

AN ANALYSIS OF THE IMPACT OF CHANGING ACCOUNTING BASE ON AUDIT OF LOCAL GOVERNMENT OF GUNUNGKIDUL DIY

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Abstract: The purpose of this study is to analyze the process of applying the accrual basis at the local government of Gunungkidul and its impact on the planning, implementation, and opinion of the audit as well as the cause (presence or absence) of the impact of changes in the accrual basis. This research use qualitative approach with case study research method. Data collection techniques were done through document analysis and in-depth interviews at the head of accounting division of Gunungkidul and staff, as well as The Audit Board of The Republic of Indonesia representatives of DIY. Interview data were then reduced, identified and analyzed to answer research questions. The results of this study found Changes in the accrual basis generally do not have a significant impact on planning, implementation, and audit opinions. The impact of the accrual basis is only on the understanding of the broader business processes, additional procedures for audit execution, and increased testing of controls for accounts impacted by the accrual basis.

Keywords: Accrual Basis, the financial statements of local government, audit.

INTRODUCTION

The main purpose of the financial statements is to provide high-quality information about the financial position and performance of a useful entity for stakeholders in the decision-making process (IAS 1.2015). To achieve these objectives, the government is considering the implementation of accrual basis financial statements. This is to increase transparency and accountability in the management and accountability of state finances.

Based on the mandate of Law Number 17 Year 2003 regarding State Finance in Article 36 paragraph (1), the application of accrual based accounting shall be no later than 5 (five years). This led to a cash-based accounting standard based on Government Regulation (Government Regulation) No. 24 of 2005 changed to accrual basis (Government Regulation 71 of 2010). Therefore, in its implementation, an understanding of the impact of changes in the accounting basis including audits that serve as an evaluation tool for government financial performance is urgently needed.

This research problem started from the change of accounting base from cash base then CTA (Cash Toward Accrual) then changed into accrual based based on Law 17/2003. In the process, it turns out that the data shows that the change in the accounting bases is also directly proportional to the percentage increase in opinion obtained by the local government. Data from the local government of Gunungkidul

also indicate an increase in opinion after the implementation of accrual basis. In previous years, the opinion obtained was fair with the exception (WDP), then the local government of Gunungkidul in 2015 received unqualified opinion (WTP).

Therefore, this study analyzes how the process of applying the accrual basis to the local government of Gunungkidul and the impact of its change on audit opinion. In addition, this study also analyzes how the impact of changes in the accrual basis on audit planning and implementation is part of the audit series.

The objective of the research is to analyze the process of applying the accrual basis at the local government of Gunungkidul and its impact on the planning, implementation, and audit opinion as well as the cause (presence or absence) of the impact of the accrual basis change.

LITERATURE REVIEW

The Kelman Theory

Kelman argued that the formation and change of attitudes that occur in individuals in this case is local government, is at three levels, namely Compliance, Identification and Internalization (Kelman, 1958).

1. Compliance Is a very early stage in the process of formation and attitude change. At the stage of compliance, the individual is positive on an object of attitude because he wants to get positive treatment can be a gift or at least not get punished in dealing with the object of attitude. If linked to a change in the accounting base, the local government complies with the law for fear of being punished for violating it. This change of attitude at this level is usually characterized by the desire to 'please' others who make the rules, in this case the central government.
2. Identification is a change in attitude that occurs when the individual sees others around and who influences his or her life that shows the intended attitude. The local government will be positive about the change of accounting base, if it sees the regulators and the implementers of the regulations (other local governments) abide by the rules they make.
3. Internalization is the process of receiving positive attitudes by individuals because they feel the object of the attitude is in accordance with the values in life. In the case of changes in the accounting basis, local governments assume that changes in the accounting basis are created to provide better financial information. The application of this principle, in the attitude of accepting changes to the accounting basis, is illustrated by the local government which shows a positive attitude toward changes in the accounting basis. This is because the new accounting base is able to provide advantages, especially in the presentation of better local government financial information.

Information Integration Theory

Information Integration Theory illustrates models that predict individual evaluations based on beliefs about attitude objects. The model is proposed by Norman Anderson (in Eagly & Chaiken, 1993) that individual attitudes and beliefs

are formed and modified each time the individual receives new information, then interpreted and integrated with the individual's previous attitudes and beliefs.

Based on the theory, then associated with the change of accounting basis, The Audit Board of The Republic of Indonesia as the auditor will experience a change of attitude in accordance with new information obtained. This is because although the financial information obtained from the local government becomes more complex, but has a better quality than before.

Government Accounting

Bastian (2009) defines government accounting as a government performance measurement system that supports accountability for decisions about which resources must be met to meet military and civilian needs. Government accounting in this study is devoted to financial accounting and its products are financial statements. According to Government Regulation 71/2010 government financial reporting should present useful information to users in assessing accountability and in making decisions in economic, social and political decisions by:

1. Provide information on the source, allocation and use of financial resources;
2. Provide information on the adequacy of current receipts to finance all expenditures;
3. Provide information on the amount of economic resources used in the activities of reporting entities and the results achieved;
4. Provides information on how the reporting entity is funding all its activities and sufficient for its cash needs;
5. Provide information on the financial position and condition of the reporting entity in relation to its revenue sources, both short-term and long-term, including those originating from taxes and loans;
6. Provides information on the changes in the financial position of the reporting entity, whether increased or decreased, as a result of activities carried out during the reporting period.

The Basis of Accounting

The accounting base is useful for determining when a transaction is recorded. Par-ono in Halim and Sham (2011) explains the accounting basis is a set of accounting standards that specifies when the financial impact of transactions and other events should be recognized for financial reporting purposes. These bases relate to the timing of the measurements performed, regardless of the nature of the measurement. There are two primary listing basis, cash basis and accrual basis, which is a continuum. Between the two bases there are two other bases, the modified cash base, which is larger than the accrual and modified accrual basis of the accrual basis is greater than the cash equivalent.

Business organizations use the accrual basis, on the other hand most government organizations use the cash basis. For use in government organizations, the cash basis and accrual basis may be modified. In the last two decades, there has been a shift in accounting and budgetary base from cash base to accrual basis throughout the government. This shift is a step forward towards a broader context of public sector financial management reform. Some countries have applied accrual accounting, such as America, UK, and New Zealand. While Indonesia has begun to

try to apply accrual accounting by issuing Government Regulation No. 71 of 2010 to fulfill the mandate of Law No. 17 of 2003 on State Finance.

Audit of Regional Financial Statements

Based on Law no. 17 of 2003, Law no. 15 of 2004, and Law no. 32 of 2004 requires all financial statements, including LKPD, to be audited by an independent audit institution. The 1945 law of article 23 E states that the audit of state financial management and accountability is carried out by The Audit Board of the Republic of Indonesia. According to the State Auditing Standards, one type of audit conducted annually by The Audit Board of the Republic of Indonesia is audit of LKPD (The Audit Board of The Republic of Indonesia, 2007). UU no. 17 of 2013 on state finance and Law no. 32 year 2004 states that before submitted to DPRD, LKPD must first be checked by The Audit Board of The Republic of Indonesia. The Audit Board of The Republic of Indonesia's audit output of LKPD in the form of an opinion on LKPD, the audit result of The Audit Board of The Republic of Indonesia on LKPD is expected to add confidence to the conformity of the presentation of LKPD with SAP and the prevailing laws and regulations, which in turn can help DPRD to formulate appropriate decisions related to public service policy.

Previous Studies

Research on system changes and accounting basis and its effect on audit by Maria, Ioan-Bogdan, and Costel (2015). The results of this study indicate that the standard change (IFRS) affects audit opinion because the new standard resulted in improving the quality of information in the financial statements.

The study of Revelation Triyoga (2013) identifies the relationship between auditee perceptions of unqualified opinion with organizational accountability. The result of the study presents the perception of auditee to the achievement of Unqualified Exception audit opinion (WTP) related to organizational accountability, through: (a) auditee effort to achieve the best audit opinion by encouraging the leadership commitment to assess the overall performance; (B) internalization of organizational values in each individual employee; (C) develop accounting and budgeting systems that can produce easily understood information; And (d) enforcing rules and internal control systems that are sensitive to the needs of risk identification.

Emmy Mutiarini (2005) examines the understanding and knowledge of auditors through their perceptions of the influence of accounting policies and the presentation of local government financial statements on the implementation of an audit of LKPD. The result of the research shows that the application of accounting policy with both cash base modification and accrual basis does not affect the implementation of financial audit conducted by auditors of The Audit Board of The Republic of Indonesia. However, the implementation of the accrual basis enables local governments to present more relevant, more reliable and more comprehensive financial information that ultimately helps auditors carry out the audit process.

METHODOLOGY

This research uses qualitative approach with case study method. This method was chosen because this research seeks to understand the phenomenon holistically

(Moleong, 2012) but the researchers have little chance to control the events to be investigated (Yin, 2013).

The data used in this study are primary and secondary data. Primary data refers to information obtained first hand researcher (Sekaran and Bougie, 2013) that is data of interview result and observation. Secondary data refers to existing sources (Sekaran and Bougie, 2013), the laws and regulations on PTN-BH, government regulations related to the application of accrual basis (Government Regulation 71 of 2010), financial statements of the local government of Gunungkidul 2014-2015, LKPD The Audit Board of The Republic of Indonesia, and other documents relating to this research.

Data collection techniques for case studies conducted in this study are using documentation, and interviews (Yin, 2013). Documentation method is done by studying valid documents and relevant to the research (Creswell, 2016) that is related to the impact of changes the basis of accounting for the audit.

The semi-structured in-depth interviews undertaken in this study begin with some structured questions and then proceed with specific questions according to the characteristics of the interviewer (Cooper and Schiderlin, 2014). This type of interview was conducted on several speakers namely Head of accounting division of Gunungkidul and its staff and auditor of The Audit Board of The Republic of Indonesia-DIY to dig information about the impact of change of accounting base on audit.

Document data is collected, summarized and analyzed to provide an overview of the behavior and activities of the object to be studied. The result of the interview is a modified voice recording or transcript into a written document, then analyzed through three stages (Sekaran and Bougie, 2013) through data reduction, display data, and conclusion and verification (Sekaran and Bougie, 2013).

First, data reduction is done to obtain the most relevant data. Data reduction is the process of selecting, centralizing, summarizing the transcripts that have been collected. After reduction, a thematic analysis was conducted to identify and analyze patterns / themes in qualitative data (Braun and Clarke, 2006).

Second, the display data is presenting data in the form of sentences, graphics, or charts, so that can be understood by researchers and readers (Sekaran and Bougie, 2013). Third, conclusion and verification are conclusions and then verification to ensure that the findings in the conclusion have been valid and supported by strong evidence (Sekaran and Bougie, 2013).

The results of this study then tested the validity and reliability. This study uses three types of triangulation to test its validity. Triangulation is done by (1) source triangulation by comparing the degree of trust of information through different sources / participants; (2) method triangulation is done by examining the degree of confidence in the research findings using several data collection techniques; And (3) theory triangulation by checking the degree of belief in fact against one or more theories (rival explanation).

Qualitative reliability testing by Gibbs in Creswell (2016) is conducted through several procedures: (1) checking transcription results to ensure that the

transcription results do not contain errors during the process; And (2) ensuring no floating definition and meaning of codes during the coding process.

RESULT ANALYSIS AND DISCUSSION

Implementation of Accrual Basis of Local Government of Gunungkidul

The local government of Gunungkidul started to apply the accrual basis in its financial management since 2015. In the implementation of this accrual basis there are several impacts, including:

1. The amendment of rules that become the reference in the management of regional finance from Government Regulation 24/2005 followed by the Regulation of the Minister of Home Affairs 13/2006 which regulates the application of cash base to accrual (CTA) becomes Government Regulation 71/2010 followed by Regulation of the Minister of Home Affairs 64 / 2013 which details the accrual basis of local government.
2. There are additional unused accrual accounts on a CTA basis such as depreciation accounts, expense debts, prepaid expenses, accrued income, accrued expenses, and unearned income, etc.
3. The changes in the structure of the financial statements were originally only four reports into seven reports by adding three reports, namely (1) operational reports, (2) reports of changes in the balance of more budgets and (3) reports of changes in equity.

In addition to several changes to the financial statements, the implementation of the accrual basis in the local government of Gunungkidul is also constrained by several problems. This happens because the accrual basis is still something new, so the implementation is not immediately successful completely. The problems faced by the local government of Gunungkidul in applying the accrual basis are:

1. Most of the human resources are still not fully understand the implementation of accrual basis so that requires the learning process through training, courses, technical guidance or such.
2. After the application of the software accrual base used also changed which caused the local government Gunungkidul have to adjust and this adjustment process takes a long time.
3. Regulations issued by the central government are still changing frequently which makes the local government of Gunungkidul have difficulties. In addition, there is still a gap between the rules issued by the KSAP with Regulation of the Minister of Home Affairs. Another thing related to regulation is technical guidance that is late exit.

Impact of Accrual Basis on Audit Planning

In the general overview of Audit Board of The Republic Indonesia audit, the audit planning consists of three main activities, namely:

1. Entity Understanding and Internal Control System
Understanding of entity and internal control system can be obtained from previous examination result report, preliminary investigation result report, note on financial report examined, monitoring of follow-up, and database

which have owned and regulations or policy written / formal head of related area.

2. Consideration of Previous Examination Results

At this stage, the examiner should consider the results of the examination and follow-up of the results of the previous examination. The examiner should examine the effect of previous examination results and their follow-up on the LKPD being examined, particularly in relation to the possibility of recurring audit findings and the auditor's beliefs on the account's initial balance or estimates on the balance sheet examined.

3. Determination of Sampling Method

Determination of sampling method based on professional consideration of examiner by considering several other aspects:

- a. Level of risk
- b. If the SPI test results concluded that the internal control of an account is weak, then the sample for substantive testing of the account must be greater. If certain accounts have an inherent risk higher than other accounts, then the sample for substantive tests for those accounts must be greater.
- c. The level of materiality that has been determined.
- d. Small account balances can be formed from large positive and negative transactions.
- e. *Cost and benefit,*

Generally, there is no change in the methodology of audit planning after the implementation of the accrual basis, but the accrual basis affects the increasing number of rules on which the legal basis for auditing is conducted. This causes the extent and depth of audit to be performed also greater. In addition, the scope of the examination is also increased due to 'new' accounts related to accruals such as depreciation accounts, prepaid expenses, revenue to be received, etc. The additional appearance of these rules and accounts resulted in a greater understanding of the entity in the audit planning process because the coverage of the accrual basis is also broader than the basis used previously.

Impact of Accrual Basis on Audit Implementation

The audit consists of four activities, namely:

1. Analytical testing is done by data analysis and ratio and trend analysis, in accordance with the area that has been specified as the quotation test.
2. Testing control includes testing conducted auditor on the effectiveness of design and implementation of internal control system in the framework of accountability of the implementation of the APBD.
3. Substantive tests include testing of transactions and account balances / forecasts and disclosures in the audited financial statements. The tests are conducted to ensure management assertions on LKPD, namely: (1) existence and extent, (2) completeness, (3) rights and obligations, (4) appraisal and appropriation and (5) presentation and disclosure.
4. Assignment completion

As with audit planning, the accrual basis also does not have a significant effect on the audit implementation methodology. However, the accrual basis causes the emergence of several new accounts that influence the increase in checking procedures on accounts affected by the accrual basis. In addition, the accrual basis also affects the increasing number of control tests for accounts in the operational report.

The Impact of Accrual Basis on Opinion

The determination of audit opinion is based on four criteria, namely: (1) conformity with applicable accounting standards; (2) adequate disclosure; (3) free from material misstatement and; (4) free from scope restrictions. Of these four criteria, the adoption of the accrual basis does not directly impact the opinions expressed. But indirectly this accrual basis will help disclosure for the better. In the case of the local government of Gunungkidul, the increase of opinion from WDP to WTP is due to their ability to convince auditors that the criteria for obtaining WTP have been fulfilled and not because of the accrual basis implementation. Because it does not rule out that there are local governments who have decreased opinion after the implementation of the accrual basis.

Why (No) Audit Changes After the Accrual Basis Implemented

The Accrual Basis is applied to provide better disclosure of financial information so that the information obtained also becomes better, including for the auditor. However, the disclosure information provided by this accrual basis still has not had a significant impact on the audit.

Audits to public sector agencies including local governments have a wide range of assertions: assertion of completeness, assertion of rights and obligations, assessment and allocation assertions, reporting and disclosure assertions, and compliance assertions to legal regulations. The accrual basis applied only covers the reporting and disclosure assertions whereas other assertions are not affected. Therefore, it can be concluded that the implementation of the accrual basis does not have a significant impact on the audit because the audit of the local financial statements has a wider range of assertions than the information provided from the accrual basis implementation.

CONCLUSION

The local government of Gunungkidul has started to implement the accrual basis since 2015 and in its implementation there are several changes related to financial management and reporting. In addition to applying the accrual basis, the local government of Gunungkidul is constrained by issues related to regulations, human resources, and software. Changes in the accrual basis generally do not have a significant impact on planning, implementation, and audit opinions, but their impact is only on an understanding of the broader business processes, additional procedures for audit execution, and increased testing of controls for accounts impacted by Accrual basis. The adoption of the accrual basis does not have a significant impact on the audit because the audit of the local financial statements has

broader assertion coverage than the information provided from the accrual basis implementation.

Suggestion

Regulatory / regulatory issues relating to the application of accrual basis need to be of concern to the central government so that the implementation does not complicate the local government. There is a need for a performance evaluation mechanism on the implementation of the accrual basis so that it can be a feedback for the central government to assess the extent to which successful implementation of the accrual basis in the local government. Providing skills development for human resources in local government in adopting accrual basis or improving the quality of human resource recruitment focusing on accounting background.

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