

**A Critical Note on the Public Sector Accounting Reform in the Post-Suharto
Era of Indonesia**

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Abstract

In recent years, Indonesia has undertaken significant economic and political reforms aimed at improving the quality of democracy, strengthening the accountability and transparency of the public sector, and combating corruption. This study examines how the public sector accounting reform at the national and local levels in the country has been directed to achieve the goals of the economic and political reforms. To collect the data, we undertook a case study drawn from government regulations concerning the policy formulation and implementation of an accrual accounting system for the public sector in Indonesia. We also conducted interviews with key figures who involved in diffusing the ideas to reform public sector accounting and those who formulated laws and rules about government reporting systems at the national level. In addition, we sketched out our observation from a local government to gain in-depth insights how the public sector accounting reform was manifested by local actors. The study demonstrates that the public sector accounting reform in the country is said to support the economic and political transformation supported by domestic and international communities. We also find the nature of the public sector accounting reform in the country is indicated by the increased domination of the central on local administrations. This finding illustrates a consistent role of accounting as a political instrument used by powerful actors in the country since the Dutch colonial era. Furthermore, it is found a low level compliance of government reports to accounting standards, and the resistance from government actors and the emerging of corruption. A key contribution of this study is to show the implications of an accounting reform in the public sector can contradict the aims of political and economic reform as a means to improve the quality of democracy and social and economic developments.

Keywords: public sector accounting, powerful actors, politics, democracy, corruption

1 Introduction

Since the 1980s accounting reforms have been central in the context of the new public management (NPM) philosophies (Guthrie, 1998; Ryan, 1998; Lapsley Pallot, 2000; Christensen, 2002; 2007; Christensen & Rommel, 2008; Arnaboldi & Lapsley, 2009;

Christensen & Parker, 2010; Ball & Craig, 2010; Qian, Burritt & Moore, 2011). The globalization of NPM-based practices has not been only evident in developed economies such as New Zealand, UK and Australia (Lapsley & Pallot, 2000; Guthrie, 1998; Amanda & Craig, 2010) but also in emerging economies (Marwata and Alam, 2006; Harun; 2007; Sharma & Lawrence, 2008; Rahaman, 2009). The proponents of the adoption of NPM-based practices in the public sector believe that such an adoption would improve the financial accountability and asset management of government organizations. Beyond this, in the countries where the NPM doctrines firstly emerged the implementation of business-styles managerial techniques in the public sector is seen as an integral part of broader economic and political reforms (Lapsley & Pallot, 2000; Christiaens, 2001; Christensen & Parker, 2010).

Such a trend also applies to Indonesia. This is indicated by government's initiative to adopt an accrual accounting system for the public sector. Following the resignation of President Suharto in 1998, Indonesian government has launched public sector financial reforms as part of broader political and economic reforms aimed at improving the transparency and accountability of the government (Wanandi, 2002; McLeod, 2005; Law 17; 2003). In addition, the claimed purposes of these reforms were aimed at creating a government that is more democratic and based on legal supremacy and a country that respects human rights (Prasojo, Kurniawan & Holidin, 2007). The main features of the political and economic reforms the changes of regulations with respect to the election of the president as well as governors and regents or majors. In the past, the president was elected by the members of the People's Consultative Assembly. In addition, heads of local governments were elected by the members of the parliament at provincial and municipal levels respectively. Nowadays in contrast, the heads of executive positions (i.e. the president, governors, or majors) are directly elected by the people with a one person-one vote system. The current political system also limits the time period someone can hold office as president, governor, or mayor as up to two consecutive-terms (five years each). Furthermore, political reform in the post Suharto era has also been undertaken to support the freedom of expression within society. As a result, the number of political parties has dramatically increased and they are now allowed to participate in general elections since 1999.

In relation to the public sector accounting reform, a set of new accounting standards based on an accrual based system has been introduced to facilitate Indonesian public sector

agencies to be more effective and efficient in the provision of services to the people (Nasution, 2008). Moreover, the role of the State Audit Board¹ in Indonesia has also been strengthened to audit and evaluate government reports, public sector spending, and projects of the Government at the central and local levels. As the former Head of the State Audit Board, Anwar Nasution suggests the recent roles of accounting information and audit reports in the government are totally different from the Suharto era when accounting and auditing information of the Government was not available for the public (Nasution, 2006).

However, the process and outcomes of the adoption of NPM-based practices in the public sector remain problematic, meaning that the claimed benefits of their adoption for improving efficiency and performance would not be automatically achieved. Even in developed nations the use accrual-based accounting systems still encounters critical issues both from a conceptual perspective relating to the nature of accrual-based information in the public sector and its practical benefits within organizations (Carlin, 2005; Arnaboldi & Lapsley, 2009). The lack of technical capacity and understanding from its potential users of has also made accrual information underused for managerial purposes (Ter Borgt and Van Helden, 2000). Therefore it is not surprising if accounting scholars in recent years accentuate that current accrual-accounting experiments within the public sector lack a conceptual framework and tend to transfer business accounting concepts and techniques to non-business settings without critical consideration (e.g. Van Peurseem & Pratt, 1998; Carlin, 2005; Connolly and Hyndman, 2006; Christensen, 2007). The rest of the paper presents the aim and methods of the study; literature review about public sector accounting reform and democracy; historical, economic, and political context of recent public sector accounting reforms in Indonesia; features and outcomes of these reforms. Final section of the paper highlights the discussion of the findings and suggestions for policy makers in the public sector and accounting researchers in general.

2 Aim and Methods of the Study

Drawn from the research backgrounds earlier discussed, the aim of this study is set to provide in-depth understanding on the direction and implications of the Indonesian

¹ Under the Indonesia's 1945 Constitution, the State Audit Board, an independent body at national level has the authority to audit and investigate the reports and accounts of the Indonesian government at the national and local level.

government policy to adopt an accrual accounting system or the public sector. The data of this paper is drawn from publicly available information relating to the government attempts and progress relating the public sector accounting reform in the country following the collapse of Suharto's regime 1998. Firstly, to understand, the historical, organizational and political contexts of public sector accounting in Indonesia we examined document sources related to these issues. We also draw attention to government regulations, media reports, and publication issued by the Ministry of Finance of Indonesia, the State Audit Board, and international organizations such as the IMF and the World Bank and the Transparency International. In addition, the data of the study collected through interviews with six key figures in the Ministry of Finance, the Committed of Public Sector Accounting Standards, and the State Audit Board who involved in policy formulation the accrual-based accounting standards in the country. To gain in-depth insights about the actual implementation of the public sector accounting reforms at the organizational level, also drew our observation from a local government. In this case we interviewed senior officials of the local government, local parliamentary members, and local consultants. We chose the interviewees based on their roles as preparers and users of the reports of the local government studied. Table 1 presents the profiles of the interviewees of the study.

Insert Table Here

3 Public Sector Accounting Reform and Democracy

The advocates of economic and political reforms in developing economies including international financial authorities (e.g. the World Bank and IMF) believe the transformation of political arrangements in developing nations from dictatorial government systems to a more democratic one should be accompanied by public sector reforms. In this case the transformation of reporting systems from a cash-based regime to accrual accounting has been the core element of broader public sector financial management practices as means to prepare the budgets, report and evaluate the assets, liabilities, and performance of public sector entities. As accrual accounting is believed more informative than the cash-based reporting system in disclosing financial information such as revenues, assets, liabilities, and costs of government operation – it can enhance people's confidence on elected officials. In this case the public are better informed how tax payers' money are collected and allocated to the serve the best interest of the people. Therefore the proponents of the accrual accounting use for the public sector suggest that the use of

accrual accounting for government organizations is seen important in improving the quality of democracy as that people know better the performance of elected officials (Ball, 2005). Ball (2005) and Harun (2007, p. 235) state that there are three reasons why high-quality financial reporting by government agencies, institutions and enterprises is desirable.

The first relates to monitoring and managing their own performance: government organisations, just like large private enterprises, need timely and accurate financial information for this purpose. They shift large amounts of resources from the private to the public sector with the objective of improving the well-being of society, and if they do not operate efficiently and effectively, or invest funds wisely, this can represent a huge drain on the economy.

The second reason is that electors entrust governments with the management of assets and liabilities that have been accumulated over decades, and will affect the welfare of citizens for many more decades to come. They are entitled to information that allows them to hold governments accountable for their use of public resources, including information on the extent to which revenues are sufficient to pay for services being provided, and on the capacity of governments to meet their financial obligations and to withstand potential shocks.

The third reason, closely related to the second, is that a properly functioning democracy requires its constituents to have confidence in politicians and to be willing to take an interest in politics. "...Transparent financial reporting is one means by which politicians can engage constituents in the democratic process and engender confidence.

However, although there is an increase in the number of countries adopting accrual accounting systems in the public sector, in recent years such a trend draws criticism. As Christensen (2009) states that in general the move to adopt accrual accounting for the government sector which is now becoming a global phenomenon is dominated by the ideals promoted by government officials and professional accountants are mainly relied on normative views and emotive grounds (Christensen, 2009, p. 19-20 and Carlin, 2005). Let alone in developing economies, the installation of a new accounting technology is encountered with more institutional and technical complexities than those of developed economies (Hoque, 2002; Hepworth, 2003; Michael, 2004; Rahaman, 2009). The most crucial challenges faced by developing countries in using accrual accounting systems include low institutional capacity, a limited involvement of stakeholders and high level of corruption; (Mimba, Helden & Tillema; 2007; Hope, 2002; Hoque, 2002; Hepworth, 2003;

Michael, 2004). Moreover, given the discipline and practice of accounting plays a central role in the governance of contemporary organizations, the institutionalization of a new accounting technology in the public sector may not be not the interest of people (Whitter & Muller, 2010, p.628). Such a development has also prompted critical accounting scholars to utilise critical social theories (models) to reveal and understand the process and outcomes of the adoption of a new accounting regime in the public sector.

One of the critical theories used is dialogic accounting. The idea of dialogic accounting is rooted in the notion of deliberative democracy model promoted by social critical theorists who encourage and involves citizens at every stage of policy formulation, including research and discovery stages (Chambers, 2003, p. 317) in a government. Therefore, the use of a critical model, such as dialogic accounting for public sector accounting studies is believed to be important in understanding the process and outcomes of accounting reforms in the public sector. Moreover as the public sector accounting reforms in developing countries have been promoted as means for improving the qualities of governance and democracy (Ball, 2005) therefore, testing such claims based on data from real organizational experience is essential.

The central aim of dialogic accounting is to accentuate the roles of accounting beyond the mainstream approach (i.e. monologic accounting) that has “depoliticized” accounting through a denial of the politics. Although politics are acknowledged, monologic accounting fails to provide providing a neutral framework within which different stakeholders can pursue their interests. Therefore, in monologic accounting environment it is highly unlikely to enhance democratic participation in the deliberative or agonistic senses. Let alone in a hierarchal organization or society which is characterized by a domination of specific group of actors accounting is not only more associated with the effort to serve the interests of powerful of actors (Bebbington et al., 2007, p.360, Owen & Swift, 2001), accounting also has the potential to mask the negative effect of the action of powerful actors that detract the public interest (Dillard, 2005, p. 610). Such a phenomenon is not only prevalent in the business sector but also in the public sector as Dillard (2005, p.611) states that the instrumentally rational hierarchical accounting and control systems are no less prevalent and controlling in the public and the not-for-profit sectors. Given that fact, as a consequence, [...] instrumental rationality cannot be challenged in the world of

modernity and can only be constrained, and only in some circumstances, through pluralistic democracy (Dillard, 2003, p.15).

In the public sector, the proponents of dialogic accounting propose that accounting audience should have the opportunity to engage in the process of agreeing an accounting system or utilize it [...] to the serve counter-hegemonic interests (Arnold & Hammond, 1994; Brown, 2009, p. 316). Although the community interests and those of its members are not homogenous, under dialogic accounting situation, the relation between accounting and public interests is determined and continually re-evaluated as part of the ongoing dialogue (Dillard, 2005, p. 610). Therefore, Chamber (2003) reminds us that deliberative democracy should not be confused with direct democracy which only concerns on the formal procedures of a democracy which is indicated by the participation of citizens in the election. Thus under dialogic accounting regime there is a continuing dialog between among stakeholders not only about the policy formulation of accounting (policies) but also the impact of accounting policies within and outside organizations. This is consistent with the view of Chambers (2003) about the deliberative democracy which requires policy procedures that enhance and facilitate deliberation. Chambers states (3003, p. 316):

Decisions need to be taken and fair decision rules need to be in place, but a deliberative approach focuses on qualitative aspects of the conversation that precedes decisions rather than on a mathematical decision rule. In designing and proposing deliberative forums, scholars generally have four goals in mind: to augment legitimacy through accountability and participation; to encourage a public-spirited perspective on policy issues through cooperation; to promote mutual respect between parties through inclusion and civility; and to enhance the quality of decisions (and opinions) through informed and substantive debate .

In accounting context Brown (2009) proposes that the theoretical foundations of dialogical accounting should be based on the need to recognize a diversity of ideological orientations; the importance of avoiding “monetary reductionism”; being open about the inherent contestability of calculations; enabling access for “non-experts”; ensuring effective participatory processes; being attentive to power relations; recognizing the transformative potential of dialogic accounting; and resisting new forms of monologism (Brown, 2009, p. 313). In the public sector context, these theoretical foundations would provide basic principles for accounting researchers to critically identify each process regarding the policy formulation of an accounting and

its implementation impacts within and outside organizations. In this case number potential issues can be explored including influential actors, actions of these actors and the outcomes of their actions.

4 Historical, Economic and Political Contexts of Reforms

4. 1 Government accounting in the colonial and post independence era

Historically modern accounting has been practiced in Indonesia since the beginning of Dutch colonial era which began in 1602. During the Dutch era, accounting played a significant role in the colonial administration and legislation basis for the use of accounting was also established. Accounting was used by the colonial officials to manage the cash, accounts payables, and funds needed for the colonial government operation (Sapiie, 1980). The first accounting law in the Dutch era was *Indische Comptabilies Wet* (ICW) that was enacted in 1864. Principally this law used a cash-based system in reporting the economic transactions in the Government.

Following Indonesia gained independence in 1950 the Government's reporting system based on ICW was still used at the central and local level. According to the ICW system, the Government had the obligation to present its annual reports to the Parliament at the central and local levels. The main elements of these reports were budget realization reports (cash- based revenue - expenditure reports) which were based on a cash-based accounting system. The cash based-accounting system was in place until 2005 with the issuance of Law 17 in 2003 and the government accounting standards issued in 2005 (Manao, 2008).

4. 2 Background and purpose of public sector accounting reforms

Following the financial crisis in 1997 and 1998 Indonesia and other Asian countries received financial packages from the IMF to recover the economy as a means to improve their banking and fiscal systems and public sector management overall. The Barclays Economic Review (1998) reports: "In return for the IMF-sponsored international multi-billion dollar rescue packages, the governments of South Korea, Indonesia, Philippines and

Thailand have pledged to undertake a series of reforms aimed at removing the barriers to enhance efficiency, productivity, transparency and accountability” (p. 24). The IMF and the World Bank since 1998 have provided studies and financial assistance to accelerate these reforms (Khambata, 2001; Lienert, 2007). Of great concern amongst the reforms were the enactment of new laws and government regulations aimed to reformulate budgetary and government reporting systems and strengthen the audit function within the public sector. The new laws and government regulations including:

- Law 17 (2003) on state finances,
- Law 1 (2004) on state treasury,
- Law 24 (2004) on national development planning,
- Law 33 (2004) on financial arrangements between the central government and local governments,
- Law 15 (2004) on the supervision and accountability of state finances,
- Government Regulation 24 (2005) on government accounting standards,
- Government Regulation 58 (2005) on local government financial management and
- Government Regulation 8 (2006) on financial reports and performance measurements.

These new laws and government regulations outline a number of principles that can be summarized as follows (also see Table 2):

(1) The government is required to use accrual based reporting systems as the basis for the government to prepare and present its annual reports. Unlike the old system that only required the government to present budget realization reports, current government reporting policies require the government at all levels to present a set of financial statements which include balance sheets, cash flows and notes to financial statements along with performance reports.

(2) The government is required to use a performance based budget system. Current budget policy requires that the formulation of the government’s programs and budget setting at all levels has to take into account its strategic planning which outlines the Government’s goals in the short and long-term. The goals of government projects must conform to the needs of Indonesian citizens. These needs are reflected in the economic and political platforms of those elected as the president at the national level and heads of local governments as governors or majors. Furthermore, budget

planning must incorporate detailed outputs and outcomes that are planned to be achieved. In setting a program or a budget the executives (the president, governors and mayors or regents) must consult with the Parliament and people directly.

(3) The empowerment of the roles of the State Audit Board aimed at improving the accountability, transparency, and operation of public sector organizations at the central and local levels. Audit opinion and recommendations from the State Audit Board must be used by the Parliament to evaluate the government's performance. Any recommendation from the State Audit Board that indicates any fraud or misuse of resources within the government must be reported to police or attorneys and processed in accordance with laws. This policy applies to all government levels.

Insert Table 2 here

The importance of public sector accounting reforms in Indonesia is not only formally written in the laws and government regulations issued in recent years, such a notion is shared by the top officials we interviewed in the Ministry of Finance and the State Audit Board. A senior official in the Ministry of Finance who involved in formulating the government policies in the public sector accounting believes that the adoption of the new accrual accounting system in the public sector is important to strengthen the accountability and transparency of the government.

The implementation of the new accounting [standards]...in the government [is required] as the people in this country need more transparent and accountable administration.

Even another interviewee also claims the public sector reforms undertaken by post-Suharto regime is the reflection of the public demand for better governance in the bureaucracy, which is opposed to Suharto' administration which was renowned for the lack accountability and openness.

It is important to remember that the spirit of [the law that recently came to affect after the Suharto' regime reflected the wish from the people in general in this country. The bad things of our administration in the past... simply lacked of accountability and openness.

A former senior official at the Ministry of Finance and he is currently a part-time consultant at the State Audit Board also had a similar opinion.

I need to say, how come a country with hundreds of billions rupiah spending only has budget realization reports [cash-based reports as annual financial accountability] at the end the year. It is just like a small party's report. We cannot treat the public money like that. The citizens must be informed where their money has been used and how much.

We also found that such an opinion is not only held by our interviewees at the central level (i.e. Ministry of Finance) but also shared by the participants of this study at the local level. The vice mayor in the local government studied states:

The new accounting system more informative, which can disclose all financial information of the entities and divisions of in this local government since they were established, including the assets and liabilities of these entities.

Such a comment is also shared by the manager of accounting and financial division in the local government.

Although current reporting system seems to be more complex and not easy to be implemented, it is more reliable and informative in providing you information about the Government's assets and liabilities.

Hence, it can be suggested that although the accrual accounting system was completely imposed by the central government, the new accounting system is regarded as useful to strengthen the use of financial information both for the government financial accountability to the people and managerial purposes. Such statements indicates that although the policy to adopt the accrual accounting system at the local level in Indonesia was centrally imposed by the central government, the users of the accounting system at the local level regard the new accounting system as being useful to improve the quality of the financial accountability and financial information for decision making. It means there is a coherent view among the senior officials² at the Ministry of Finance, the Government's rules about reporting system (i.e. government accounting standards) and the officials within a local government. Taking into account this situation, there is a reason for believing that the claimed benefits of the accrual accounting system promoted for

² Participants interviewed.

economic reasons have been successfully transferred from the promoters of the business style accounting at the central level to the government bureaucrat at the local level. Therefore, our observation shows that the recent legal frameworks concerning reporting systems, budgeting and the audit function in the Indonesian public sector follow a similar pattern in other countries where the notion of accountability, improved service delivery and increased transparency have become the arguments of public sector reforms in the post-Suharto era of Indonesia (for examples: see Guthrie, 1998; Lapsley and Pallot, 2000).

4.3 *Supporting programs*

Beyond the issuances of numerous laws and regulations concerning the reporting, budgeting, and auditing mechanisms in the public sector, to support the public sector accounting reforms, Indonesian government also has launched a number of supporting programs supported by international organizations. These programs include the allocation of funds to support the capacity building of the public sector in the country through government employees attending courses and training at university level, workshops, and overseas comparative studies, such as the World Bank and European Union (Ministry of Finance 2001). In 2004, for example, the Asian Development Bank provided US \$ 220 million for program loan and US \$ 250 million for investment loan to improve efficiency, accountability, and transparency in Indonesia's financial management at the central and local levels (Asian Development Bank, 2004). The program was aimed to enhance capacity building and to strengthen the public sector management. Specifically, under the coordination of the National Planning Agency (*Bappenas*) the loan was used for a program called State Audit Reform Sector Development Program (STAR-SDP). Technically, the program was then undertaken by the National Department of Education of Indonesia and universities across the country to train the employees in accounting and financial functions of local governments. Along with the funding support from the European Union in 2005 the Asian Development Bank also provided a further US \$ 330 million aid to support the implementation of a better public sector management practice at the local level in the country. The funding was also used to establish a more effective mechanism for better coordination among government institutions and to help develop and upgrade financial management information systems (European Union, 2007).

Moreover, the European Commission supported the development of government financial management and revenue administration systems in Indonesia by providing €14,300,000 funds in cooperation with the World Bank in providing training and supporting facilities. The fund was also used to support the implementation of the new accounting standards at the local level (European Union, 2007). Along with the programs earlier discussed above, in 2006 and 2006 the Ministry of Finance and the State Audit Board with the support of international donors such as the World Bank and the members OECD-countries also conducted dissemination programs through seminars and workshops attended by senior officials from the central government agencies and local governments (Word Bank, 2008). These programs were particularly undertaken to introduce government accounting standards. Such activities were also held with the support of the State Audit Board, the Indonesian Institute of Accountants and CPA Australia (State Audit Board, 2008; BPKP, 2008). This development indicates that public sector accounting reforms in Indonesia since the fall of Suharto regime, has not only indicated by the issuances of new laws and regulations aimed, but also supported by grants and commitments from international organizations and donors. The next section critically identifies and discusses how the rhetoric behind the public sector accounting reforms have been actually implemented.

5 Features and Outcomes of Reforms

5.1 Increased domination of central government

Despite the issuance of the so-called new decentralisation laws passed in September 2004 were aimed improving the earlier decentralization laws issued in 1999, in reality it also re-strengthens the role of the Central Government control over local officials and budgets (Fitriani et al. 2005, p. 60). As demonstrated by the promulgation of the Law 33 (2004) and 34 (2004), it has reduced the roles of municipal or district governments in setting their budgets that were previously granted in the Law 22 and 25 (1999). These laws now require the approval of provincial governments for their budget to be passed. Therefore although Indonesia's administrations after Suharto have adopted autonomy policies aimed at strengthening the political and economic roles of local governments, the legacies of the Dutch colonial rulers and fascists Japanese occupation that was characterized by a strong control of central government over local administrations still remains exists.

Therefore, the way the government reforms public sector accounting system in the country through the adoption of the accrual accounting system imposed by the central government on local administrations in the country could not be isolated from the social, historical and political contexts surrounding the central government strategy to control local governments. This indicated by the promulgations of the Law 17 in 2003, the government accounting standards issued in 2005 and the Decrees No 13 and 59 issued by the Ministry of Internal Affairs in 2006 and 2007. These regulations have not only given the Ministry of Finance as a regulating agency for financial matters at the local level, but also created a new role for the Ministry Internal Affairs that did not exist before the Suharto regime collapsed. A senior accounting and financial in a local government studied states:

Unlike in the past, now we are not only required to use the government accounting standards, but also the regulation issued by the Ministry of Internal Affairs to prepare our reports.

Similar comments also come from another senior financial official of the local government:

It is the obligation of the local government [local bureaucracy] to implement all regulations imposed to them by the central government.

We here only use the systems [accounting rules] issued by the central government.

Drawn from such comments on the government policies, it shows that public sector accounting reforms undertaken by the Post-Suharto regime have strengthened the position of central government in overseeing local administrations. Such a development is in contrast to the decentralization policies granted by the central government for local administrations following the collapse of the Suharto regime in 1998. Nonetheless, such a fact supports Cochrane's (2009) assessment that despite the feature of the written political system in Indonesia is more similar to the modern republic system of the US – a strong hierarchal control of the central government on local administrations still exists and continues to shapes how it deals local governments. According to Crane (2005), this situation is rooted in the Indonesia's history since the Cutch colonial era and the legacy of the Japanese military system, where the central government fully controls the political and economic affairs at the local level (Crane, 1995; Wanandi, 2002). The strong control of the Central Government on local administrations is indicated by the fact that until today the bureaucracy of local governments in Indonesia is the extent of the central government

institutions. Indonesian local governments are made up of provincial and district (or municipal) governments. Provincial governments are divided into districts (*kabupaten*) in rural areas or municipal (*kota*) governments in urban areas (see Figure 1). This is also reflected by the fact that until today all regulations about financial issues and reporting systems at the local level are issued by the central government (Table 3).

Insert Figure 1 here

Insert Table 3 here

As such it would also be logic to suggest that although the decentralization policies that have been granted to local governments since 1998, politically was not necessarily motivated by a genuine aspiration to give more autonomy for local regional administrations, but it might be an intended strategy imposed by the Central Government to consolidate its political power to control local governments in the midst of social economic turbulence that occurred at the time³. As Wanandi (2002) stresses those local independence movements that occurred soon the collapse of Suharto's regime in 1998 were the logical consequences of the political oppression exercised by Suharto's administration in dominating the political affairs and economic resources from rich provinces like Papua and Aceh. Once the Suharto regime collapsed, these activities had momentous opportunities to rise. Being aware of the situation, thus post Suharto's administrations would take necessary measures that can prevent such movements from local regions. As a consequence -- the Central Government needs to find the best way to handle such a problem. This has been indicated by the overnight autonomy policies of President Habibie (1998-1999) that were mainly devised to prevent local independence movements (Seymour & Turner, 2002; Wanandi, 2002). This is also proven by the fact that the implementation of autonomy of Post Suharto's regimes is emphasized on strengthening local administrations at the district or municipal level than provincial level as the independence movements come from provincial level (Fitrani et al. (2005). According to Fitrani et al., (2005) such an approach appears to have been motivated in part by concern over possible secessionist threats at provincial level, and in part by a sense that a large number of smaller local government units could be controlled through a 'divide and rule' strategy (p. 60-61). Seymour and Turner (2002, p. 36) note:

³ At the same time in 1999 Indonesia also was struggling to handle the independence process of East Timor.

[...] in an effort to gain the trust of the people and to be seen as distancing himself from the Suharto regime, among the new laws were two concerning decentralisation, ratified on 21 April 1999. Law No. 22/1999, granting significant regional autonomy was the Indonesian Government's answer to a long period of growing distrust and antagonism from disgruntled people in [certain] Indonesia's peripheral provinces.

Thus, drawing from these observations the central government attempts to adopt the accrual accounting system at the local level should be understood in the role of accounting as a mean for political purposes. In other words, although the claimed purposes of the public sector reforms (such as decentralization programs) undertaken by post-Suharto regime aimed at creating the government more accountable and democratic, the actual actions of the central government manifested has strengthened the central government in controlling local administrations. This finding shows the potential role of accounting for political purposes.

5.2 Low level of reports' compliance

Although the government polices to adopt an accrual accounting system in the public sector have been supported by the issuances of new regulations and reporting rules and financial aides from international financial authorities, the compliance of government reports to the government accounting standards is still low. As Table 4 shows that from the reports of government agencies at the central level in 2006, only 13 reports from 83 departments and agencies (approximately 15 %) were awarded with unqualified opinions. Although this figure increased to slightly over 42 % in 2007 and 53 % in 2009, the number of reports with adverse opinions has jumped from none in 2006 to almost 30 % in 2008 and 10 % in 2009. In the Ministry of Finance alone, only three of its sub entities (of nine) which produced financial statements in 2007 fully complied with the government accounting standards (Kompas, 2008).

Insert Table 4 here

However, as Table 5 shows that in recent years the compliance of government reports at the local level is lower than those at the central level. For example, in 2005 five percent of local governments' reports were awarded with unqualified opinions. This figure unexpectedly declined to 1 % in 2006 and 2007 and only reached below 3 % in 2008 and 4 % in 2009. In contrast, there was 5 and 74 % of local governments were given adverse

opinions. Although this figure improved to 7.2 % in 2008, and it worsened again to 13 % in 2009. The State Audit Board (2008a) observes a number of reasons that have made the reports of the Government at the central and local levels failed to comply with government accounting standards including (1) the lack of coordination within the Government at the central and local levels, (2) the lack of skilled human resource, and (3) rapid changes in regulations leading to different interpretations (p. 2-3).

Insert Table 5 here

It is also important to take into account, these problems are also related to the nature of the public sector accounting reforms in the Indonesian public sector that have been characterized by the dominant role of the central government agencies (i.e. the Ministry of Finance and Ministry of Internal Affairs) in formulating the rules (techniques) about reporting system for local governments. As a consequence, beyond senior accountants from the Ministry of Finance and other central government agencies at the central level there was no significant aspiration from wider stakeholders that have been used by the Central Government, in both formulating regulations and accounting standards and necessary strategies required in adopting the accrual accounting system at the local level. Regarding this situation, our interviewees in a local government studied show their concerns. A consultant who involved in assisting the local government studied to prepare its reports states:

The legislative members and the executives in the municipal government many times frustrated with the new regulations about the financial and reporting system. This local government did not involve at all in developing the new accounting rules and how to deal with these rules.

We also find the notion that although the nature of current accounting system is regarded necessary to make the organizations of the municipal government more accountable, the quick changes of reporting systems in recent years is seen as disappointing. A local parliament member states:

We regard the rules are required to our make organizations here more accountable [financially]. But we are very concerned and quite disappointed with many financial regulations issued by the central government for local administrations in a relatively short period of time. When we have not been very familiar with a specific regulation then a new one is issued.

The deputy mayor also shares a similar concern.

The regulations on financial report system issued by the central government in the last few years were so many and [they] rapidly changed. This [the change] has made us in very difficult situation as we have to adjust to a new regulation while have not completely understood the previous one. They [the central government] should understand that we need more time and resources to implement a specific regulation before it are to be replaced with a new one.

The manager of the human resource division also blames the central government approach as the root of the implementation problems faced by the local government to implement the new accounting system. The interviewee states;

It is not like in the private sector, where we can hire new employees based on how many we need], [the process of hiring new civic servants in this local government, like anywhere involves the Ministry of State Apparatus and Ministry of Finance], and you need to know [the salary of the our employees mostly funded from the central government. It is beyond our control. It is impossible for us to hire new employees without the approval of the central government, how we can pay their salaries.

Taking into account these statements it is shown the nature of the approach used by the central government in internalizing the accrual accounting system has yet to be based on effective strategies to support its implementation at the local level for performance improvement. As a consequence -- the top down policy to adopt the accrual accounting system in a municipal government has been failed to transform the accounting practice in the municipal government in accordance with the rhetoric behind the government policy to adopt an accrual accounting. In other words, there is a low level of coherent link between the claimed purposes with respect to the incorporation of the accrual accounting system into public sector for efficiency and performance improvement and what actually happens in a municipal government.

5.3 Resistance to reforms and the rise of corruption

Although political, institutional and legal reforms since the resignation of Suharto in 1998 have had a profound impact on the nature of the public sector financial management systems, outcomes that lead to better governance and accountability have not necessarily been achieved. A number of indicators suggest that public sector reforms in the are facing

serious challenges. Central to this issue is the lack of support from certain elements within the government with respect to public accountability and transparency.

For example, according to the State Audit Board in 2007 the Supreme Court declined to be audited by the State Audit Board on one of its revenue accounts (Kompas 11 April, 2008). In addition, on 15 May 2008 The Constitution Court declined to review Law 28 (2007) on tax, which prevents the State Audit Board from auditing the tax revenue account in the Ministry of Finance. According to the State Audit Board's report (2008a) the Constitution Court's refusal to be audited by the State Audit Board contradicts the 1945 Constitution where the State Audit Board has the right to audit every single cent of public money within the Government, and Law 15 (2004) states that "...everyone intentionally prevents the audit conducted by the State Audit Board is considered a crime" (State Audit Board, 2008a).

Moreover, the irregularities within the Government still occur. From 2003 to 2008 the State Audit Board has reported 210 cases that led to a total loss of public money approximately 30.18 billion (approximately US\$ 470 million) (Detik, 2009). It also has been reported by the State Audit Board that thousands of bank accounts belonging to senior officials in Government departments and agencies were not properly recorded in the financial statements of these agencies respectively. In 2005 alone the State Audit Board found 1,303 such bank accounts (BBC, 2006).

In addition, although the State Audit Board has reported evidence and irregularities within the government to Parliament, in most cases these reports have not been used by the Court as evidence of corruption (State Audit Board, 2008). Central to this situation, is the fact that Parliament itself lacks the capacity to push the government to accelerate the development of better governance practices within the public sector. According to a study by the Transparency International, the Parliament is one of the most corrupt institutions in Indonesia (BBC, 2008). Most of the members of the institution are considered corrupt and even a number of the Parliamentary members have been caught directly by the Anti Corruption Commission when they were involved in bribery and receiving illegal money (Detik, 2009).

Moreover, the lack of progress in implementing the public sector reforms in Indonesia is also caused by the poor performance of police, court and custom service institutions. They

are expected to be front runners in upholding the laws, transparency and accountability principles but many cases indicate contradicting facts. In a 2008 study by the Indonesian Transparency International, it is reported that the court, police, and customs institutions are the most corrupt government organizations in Indonesia (Fajar, 2009). The study found that 30 percent of 204 respondents paid bribes to get the services provided by these institutions. Muhammad Jasin, a member of the Corruption Eradication Commission, also suggests that the failure of the public sector reforms in Indonesia is caused by the fact that many actors within the reforming government institutions involved in corruption (Fajar, 2009).

Drawing from the experience of a local government to adopt the accrual accounting system, it has increased the costs of accounting function in the local government as it need to pay local consultants to prepare their reports. In addition, the adaption of the accrual accounting has allowed the emerging of corruption. This occurs as the preparation of the reports of the municipal government under study involves outside consultants this requires a tender process. This process becomes susceptible to the object of bribery practice. The consultants we interviewed stated that they have bribe senior officials in the local government to help them stay involved in the government projects. According to the consultants the bribe is called “commission fees” as a specific percentage of the total project value that has to be paid back by consultants to the officials in the government if they get the project. The commission fees ranged from 10 to 15 percent of the total monetary of a project.

As observed in a local government observed, the payments of the “project commission” are not included in the formal project agreements between consultant firms and the municipal government under study, nor are they components of costs of any accounting projects. Rather, these fees are determined through informal agreements between consultants firms and senior officials in the municipal government. In this case, the consultant firms have to pay back a certain amount of money (as bribery)⁴ to the officials who have the authority to make decisions in the tendering process. The payments of “the project commissions do not use the bank service; rather it is paid with cash. Our interviewees also point out that the “project commission” is a common practice that occurs

⁴ By all accounts bribery is illegal in accordance with the Indonesian criminal law and the Government has established an Anti Corruption Commission in eradicating such practices in the Indonesian public sector (KPK, 2010).

everywhere in Indonesian public sector and takes place when someone or any company becomes involved in government business both in physical and service projects.

A member of a non government organization (NGO) who has been actively involved in promoting the accountability and transparency of the local government suggest that political reforms that were undertaken following the collapse of the Suharto regime have changed, but the corrupt attitudes of the bureaucracy at all levels still exists. The old mentality and behaviors are still held by many officials of the public sector all across the regions and local administrations in Indonesia where corruption still flourishes. Although the interviewees perceive that the recent legislative frameworks in management systems in the government signify a good path towards a more accountable government, without further reforms more serious efforts in combating corruption it would be like “putting salt in the ocean”.

What we find from this local government is not a surprising phenomenon in the Indonesian bureaucracy. As McLeod (2008) reported that one of the practices which leads to corruption in Indonesia is bribes being paid by the users of the services provided by the Government organizations, and companies involved in the Government projects. An audit report of the State Audit Board (2007) also supports our findings. This means that although this practice is a new phenomenon in the accounting function of the local government studied, the social context of such a practice is not completely new as bribery and corruption have been part of the tendering process of government projects in the country overall. International organizations such World Bank (2008a); Transparency International (2009, 2010) have expressed concern regarding the corrupt practices in the Indonesian bureaucracy in general. Although political and economic reforms have been undertaken since Suharto left office in 1998, it has yet to significantly change the actions and behaviors of people in the bureaucracy in accordance with the purpose of these reforms. For example, the position of Indonesia is relatively high in a list of the most corrupt public sector institutions in the world although legal reforms have been implemented (Transparency International, 2009, 2010). This indicates a contradiction between the views of the senior officials in the Ministry of Finance and municipal government under study and the practical implication of the accrual accounting system at the implementation level.

This means that existing habits of the users of an accounting system also shape how that an accounting system is internalized through the actions and behaviours of these users. This finding support the view of Mimba et al., (2007) who state that in developing nations the merging of an illegal practice (corruption) shows that existing habits that are based on informality affect how the economic and social mechanisms work. This opinion is similar to the notion of Hoque and Hopper (1997) that in developing countries informality is more important in practice, where laws and rules are breached to serve the interests of people who are involved in economic and political transactions (Mimba et al., 2007). In the context of this study, this situation explains how and why the adoption of the accrual accounting system in a local government has been decoupled from the initial ideals which require the use of accrual accounting for efficiency improvement. This is mainly caused by the use of outside consultants or accounting firms in preparing the reports which increases the costs incurred in the accounting function of the municipal government. As suggested by our interviewee who is also a consultant in the local government studied:

As the local government lacks qualified employees in accounting, it needs to pay the professionals from outside. This means the local administration spends more money than last time for accounting matters.

Therefore, at the local level the adoption of the new accounting system has not only created the emerging of corruption practice within the accounting division of the local government studied, it has also increased the costs incurred to produce the reports. This means the lack of capacity and social context and old habits of local actors have made the use government efforts to reform the public sector accounting has not only failed to improve the efficiency but also created corruption which is contradict to the rhetoric behind the government policy at the central level.

6 Discussion and Conclusions:

Drawing from our observations, it shows the Indonesian government approach to reform its public rector accounting system has a followed a similar pattern in other countries through the adoption of accrual accounting at the central and local levels. Empirical findings we drew from policies and regulation issued by the government at the central level also indicate the adoption of the accrual accounting system is required to support the economic and political reforms undertaken in recent years aimed at improving the

accountability, transparency and efficiency of public sector institutions in the country. Beyond the formal government documents, such a notion is also emphasized by senior government officials we interviewed. They state that that recent public sector accounting reforms in the country was also launched to support post Suharto regimes' efforts to transform the state of democratic practice from a dictatorial government as demonstrated by Suharto's regime to a democratic regime, which grants freedom to the people to elect their leaders and check the government strategies and programs to serve the people. However, drawn from our case study it shows Indonesian government strategies and program surrounding the public sector accounting reforms have produced contradicting outcomes against the claimed purposes of these reforms. This situation undermines the central purposes of very notion of dialogic accounting which promotes the use of accounting to facilitate a genuine practice of democracy which allows multiple stakeholders of accounting to pursue their interests. For example, the ways the central government imposed the accrual accounting system at local level has not only failed to recognise the aspirations of local actors to determine the nature of a new accounting system should be adopted, but also it failed to implement effective strategies and supporting required to internalize the accrual accounting system. In the context of post Suharto reforms it contradicts the purposes of the decentralization policies granted to local governments and fails to achieve the efficiency improvement at the local level. From a critical perspective, this fact is in contrast to the transformative role of dialogic accounting which encourages participations from people beyond government institutions, academic and accounting organizations to ensure effective participatory processes surrounding the policy formulation of the accrual accounting system for local governments. Beyond this, from a dialogic accounting perspective, the government approach to institutionalize the accrual accounting failed to recognise the dominant role of powerful actors (i.e. Indonesia's central governments institutions) at the expenses of other stakeholders.

Our observations remind that the historical, political, and social settings of a public sector accounting reforms can be complex and complicating. As earlier discussed, it shows that powerful actors in the country since the Dutch era, the Suharto regime and post Suharto era have utilized the strong hierarchal nature of the country that is rooted in its history since the colonial era in using accounting to serve its economic and political interests. During the colonial era, it shows that accounting played an important role in supporting the

Dutch East Indies. As the colonial ruler was renowned as a strong hierarchal ruler, this means accounting played a significant role in supporting the colonial government and its business in controlling the islands as one of the main trade centers in Asia for more than three centuries. In addition, as displayed in Table 2 indicates that drafts and issued regulations about government reporting systems in Indonesia since 1945 until 2007 were issued by government agencies.

The nature of a strong hierarchal central government that was rooted in the colonial era remained in existence once the country proclaimed independence in 1945. This is particularly true as demonstrated by the Suharto regime (1967-1998) in controlling the political, economic, and social affairs in the country. As a consequence, during this era, the nature of accounting and audit information was also totally controlled by the central government. In the name of security and economic developments, public access to information was blocked. This not only explains the attitude and magnitude of the Suharto approach to accounting and audit information, but it also indicates the reason why during the Suharto regime public sector accounting reforms did not significantly occur. In this vein it was considered necessary by the Suharto regime to block a significant effort to institutionalize a more informative accounting for economic and accountability reasons as it would threaten the interest of the regime. These arguments explain why during the Suharto era, the public sector accounting reform initiatives promoted by the technocrats in the Ministry of Finance did not have not significant progress.

As such the collapse of Suharto' regime in 1998 provided the supporters of political and economic reforms in Indonesia to reform the existing political, economic and public sector management systems in the country. This opportunity not only provided a greater chance for the technocrats in the Ministry of Finance but also non government institutions as well as international donors (e.g. the IMF and World Bank) to push the government to improve the financial accountability, transparency, and efficiency of the public sector. In this case, the dominant role of the Ministry of Finance was manifested through its roles in mobilizing the ideals to use accrual accounting as a new practice (rule) in preparing the reports of government organizations at the central and local levels in Indonesia. Beyond this, the strong influence of the Ministry of Finance was also apparent in the new discourse stage of the institutionalization of the accrual accounting system. In this stage the technocrats in the Ministry of Finance actively involved in drafting the Law 17, before it

was approved by the National Parliament in 2003 as the first legal basis for the public sector in Indonesia, including local governments to adopt the accrual accounting system.

In addition, the dominant roles of central government agencies were also apparent in the policy formulations of laws and regulations about public sector finance as indicated by the promulgation of new techniques (i.e. the Government Accounting Standards) issued by a committee under the control of the Ministry of Finance in 2005. In this level, the Ministry of Internal Affairs also issued its regulations as reporting rules that have to be followed by all local governments in Indonesia. These observations indicate that the dominant roles of government actors at the central level.

At the local level we also find a similar situation concerning the role of powerful actors surrounding the adoption of the accrual accounting system imposed by the central government. Based on the data collected there is little evidence to suggest that at the organizational level -- the top down approach imposed by the Central Government in institutionalizing an accrual accounting system Indonesia has yet to significantly change the actions and behaviours of actors implementing the new accounting system. In other words, the intended purposes of the adoption of the government policies to adopt accrual accounting for efficiency and performance improvement has not been fully internalized by the actors.

A number of critical issues have been identified leading to the present condition: (1) the increasing costs for producing reports, and (2) the raise of corruption surrounding the adoption the accrual accounting system. This practice emerges as the outsourcing process of the accounting function involved a tendering process which has been reported as being vulnerable to bribery practice. Although this is seen a new phenomena within the accounting division of the local government studied, the social and historical contexts of such a kind of practice in the public sector organizations in Indonesia have been widely practiced as reported by a number of studies (e.g. Transparency International, 2009). In this respect, the findings of this study show that the power of local actors in using recourses in the adoption of a new accounting system would not automatically result in actions in accordance with the intended outcomes. As Lodh and Garfikkin (1997) and Hassan (2008) state that accounting [has the potential] to become a rhetoric device used by the society's members in order to justify/rationalize their actions (Hassan, 2008, p. 295). In

other words, despite accounting systems are seen myths but they can be utilized effectively by powerful actors to achieve their hidden agenda (Mouristen, 1994).

A key contribution of this study is it illustrates that the old habits of actors affect the way they internalize the accrual accounting system in a developing country. This observation supports the view that historical, social and organizational contexts of actors affect the extent to which a new accounting system to be practiced as suggested by Burns and Scapens (2000) and Moll and Hoque (2011). In this case, these factor as well as the power of local actors needs to be taken into account to provide in-depth understanding regarding the nature and implications of an accounting reform in the public sector arena. As such, this study contributes the contemporary discussion about the complicities of accrual accounting construction and implementation in the public sector both for policy makers in the public sector and accounting scholars in general.

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Government Regulations

- Government Regulation 15 (2005) on financial management of the public agencies.
- Government Regulation 24 (2005) about government accounting standards
- Government Regulation 24 (2005) on government accounting standards (Standar Akuntansi Pemerintahan, SAP)
- Government Regulation 23 (2005) on financial management of the public agencies.
- Government Regulation 39 (2007) on state and local government financial management.
- Government Regulation 58 (2005) on local government financial management.
- Government Regulation 60 (2008) on government intern control system.
- Government Regulation 8 (2006) on financial and performance reporting of the government.
- Law 43 (1999) about civic employees.
- Law 17 (2003) about state finances
- Law (5) 2004 about audit and financial accountability
- Law 1 (2004) on state treasury
- Law 15 (2006) on the State Audit Board

Law 30 (2002) about the establishment of anti corruption commission.
 Law 33 (2004) on financial arrangements between the central and local governments (a revision of the Law 22 (1999))
 Law 34 (2004) on local government (a revision of the Law 22 (1999))
 Ministry of Home Affairs' Regulation 13 (2006) about financial accountability for provincial and municipal governments
 Ministry of Internal Affairs Regulation 59 (2007) on the revision of financial management for local governments issued in 2006.
 Presidential Decree 2 (2005) on the committee of government accounting standards.

List of Tables and Figures

Table 1

Profiles of interviewees

No	Organization (number of participants)	Level of government
1.	Ministry of Finance (3 people)	National level
	The State Audit Board (3 people)	
	The Public Sector Accounting Committee (3 people)	
2	Senior officials of a local government under studied (LCUS) (14 people)	Local level
	Local consultants in LCUS (3 people)	
	Local parliamentary members of LCUS (3 people)	
Total interviewees		26 people

Table 2

Comparison of political and public sector management systems in Indonesia

Scope	Suharto era (1966-1998)	Post-Suharto era (1998-onward)
Budgeting system	Budget formulation was focused on spending policies in accordance with the available resources.	Budget formulation is based on targeted performances in accordance with the public aspirations
Reporting system	Cash based reports	Accrual and cash-based reports
Public sector audit	The role of the State Audit Board was limited, and audit and accounting information were treated as state secrets.	<ul style="list-style-type: none"> The State Audit Board has the authority for examining the reports of all government agencies and state-owned firms. Audit reports which indicate unlawful practices must be reported to police or attorneys. Audit reports are now available to public.

Table 3

Rules and (drafts) about government reporting system in Indonesia since 1945

Date	Rules	Scope	Initiating /issuing agencies	Note
1945	ICW Based rule	Basic rules about reporting system for Government agencies at central and local level	Dutch colonial government	Implemented
1992	President Decree No. 35	The President's instruction to reform public sector accounting	Ministry of Finance	Used as the basis for the establishment of an accounting agency at the Ministry of Finance
1992	Central Government Accounting Standards	Rules about reporting system for Government agencies at central and local level	Ministry of Finance	Not implemented
2002	Financial Minister Decree 308 (2002)	Rules about the policy to adopt accrual based reporting system at the central and local levels	Ministry of Finance	Not implemented
2002	Public Sector Accounting Standards Draft	Rules about reporting system for Government agencies at the central and local levels	Gadjah Mada University	Only implemented as pilot projects
2002	Public Sector Accounting Standards Draft	Rules about reporting system for Government agencies at the central and local levels	Indonesian Institute of Accountants	Not implemented
2003	Ministry of Finance Decree 335	Accounting Standards for the Central and Local Governments	Ministry of Finance	Not implemented
2003	Law 17 on state finance	Rules which require the production of accrual based reports at all levels	Ministry of Finance National Parliament	Used as the basis to issue the government accounting standards in 2005
2005	Government Accounting Standards	Accounting Standards which require production of accrual based reports for the Government agencies at central and local levels	Ministry of Finance with the support of the Presidential	Implemented
2006	Decree 13 on local government finance	Rules about local government financial management, which include planning and reporting systems.	Ministry of Internal Affairs	Implemented
2007	Decree 59 on local government finance	Revision of Decree 13 (2006)	Ministry of Internal Affairs	Implemented

Table 4

Central Government's reports by the State Audit Board opinion (%)

Opinion	Year			
	2006	2007	2008	2009
Unqualified	15	20	42.46	57
Qualified	43	36	36.59	33
Disclaimer	43	43	00	0
Adverse	0	1	21.95	10
Total (%)	100	100	100	100

State Audit Board (2008, 2010)

Table 5

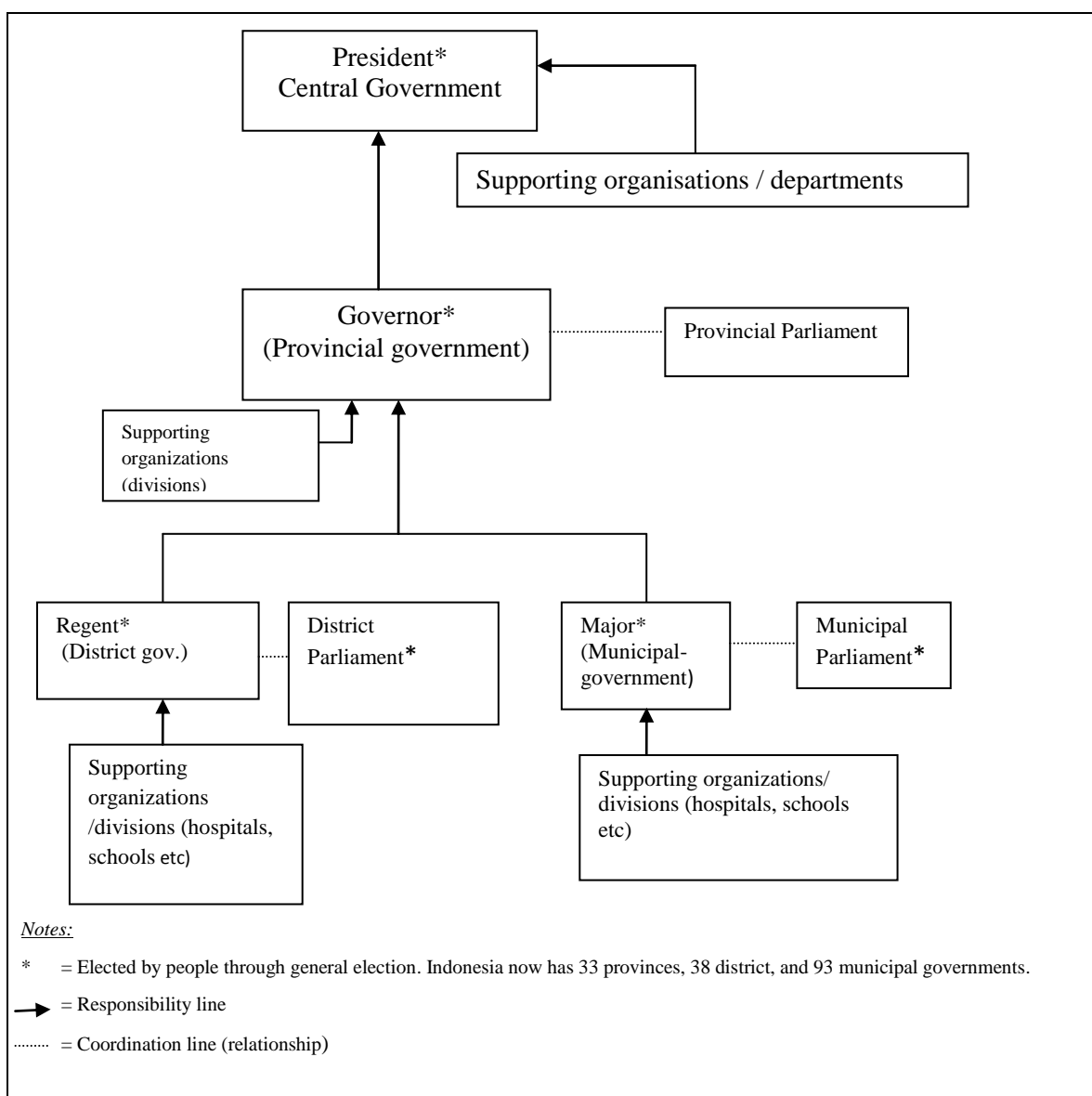
Local governments' reports by the State Audit Board opinion (%)*

Opinion	Year				
	2005	2006	2007	2008	2009
Unqualified	5	1	1	2.7	4
Qualified	85	70	63	74.1	74
Disclaimer	7	63	17	16.0	9
Adverse	3	74.1	19	7.2	13
Total (%)	100	100	100	100	100

State Audit Board (2008, 2010)

Figure 1

Indonesian government structure



KPPOD (2009)