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# Measuring Impact of the Accrual Accounting Implementation on Fiscal Transparency Quality: A Mixed Methods Study in Indonesia

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## Abstract:

**Research aims:** This study aims to measure the correlation between the Indonesian government accounting system's accrual basis and fiscal transparency quality. Furthermore, this study deepens the research results through focus group discussion (FGD) at Line Ministries.

**Design/Methodology/Approach:** This study used a mixed methods, in which the quantitative approach employed a questionnaire instrument, while the qualitative approach utilized interviews and FGD. This study involved 149 respondents at the accounting unit based on the purposive sampling technique, using questionnaire instruments and interviews with 77 users. Also, this study utilized Structural Equation Modelling (SEM), and the data were then processed through LISREL 8.8 statistical software.

**Research findings:** This study proved that accruals' implementation had a significant positive impact on the quality of government fiscal transparency. The FGD results revealed that accrual accounting practices still referred to the government accounting standards. Meanwhile, the quality of fiscal transparency had been reviewed in advance by the auditor team, and the auditor's recommendations were taken into consideration in determining strategic decisions by estimating the potential risks that would arise.

**Theoretical contribution/Originality:** This study contributes to an extended approach by examining the effect of the accrual accounting application's effectiveness on the quality of government fiscal transparency. In addition, this study strengthens previous studies by using qualitative approaches through FGD involving units related to institutions and ministries. Therefore, this study's results provide empirical evidence, which is theoretically very limited.

**Practitioner/Policy implication:** This study contributes as an academic reference to improvements in developing a policy model for the accrual implementation in the government accounting system, especially in Indonesia.

**Research limitation/Implication:** Respondent data for interviews is still limited to the managerial level. Therefore, to obtain more in-depth results, the subsequent study can be conducted at the operational level.

**Keywords:** Accrual Accounting implementation; Fiscal transparency; Line Ministries

## Introduction

Changes in public account management are among the trends in adopting more transparent accountability practices, which began after the global

financial crisis (Montes, Bastos, & de Oliveira, 2019). This accountability is implemented in one of all countries' objectives globally (Putra, 2020; Sulistyowati et al., 2020). It applies accrual accounting in all government subsectors to ensure a better financial reporting process, budgeting, and government fiscal forecasting (Beechy, 2007; Heald & Hodges, 2018). The implementation of public sector accounting standards impacts economic aspects, one of which is the creation of accountability and transparency over government financial reporting. It can be reviewed from the aspects of transparency and comparability, harmonization and fiscal surveillance, long-term fiscal view, and accountability (PwC, 2014). Furthermore, countries that consistently adopt the accrual basis can provide transparency in financial reporting, reduce operating costs, and optimize future decisions (Bastani et al., 2012).

Ernst and Young (2012) state that accounting methods alone do not guarantee that the government will always make the right decisions. However, the willingness to increase transparency and accountability of the government's financial position with comprehensive accounting methods is undoubtedly the right step. This view is inseparable from accrual accounts' ability to comprehensively present information about government assets and liabilities, financial performance, and government cash flows, impacting long-term economic and government political decisions (Irwin, 2012).

Like other countries in the world, the adoption of accruals is also carried out by the Indonesian government, hoping that the fiscal transparency of government will improve (Flynn, Moretti, & Cavanagh, 2016; Harun, Van Peurseem, & Eggleton, 2012; Harun & Robinson, 2010; Heald & Hodges, 2018; Ismail, Siraj, & Baharim, 2018). However, in practice, the impact of implementation on government fiscal transparency is not yet optimal (Badan Pemeriksa Keuangan, 2016). For example, in terms of budget transparency, government fiscal transparency was still inadequate (IBP, 2016). Likewise, in terms of disclosure as a fiscal transparency indicator, it was also considered inadequate, so it is necessary to continue to improve it (Putra & Sudarto, 2020).

Moreover, the accrual basis application turns out to be more complex than the cash basis (Ismail et al., 2018). PwC (2013) investigated 100 countries that had implemented and would implement the accrual basis, revealing that 55% related people's issues, 46% systems issues, and 27% commitment issues. It is undeniable that in Indonesia, the implementation of accrual accounting is still not entirely effective. The Audit Board of Indonesia's audit results found 1,677 cases from 166 audit reports on government financial statements, which included fault in the presentation of accrual accounts (Badan Pemeriksa Keuangan, 2017). These errors occur because of the limitations of competent and professional government accountants (Harun & Robinson, 2010), lack of leadership commitment (Hassan, 2015; Ratifah & Mulyani, 2015), and inadequate IT support (Giovannelli, Rotondo, & Caffù, 2016; Tanjeh, 2016).

Nevertheless, the literature that discusses the effectiveness of accrual accounting in the government sector is still limited. Previous research discussed more on the benefits and usefulness of applying the accrual basis (Monteiro & Gomes, 2013; PwC, 2013; Chan, 2016), obstacles and challenges in the application (Harun & Robinson, 2010), the factors

influencing adoption (Adhikari & Mellemvik, 2011; Harun et al., 2012), and provision of information for better decision making (Hyndman & Connolly, 2011). Moreover, previous studies highlighted more on explaining increasing efficiency, transparency, and accountability (Chan, 2016; Hodges & Mellett, 2003; Monteiro & Gomes, 2013; Nistor & Deaconu, 2016). Likewise, Tickell (2010) in Fiji, Tanjeh (2016) in Cameroon, and Azmi and Mohamed (2014) in Malaysia specifically tended to focus on readiness in implementing the accrual system. The study illustrates that the accrual accounting system's implementation experienced post phone, indicating that the readiness factor is considered. In addition, there are difficulties faced when implementing the accrual system, so it takes time in the migration process. Therefore, it is vital to know the effectiveness level and implementation impact for countries that have applied the accrual basis, such as the United Kingdom, Canada, New Zealand, Australia, The Netherlands, Sri Lanka, Malaysia, and Indonesia (Baker & Rennie, 2006; Ismail et al., 2018).

Further, Heald and Hodges (2018) consider fiscal transparency based on accounting modes, where accrual based financial reporting can capture economic events regularly. The study of the accrual accounting adoption in Indonesia's government sector has been carried out; for example, Harun & Robinson (2010) discussed implementation barriers. Additionally, other studies discussed institutional legitimacy (Harun et al., 2012) and discuss readiness and implementation issues (Maimunah, 2016). Moreover, Kartiko et al. (2018) examined the relationship of accrual based IPSAS implementation with fiscal transparency using content analysis and confirmatory factor analysis, proving that the accrual level score was in line with the fiscal transparency index. Another study by Putra & Sudarto (2020) used questionnaire instruments and interviews to prove the impact of accrual accounting implementation on fiscal transparency in the Indonesian government. Hence, to fill the literature gap, this study provides insight by exploring the implementation of an accrual system in improving fiscal transparency. It is essential because better fiscal transparency will improve public financial management (PFM) practices (Kartiko et al., 2018). This study tries to offer another approach by examining the effect of the effectiveness of accrual accounting on the quality of government fiscal transparency.

The researchers have tested previous research on the quality of fiscal transparency through a survey with questionnaire instruments and interviews of 77 experts in the ministry/institution and were strengthened by the focus group discussion (FGD) method. To obtain more in-depth results, the study employed a discussion focus group. The technique is considered relevant, as it involves individuals creating specific topics to summarize various complex personal experiences, perceptions, and attitudes of participants through moderated interaction (Hayward, Simpson, & Wood, 2004).

For that reason, this study extends a prior study (Putra & Sudarto, 2020) through the interviews and is strengthened by FGD. The researchers believe that this study will provide empirical evidence, which is theoretically very limited. Besides, this study's results contribute as an academic reference to improvements in developing a policy

model for implementing accruals in the government accounting system, especially in Indonesia.

## **Literature Review and Hypothesis Development**

### **Institutional Theory**

The core idea of institutional theory is the formation of organizations because of the pressures of the institutional environment that lead to institutionalization (DiMaggio & Powell, 1983). According to Zucker (1987), ideas in the institutional environment form the language and symbols that explain the organization's existence, which is taken for granted as norms in the organizational concept. In the context of this research, institutional pressure plays a role in explaining the form of coherent pressure from the government's external environment, how accrual accounting standards are adopted (DiMaggio & Powell, 1983; Pina, Torres, & Yetano, 2009). Adoption aims to make the management of state finances more transparent and accountable. In terms of fiscal transparency, a government's legitimacy is a form of coherent pressure so that the government has strong legitimacy in managing state finances. Institutional theory in this study was used as a basic concept of thinking how to explain theories related to the concepts of integrated information systems, knowledge management, leadership commitment, the application of accrual accounting, and the quality of fiscal transparency to solve research problems.

### **Accrual Accounting Implementations**

Accrual accounting is an accounting methodology in which transactions are recognized as economic events underlying the recording, regardless of receipt and cash payment (Warren, Reeve, & Duchac, 2014). The implementation of accruals is vital as an instrument of government policy in helping the financial crisis because it can present more comprehensive information about financial conditions in terms of revenue, expenditure, expenses, and liabilities (Heald & Hodges, 2018), and it cannot be done if using a cash base.

Adopting an accrual basis is believed to be a superior alternative solution in solving these problems (Aidoo-Buameh, 2014). The accrual basis records cash receipts and disbursements and records the recognition of revenues, costs, profits, and the increase or decrease of assets and liabilities and amortization (Dechow & Skinner, 2000; Larkin & DiTommaso, 2014). However, accrual implementation effectiveness is influenced by many factors (Adhikari & Mellemvik, 2011; Azmi & Mohamed, 2014; Harun et al., 2012; Ismail et al., 2018). In addition to the advantages in literature, practically, the option of adopting an accrual basis in Indonesian government accounting is because the cash base used so far has weaknesses, among others: the financial statements presented did not consider financial obligations, debts, future commitments, guaranteed by the government, and could not to become the basis of a foothold to build a solid fiscal policy (Hoesada, 2010).

Before, Lye, Perera, and Rahman (2010) explored cash-based accounting changes to accrual bases in the public sector in New Zealand. They used grounded theory strategies and confirmed that policy innovation was supported through six antecedent changes (people, axial principles, communicating ideas, contextual determinants, ethos, knowledge). The study's final focus was to achieve ministerial control and measure government performance through the relevant information in management decision making. In another context, Upping and Oliver (2012) looked at the factors influencing the change in Thailand's accounting system. A survey of chief financial officers at 78 public universities proved that the process's change was due to the low institutional capacity. In addition, it was related to the lack of technology resources and employees' knowledge of accounting practices in the private sector. The study is similar to previous studies in Palembang through an interview (Maemunah 2016). The interview results with the budget authority confirmed that there were problems related to readiness to implement the accrual system at the beginning of the introduction of accrual accounting.

Additionally, a study in Malaysia analyzed Ministry of Education employees' readiness to respond to changes in public accountability based on accrual accounting (Azmi & Mohamed, 2014). The study proved that accounting employees were ready to implement accrual accounting. They believed that the change was one of the efforts to improve the government's efficiency and transparency. Although the implementation of accrual accounting is not simple, there are challenges such as training, knowledge and capacity skills, top management, and timeframe, thus supporting the implementation of accrual basis. Furthermore, Ismail et al. (2018) examined the readiness to implement the accrual accounting system in Malaysia. The survey results confirmed the importance of change valance in predicting the commitment of changes in the accounting system. Meanwhile, task knowledge and task availability failed to contribute to the change.

Moreover, Harun et al. (2012) reviewed the institutionalization of Indonesia's public sector's accrual accounting system through a case study in one of the municipalities. The study proved that the monetary crisis events and the political crisis in 1998 impacted the Indonesian government's decision to adopt accrual accountings in 2003. Based on (Dambrin et al., 2007) institutionalized model, the study confirmed that MO technocrats in the early 1980s became the ideal promotional medium for using accrual-based reporting systems. Internalizing the accrual accounting system, technical capacity, power, and the old habits and social history of actors in this organization play an essential role in the implementation. Based on the HDI model, the study found that changes in nature from the government are needed to support the implementation of accrual accounting basis. This study supports the previous research conducted by Harun et al. (2012) related to the choice of adopting an accrual base by the Indonesian government that it is the right thing because it can encourage the improvement of fiscal transparency. This research itself was conducted after implementation as a continuation of previous studies.

## **Fiscal Transparency**

Fiscal transparency relating to public data disclosure includes internationally comparable revenues and expenses by time and systematics (Cicatiello et al., 2021). Additionally, fiscal transparency concerning government reporting is reliable, timely, and relevant, and it is a crucial element in effective fiscal management (Adam, 2015; Heald & Hodges, 2018). Therefore, the public expectation is the information disclosure about the budget that includes quality information at the right time. Fiscal transparency is part of the government transparency concept, specific and becomes one of the points to create a reliable and integrity institutional system (Mabillard & Vuignier, 2017). If the government can realize transparency, it will be a good signal about the budget being drawn up, while transparency can lower public confidence. This key element is an instrument of government opening to the public regarding access to information on government activities that can be trusted, comprehensive, timely, easily understood, and ratified internationally (Alt & Lassen, 2003; Cottarelli, 2012). Therefore, the public can accurately assess the government's financial position, the costs and benefits of government activities, present economic value, and future and social impacts (Mijatovic, 2015).

In addition, Montes et al. (2019) analyzed fiscal transparency in 82 countries using panel data. The study was based on the global financial crisis and found that 80% of the country has improved fiscal transparency. On the other hand, Cicatiello, De Simone, and Gaeta (2017) investigated important fiscal transparency aspects in 36 democratic countries through cross-sectional data. The study proved the strong relationship between the political environment and the dynamics of fiscal disclosure. Fiscal transparency is heavily influenced by government control over the legislative, and the role of government ideology is quite fragile, which harms realizing fiscal transparency (Cicatiello et al., 2017). On the other hand, access to information has decreased due to competition in parliament that does not support fiscal transparency.

Meanwhile, Heald and Hodges (2018) analyzed fiscal transparency through four different models of accounting characteristics: in the context of public sector financial reporting, statistical accounting, budgeting, and long-term fiscal projections. Their analysis confirmed that international agencies play an essential role in predicting that financial reporting and statistical accounting are separate modes of government accounting. Contradictory, in each country, the implementation of budgeting practices is still maintained. Moreover, long-term fiscal sustainability projections are in their infancy and have limited influence in determining guarantee arrangements' use and nature.

## **Hypothesis Development**

The institutional theory provides insight into how best practices are disseminated and institutionalized (DiMaggio & Powell, 1983), emphasizing interaction and institutional context (Albu, Albu, & Alexander, 2014; Dillard, Rigsby, & Goodman, 2004). In comparison, the influence of institutional pressure on the development of organizational practices is characterized by homogeneity (DiMaggio & Powell, 1983;

Lounsbury, 2008). The concept of homogeneity results from the idea that organizations seek to achieve, maintain, and expand their legitimacy by adopting structures and practices that are socially, politically, and economically supported (Ball & Craig, 2010).

Institutional pressures also play a role in explaining coercive isomorphic pressure from the external environment in adopting a generally accepted standard (Dedoulis, 2015; Dillard et al., 2004). Thus, the implementation of accruals as a generally accepted standard is a vital source of legitimacy for managing finances to be more transparent and accountable (Harun et al., 2012; Lampe, Hilgers, & Ihl, 2015). Furthermore, the use of an accrual base can present and disclose more comprehensive government financial information, such as the presentation of assets, liabilities, receivables, and asset circumscision. As a result, the fiscal information presented will be much more transparent and can be fully known to the public. Therefore, based on the views of institutional theory and the support of the prior literature findings, the proposed hypothesis is:

*H<sub>1</sub>: There is a positive correlation between accrual implementation and the quality of government fiscal transparency*

## Research Method

This study used a mixed methods to examine the effectiveness of accrual system implementation in creating government fiscal transparency's quality. Using the mixed methods in this research was to get more detailed information about accrual accounting practices in improving the presentation of more transparent government fiscal information through interview and FGD activities, whose information could not be obtained only through questionnaire instruments. First, a quantitative approach was conducted with a survey on the effectiveness of accruals' application to users involved in preparing the consolidated financial statements in 85 Indonesian Line Ministries (LMs). Additionally, a qualitative approach was made through FGDs involving related units. This study employed a mini focus group, followed by individuals with a high level of expertise (Hague, 2002). A FGD strategy included four steps: research design, data collection, analysis, and results (Morgan, Krueger, & King, 1998).

The research design consisted of three processes:

1. Defining the focus group's objectives by developing questions to be discussed and seeking ethical permission

In this process, FGD aimed to obtain in-depth information from informants about the implementation of accrual accounting and fiscal transparency. Discussion questions about the practice of accrual accounting standards in the Indonesian government and the quality of fiscal transparency have been explained in the operationalization of variables for the discussion focus group. In addition, ethical permission has been mentioned in the data collection.

## 2. Identifying and recruiting participants

Prior to the focus group implementation, the researchers had identified parties who had authority related to financial statements: Head of Finance, Head of Accounting and Reporting, Head of Evaluation and Verification Section, Head of Reporting Section, SAIBA (Application used to record financial transactions in the implementation of government accruals) application operator, and SIMAK-BMN (Application used to manage assets in the implementation of government acolyte) application operator. The number of participants involved in the focus group was 8-10 employees in each FGD implementation. According to Krueger & Casey (2000), the number of participants between six to eight is considered sufficient.

## 3. Identifying suitable location

FGD was performed five times according to the description in Table 1.

**Table 1** Description of FGD Schedule

No	Ministries and Institution	Focus Group Discussion		
		Date	Time	Place
1	Ministry of Foreign Affairs Chairman of FGD: Sub-section Head of AKP 1	09/05/2018	10.30 am	Ruslan Abdul Gani Building 4 <sup>th</sup> floor
2	Supreme Court Chairman of FGD: Head of Accounting	09/04/2018	08.30 am	Mahkamah Agung H Building 3 <sup>rd</sup> floor
3	National Space and Space Agency Chairman of FGD: Head of Finance	05/04/2018	11.00 am	Biro Renkeu lt. LAPAN Building 3 <sup>rd</sup> floor
4	Judicial Commission Chairman of FGD: Head of Finance	13/03/2018	14.00 am	KY Biro Umum lt.3
5	House of Representatives Chairman of FGD: Head of Reporting and Evaluation	30/01/2018	10.00 am	Komplek MPR Building Setjen Jl. Gatot Subroto

## Variable operationalization

In this study, the implementation of accrual accounting was measured using a model adapted from PwC (2014). There were four dimensions and 13 indicators: (1) Policies with indicators: Adapting Existing Financial Rules and Regulations; Documenting Accounting Policies; Developing Comprehensive Guidance and Manuals, (2) Processes with indicators: Managing the Transition Period and Monitoring; Checking Data Quality during the Reform Process, Designing Quality Control Procedures; Setting Up Data Collection Procedures; Ensuring Compliance with Existing Regulatory Framework, (3) People with indicators: Inspiring Change of Mentalities and Cultural Change; Ensuring Political Commitment and Increasing Staff and Public Awareness; Building Up Public Sector Accountants Expertise; Developing Training Programs and Allowing Knowledge Transfer, and (4) Systems with indicators: Adapting Existing IT Systems and Developing New IT Solutions; Translating Organizational Processes into the IT Environment.



This study's quality of fiscal transparency developed from the previous literature (Adam, 2015; Ionescu & Buhur, 2016; IMF, 2015). It was operationalized into three dimensions and 11 indicators: (1) Fiscal Reporting with indicators: Coverage; Frequency and Timeliness; Quality; Integrity, (2) Fiscal Forecasting and Budgeting with indicators: Comprehensiveness; Orderliness; Policy Orientation; Credibility, and (3) Fiscal Risk Analysis and Management with indicators: Risk Disclosure and Analysis; Risk Management; Fiscal Coordination.

The FGD instrument was deepened from the questionnaire instrument to see how the practices actually happened and each of the different units' experiences. Furthermore, the focus group discussed several standard practice items of accrual government accounting, adopted from PwC (2014): (1) Preparation of accounting policies related to the depression of accrual transactions in the task force/accounting entity; (2) The process of migrating from cash towards accrual to full accrual and the obstacles faced; (3) The process of preparing and reviewing financial statements conducted so far; (4) The role of accrual ambassadors to increase accounting knowledge on staff; (5) The manual process in preparing the consolidated financial statements and the extension of the annual financial statements. Meanwhile, the items related to the quality of fiscal transparency were adopted (Adam, 2015; Ionescu & Buhur, 2016; IMF, 2015): (1) Disclosure of assets, liabilities, revenues, and accruals following the provisions of government accounting standards; (2) Publication of monthly revenue and expenditure reports to the public; (3) Strategic decisions related to the finances of the leadership shall be taken based on the prepared financial statements; (4) Both internal and external auditors may audit all financial statements; (5) Estimates of receipt and withdrawal of funds have been prepared and published based on actual conditions; (6) Ministries and Institutions have anticipated any risk of failure of budget absorption and failure of the revenue target to be not achieved.

### **Data Collection**

The data were collected employing questionnaire instruments, interviews, and FGDs. The data collection was carried out in four months and 17 days by directly visiting the analysis unit, which compiled the government financial statements. Each respondent received an explanation before answering the questionnaire question. Thus, it was ensured that the respondents who had the right to give answers were directly involved in preparing financial statements and understanding the accounting process. Based on the purposive sampling technique, data were successfully obtained through a questionnaire from 149 respondents in 85 LMs (97.70% of the population) and then confirmed through interviews with 77 users in 77 LMs (88.51% of the population), consisting of three users at the tactical level, 49 users at the managerial level, and 25 users at the operational level.

Simultaneously, a qualitative approach through FGD was conducted five times. The data collection process included preparation before FGD, comprised of the script to be discussed, and the necessary equipment in the meeting process. Facilitations during the meeting process included introducing meeting rules, documentation during the

discussion process, presentation of questions accompanied by discussions, and concluding the discussion results. Ethical clearance of the data collection in this study was based on a License from the Ministry of Finance as the Accounting Supervisor of the Ministry/Institution (Locus of Research), through the letter of the Secretary of the Directorate General of Correction Number: S-1062/PB.1/2018 dated January 29, 2018.

### Data Analysis

The data were analyzed by Covariance Based-Structural Equation Modelling (CB-SEM) approach with the Lisrel 8.8 statistical software. Here are the data analysis steps: (1) testing the instrument's validity and reliability, (2) testing the goodness of fit index and the proposed hypothesis. This study utilized CB-SEM because the initial stage of the mixed methods chosen, a quantitative method, was to prove the hypothesis built from previous research (confirmatory). Meanwhile, the FGD data were analyzed on the conversations in a focus group on the participants' answers.

## Result and Discussion

### Respondent's Profile

Data in Table 2 show the demographic information of research respondents. Although male respondents (53.02%) were more numerous than female respondents (46.98%), the difference was not significant. From the level of education, most respondents were a bachelor's and master's background (89.59%), with a majority having been in work for more than six years (63.76%). Data from Table 2 also display respondents' representation at each level in confirming closed questions from the questionnaire. Therefore, responses from respondents were deemed to be appropriate and reliable in concluding the research.

**Table 2** Respondent Profile

Description	Respondent Frequency	Percentage (%)
Gender		
Male	79	53.02
Female	70	46.98
Total	149	100.00
Education		
Diploma	17	11.41
Bachelor	100	67.11
Master	32	21.48
Total	149	100.00
Length of work		
1 – 5 years	54	36.24
6 – 15 years	84	56.38
> 15 years	11	7.38
Total	149	100.00

Table 2 describes the profile of respondents: the majority were male (79 respondents or 53.02%), education level was a bachelor (100 respondents (67.11%), and the length of employment was 6-15 years (84 respondents or 56.38%).

### Validity and Reliability Testing

The questionnaire needs to be tested for its validity and reliability levels to ensure how well dimensions or indicators can define the concept (Saunders, Lewis, & Thornhill, 2009). The testing results of the instrument validity and reliability are statistically seen in Table 3. According to (Hair et al., 2014), if the standard factors loading (SFL) value is over .50, then the indicator can be declared significant and valid in measuring the variables to be studied. Simultaneously, reliability testing used the Construct Reliability (CR), and Variance Extracted (AVE) size approaches. Constructions have good reliability or consistency if the CR value is .70 and the VE value is .50. Data in Table 3 reveals that the seven dimensions used in this survey instrument had been declared valid, as seen from the overall value of loading factors above .50. In contrast, the reliability of indicators was shown from the CR value exceeding the threshold of above .70, and the VE value was entirely above .50. Thus, it could be concluded that all instrument items used in this study were declared valid and reliable to measure the effectiveness of accrual accounting and the quality of fiscal transparency.

**Table 3** Instrument Testing Result

Constructs/Dimensions	*SFL $\geq$ 0.50	**CR $\geq$ 0.70	***VE $\geq$ 0.50	Results
Accrual Accounting Implementation Policies	0.80	0.94	0.80	Good reliability
Processes	1.00			Good validity
People	0.91			Good validity
Systems	0.86			Good validity
Fiscal Transparency Quality		0.93	0.81	Good reliability
Fiscal Reporting	0.86			Good validity
Fiscal Forecasting and Budgeting	1.00			Good validity
Fiscal Risk Analysis and Management	0.82			Good validity

\*SFL= Standardized Factor Loading; \*\*CR= Construct Reliability; \*\*\*VE= Variance Extracted

### Goodness-of-Fit Index (GOFI) Testing

**Table 4** The Goodness of Fit Index Testing Results

No	GOFI Indicators	Critical Value	Estimation Value	Results
1	Chi-square	p-value $\geq$ 0.05	0.0683	Good Fit
2	RMSEA	RMSEA $\leq$ 0.08	0.0437	Good Fit
3	NFI	NFI $\geq$ 0.90	0.93	Good Fit
4	NNFI	NNFI $\geq$ 0.90	0.99	Good Fit
5	CFI	CFI $\geq$ 0.90	0.99	Good Fit
6	IFI	IFI $\geq$ 0.90	0.99	Good Fit
7	RFI	RFI $\geq$ 0.90	0.93	Good Fit
8	SRMR	SRMR $\leq$ 0.05	0.088	Not Fit
9	GFI	GFI $\geq$ 0.90	0.94	Good Fit
10	AGFI	AGFI $\geq$ 0.90	0.95	Good Fit

The data in Table 4 refer to Schumacker and Lomax (2010), showing that the values of NFI, NNFI, CFI, IFI, RFI, GFI, AGFI were above .90, the value of chi-square was .0683, under .05, and the value of RMSEA was .0437, under .08, meaning that the model was a good fit. On the other hand, the SRMR value was 0.088, above .05, indicating the model was not fit. Therefore, 9 out of 10 indicators matched and demonstrated promising results, and it could be denoted that this research model had a very good fit. After the model was declared fit, then the hypothesis was tested, shown in Table 5.

### Hypothesis Testing

Data analysis utilized the SEM method with the Lisrel 8.8 statistical software to prove the research hypothesis. Analysis of sample data would be applied to the population through the t-statistics test with a confidence interval of 95% and a risk level of error at  $\alpha = 5\%$ . Data in Table 5 shows that the research hypothesis was proven to be accepted because the t-value was 7.24, more significant than the minimum t-value value of 1.96. It means a positive relationship between the effectiveness of accrual accounting and the quality of fiscal transparency. The estimated value of 0.54 indicates that the effectiveness of accrual accounting had a positive effect on the quality of fiscal transparency.

**Table 5** Research Hypothesis Test Results

Path	T-Value	Critical Value	Coefficient	Results
SAP $\rightarrow$ TF	7.42	1.64	0.54	Accepted

Measurement of the effectiveness of accrual accounting using respondents' responses was arranged in the form of a score range. The score range was made as a reference for grouping the scoring results, which adopted from Binder and Roberts (2003) with the following criteria: (1) 1.00 – 1.80 is poor; (2) 1.81 – 2.61 is fair; (3) 2.62 – 3.42 is average; (4) 3.43 – 4.23 is good; and (5) 4.24 – 5.00 is excellent.

Data in Table 5 display that the overall effectiveness of applying the accrual basis in the Indonesian government accounting system was still at an average level, with an average

score of 3.41 from the 5-point scale. This condition could be explained by the dimension of the policies, with a score of 3.41, showing that the accounting policies or guidelines held by ministries were still at an average level; 31.76 percent of ministries did not have adequate accounting policies or guidelines. In addition, in the indicators of existing financial rules and regulations, 27.06 percent of ministries have not optimally adapted to the existing government regulations. Likewise, with the indicator of developing comprehensive guidance and manuals, it has not been optimal, at 47.06 percent of ministries.

Second, with a score of 3.60, the processes dimension showed that the process of transitioning from cash towards accrual basis was good, but at 27.95 percent of ministries, the process was not optimal. It was indicated by the indicators of setting up data collection procedures that were still categorized as average. 40.89 percent of ministries have not adequately prepared a list of identifications of adjustment transactions for accrual items. Meanwhile, the indicator of compliance with the existing regulatory framework was still categorized as an average; 69.41 percent of ministries stated that internal auditors have not maximally reviewed financial statements.

Third, the people dimension, with an average score of 3.26, was still average. It means that the implementation of accrual accounting training for employees of financial management was not well planned. It could be seen in the fact that the indicators of political commitment, increasing staff, and public awareness were still categorized as average, where 58.82 percent of ministries stated that budget policies and support had not been maximized. Indicators of building up public sector expertise accountants were also still at an average level, and 37.65 percent of ministries stated that they have not been optimal in sending their employees to various training programs organized by the central government. The indicators of developing training programs and allowing knowledge transfer were also categorized as average and accrual training has not been implemented in a programmed and scheduled manner at 62.36 percent of ministries.

Fourth, with an average score of 3.38, the dimension of systems revealed that government support in developing information technology was still categorized as average, where 32.35 percent of ministries have not optimally utilized information technology in the implementation process. It was shown from the indicator of translating organizational processes into the IT environment, which was still considered average. At 27.06 percent of ministries, the application system has not been fully integrated and automated with the Ministry of Finance's application system.

**Table 6** The Accrual Accounting Implementation Score

Dimensions	Real Score	Average Score	Real (%)	GAP (%)	Level
Policies	870	3.41	68.24	31.76	Average
Processes	1225	3.60	72.06	27.94	Good
People	1108	3.26	65.18	34.82	Average
Systems	575	3.38	67.65	32.35	Average

Interestingly, the study's findings revealed that although the effectiveness of the implementation of accruals was at an average level, the quality of government fiscal transparency was at a good level. The respondents' response score analysis results are explained in Table 7. First, with an average score of 3.94, the fiscal reporting dimension showed that the Financial Reporting and Government Performance Report have been presented comprehensively and were relevant, timely, and reliable. However, 21.24 percent of ministries were still not optimal. At 48.24 percent of ministries, the use of financial statements by institutional leaders was not optimal for strategic organizational decision-making. Second, with an average score of 3.64, the fiscal forecasting and budgeting dimension exhibited the ability of fiscal estimates and government budgets in the financial statements to follow the government policies' objectives and intentions presented comprehensively, timely, and trustworthy manner.

Third, the dimension of fiscal risk analysis and management, with an average score of 3.27, was still average. It means that the government has not optimally disclosed, analyzed, and managed risks to the budget. It was shown from the fact that the risk disclosure and analysis indicator was still categorized as average; 64.70 percent of ministries were not optimal in presenting risk information to the failure of budget absorption and revenue targets. It was still categorized as average; 54.12 percent of ministries were not optimal in mitigating the risk of budget absorption failure and achievement of revenue targets. The same thing was also shown by the fiscal coordination indicator at the average level; 35.29 percent of ministries were not optimal in coordinating the failure of budget absorption and revenue targets with related parties.

**Table 7** The Fiscal Transparency Quality Score

Dimension	Real Score	Average Score	Real (%)	GAP (%)	Level
Fiscal Reporting	1339	3.94	78.76	21.24	Good
Fiscal Forecasting and Budgeting	1237	3.64	72.76	27.24	Good
Fiscal Risk Analysis and Management	833	3.27	65.33	34.67	Average

Moreover, Table 8 describes the FGD results with five ministries and institutions: the Ministry of Foreign Affairs, the Supreme Court, the National Aviation and Space Agency, the Judicial Commission, and the House of Representatives. The FGDs confirm the hypothetical test results.

## Discussion

In general, the effectiveness of applying the accrual basis to accounting entities in the Indonesian government has not been maximized. Even though in the context of policies, people, and systems, it is still at an average level; nevertheless, in government, fiscal transparency is already good. This study's findings support the argument that the implementation of accruals in the public sector, especially in the government sector, is not easy (Adhikari & Mellemvik, 2011; Azmi & Mohamed, 2014; Harun et al., 2012; Harun & Robinson, 2010; Lye et al., 2010; Upping & Oliver, 2012). This finding is empirical evidence that the implementation of accrual basis in the government

accounting system positively impacts the quality of government fiscal transparency. In this study, the effect was very significant, namely, 54%. This study's results support the conclusions of the previous studies that the application of accrual accounting in the public sector can provide positive benefits for fiscal transparency in the form of the ease of obtaining accurate access to information for government accountability purposes (Ahmad et al., 2015; Lampe et al., 2015).

**Table 8** Focus Group Discussion Results

No	Discussion Items	Results
<b>Accrual Accounting Standard Practices in the Indonesia Government</b>		
1.	Preparation of accounting policies related to the depression of accrual transactions in the task force/accounting entity	Corridor for the preparation of financial statements remains referred to PMK No. 222/PMK.05/2016 concerning Amendments to PMK No. 177/PMK.05/2015 concerning The Composition of Financial Statements of the Ministry of State/Institutions and Government Regulation No. 71 of 2010 concerning Government Accounting Standards.
2.	The process of migrating from cash toward accrual (CTA) to full accrual and the obstacles faced	Constraints in the first semester could not complete the shopping that has been used, so at first, the application of accruals was not perfect, but undoubtedly routine expenditures, such as electricity payments, PAM, and telephone services, could be treated to an accrual basis.
3.	The process of preparing and reviewing financial statements conducted to date	At the time of entry into the year-end reporting period, the semester and the third quarter of the reporting entity provide data on revenues -- Budget Realization Reports, Revenues -- Operational Reports, Expenditures, Expenses, and Assets. Those undergo mutations/changes to the Inspectorate, specifically auditors who are given a straightforward review task. Therefore, it is in line with the Inspectorate's role in assessing the institutions' financial statements that have periodically been done well.
4.	The role of accrual ambassadors to increase accounting knowledge on staff	The role of accrual ambassadors intended is the role of the Dir APK (Directorate of Accounting and Reporting) and DJKN (Directorate General of State Wealth). They always give directions related to essential materials in the report preparation rules that people can absorb and implement in the institution's financial statements annually.
5.	Manual process in compiling consolidated financial statements and preparation of annual financial statements	Manual is an important note outlined in the working paper of each mutation/change of components of the Budget Realization Report, Operational Report, Expenditure, Expense, and Asset. In comparison, another application that supports is the other applications.

**Table 8** Focus Group Discussion Results (cont')

No	Discussion Items	Results
<b>The Quality of Fiscal Transparency</b>		
1.	Disclosure of assets, liabilities, revenue, and accrual receipts following the provisions of Government Accounting Standards	The report's preparation is based on the specified rules, namely through applicable provisions (PMK No. 222/PMK.05/2016 concerning Amendments to PMK No. 177/PMK.05/2015 concerning the Composition of Financial Statements of the Ministry of State/Institutions and Government Regulation No. 71 of 2010 concerning Government Accounting Standards.
2.	Publication of monthly revenue and spending reports to the public	The publication is only done annually on the website until now.
3.	Strategic decisions related to the finances of the leadership are taken based on the prepared financial statements.	Various decisions and policies for improvement also pay attention to the recommendations of external audit findings Indonesian Audit Board every year.
4.	Both internal and external auditors can audit all financial statements.	An audit has been conducted by the Inspectorate Auditor Team and External Auditor Team, of course, with the recommendations of each Audit Team.
5.	Estimated receipts and withdrawals have been prepared and published based on actual conditions.	The estimated receipts that have not been following the estimated receipts and the realization of receipts are still more significant than those whose ratio exceeds one hundred percent.
6.	Institutions have anticipated all the risks of failure to absorb the budget, and the failure of the revenue target is not achieved.	Conducted by establishing the management of risks set in each work unit that conducts activities under the budget documents of each

The practical implication of this study is that a number of findings can be used as input to the Indonesian government and may be helpful as a reference for governments in other countries that have applied or are turning to accrual accounting systems, including: (1) the government must make accounting policies in the form of technical guidelines for each ministry for all accounting entities in the government; (2) to oversee the process of implementing accrual accounting, the government must optimize the function of internal auditors in reviewing financial statements so that the financial statements are in accordance with the existing regulatory framework; (3) to improve the competence of government accountants, the government should provide a budget and a structured program to provide training related to the implementation of accrual accounting; (4) the government must make policies related to the optimization of the use of information systems through the provision of IT facilities and infrastructure; (5) the government must implement risk management to improve the quality of fiscal transparency.

The study findings provide theoretical implications in the form of confirmation from previous studies (Harun et al., 2012) that the application of accrual bases is more



dominant due to regulatory factors that the government must implement. It means that even though all accounting entities are not ready to adopt it, all entities are obliged to carry it out because of the mandate. Thus, it implies a coercive isomorphic pressure in the institutional theory described by Dedoulis (2015) developed from DiMaggio and Powell (1983) that is still relevant today. In addition, this study extends Putra and Sudarto's (2020) study by adding the interview process and FGD activities on drawing conclusions. Therefore, in addition to providing empirical evidence, we believe that this study also contributes as an academic reference to develop a policy model for applying accrual accounting bases in the government sector.

## Conclusion

This research adds to the literature on applying accrual accounting in the public sector, particularly the implementation of government accounting systems. This study empirically proved that the application of accrual accounting in the government sector could increase transparency in financial management (Lampe et al., 2015; Maimunah, 2016). This study's findings also provide valuable insights as an academic reference for the government in making policies and responding to issues that develop in accrual accounting. In addition, this paper's findings are helpful for the Indonesian government and other countries with the same issues in culture, economics, society, and politics. In terms of theory, this research empirically proved the institutional theory that the implementation of accrual at accounting entities in the ministries is mandatory as a form of institutional pressure affecting the effectiveness level of its application.

In this study, the number of hypotheses to solve research problems was still limited. Moreover, respondent data were still limited to the managerial level. Therefore, further research needs to be expanded on research respondents at the operational level so that the research results are more robust. Other limitations related to the selection of experts in the depth interview process, currently, the expert judgment was chosen only from the internal circles of the ministry/institution. In the future, experts from external ministries/institutions need to be added, for example, accounting managers from the private sector, to provide additional insights so that the withdrawal of conclusions can be more comprehensive. Besides, the FGD implementation needs to be increased the number of institutions to provide more insight into how accrual accounting practices are carried out to provide deep insights for researchers in drawing conclusions.

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