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# The Implementation of Accrual-based Accounting in Indonesian Government: Has Local Government Financial Statement Quality Improved?

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**ABSTRACT:** This paper seeks to find evidence accrual accounting implementation within local government in Indonesia. The evidence comes from the quality of financial statements published by the local government in Indonesia. The financial statements used in this study is financial statement publish from 2007 to 2016 by local government in Indonesia, including province, city, and regency. A total of 5,080 financial statements is used in this research. Based on the regulation, financial statements which published between 2007 and 2013 is published under Cash Toward Accrual accounting standard. Financial statements which published from 2014 onwards is using full accrual accounting standard. From those 5,080 financial statements, there is 3,515 financial statements publish using Cash Toward Accrual (CTA) basis, and 1,565 financial statements that using accrual basis. This research utilizes Mann-Whitney testing as an analysis technique. This research finds that accrual-based financial statements have a significant difference in total quality, relevance, reliability, and understandable value compared to CTA based financial statements. This research also finds that financial statement quality is improving every year. Although there has been an increase, those increase has not been maximized. Local governments must strive to improve the quality of their financial statements so that transparency and accountability delivered by local governments are maximized.

**KEYWORDS:** financial statement; local government; accrual-based accounting

## Introduction

Indonesia like any other governments in the world has carried out large movements in the past two decades in terms of their financial management. These major changes are in the form of changes in the accounting standard used in their financial management, from cash-based accounting to accrual-based accounting (Carlin, 2003). These changes occur not only at the central government level but also at the local government level. This movement occurred along with International Public Sector Accounting Standards (IPSAS) adaptation by countries in the world.

International Public Sector Accounting Standards which is an accrual-based system is then the basis for the development of accrual-based in public sector accounting. Movements or reforms that occur in governments in the world are intended to improve public efficiency, effectiveness, and accountability (Pilcher, 2005).

Information generated by accrual-based accounting standards is considered superior compared to cash-based standards because accrual information is considered more capable of providing an accurate picture of all financing and service provision. Accrual information is also considered more capable of increasing government accountability (Carlin, 2005; Guthrie, 1998). The superiority of the accrual basis compared to the cash basis can be explained in several aspects. These aspects include transparency, efficiency, relevance, and accountability.

Local governments as wealth managers in the regions certainly have an obligation to provide a form of accountability and transparency to the community to ensure the occurrence of good governance (Thoha, 1999: 55-56). One form of accountability and transparency that is required to be published by the local government is the form of local government financial reports. The obligation of the local government to publish the financial report is stated in Law Number 23 of 2014. The presentation of the financial statements is expected to provide an overview of all activities, and the provision of public services that have been carried out by the local government.

Financial statements that are published using an accrual basis are considered to be able to provide better transparency compared to financial statements published using cash basis (Likierman, 2000). The implementation of accrual-based accounting standards is also considered to improve government performance, especially in terms of budget allocation efficiency (Bastida & Benito, 2007). The information contained in accrual-based financial statements is considered more relevant than cash-based financial statements (Paulsson, 2006). The superiority described in this paragraph shows that the implementation of accrual-based accounting can improve the quality of local government financial statements.

The implementation of accrual-based accounting systems to local governments in Indonesia is carried out along with the issuance of Governmental Accounting Standards contained in Government Regulation number 71 of 2010. The issuance of those standard marks the start of accrual-based accounting implementation within local government in Indonesia. The accounting standards state that the accrual accounting basis used in the recognition of income, expenses, assets, liabilities, and equity. In this standard, the accrual basis is referred to the basis on which all transactions that affect the position of income, expenses, assets, liabilities, and equity is recognized at the time of the transaction or when that events have some effect on local government finances.

The purpose of this paper is to provide empirical evidence on the successfulness of accrual-based accounting implementation in local governments in Indonesia. The implementation of accrual-based accounting can be said to be successful if those implementations can increase the quality of financial statements published by the local

government (Pilcher, 2005). The financial statement quality improvement in this paper is in the form of financial statements qualitative characteristics improvement as described by the Indonesian Governmental Accounting Standards which derived from the Statement of Financial Accounting Concepts No. 2. These characteristics are relevance, reliable, comparable, and understandable (FASB, 1980; Peraturan Pemerintah Nomor 24 Tahun 2005; Peraturan Pemerintah nomor 71 Tahun 2010).

Prior research that studies the implementation of accrual accounting in local government in Indonesia does not provide clear evidence on the impact of the accrual accounting adaptation at the local government level. Research done by McLeod and Harun (2014) only discussing the background, nature, and challenge of accrual accounting implementation within local government in Indonesia. Research conducted by Harun, Van Peurseem and Eggleton (2012) only studying how and why accrual accounting system adopted government in Indonesia. This paper also discussing how accrual accounting system has been implemented in local government in Indonesia.

Research done by Harun and Kamase (2012) only discussing how accrual accounting has been used by the government in Indonesia especially in provincial-level government. This research also discusses how the adoption of accrual accounting in Indonesia is different compared to the accrual accounting implementation done by the Australian government. This research doesn't give exact evidence of the impact of accrual accounting implementation in the Indonesian government. Similar with those research, research by Harun, An and Kahar (2013) also do not give exact evidence on the accrual implementation done within local government in Indonesia. This research only discussing the challenge faced by the Indonesian Government in the accrual implementation.

Research that can give clear evidence on the impact of accrual-based accounting implementation within local government in Indonesia is limited and very difficult to be found. The previous research was done only discuss the challenge or the way the accrual accounting is being implemented. This research seeks for answers is the implementation of accrual-based accounting within Indonesian local government can increase the quality of the financial statements published by the local government in Indonesia compared to the financial statements quality before the implementation of accrual-based accounting?.

It is very interesting to investigate whether the application of accrual-based accounting on local government is able to improve the quality of financial statements. The implementation of accrual-based accounting within local governments in Indonesia can be said to be successful if that application is able to improve the quality of financial statements, because it is believed that the implementation of accrual-based accounting within local government will provide the most relevant, reliable, comparable and useful information (Public Sector Committee, 2002). A good quality financial statement is an important factor for the public because financial statements are one of the media used by public-stakeholders in the region in the decision-making process. The community as one of the decision makers will be able to make decisions better if they are presented

with financial reports of good quality (Mardiasmo, 2005). Improvement of the financial statements quality that occurs in local governments triggers more effective and efficient decision making by users of financial statements. More effective and efficient decisions made by financial statement user indicating an increase in accountability and public transparency (Connolly & Hyndman, 2006). This increased in accountability and transparency is the ultimate goal that every local government must fulfill.

This research will bring something new which has not been done in previous studies. This research will bring some evidence on the impact of accrual-based accounting implementation within local government in Indonesia. It is difficult to find prior studies that can give some exact evidence that can explain the impact of accrual-based accounting adaptation within local government in Indonesia. Thus, it will give some new insight concerning the implementation of accrual-based accounting within local government in Indonesia. This research can also bring some new perspective on the adoption of accrual-based accounting by the local government, is it really a good step? or is it only bring some new complexity to the local government?

## **Literature Review and Hypotheses Development**

### **New Public Management in Public Sector**

New Public Management (NPM) has been introduced to the public sector since late 1970 (Cohen, Duberley, & McAuley, 1999). This movement promised to improve public service by incorporating some 'business-like' management to the public sector (Diefenbach, 2009). The primary objective of NPM is to give a new orientation to the public sector. This new orientation will give some change to the way public sector operate (Hoggett, 1996).

One of the reformations bring by this movement is in the form of the adaptation of accrual-based accounting within the public sector (Adhikari & Mellembvik, 2011). This movement expected to bring an improvement towards the efficiency, effectiveness, responsiveness, and accountability to the public sector (Pilcher, 2005). Thus, it can be said that NPM is one of the triggering action that causing the application of accrual-based accounting in local governments.

### **Accounting Standard Development in Indonesian Local Government**

Financial administration in Indonesia began after independence in 1945. Financial management in the early days of independence was carried out by adopting the financial system of the Dutch colonial government, namely the Indische Comptabiliteitswet stbl 448, 1925. The regulation that regulates the management and accountability of governmental financial management. Financial management in accordance with these rules is implemented using a cash basis.

Local governments in accordance with these rules do not carry out the budgeting process. The budgeting process is carried out by the central government so that the local government only needs to carry out government activities in accordance with the budget that has been made by the central government. The same thing also happens in the accountability process. Local governments do not require to prepare financial statements, they only need to provide notes on the use of the budget to the central government.

The rules regarding the management of state finances underwent a significant change in 2003. The Indonesian government at that time was carrying out reforms and major reforms in various sectors including in the governmental financial management. This period is often referred to as the post-reform era that occurred in 1998. The Indonesian government issued Law Number 17 of 2003 concerning National Finance, Law Number 1 of 2004 concerning National Treasury, and Law number 15 of 2004 concerning National Financial Inspection, Management, and Responsibilities. Financial management reform that began in 2003 led to the establishment of governmental accounting standard committee. The task of this committee is to compile accounting standards that will be used by the government, especially local governments.

Those three laws regulate financial governance and accountability for financial management in Indonesia. The rules regarding financial governance in more detail are explained in the form of Governmental Accounting Standards listed in Government Regulation No. 24 of 2005. The standard states that the basis used in recognition of income, expenditure, and financing is the cash basis. The basis used in recognizing assets, liabilities, and equity is the accrual basis. The basis used in these standards often referred to cash towards an accruals basis. This standard comes into force in the 2005 fiscal year. The implementation of this standard is temporary as referred in Act number 17 of 2003. The implementation of this standard is valid for 5 years from its entry into force.

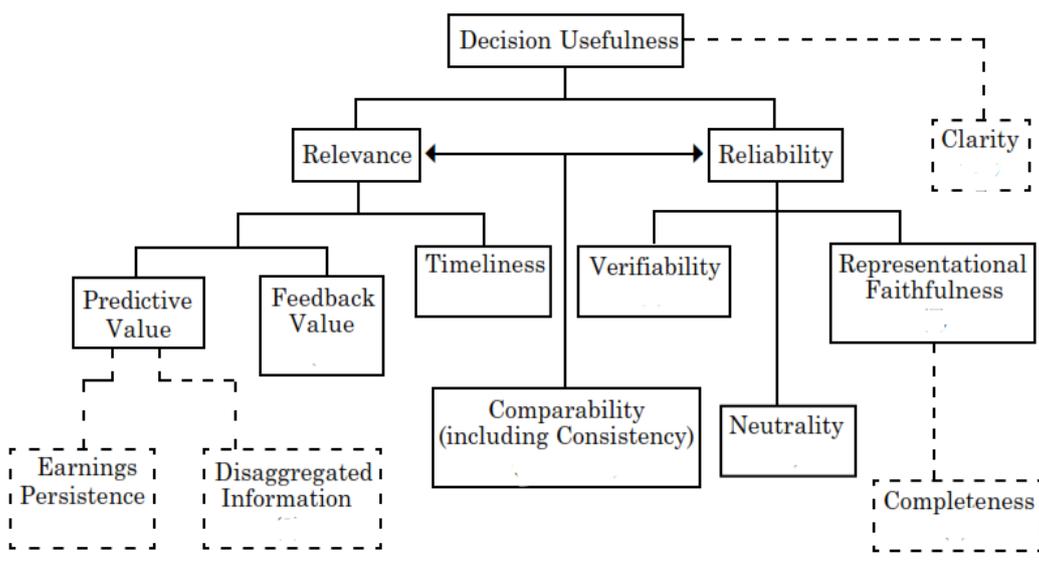
The next change in government accounting standards occurred in 2010 with the issuance of Government Regulation number 71 in 2010. The regulation renewed the accounting standards used by local governments. This standard is intended to replace the previous standard. This standard is full accrual-based. This standard comes into force in the 2010 budget year, but for the government, the area is given time to be able to implement the cash towards accrual accounting standards up to 2013 fiscal year. Starting with the 2014 fiscal year, the regional government is required to use a fully accrual-based system in preparing financial statements. The issuance of this rule became the starting point for the implementation of accrual-based accounting in local governments in Indonesia. The implementation of full accrual-based accounting to local governments in Indonesia begins in the 2014 fiscal year.

### **Quality of Financial Statements**

Financial statements which are a form of financial management accountability must certainly have good quality. Good quality is intended to make the financial statements

easy to understand and understood by users of financial statements (Efendi, Darwanis, & Abdullah, 2017). Good quality financial statements also guarantee the quality of the information generated from that report (Cohen, Krishnamoorthy, & Wright, 2004). One form that can guarantee the realization of financial statements quality is to realize the qualitative characteristics of financial statements (Cohen et al., 2004).

Jonas and Blanchet (2000) argues that the measurements of financial statements quality must be comprehensive and must be able to assist every stakeholder and financial statements users to assess the quality of financial statements. Based on this thought, Jonas and Blanchet (2000) develop a framework on how to measure the financial statements (Figure 1). This framework derived from FASB qualitative characteristics of financial information framework. The new proposed framework gives emphasis on every financial statement user, not only on the shareholder/investor interest. This framework then used by Beest, Braam, & Boelens (2009) as the ground thinking to develop the measurement and the operationalized measure of financial statement quality. This model is then used in this research to measure the financial statement quality.



**Figure 1** The framework of Financial Statements Quality Measurement

**Source** Jonas and Blanchet (2000), p. ?

Government Accounting Standard states that qualitative characteristics are a measurement that must be fulfilled by the local government in the process of preparing financial statements. These qualitative characteristics refer to the Statement of Financial Accounting Concepts No. 2 FASB (1980). These characteristics are relevance, reliable, comparable, and understandable. Relevance information is information that can influence decisions based on evaluating past events, present conditions, and predictions in the future (Jonas & Blanchet, 2000). Relevant information also means the ability of information to be used as decision making and can be related to the user's

goals (Ghosh & Tang, 2015). This characteristic can be measured the predictive value, feedback value, completeness, and timelines concept. Predictive value means the ability of information about past earnings to predict future earnings (Schipper & Vincent, 2003). Predictive value also means that a value that can be used to produce a forecast (Bartov & Mohanram, 2004). Second measurement items are feedback-value. Feedback value means that any information that can confirm or change expectation based on previous evaluations (Jonas & Blanchet, 2000). Information also needs to be complete and timely available for the user to be said as information that relevance (Burgstahler, Hail, & Leuz, 2004).

Reliable information is the ability of information to give confidence that the information is right (Suwardjono, 2013: 171). Reliability of information can be interpreted as information that frees from material misstatements that can influence decisions. Reliable characteristics can be measured using the concept of verifiability, neutrality and honest presentation (Dechow & Dichev, 2002). Verifiability means that the information can be verified and free from bias so that that information can be used as a valid argument from estimates generated (Maines & Wahlen, 2006). The concept of neutrality is about balanced and objectivity of the information provided within financial statements. This concept is tightly related to the honest presentation concept. A piece of information that neutral is related to the honesty of the information (Holland, 1999). Financial statements that publish faithfully can be represented by the unqualified audit reports (Kim, Simunic, Stein, & Yi, 2011), where the unqualified audit reports can give some assurance for the user that the financial statements are free from material misstatements (McMullen, 1996).

A good financial statement must be comparable both with the financial statements of the same entity in different periods and compared with other similar entities. Comparable information will certainly provide a better picture of the performance and achievements of these entities (Sean, 1999). A good financial statement must also be easily understood so that the user of a financial statement understands the contents and information contained in the report. Easy-to-understand reports can also reduce the possibility of misunderstanding of the contents of the report.

The government has an obligation to prepare financial statements that fulfill all qualitative characteristics of financial statements. The obligation to fulfill these qualitative characteristics is intended so that users of financial services get accurate information so that they can make decisions appropriately in accordance with the information. The fulfillment of these characteristics is one manifestation of providing public transparency. Financial statements prepared that can fulfill these qualitative characteristics can guarantee that the information contained in the report is good in terms of their quality.

### **The Impact of Accrual Accounting on Financial Statement Quality**

Changes in accounting standards from initially using cash-based accounting to accrual-based accounting have several objectives. These objectives, among others, are intended

to improve the quality of information presented to the community and public-stakeholders, as well as to make the community better understand the budget and expenditure needed to provide public services (Caperchione, 2003). Changes to these standards can be said to be a form of improvement of public accountability and transparency carried out by local governments.

The implementation of accrual-based accounting can increase transparency of local government because accrual accounting provides more detailed information to the public, although to be able to understand the information requires a little bit of practice (Pina, Torres, & Yetano, 2009). The availability of more detailed information is the advantage of accrual-based accounting. The information available to the community will be more useful if the information comes from good quality sources. One source of information available to the public is the local government financial statements. The quality of this report must be maintained so that the quality of information generated from this report is also guaranteed. A piece of good quality information can ensure a good decision made based on that information (FASB, 1980; IASB, 2008).

Some of these descriptions show that accrual-based accounting that is applied by local governments can influence the transparency and accountability for the community. Transparency and accountability are strongly influenced by the information presented by local governments. Accounting standards in Indonesia state that local governments have an obligation to provide information in the form of local government financial statements, where those financial statements must meet the qualitative characteristics of financial statements. It is interesting to see whether there are differences in the quality of information presented by local governments before the implementation of accrual-based accounting and after the implementation of accrual-based accounting. Based on this explanation, a hypothesis can be formed:

***H<sub>1</sub>: There are significant differences in the quality of financial statements before and after the implementation of accrual-based accounting.***

One of the characters that must be met by local governments in preparing financial statements is relevance. A piece of information can be said to be relevant for users of financial statements if the information is able to provide a future picture of the local government (predictive value). Relevant information must also be timely, have feedback value, and be complete. Accrual accounting can be said to increase the relevant value of financial statements because accrual accounting can provide more complete information. Information that is based on accrual-based accounting will also have better feedback and predictive value compared to cash-based accounting.

The implementation of accrual-based accounting is also considered more reliable when compared to cash-based accounting (Carlin, 2005). Financial statements generated by accrual-based accounting are considered more neutral and easier to verify. The assumption that this is a more reliable accrual-based accounting standard is interesting to study further. Financial statements that are prepared using an accrual basis are also considered easier to compare and understand. This assumption comes from the habits

of financial statement readers in reading financial statements presented by private companies. This habit can cause the tendency of financial statement readers to think that accrual accounting will be able to improve comparability and understandability of financial statements. Based on these explanations, four hypotheses can be formed:

*H<sub>2</sub>: there are significant differences in relevant values for the financial statements presented before and after the implementation of accrual-based accounting.*

*H<sub>3</sub>: there are significant differences in reliable values for the financial statements presented before and after the implementation of accrual-based accounting.*

*H<sub>4</sub>: there are significant differences in comparability values for the financial statements presented before and after the implementation of accrual-based accounting.*

*H<sub>5</sub>: there are significant differences in understandability values for the financial statements presented before and after the implementation of accrual-based accounting.*

## Research Method

This research aims to provide some evidence that is able to explain whether there are differences in the quality of local government financial statements in Indonesia after the adoption of accrual-based accounting. The study was conducted on the quality of financial statements from local governments in Indonesia published between 2007 and 2016. The data used in this paper is obtained from financial statements issued by local government including Provincial, District and City Governments published between 2007 and 2016. The financial statements used in this paper in an audited financial statement acquired from the Indonesian Audit Board.

Not every financial statements issued by the local government in that time period can be used as research samples. Some financial statement is rather incomplete or cannot be found because some there is some newly established local government in that time period. There are some 81 local government financial statements that incomplete or cannot be found in 2007. In 2008, there are 70 financial statements that incomplete or cannot be found. From years 2009 to 2012, 30 financial statements cannot be found or incomplete. There are 32 and 27 financial statements that cannot be found or incomplete in 2013 and 2014. From the year 2015 to 2016, there are 26 financial statements that cannot be found or incomplete. Those cannot be found or incomplete financial statements than excluded from the sample selection. A brief summary of the sample selection can be seen in Table 1.

**Table 1** Sample Selection

Explanation	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Sample	467	478	509	515	515	515	516	521	522	522	5080
Incomplete/ cannot be found	81	70	39	33	33	33	32	27	26	26	400

The financial statements that prepared based on cash towards accrual-based accounting standards are represented by financial statements issued from 2007 to 2013. Financial statements that prepared using accrual standards represented by financial statements prepared from 2014 to 2016. The financial statements used in this study are the financial statements of local governments that have been audited by the Indonesian Audit Board. The financial statements come from all local governments in Indonesia from 2007 to 2016. The regional governments referred to are provincial governments, district governments, and city governments.

The quality of financial statements in this study was measured using a model developed by Beest, Braam and Boelens (2009). The model measures the quality of financial statements in accordance with all qualitative characteristics as contained in government accounting standards. Relevant characteristics are measured using the concept of predictive value, feedback value, completeness, and timeliness. Reliable characteristics are measured using the concept of verifiability, neutrality and honest presentation. Understandable characteristics are measured using the understandability concept. Comparability characteristics are measured using the concept of consistency and comparability. This measurement used in this research because the measurement (qualitative characteristics) used in this model are believed to influence the quality of financial statements (Barth, Landsman, & Lang, 2008; J. Cohen, Krishnamoorthy, & Wright, 2004). The detailed operationalization used in this research also found to be fundamental and enhancing qualitative characteristics in line with the result found by Bennett, Bradbury and Prangnell (2006). The detailed operationalization of the qualitative measurement can be seen in Table 2.

Each characteristic has five detailed measurements which then measured using five-point rating scales. A standardized outcome compute for every qualitative characteristic (relevance, reliable, understandability, and comparability) by adding the scores on the related items and dividing by the total number of items. The total value of quality is obtained by averaging the total number of points for all characteristics for each financial statement. Points obtained from the results of these calculations are then used in hypotheses testing. Hypothesis testing is done using the Mann-Whitney test. The point generated by those measurements is categorized into five-point rating scales. According to Jonas and Blanchet (2000), the five-point rating scales can be categorized as follows:

- The 4.00-5.00 point means that the financial statements have a “good” quality
- The 3.00-3.99 point means that the financial statements have a “fair” quality
- The 2.00-2.99 point means that the financial statements have an “adequate” quality
- The 1.00-1.99 point means that the financial statements have a “low” quality
- 0.00-0.99 point means that that the financial statements have a “bad” quality

**Table 2** Detailed Measurement of Qualitative Characteristic

Relevance		Reliable	
No.	Question	No.	Question
R1	To what extent does the presence of the forward-looking statement help forming expectations and predictions concerning the future of the company?	F1	To what extent are valid arguments provided to support the decision for certain assumptions and estimates in the annual report?
R2	To what extent does the presence of non-financial information in terms of business opportunities and risks complement the financial information?	F2	To what extent does the company base its choice for certain accounting principles on valid arguments?
R3	To what extent does the company use fair value instead of historical cost	F3	To what extent does the company, in the discussion of the annual results, highlight the positive events as well as the negative events?
R4	To what extent do the reported results provide feedback to users of the annual report as to how various market events and significant transactions affected the company?	F4	Which type of auditors' report is included in the annual report?
T1	How many days did it take for the auditor to sign the auditors' report after the book year end?	F5	To what extent does the company provide information on corporate governance?
Understandability		Comparability	
No.	Question	No.	Question
U1	To what extent is the annual report presented in a well-organized manner?	C1	To what extent do the notes to changes in accounting policies explain the implications of the change?
U2	To what extent are the notes to the balance sheet and the income statement sufficiently clear?	C2	To what extent do the notes to revisions in accounting estimates and judgments explain the implications of the revision?
U3	To what extent does the presence of graphs and tables clarifies the presented information?	C3	To what extent did the company adjust the previous accounting period's figures, for the effect of the implementation of a change in accounting policy or revisions in accounting estimates?
U4	To what extent is the use of language and technical jargon in the annual report easy to follow?	C4	To what extent does the company provide a comparison of the results of the current accounting period with previous accounting periods?
U5	What is the size of the glossary?	C5	To what extent does the company present financial index numbers and ratios in the annual report?

## Result and Discussion

### Descriptive statistics

Table 3 presents the descriptive statistics of the 5,080 financial statements used in this study. Those 5,080 financial statements are divided into two groups with 3,515 financial statements prepared using the Cash Toward Accrual (CTA) basis, and 1,565 financial statements prepared using the full accrual basis. From the mean of the total quality perspective, it can be said that financial statements prepared using accrual basis gain the same rating as the financial statements prepared using accrual basis. With a mean value of 2.91 and 2.98 which lies between 2.00-2.99, it can be said that local government financial statements can only achieve an “adequate” quality. This result is certainly still far from "good" which requires the acquisition of more than 4 points.

**Table 3** Descriptive Statistics

Characteristics	Accounting standard	N	Minimum	Maximum	Mean	Std. Deviation
Total quality	Total	5,080	2.50	3.50	2.9338	0.15815
	CTA	3,515	2.50	3.50	2.9112	0.15583
	ACCRUAL	1,565	2.50	3.50	2.9845	0.15148
Relevant	Total	5,080	2.60	4.20	3.2353	0.32639
	CTA	3,515	2.60	4.00	3.2206	0.33459
	ACCRUAL	1,565	2.60	4.20	3.2684	0.30470
Reliable	Total	5,080	1.20	2.80	2.0333	0.32772
	CTA	3,515	1.20	2.80	1.9519	0.29890
	ACCRUAL	1,565	1.20	2.80	2.2162	0.31569
Understandable	Total	5,080	2.60	4.40	3.1845	0.27966
	CTA	3,515	2.60	3.80	3.2912	0.31925
	ACCRUAL	1,565	2.60	3.80	3.2615	0.27640
Comparable	Total	5,080	2.60	3.80	3.2820	0.30697
	CTA	3,515	2.60	4.40	3.1812	0.27132
	ACCRUAL	1,565	2.60	4.40	3.1919	0.29749

**Notes:**

**Total = all financial statements regardless of their accounting standard**

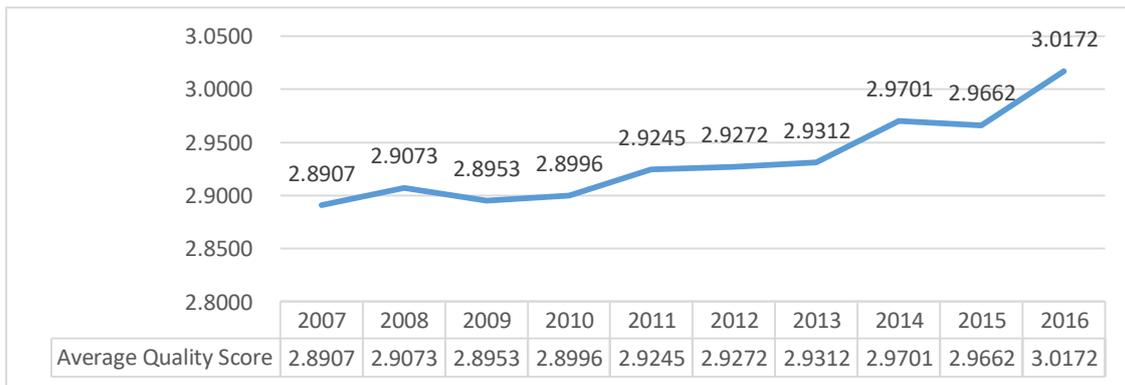
**CTA = Cash Toward Accrual basis (financial statement from 2007 to 2013)**

**ACCRUAL = full Accrual basis (financial statement from 2014 to 2016)**

If we assess the quality only using relevant characteristics, both financial statements will get a better category. With the mean value that lies between 3.00-3.99, relevant characteristics will bring the financial statements towards a “fair” quality. This result maybe looks good, but if we look closely, the minimum value for the relevant characteristics only shows a score of 2.60. This minimum value has a very big difference if we compare it with its maximum value of 4.00 and 4.20. For the reliable characteristics, we see that financial statements prepared using accrual basis have a big difference in the mean value compared to the financial statements prepared using CTA. There is an increase of 0,2643 in the mean value of the reliable characteristics. This difference in the mean value is the biggest difference if we compare it with the other characteristics. Reliable characteristics also show the minimum value of 1.20, which is

scored if we compare it with the other characteristics. The best score gained by the comparable characteristics. With a score of 4.40, this maximum score of comparable characteristics is the best score gained by the local government financial statements.

Graphs of the local government financial statements quality from year to year can be seen in Figure 2. The graph shows that for ten years there has been an increase in the quality score of financial statements issued by local governments. Although there is an improvement in quality, the increase still requires serious attention from the local government in order to improve the quality of their financial statements even higher. The highest average quality achievement was achieved in 2016, but the score can be said to be still low because it is only able to reach the "fair" level with an average score of 3,0172. This quality achievement is still far from perfect. Local governments still need to improve the quality of their financial statements to ensure transparency and public accountability.



**Figure 2** Local Government Financial Statements Quality

The test results shown in Table 4 show that Quality has a Z value of -15.496 with P-value of 0.00 which is <0.05. This result indicates that there are differences in the quality of financial statements between CTA bases and accrual basis, thus H<sub>1</sub> is supported. Result in Table 4 also shows that relevant has a Z value of -4.357 with P-value of 0.00, thus H<sub>2</sub> is supported. With H<sub>2</sub> supported it can be said that there are differences in the relevant value between financial statements prepared using the CTA basis on an accrual basis.

**Table 4** Hypothesis Testing Result

	Quality	Relevance	Reliable	Understandable	Comparability
Mann-Whitney U	2006056.00	2543277.00	1504132.000	2593008.000	2665301.500
Wilcoxon W	8185426.000	8722647.000	7683502.000	3818403.000	8844671.500
Z	-15.496	-4.357	-26.262	-3.324	-1.850
Asymp. Sig. (2-tailed)	0.000	0.000	0.000	0.001	0.064

Reliable and understandable get P-value of 0.00 and 0.001. Both of these variables have Z-values of -26.262 and -3.324 respectively. Both variables have a value of <0.05, so it

can be said that the test results support  $H_3$  and  $H_4$ . There is a difference between reliable and understandable values of the financial statements prepared using the CTA basis compared to the financial statements prepared using the accrual basis. Hypothesis 5 cannot be supported because of comparability has a P value of 0.064 which is  $> 0.05$ . From this result that is no significant difference between financial statements that are prepared using CTA basis and accrual basis on in terms of its comparability.

This study found that there is a significant difference in the quality of the financial statements before and after the implementation of accrual-based accounting. The difference also found on the three qualitative characteristics which are relevant and reliable. The result also shows that there is actually an increase in the quality of local government financial statements. This increase is a good sign for the community and the public-stakeholders because it can make the community to be better understand the budget and expenditure made by the local government (Caperchione, 2003).

Public transparency and accountability can be achieved if the community as one of the public-stakeholders is given sufficient information on financial management carried out by the local government. The information presented to the public must have good quality so that the community can make the right decision. High-quality information can be provided if the media for the delivery of the information also has good quality (Cohen, Krishnamoorthy, & Wright, 2004). One of the media for delivering information on local government financial management is the financial statement, so it can be said that changes in the accounting base carried out by the local government will have an impact on improving the quality of financial statements (McDaniel, Martin, & Maines, 2002).

Contrary to the expectation, a move towards the implementation of the accrual-based accounting does not really make any significant differences in understandability values. These findings indicate that the use of accrual-based accounting does not really make local government financial statements easier to understand. The implementation of accrual-based accounting within local government level might be increasing its accountability system complexity, thus it will make the financial statements as one of the accountability output become less easy to understand (Pilcher, 2005).

## Conclusion

This study seeks to find empirical evidence of the implementation of accrual-based accounting for local governments in Indonesia. The search for empirical evidence is based on a question "are there differences in the quality of financial statements prepared using CTA basis with financial statements prepared using an accrual basis?". This question is in line with the spirit of change proclaimed by the implementation of accrual-based accounting to local governments in Indonesia. The spirit of change is to increase public accountability and transparency. This study found that there was an increase in the quality of local government financial statements. Increases also occur in three of the four qualitative characteristics. Increases occur in relevant, reliable, and

understandable characteristics. The comparable characteristics of financial statements prepared using the accrual basis do not have a significant difference to the financial statements prepared using the CTA basis. These results indicate that financial statements prepared using accrual basis are more relevant for public use. Financial statements on an accrual basis are also more reliable, and more comparable. This result is in line with result find by Cohen, Kaimenakis and Venieris (2013) which find that accrual accounting implementation can increase transparency and accountability. The quality of local government financial statements in Indonesia despite showing a significant increase, but the quality of the financial statements can be said to be low. Local governments are only able to produce "fair" quality financial statements with an average score of 3.0172. The score is still far from "good" with a score of more than 4. Local governments must improve the quality of their financial statements in order to provide better public transparency and accountability.

This study only focuses on the differences in the quality of financial statements published by the local governments in Indonesia. This study does not utilize any other kind of measurement to measure the successfulness of the accrual-based accounting implementation within local government level. Subsequent research can add other measurements such as the ability of the local government to understand the standards, the ability of local governments to manage its finance, and another measurement that might affect the successfulness of the implementation of accrual-based accounting within local government level.

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