

**ACCRUAL ACCOUNTING & FINANCIAL REPORTING
IN THE PUBLIC SECTOR TO ENHANCE ACCOUNTABILITY
AND TRANSPARENCY
(REFRAMING IMPLEMENTATION IN INDONESIA)**

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ABSTRACT

Implementation modified cash basis at public sector in Indonesia have adopted to implement accrual accounting and financial reporting as the basis for their reformed accounting policy. Public administration in Indonesia has changed dramatically since 1999. The country has gone through one of the fastest and most comprehensive devolution reforms ever seen. Managerial and financial responsibilities have been decentralized from central government, mostly to local government at the district level. Under accrual accounting, government reports financial flows in terms of an operating statement equivalent to a business profit and loss statement. If the budget operating balance is zero, then this year's operating expenses are being fully covered by this year's revenue. Expenses are not the same as outlays so expenses measure this year's costs of production, whereas outlays does not. Prior to the introduction of accrual accounting, the Indonesian government have fiscal policy indicator which underlying cash balance. It was the cash budget balance which the local government. With the arrival of accrual accounting, however, the cash budget balance has been supplanted in this context. This helps us to compare the cash budget balance with fiscal balance. This phenomenon has been widely debated in public management circles, and within the academic literature. Many of these debates however, have been arid and narrowly technically focused. This paper reviews the harmonization process of Indonesian local public sector accounting suppose some main adjustments regarding and prepared exposures draft to harmonize this problem

Key words: Cash Base, Accrual Accounting & Financial Reporting

INTRODUCTION

Debates about the adoption of accrual accounting and financial reporting techniques by the public sector have been so widespread over the last decade that they may be labeled,

without risk of inaccuracy, transparency and accountability. Questions as to whether accrual based techniques should be adopted by public sector entities are largely pass in the antipodes where they have shown every un transparency or every layer of the public sector over the past decade. However, these same issues are still being pondered by interested parties in jurisdictions which have only recently adopted comprehensive sector wide accrual based in accounting policy.

The literature on accrual accounting and reporting in the public sector has fractured into at least three main streams. The first of these, noted above, ponders questions as to the desirability of introducing accrual accounting into the public sector. The second, taking adoption as a factual given, pays attention to the question of why the adoption took place. The third broad stream of literature ponders questions pertaining to mode and manner of implementation, for example, should the accrual based methodologies adopted by public sector agencies reflect identically the techniques and processes used by private sector organizations or incorporate differences reflecting unique attributes of the public sphere? These questions have been posed at both a conceptual level and in relation to particular technical phenomena such as the vexed issues associated with accounting for cultural, defense and heritage assets.

Given the breadth and depth of extant literature on the subject, skepticism on the part of the reader as to the capacity of yet another paper on the subject to make a meaningful contribution to the literature would be entirely natural. Yet gaps do exist in our understanding of the implications of the decision, on the part of many jurisdictions, to transform accounting, reporting and financial management processes from cash to an accrual base. These gaps have been tantalizingly hinted at in the extant literature, but to date, pursued either insufficiently, or not at all. Conn (1996; 82) notes that: *“in reality, the term ‘accrual accounting’ has become a code for a much wider-ranging set of changes”*.

Mellor (1996; 81) states, somewhat more directly that: *“accrual accounting is only a means to an end...accrual accounting and reporting simply provides the overall framework and reporting structure for the implementation of financial and other management reforms which have as objectives a more efficient, effective and responsive public service.”*

It is argued that despite the surface level appearance of comparability between the accounting and financial reporting structures of the public and private sectors afforded by the introduction of accrual techniques into the former, decision making premised on the assumption that the numbers yielded by the accounting systems of competing public and private sector organizations (for the purposes of benchmarking, tendering and outsourcing) is likely to be materially flawed. This arises from the radically different assumptions which underpin the application of accrual accounting in typical public sector settings when compared against private sector practices. Another objective of this

research were we will discuss about three related themes appear and reappear in appeals for the adoption of accrual accounting and reporting. Several point of view which could be considered by Indonesian Accounting Body (IAI) to prepare the implementation accrual accounting in Indonesia will be explain too. Why we move to accrual base because the accounts are not complete when we use cash or modified for examples to recognize expenses and accrue revenue, budget is the focus of interest, not the accounts, the overall concern is with inputs, not outputs or financial stability in accounting terms, audit and scrutiny process is inadequate with no clear user of financial statements, distinction between capital and revenue lacks clarity, political desire is to present the best position.

Base on those weaknesses so new responsibilities on chief executives must be done, a review of accounting/audit standards for public sector, new controls over external auditors with clearer separation of activities to secure independence and strengthening of the supervisory arrangements on both auditors and companies. There are several potential risk would be arisen if we don't want reform accounting policy in public sector; ability to manipulate cash flows, assets and liabilities ignored, cash statement does not provide a full picture of the financial position, does not facilitate efficiency in use of resources and no link with economic analyses.

THEORETICAL FRAME WORK

The Role of the Professional Public Sector Body in The Accountancy Profession

A professional public sector accountancy body of the kind described in this paper would, of course, have a part to play in the accountancy professional more widely in its appropriate country and internationally. There are many financial management issues on which the public and the private sectors ought to take a common view, and therefore there would be a natural reason for the public sector body to seek to collaborate with its private sector counterpart.

At the same time the public sector is not simply the private sector in public ownership: there are a number of fundamental differences between the two that ought to reflect directly on the practice of financial management. These differences include:

1. The fundamental aims and objectives of bodies operating in the public and private sectors. Whilst it may be simplistic to say that private sector bodies' sole aim is to maximize returns to shareholders, such an aim must at the very least be primary, and arguably must override any others where it is not possible to meet any wider group of aims. Bodies operating in the public sector have more complex primary aims: they must seek to needs of citizens and consumers of services within a political and social context that simply does not exist in the private sector. This difference in the nature of the fundamental purpose of public sector bodies from their private sector counterparts

bears directly on the nature of accountability and the constituencies of interest who may legitimately claim the right to be involved in the reporting processes.

2. The nature of the exchange between public

Bodies and citizens and consumers of services. For many public goods, it is not possible, or it is not politically desirable, to levy a price or fee that reflects the value of the goods or services consumed, there is no mechanism for consumers and citizens to signal the price at which they are prepared or not to consume. Private sector bodies, on the other hand, operate in markets where, despite imperfections, price signals are taken to reflect consumer satisfaction or otherwise with the goods and services that they provide. Given these differences, public sector bodies must seek other mechanisms for gathering information from consumers and citizens relating to their satisfaction with the nature and extent of services provided. This once again bears directly on the nature of accountability: private sector bodies may respond to consumer signals by varying prices. For private sector bodies the signals coming back cannot be interpreted as in any sense satisfying the accountability requirement, since the price itself is imperfect as a signaling mechanism.

The Movement From Cash To Accrual Accounting In Public Sector

In the public sector literature, has been investigated the process of change by identifying and defining the relevant environmental variables that represent its important dimensions (Luder, 1992, 1994; Pallot, 1996). Other studies have researched the introduction of accrual reporting for governments and their agencies (Ryan, 1998). In the international scene, researchers have highlighted the managerial philosophy underpinning public sector accounting change in the UK, USA, Australia and New Zealand (Humphrey et al., 1993; Christopher et al., 1993; Parker and Guthrie, 1990; McCulloch and Ball, 1992; Mayston, 1993; Castles et al., 1996).

Chile was the first state that introduced accrual accounting for the public sector in early 70s, followed by New Zealand in 1990. However, unlike New Zealand where the change was comprehensive, other countries have made gradual changes. For example, in the USA the generally accepted accounting principles (accrual accounting) have been adopted only by some states (Carpenter and Feroz, 2001). In USA and Australia the passing to accrual accounting occurred in 1997 but only in central governmental administration, in local administration the change being implemented just now. Canada took over the system in 2001-2002. Starting with 2000, out of the 30 of the most developed OECD members only 22 adopted accrual accounting for all the fields of the public sector. Since 2000 Malaysia and Tanzania were the only non-OECD-members, which have planned to adopt accrual accounting for central administrations¹, but later they gave up. Since July 2002 only three EU members have succeeded completely in the transition towards accrual accounting, following that The European Commission itself will make the transition after 2005.

International Bodies Position Regarding The Movement From Cash To Accrual Accounting In Public Sector

The use of accrual accounting in the public sector is a relatively recent phenomenon and the balance between costs and benefits is still the subject of substantial debates both for academics and practitioners. The idea of New Public Management is shared by the international bodies, the International Monetary System, The World Bank, The European Bank and OECD that require adopting accrual accounting in the public sector. EU encourages the candidate states to adopt the accrual accounting system for the public sector. There are increasing doubts over whether the change to accrual accounting by governments is worth the costs and the additional risks involved.

The countries which decide to pass from cash accounting to accrual accounting are warned by IFAC to analyze very carefully the validity and the benefits expected from this reform taking into account the conditions, the priorities and the local characteristics. Also, the European Federation of Accountants issued a paper outlining the risks involved and explaining the essential pre-conditions for the successful implementation of accrual accounting.

International Adoption of Accrual Accounting in the Public Sector

Accrual based accounting and financial reporting in the public sector is not, despite appearances to the contrary, an entirely new phenomenon. By way of example, it has been noted that in Australia, the Postmaster-General's department commenced preparing commercial accounts (including a full profit and loss statement and balance sheet) in 1913, and continued to use this form of reporting through time (Standish, 1968). Generally however, cash rather than accrual accounting has been the mainstay of accounting and financial reporting in the public sector throughout the world (OECD, 2002).

In Australia and United States have been implemented accrual accounting base for reporting financial accounting in public sector. The Government Accounting Standards Board (GASB) in the United States. By 1987, this body had issued Concepts Statement No. 1, which established several key foundations for future public sector financial reporting, including explicit consideration of matters pertaining to intergenerational equity, efficiency and compliance. Though Concepts Statement No. 1 was not focused on the question of accrual accounting, nor did it explicitly prescribe or mandate the technique, reconciliation with the stated foundation principles of intergenerational equity, at the very least, seems to strongly suggest an ultimate preference for accrual accounting and reporting. In addition to the jurisdictions discussed above, full accrual reporting for budget funded agencies has been adopted in the Netherlands (OECD, 1997), Finland, Japan, Portugal, Sweden and Switzerland (OECD, 2002). Iceland uses a modified accruals system, differing from the "full" accrual model only in that as a matter of policy, all long lived assets are expensed at the point of acquisition. In other jurisdictions, a

primarily cash based reporting framework is maintained, supplemented by additional accrual disclosures.

Table 1 below provides an overview of the international adoption of accrual based accounting and financial reporting for budget funded agencies. A three way classification system is adopted, jurisdictions being categorized as using “full accrual” (largely indistinguishable from typical commercial practice), “modified accrual” (essentially reflecting commercial practice but with less emphasis on comprehensive statements of financial position) or “cash with accrual disclosure” models of reporting.

Table 1
Accrual Financial Reporting By Budget Funded Agencies

Country	Full Accrual	Modified Accrual	Cash Basis with Supplementary accrual data
Australia	X		
Belgium			X
Canada		X	
Finland	X		
Germany			X
Hungary			X
Iceland		X	
Indonesia			X
Japan	X		
Netherlands	X		
Un. Kingdom	X		
United States	X		

(Source: OECD 2002)

The necessarily brief review of international adoption of accrual accounting and reporting by budget funded agencies set out above suggests that although the implementation experience has differed significantly between jurisdictions, particularly on dimensions such as degree of public consultation and gestation period, the trend towards the adoption of accrual accounting is a global. It does not follow however that because the adoption of accrual accounting and financial reporting has become so widespread within a relatively constrained time period, the transition has taken place without debate or controversy. On the contrary, the decision to adopt accrual accounting within the public sector has been the subject of considerable debate, a review of which is set out in section 3 below.

Managerial Benefits of Accrual Accounting

The above discussion has emphasized the fiscal policy advantages of accrual accounting. This emphasis will strike some as surprising, because the recent extension of accrual accounting across the Australian public sector has been largely driven by perceived microeconomic/management accounting benefits rather than fiscal policy considerations. The managerial accounting case for accrual accounting in the public sector focuses upon its role in product (output) costing. Accrual accounting is being combined with output costing systems to enable departments to measure the 'full' costs of each of the products they deliver the community.

This information is seen as a powerful tool with which to drive efficiency improvement. It is supposed to deliver unit product cost information which can then be used for performance measurement and benchmarking or market testing purposes. The product costing argument for accrual accounting has some merit. It can, however, be argued that the managerial benefits of accrual accounting are somewhat reduced by conceptual and practical problems such as:

1. The prevalence in the public sector of major output measurement problems.
2. Significant practical problems in accurate cost attribution at the individual product level.
3. Differences between accounting concepts of cost and decision-relevant economic concepts of cost.

In the new Accrual Output Budgeting (AOB) systems which have been adopted almost right across the country, the managerial benefits of accrual accounting are seen as extending much further than this. Traditionally, surplus/deficit measures were seen as meaningless at the level of the individual government departments, which was regarded as inherently loss-making. Under AOB, by contrast, departments are seen as businesses, with their own operating statements. Like businesses, departmental performance under AOB is to be measured by reference to the bottom line profit or loss. It is not possible here to evaluate accrual output budgeting, other than to say that, notwithstanding the system's considerable merits, the jury is still out on how far it is practicable to turn non-profit government departments into profit-oriented entities. In any event, the case for accrual accounting is logically separable from the case for AOB. It is perfectly possible to adopt accrual accounting without also adopting the full-blooded AOB framework.

Debates about Accruals in the Public Sector

The introduction of accrual based accounting and financial reporting to the public sectors of many jurisdictions throughout the world was not the result of a silent revolution. The weight and volume of material produced both in support of and against the whole project, either wholly or in part, has been both considerable and sustained. At a greater level of sophistication, three related themes appear and reappear in appeals for the adoption of

accrual accounting and reporting. These do address the “what” as a key element of their rhetorical structure. First, it is often argued that the adoption of accrual reporting will enhance transparency, both internally and externally (Boxall, 1998; Denis, 1993; Micallef, 1994; Wong, 1998).

Second, whilst on occasions increased transparency in and of itself is suggested to represent a sufficient basis for recommending the adoption of accrual accounting over alternative systems, more frequently, asserted increases in transparency, particularly internal transparency, are said to in turn drive greater organizational performance, primarily through improved resource allocation (Ball, 1992; Churchill, 1992; Kelly, 1998; Likierman, 2000; Slamet, 1998;) A third and closely allied argument is that accrual accounting allows organisations to identify the full cost of their various activities, again leading to greater efficiency, better resource allocation and improved performance (DOF, 1994b; Evans, 1995; Webster, 1998). Each of these lines of argument is ripe for criticism. Claims that a particular model of accounting offers greater transparency are implicitly claims as to the believability and objectivity of the numbers produced therein. In the context of the private sector there exists a burgeoning literature on the susceptibility of accrual accounting and financial reporting to obfuscation and diminished transparency (Clarke et al, 1997; Griffiths, 1995; Jensen, 2001; Mulford & Cominskey, 2002; Naser, 1993; Rezaee, 2002; Schilit, 2002; Smith, 1996).

Yet in almost none of the literature on public sector applications of accrual accounting is a meaningful, direct challenge issued on this most fundamental point. Some authors (Broadbent & Guthrie, 1992; Guthrie, 1994; Hines, 1988) said that transparency may have been diminished in a manner not immediately or readily noticeable to the world at large. However, this does not provide a direct answer to the matter at hand, namely, whether the introduction of accrual accounting to the public sector will have the effect of increasing transparency.

RESEARCH METHOD

Methodology of this research using qualitative research base on case study at Sidoarjo district's east java. Unit analyzed are public accountant and public sector accountant view to treatment of accountancy policy base on modified accrual and base on accrual in Sidoarjo public sector financial reporting. Data has been collected by in depth interview with public sector accountant whose have been worked in Sidoarjo district and auditor who has been audited financial statement of Sidoarjo district. Surveyed in this paper has largely displayed most concern for the detailed, technical dimensions of reforms, rather than how the impact of these reforms interacts with simultaneous and subsequent changes to accounting policy in public sector. As discussed above, the adoption of accrual based accounting and reporting has not been an end in itself (Mellor, 1996). Rather, the role and

impact of accrual accounting is better understood as forming one part of an interconnected chain of reforms to accounting policy in Indonesia. We used this chain of reforms is depicted in figure 1 below to explained data analyzed and interpreted criteria of the findings.

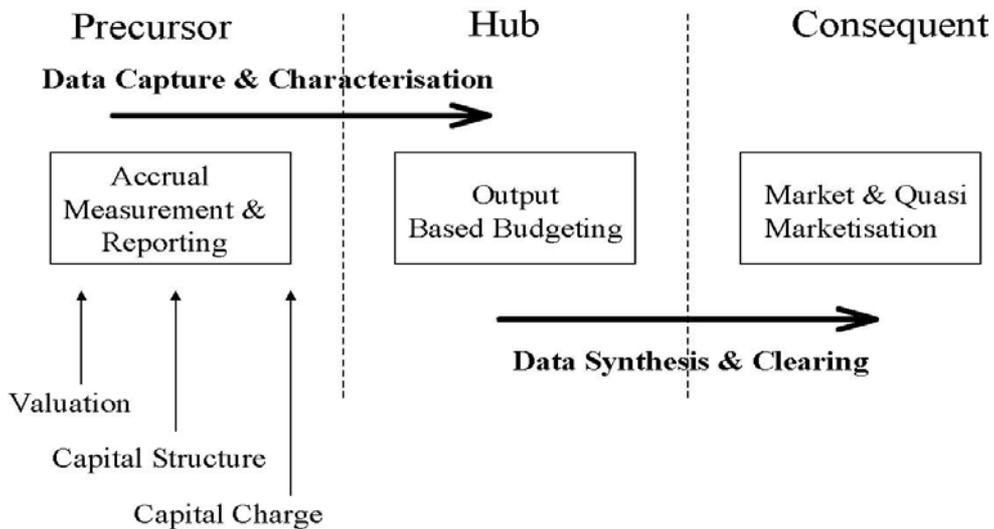


Figure 1
The Public Sector Reform Environment

Viewed in this way, the changes to public sector financial management which have occurred over the past decade may be classified as falling into one of three categories. The first category consists of “precursor” reforms, so called because the adoption of such techniques is a necessary precondition to the subsequent implementation of a range of other techniques. The key-element that confirms the need of reform in public sector accounting is the informational gaps of the actual system based on cash accounting. In this precursor reform we discuss about the harmonization process of Indonesian local public sector accounting suppose some main adjustments regarding and then accrual measurement and reporting fits into this category.

The recording and reporting apparatus acts as a feeder mechanism for the second category of reforms, here labeled “hub” reforms. The “hub” technique of accrual output based budgeting (AOBB) lies at the centre of the new public financial management environment. It characterizes all activities carried out by public sector agencies as the production of outputs measurable both in terms of their physical and financial dimensions. In this “hub” reform we also discuss The Indonesian Accountants Body (IAI) should have prepared exposures draft to harmonize this problem. The intention of

harmonizing the public sector accounting system with the IAI and international regulations

The third category is the implications of this new financial calculus are profound. The developing a new conceptual framework for public sector accounting have been implicated profit and losses condition. In this stage we al so discuss about a consequence of the international movement of new public management from cash to accrual accounting. Since public management now revolves around choices as to which mix of outputs to purchase in the pursuit of a range of policy defined outcomes, the locus of production becomes an object of indifference. An analysis of public sector financial management arrangements prevailing in jurisdictions in which accrual based accounting and reporting has been adopted may lead to the conclusion that one result is direct comparability with the financial dimensions of private sector organizations.

FINDING, ANALYZE AND RESULT

Though flirted with briefly but quickly discarded by the private sector (Clarke, 1982; Clarke, 1998; Tweedy & Whittington, 1984; Tweedy & Whittington, 1987; Whittington & Pong, 1996), asset valuation based on current replacement cost has flourished in Australian public sector settings. This single factor represents a significant barrier to comparability between the financial statements and apparent efficiency of public and private sector organizations, even though they are using ostensibly the same accounting and reporting methodologies and structures. The sub proficiency of Sidoarjo was used as a case study to illustrate the impact that implementing modified cash base to accrual base.

Until 2009 the accounting system for the public sector applied in Indonesian was characterized as being an accounting system based on modified cash base. For Indonesian, in the context adoption of United State that have been implemented full accrual base or Canada that had implemented modified cash base integration, the achievement of the public sector accounting reform has become an urgent necessity. The key-element that confirms the need of reform in public sector accounting is the informational gaps of the actual system based on cash accounting.

Table 2
Balance Sheet – The district of Sidoarjo Government

Item	2007	%	2006	%	Tren
Asset	4,930,627,651,591.28	100%	4,577,461,108,102.62	100%	7.16%
Current Asset	275,350,411,441.45	6%	220,858,129,116.84	5%	19.79%
Cash	235,244,773,073.41	5%	188,605,216,457.53	4%	19.83%

Continues table 2

Item	2007	%	2006	%	Tren
Acc. Receivable	29,980,483,558.00	1%	23,512,643,232.30	1%	21.57%
Inventory	10,125,154,810.04	0%	8,740,269,427.01	0%	13.68%
Long Term Investment	86,863,297,300.81	2%	53,731,109,428.76	1%	38.14%
Nonpermanent Investment	13,160,519,603.13	0%	0	0%	100.00%
Investasi Permanent Investment	73,702,777,697.68	1%	53,731,109,428.76	1%	27.10%
Fixed Asset	4,467,000,480,849.02	91%	4,202,743,869,557.02	92%	5.92%
Land	1,946,118,938,506.00	39%	1,917,206,651,956.00	42%	1.49%
Equipment and Machine	214,569,806,883.02	4%	176,418,444,991.02	4%	17.78%
Building	1,474,262,149,821.00	30%	1,427,538,283,796.00	31%	3.17%
Irrigations, Transportation and Road	793,807,183,499.00	16%	679,002,430,949.00	15%	14.46%
Other Fixed Asset	5,377,547,640.00	0%	2,578,057,865.00	0%	52.06%
Construction	32,864,854,500.00	1%	0	0%	100.00%
Other Asset	101,413,462,000.00	2%	100,128,000,000.00	2%	1.27%
Total Asset	4,930,627,651,591.28		4,577,461,108,102.62		7.16%
Liability	102,021,390,032.33	2%	80,000,000,000.00	2%	21.59%
Current Liability	64,021,390,032.33	1%	0	0%	100.00%
Long term Liability	38,000,000,000.00	1%	80,000,000,000.00	2%	110.53%
Equity	4,828,606,261,558.95	98%	4,497,461,108,102.62	98%	6.86%
Equity of current funding	211,329,021,409.12	4%	220,858,129,116.84	5%	-4.51%
Equity of Investment funding	4,617,277,240,149.82	94%	4,276,602,978,985.78	93%	7.38%
Total Liability and Equity	4,930,627,651,591.28		4,577,461,108,102.62		7.16%

Source: The District of Sidoarjo Government, 2007

Table 3
Fund-Expenditures Report – The district of Sidoarjo Government

Items	Budget	Realized	%
Total Fund / Revenue	1.022.040.877.348,17	1.077.820.398.690,17	105,46
Local Fund	178.206.361.792,17	190.905.404.878,17	107,13
Local Tax Fund	90.609.363.000,00	93.294.361.978,00	102,96
Fund from Retributon of Local Tax	74.491.988.258,18	71.516.045.718,00	96,01

Continues table 2

Items	Budget	Realized	%
Separately fund	5.504.659.533,99	4.954.321.187,21	90,00
Others fund	7.600.351.000,00	21.140.675.994,96	278,15
Tranfered Fund	843.834.515.556,00	886.914.993.812,00	105,11
Transferred fund from Central Government Perimbangan	750.481.547.526,00	792.540.890.022,00	105,60
Fund from Tax distribution	151.089.258.656,00	193.868.652.573,00	128,31
Fund from Non Tax	2.373.288.870,00	1.653.237.453,00	69,66
General Fund (DAU)	588.073.000.000,00	588.072.999.996,00	100,00
Special Fund (DAK)	8.946.000.000,00	8.946.000.000,00	100,00
Transferred fund from Provinciency	93.352.968.030,00	94.374.103.790,00	101,09
Jumlah Pendapatan	1.022.040.877.348,17	1.077.820.398.690,17	105,46
Expenditures	1.170.364.954.917,17	1.017.660.557.746,24	86,95
Operational Expenditures	844.617.491.088,77	749.616.577.951,24	88,75
Capital Expenditures	320.747.463.828,00	268.041.940.292,00	83,57
Other Expenditures	5.000.000.000,00	2.039.503,00	0,04
Total Expenditures	1.170.364.954.917,17	1.017.660.557.746,24	86,95

Source: The District of Sidoarjo Government, 2007

An example is the extreme case of local district Sidoarjo which were strictly in the limits of pure cash accounting, by the overlapping of the expenses notion with the payment notion, of the income notion with cashing-in, low-training level of the staff, over standardization of activity, low technical endowment or even the lack of it. The harmonization process of Indonesian local public sector accounting supposes some main adjustments regarding:

1. **Accrual systems, for inventories, receivables (taxes, social contributions and interests) and payables:** these are necessary for the recognition of expenditures (and receipts) made in financial periods other than those in which the costs were actually incurred.
2. **Recognition of full depreciation of fixed assets:** to ensure full incorporation into the costs of activities of the consumption, use and deterioration of fixed assets. This is often a significant cost component of capital-intensive public sector activities.
3. **Assessment of normal profits as "costs of capital":** will recognize the return on investment implicit in the use of the funding of fixed and working capital by owners or by other funding sources in addition to loans.
4. **Revaluation of fixed assets to allow for inflation:** will result in recognition of *current* fixed asset values and the related *current costs* of depreciation. It also affects the

proper recognition of the return on investment, when expressed as a percentage of the real (opportunity) costs of capital.

In order to make the Indonesian accounting specialists know the best international accounting practices for the public sector The Indonesian Accountants Body (IAI) should have prepared exposures draft to harmonize this problem. With the intention of harmonizing the public sector accounting system with the IAI and international regulations there are several point of view which could considered by result of this research:

1. The induction, liquidation, ordering and payment of public institutions expenses, the four stages of the budget execution of expenses are carried out by all public institutions no matter their subordination and the way of financing expenses with compulsory pre-observance of procedures. Public institutions are also compelled to organize, lead the record and report the budgetary and legal arrangements.
2. The re-evaluation and depreciation of fixed assets that are in the patrimony of public institutions are introduced for the first time in the history of public administration in Indonesia. By introducing re-evaluation it was wished to bring at the current cost or the entrance value actualized in correlation with the utility of goods and their market value and by introducing the depreciation it was wished to reflect the real value of goods and the presentation through financial statements of a real image of the patrimony.
3. The organization and leading of budgetary incomes accounting, according to the Accounting law, that stipulates the compulsoriness of registering in accounting the rights and obligations of the public institutions when they are acknowledged, in this sense there had been until that moment a major contradiction between the Financial accounting regulation (SAK) and the regulations applicable to public institutions.
4. The introduction of a new budgetary classification applicable according to the regulations applicable to public institutions in Indonesia requirements concerning accounting and public debt has contributed to making an important step in the harmonization of the public sector accounting with the financial accounting regulations.

With all the reform elements, the present accounting system in the In Indonesia public sector has a lot of faults especially concerning the quality of information provided both to managers and third party institutions. Till July 2009 the general opinion was that the passage to accrual accounting in the public sector in order to take over the modified cash base will be applied in Indonesia. If until now the public sector accounting has had a secondary role in comparison with the budget, a limited role in patrimony reflection, the cashed incomes and the expenses, by passing to accrual accounting, the accounting system, through the information that it will provide, will regain its deserved place. According to the modern model the emphasis is on efficiency, so it is recommended that the public sector should introduce the set of financial statements applied in the private

sector, which is made according to accrual accounting. Through accrual accounting we can maximize the effects of the process of competition enabling and public management efficiency so that this should be achieved with minimal costs for the society. The passing to the new system is not a purpose in itself but rather a change of mentality regarding the budgetary process, by passing from a rigid situation of cashed incomes and paid expenses to a situation where the emphasis is on achievements and forecasts hoping that this last system will lead to the increase of public management efficiency. Based on finding of this research the Financial Statements must show the true and fair value of equity financial situation and profit and losses. Next time Commission for Public Sector Accounting Principles and Standards will establish a new conceptual framework for public sector accounting. The developing of it brings us two kinds of profit and loses:

1. Net income: Variation in equity as a result of its budgetary and non budgetary transactions.
2. Budgetary Profit and lose: Difference between all the budgetary revenues and expenses realized during the accounting year, excluding those derived from financial liabilities.

The international movement of New Public Management from cash to accrual accounting is a consequence of:

1. Increased diversification of accounting systems
2. Quality of government reports
3. Interest of international finance institutions

If accrual accounting succeeded in reaching its goals, is an open question. A complete analysis is possible only if the new system is applied in a certain number of years.

CONCLUSIONS AND IMPLICATION

A central tenet of the arguments contained within this paper is that the adoption of accrual accounting and reporting by public sector entities must be analyzed at more than an introspective. The harmonization process of Indonesian local public sector accounting supposes some main adjustments regarding. In order to make the Indonesian accounting specialists know the best international accounting practices for the public sector The Indonesian Accountants Body (IAI) should have prepared exposures draft to harmonize this problem. On the contrary, as implemented in Sidoarjo district East Java, the data reviewed suggested that one impact of the introduction of accrual accounting has been to introduce an upwards bias to the assessed total cost function of government departments operating in that jurisdiction, relative to the apparent total cost functions of potential competing providers of goods and services from the private sector. Some implications of this research are increased diversification of accounting systems, quality of government reports, and interest of international finance institutions.

LIMITATION

Some limitations of this research were; how public sector accountant will harmonize some account in balance sheet statement of public sector that will be affected if we used accrual base more detailed, be caused in this research harmonize has been shown only facing of the balance sheet account, this research wasn't judgment by exposure draft which will be prepared by Indonesia Accounting Body. So for further research observation and explanation of how the impact of implementation accrual base to financial report in public sector could be underlay those exposure drafts.

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