability, transparency and efficiency of public sector agencies, Law 13 (2003) and G.R 24 (2005) were issued as the basis for government agencies at the central and local level in preparing their reports.

In light with NIS perspective, the emerge of the idea to adopt ARS was prompted by the pressure from international organizations (IMF, World Bank) and public demand for greater accountability of government organizations can be regarded as a means to sustain the support from both the local constituents and international pressures. Nonetheless, apart from the seeking legitimacy motive, the emerge of the idea was also due to the influence of accountants and technocrats in MOF who were exposed to the developments of private sector managerial practices within the public sector in other countries. Hence, rational motives imposed by the technocrats gained a momentous opportunity at the time of crisis, in other word, seeking for legitimacy does not necessarily contradict the rational motive (DiMaggio and Powell 1983; Rautiainen 2008). This finding contributes to a better understanding about the notion that accounting can play both political and rational roles within an organizational setting, when and how specific actors can play their roles.

Second, with respect to how ARS was formally adopted, evidence described above indicates that MOF with its historical role in the Government financial affairs and with the availability of the technocrats have made the central government agency in a dominant position in the formulation process of government rules requiring the use of ARS with the public sector. Moreover, the roles played by a the technocrats at MOF supports the notion that a certain group of people with specific skills are critically important in promoting an idea and transforming the idea to be a formal rule as suggested by Ryan (1999). Nevertheless, the dominant position of MOF in formulating accounting rules for the Government was challenged by MIA that also issued its own reporting standards for local administrations. Similar to MOF, MIA also has a long history that was in charge of controlling the governance and administration affairs at the local level. In this context the study provides further evidence how the policy formulation of reporting system at the local level can create an arena that attract regulatory institutions at the central level to pursue their own rules and interests.
It also important to note, although ARS is a completely newly system for local governments, but local administrations are positioned as a passive adopter of the new accounting system. In spite the decentralization policy has granted a greater opportunity for local government in determining its own local administration system, but the control of the Central Agencies over local governments remains strong. This finding enriches our understanding on how specific actors interact with strategic environment (the position and historical roles belong to specific organizations) influence in the policy formulation and actual implementation of an accounting system in an organization. This particular evidence supports the Scott's view (1997) and Chang (2009, p. 148) who states that the recognition of how power defines norms and standards and directs behaviour is particularly crucial in studying the use of accounting systems in the public sector, where the actions of organisations are often delimited by political and legal structures that have a significant impact on obtaining power and authority.

Third, in relation to the extent to which the actual implementation of ARS coupled with the intended purposes of the implementation of GAS, the evidence presented here largely indicates the internalization of ARS has not met the intended purposes of the adoption of the GAS; namely to strengthen the accountability, transparency and effectiveness of government agencies in delivering service. The gap between the purpose of the adoption of the GAS and the actual implementation of GAS can be explained as follows:

1. In relation to the level of compliance to GAS, it can be seen that although at the surface the low level of government report's compliance to GAS can be directly attributed to the deficiency in accounting human resources, but the root of problem is the fact that the Government still uses the old fashioned human resource management system that constrains a necessary strategy that can be undertaken by local governments in recruiting accountants as many as required. Moreover, except the State Audit Board, other potential users of local government reports have not yet exerted a strong demand on local governments to increase the quality of their reports. That fact leads to a situation in which local administrations face no incentive to fully comply the rules. In this respect, the level of compliance to rules is not only determined by the availability of human resource and how human resource is managed in supporting the implementation of ARS, the nature of demand from the users of government reports, but also how the implementers of the new accounting system view the usefulness of a new reporting system as Burggraaff (1983) points out that any standard will not be well implemented if there is no strong support from the users of the standards.

2. With respect to the attitudes of most of the users of MG reports that are still motivated by the wish to fulfill the regulatory requirements, this facts is contrast to the purposes of the implementation of GAS; where the government reports, apart from its usefulness as a means for enhancing accountability, these reports are also required in evaluating the performance, strengthening the efficiency of government agencies and making decision on resource allocation. As presented above, the fact is mainly attributed to the low level of expertise and understanding among the users on the nature of accrual based information and the lack of experience in using such information. Hence, the result implies that to fully understand how a new type of accounting information is used, it is imperative for accounting researchers to understand not only the benefits of a new accounting system as outlined in the formal rules, but it is also
important to understand past experience and habits of the users of a new type of government reports.

3. As with the emergence of an illegal practice, i.e. the bribery paid by accounting and consulting firm in order to get any project in MG (i.e. the preparation of the local government reports), it indicates a contrast outcome of an implementation of a new technique to the ideals for the adoption of ARS. It is important to note, the emergence of an illegal practice surrounding the implementation of GAS, not only directly against the goals of the rules aimed at empowering the accountability and transparency government organizations at all level, but also run counters one of the purposes of political and economic reforms that were undertaken following the end of Suharto era, i.e. combating corruption within the bureaucracy. Hence, it is worth noting, the formal adoption of a new technique alone could not automatically result in better governance as advocated in the NPM based philosophies. Nonetheless, the new practice reported here is not a surprising phenomenon as the nature and scale of such a type of practice with the Indonesian Government has been widely reported by a number of studies included Kuncoro (2004), KPPOD (2005), Lucbke (2009), Turner e.al (2009) and the International Transparency report (2009). This contextual evidence adds to the notion that the actual implementation of an NPM based practice in an organization not only can create a tension between actors involved but also the existing habit and practice within the organization provide the actors an opportunity to create an intended new practice (outcome) based on old habits and values.

Practical Implication, Limitation and Suggestion for Future Studies

Rahaman (2009) suggests that without a careful consideration, an implementation process of a managerial system only benefits a particular group of actors who directly involved in the implementation of a new accounting system. Hence, in the context of Indonesian Government attempts aimed at strengthening the accountability and efficiency of the public sector and combating corruption, the implementation of the new accounting system should not merely be focused on legal reforms, but it is also vitally important to gauge cultural and structural context of the reforms within an organization. Hence it is imperative to note that the adoption of ARS would not result a better resource management within the public sector unless other aspects of managerial system in the Government is also reformed to provide a conducive environment for pursuing a public sector accounting reform. As such, given the lack human resources with necessary accounting skills at the local level, the Indonesian Central Government should be consistent as outlined in the autonomy policies, to provide a greater freedom for local administrations to manage their human resource and hire more accountants as required. Moreover, MOF and MIA should cooperate in developing a single set of financial management and reporting standards for local governments, as the present framework requires local governments to deal with a complex reporting system as the result of two competing rules, whereas local administrations are still constrained by the lack of skilled human resource capacity.

From a theoretical stance, the results of the study should be interpreted with caution. Although the study was focused on the Indonesian public sector in general, which includes the central and local governments, relevant issues with respect to the actual implementation of the new accounting system was also
sought from a municipal government. On one hand, such a kind of approach can provide solid evidence to enrich the data collected from wider spectrum (i.e., at national level), on the other hand it limits the generalization of the results. Nonetheless, a focus on a specific setting is also allowed in providing a deep understanding and the richness of explanation regarding the topic under study.

Future studies can duplicate the theoretical lenses and method used in this study in understanding the roles of social, economic, political and cultural factors in the internalization process of a new managerial system into the public sector and how actors implementing the new technique play their roles. Apart from investigating how an accrual accounting system is adopted, the research approach employed in this study can be used to shed lights on other types of NPM-based practices such as audit function, performance measurement, and budgetary formulation process within the public sector at national or local level.

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**Government Rules in the Study**


