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Accounting Information Systems in Indonesia: A Case Study

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ABSTRACT

This research aimed to analyze local government accounting information systems in Indonesia. The research was conducted in Bandung, West Java, Indonesia. This research used a qualitative approach where data was collected from in-depth interviews, observations, and review of documents. The results showed that the accounting policies undertaken by the Government of Bandung City were not in accordance with Government Accounting Standards as regulated in the Government Regulation No. 71 of 2010. Accounting policies undertaken by the Government of Bandung were carried out through two stages: accounting for financial reporting and accounting policies. The application of accounting information systems is able to produce useful local government financial statements for users in assessing accountability and making decisions in both economic, social and political decisions. However, in its implementation even though there is an accounting information system, there is still overlap in the use of the accounting base. This research can add to the accounting information system literature, especially regional government accounting information systems. In addition, the results of this study are important in measuring the application of government accounting standards.

Keywords: Accounting Information Systems, local government, accounting policies, Government Accounting Standards

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INTRODUCTION

The development of public sector accounting, especially in Indonesia, is growing rapidly with reforms in the implementation of government policies. Regional autonomy and fiscal decentralization focus on local government. In addition, the rise of globalization demands competitiveness in every local government in order to increase the independence of the government (Rhodes, 1996). Given this autonomy, the regions are given wide powers to manage their own households with as little interference as possible from the central government. The local government has the broadest right and authority to use its financial resources in accordance with the needs and aspirations of developing the community in the region (Ribot et al., 2006).

However, such a broad authority does not mean that local governments can use their financial resources at will, without clear directions and objectives (Rhodes & Marsh, 1992). The broad rights and authorities granted to the regions are essentially a mandate that must be accounted for with transparency, both to the people of the region and to the central government which has distributed balancing funds to all regions in Indonesia. With the rolling of regional autonomy, local governments are required to provide local government financial accountability reports (Caba-Perez et al., 2009); (Christiaens et al., 2010). The preparation of financial statements should be based on the government accounting standards set forth in Government Regulation No. 71 of 2010. Financial reports are generated from an integrated accounting process. (Kurniawan, 2011); (Suryanto, 2019a).

Good financial development will accelerate the economic growth of a country (Swamy & Dharani, 2018). In the process of preparing local government financial statements, necessary support in the form of adequate knowledge of accounting and the standards governing the preparation of financial statements of government agencies is required. The financial accountability system of an institution can run well if there is a good financial management mechanism as well (Mardiasmo, 2004). A good financial management mechanism should use a good accounting information system. The accounting information system is the basis for supporting the decision-making process (Napitupulu, 2018). The output of the financial information system is what is needed by external and internal parties of an institution/agency. The commitment of local government employees

determines the success of developing a financial accounting information system (Scapens & Jazayeri, 2003). As a means of control and a tool for achieving government goals, accounting information systems should be able to play a role in controlling the wheels of governance in the form of local financial management based on applicable rules (Tuasikal, 2007); (Al-Kasswina, 2012). In addition, obedience to legislation is also an important element to be considered. This needs to be done because currently there are still many local governments in Indonesia that have not fully complied with applicable regulations (Riantiarno & Azlina, 2016).

Research related to the application of accounting information systems has been done several times. DeLone and McLean had researched in 1992, and updated in 2003. DeLone & McLean (1992) developed a model of dependence of information technology systems on information system success instruments. The instruments of this model are (1) system quality, (2) use, (3) information quality, (4) individual impact, (5) user satisfaction, and (6) organizational impact. This model received various criticisms from other researchers (Seddon, 1997); (Alter, 1999). Based on the criticisms given, DeLone and McLean in 2003 updated the DeLone and McLean model (1992). Changes in the DeLone & McLean (2003) include: firstly, adding the service quality dimension as an addition to existing quality dimensions, system quality, and information quality. Second, simplify the dimensions of individual and organizational impacts to the dimensions of net benefits. Third, replace the used dimension with intention to use. Another researcher, said that an accounting information system has a big role in controlling decisions (Arif et al., 2020). Information systems also relate to the structure of formal authorities and the role of control (Jensen & Meckling, 1976). The formal authority structure relates to two things, namely, to control the behavior of subordinates and to facilitate decision-making at the sub-unit level. Meanwhile, another researcher said that the benchmark in determining the good of an information system will be seen through the satisfaction of using the accounting information system itself (Jin, 2014) in the end it will increase the performance of the organizations. The research use the model developed by Thompson et. al. (1991). A good accounting information system plays a role in producing good quality financial reports (Ramdany, 2015); (Tilahun, 2019).

Based on the results of previous studies, an accounting information system is crucial in producing quality financial reports. Quality financial

statements can be used to make the right decisions, and is also useful in satisfying the users of financial statements. Therefore, in this study, the researchers analyzed accounting information systems with qualitative methods that were different from previous researchers. This research aimed to analyze local government accounting information systems in Indonesia. The research focused on the Bandung City Regional Government. This research used a descriptive method with a qualitative approach.

LITERATURE REVIEW

Accounting Information System

The local government as an organization must prepare financial reports. An accounting information system is an essential part of a financial reporting entity. According to Widjajanto (2008), an accounting information system is a system that must prepare information from data collected and processed for an organization that is useful for all users both inside and outside the company. Mulyadi (2001) stated that an accounting information system is a collection of forms, records, and reports prepared and arranged to provide the financial information needed by management for a company's management process. Dana & Setiawati (2011) stated that accounting information systems are systems that aim to collect and process data and report information related to financial transactions. Bodnar & Hoopwood (2010) stated that accounting information systems are a resource pool, like people and equipment, designed to convert financial and other data into information.

An accounting information system consists of several components. Romney et al. (2012) stated that accounting information systems consist of five components, namely: users, procedures, data, software, and technology. While Turban et al. (2006) stated that information systems must contain components, including hardware, software, databases, networks, procedures, and users, the system will be useful when users can use the information provided effectively in the decision-making process. Therefore, an accounting system is an essential part of an organization (Sajady et al., 2012).

Purpose of Accounting Information Systems

Accounting information can generally be grouped into two, including: (1) information that can influence the decision-making process and (2) information that can facilitate the decision-making process aimed at coordination within an organization (Kren, 1992), (Markus & Pfeffer, J., 1983). Accounting information systems have the purpose of producing various information. Dana & Setiawati (2011) explained that the benefits or objectives of an accounting information system include: (1) Securing company assets; (2) Generating various information for decision making; (3) Generating information for external parties; (4) Generating information for employees or division performance appraisal; (5) Providing past data for audit purposes (inspection); (6) Generating information for the preparation and evaluation of company budgets; and (7) Generating information needed in planning and controlling activities. While Susanto (2017) explained that several parties need accounting information systems to minimize risks in decision-making.

Regional Government Accounting System

Local Government Accounting System, according to Permendagri No. 64 Tahun 2013 is a structured unit of procedures, organizers, equipment, and other elements to realize the accounting function from the analysis of transactions of financial reporting within a local government. In line with these regulations, the Regional Government Accounting System, according to Fatmala & Baihaqi (2014), is a procedure that starts from data collection, recording, summarizing to financial reporting. Whereas Fathia (2017) explained that a local government accounting system is an instrument to operationalize accounting principles that have been established.

The objectives of regional government accounting are basically the same as the objectives of business accounting, namely providing financial information on financial transactions carried out by an organization within a certain period and the financial position on the date. In this regard, regional government accounting specifically has objectives, including accountability, managerial, and supervision. The regional government accounting system is designed following the constitution and legislation in force. Local government accounting systems can provide accountable and auditable information.

METHODS

This study used qualitative research methods. A descriptive study was conducted to ensure that the research could illustrate the characteristics of the variables studied in a situation. Meanwhile, case study analysis is used to understand the phenomenon that occurs and formulate a theory to be tested empirically. In addition, a case study provides more qualitative data than quantitative data in the analysis and interpretation process (Sekaran & Bougie, 2010). The design of this study was deemed appropriate to be used to achieve the research objectives which were: studying the use of a financial accounting information system in the Bandung City Government.

The data used in this study consisted of primary and secondary data. Primary data were collected through in-depth interviews and field observations. In comparison, secondary data was collected from a review of literature and financial reports published by the City Government of Bandung. Data analysis was carried out by data triangulation. The next stage was selecting, grouping, evaluating, and synthesizing.

RESULTS AND DISCUSSION

Government Accounting System Policy in Bandung

The Bandung City Government embraced a regional financial accounting system in accordance with the Permendagri Nomor 13 Tahun 2006 which consisted of accounting recognition, accounting measurement, and accounting presentation. The Government Accounting Standards (GAS) provide guidelines for local governments in preparing quality financial reports. GAS did not specify a specific policy that should be adopted by a local government, but rather give a local government the flexibility to be creative in designing an accounting system appropriate to the financial characteristics of each region. Therefore, local governments need to create accounting policies that contain systems and procedures that have been selected by the local government to present financial statements. In other words, these accounting policies may vary across regions (Suryanto, 2019b).

An important point of this accounting policy contains recognition, measurement, and presentation. Recognition in accounting is the process of determining when a transaction should be recorded in a journal. Recognition of accounting transactions is divided into 2 bases, namely a cash basis and an accrual basis (Unegbu, 2014). The cash basis specifies that the recognition of the recording of economic transactions shall be made only if the transaction creates a change to the cash flow. Bookkeeping of the cash basis is conducted based on cash receipts and payments, so income is recognized as income when it is received in cash, and expenditures are considered expenditures *at the time of cash*.

GAS No. 01 explained that the preparation of the Budget Realization Report in government financial reports use the basis of cash accounting for financing, expenditure, and revenue recognition accounts. The cash basis in the Budget Realization Report recognizes revenue when cash is received in the Regional General Cash Account, and expenses are recognized when cash is disbursed. Determination of the remaining financing of the budget, either more or less for each period depends on the difference between revenue and expenditure. Non-cash income and expenditures are presented in the Budget Realization Report.

The accrual basis of accounting recognizes a transaction when the event or transaction occurs. The method of proving the accrual basis is to record income at the time of the occurrence of rights regardless of when receipt occurs. The accrual basis includes transactions that have occurred in the past and the various rights and obligations as well as in the future. The Bandung City government's financial statements use an accrual basis in the balance sheet for the recognition of assets, liabilities, and equity.

Income accounting is carried out on the basis of gross principle, which records gross receipts, and does not record the net amount and of course, after being offset against expenses. Expense accounting is classified by economic classification (the type of expenditure), organization and function to carry out activities such as personnel expenditure, goods expenditure, capital expenditures, interest, subsidies, grants, social assistance, and unexpected expenditures.

The presentation of the summary of accounting policies and execution is then published in the Notes to Financial Statements and Budget Realization Reports. Financial statements prepared by various departments or local government agencies are then submitted to the Mayor of Bandung and audited by an external examiner or the Supreme Audit Board in accordance with legislation. So far, accounting policies have been prepared by rewriting most of the GAS content. This practice creates inefficiency because of the repetition of GASs governed by government regulations and accounting policies governed by the Mayor’s regulations. Therefore, the Mayor’s Regulations govern the local government accounting policy.

The preparation of a local government accounting policy can be done through several stages based on the main components of the accounting policy as follows:

Preparation of Financial Reporting Accounting Policies

The stages of the preparation of accounting policies related to financial statements begin with the collection of references in the form of legislation and other literature related to the accounting policy of local government financial statements. The main reference is the Annex I of Peraturan Pemerintah No. 71 Tahun 2010 regarding Government Accounting Standards, in particular: guidelines of government accounting standards (GGAS).

Table 1: GGAS Financial Accounting Accounting Policies

No.	GGAS	About
1	GGAS 01	Presentation of Financial Statements
2	GGAS 02	The Budget Realization Report
3	GGAS 03	The Statement of Cash Flow
4	GGAS 04	Notes to the Financial Statements
5	GGAS 11	The Consolidated Financial Statements
6	GGAS 12	Operational Report
7	GGAS Interpretation and GAS Technical Bulletin	Financial Reporting

The results of the adjustment and harmonization process are included in the statements in the financial reporting accounting policy.

Accounts Accounting Policy Formulation

The stages of accounting-related accounting policies start from studying the GAS in particular statements related to accounts. The main reference is Attachment I of the Government Regulation Number 71 of the Year 2010 regarding Government Accounting Standards.

Table 2: Compilation of Account Accounting Policies

No.	GGAS	About
1	GGAS 05	Inventory Accounting
2	GGAS 06	Accounting of Investment
3	GGAS 07	Accounting for Fixed Assets
4	GGAS 08	Construction Accounting in Progress
5	GGAS 09	Accounting Obligations
6	GGAS 10	Correction of Errors, Changes in Accounting Policies, Changes in Accounting Estimates, and Operations that are not continued
7	GGAS Interpretation and GAS Technical Bulletin	accounts

As shown in Table 2, the preparation of account accounting policies is based on the guidelines that already exist in the GAS guidelines. In addition to reviewing the GAS, local governments need to pay attention to references in the form of legislation and other literature related to the accounting policies of related accounts. The above review is used for: (1) Identifying accounts that require the selection of methods specific to recognition or measurement; (2) Identifying accounts that require more detailed regulations on recognition and measurement policies; and (3) Identifying matters not yet regulated in the GAS but required in local government accounting policies.

Accounting Information System in the Bandung City Government

The basic function of an accounting information system is to conduct data processing of transactions efficiently and effectively (Rezaee et al., 2002). The procedures for recording local government accounting shall be based on conformity with generally accepted accounting standards. The financial accounting information system in the Bandung City Government is a series of procedures ranging from the process of data collection, recording, summary and financial reporting in the context of accountability of the implementation of the Regional Revenue and Expenditure Budget (*APBD*). In simple terms the process can be described as shown in Figure 1.

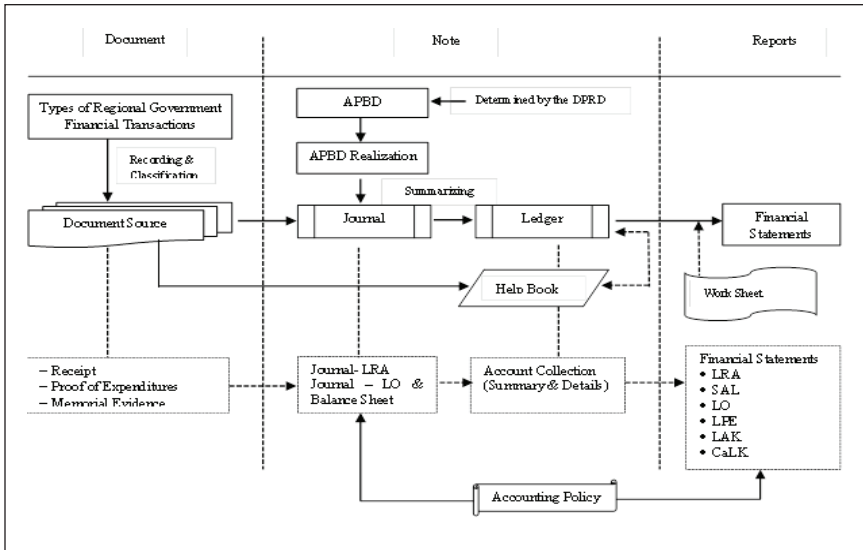


Figure 1: The Bandung City Government Accounting System
 Source: Financial Report of the Regional Government of Bandung City in 2018

The accounting cycle, as described in Figure 1 above, begins with analyzing transaction documents. The second stage is to record transaction evidence in a chronological journal. In the third stage, transactions that have been recorded in the journal are then classified into ledgers per account or per account code. In the fourth stage, the balance of each ledger is summarized or summarized in the Balance Sheet. The fifth stage is journalizing and posting an adjusting entry for the prepayment transactions or accrual transactions. The sixth step is to prepare an Adjusted Trial Balance—the seventh stage of compiling financial statements. The financial statements that should be prepared include: (1) budget realization report (LRA); (2) change budget balance report (SAL); (3) operational report (LO); (4) statement of changes in equity (LPE); (5) cash flow statement (LAK); and (6) notes to the financial statements (CaLK). The eighth stage is journalizing and posting the closing journal entries. The ninth stage arranges a trial balance after closing. Optional steps, if the worksheet is compiled, then the 4th, 5th, and 6th stages are included in the worksheet. If a reversing entry is made, then the reversing entry will occur between stages (9) and (1). A corrected entry, if any, should be recorded before the closing entry.

Implementation of a government financial accounting system in Bandung City refers to GAS. This is in accordance with Article 1 Paragraph (11) of the Peraturan Pemerintah No. 71 Tahun 2010 on GAS which stated that GAS is a systematic sequence of procedures, organizers, equipment and other elements to realize accounting functions from transaction analysis up to financial reporting in government organizations. Based on the Peraturan Pemerintah No. 71 Tahun 2010 on GAS, starting in the fiscal year 2015 local governments throughout Indonesia had to apply accrual basis accounting, both on the implementation of the accounting system and the presentation of its financial statements. Accrual-based accounting systems can provide a complete picture of the financial position of local governments, as well as providing more quality information in evaluating the performance of local governments (Mardiasmo, 2004).

The Government of Bandung had implemented an accrual-based accounting system beginning from the 2015 budget year before using a transitional accounting system from a cash-based accounting system known as cash-based accounting system to accruals. An accounting process which is cash-based or accrual based has results in financial statements. The financial statements of the Bandung City Local Government were prepared and presented based on GAS as regulated in the Peraturan Pemerintah No. 71 Tahun 2010 on GAS. In the preparation of the financial statements, the conversion of financial statements which have been prepared based on the Regulation of the Permendagri Nomor 13 Tahun 2006 had already been amended several times and the latest by the regulations of the Permendagri No 21 Tahun 2011.

Conversions include report types, accounting basis, recognition, measurement, and disclosure of financial statement items, APBD structure, budget classification, assets, liabilities, equity, cash flows, and notes to financial statements. This implies that the financial statements should be able to provide useful information to predict the number of resources needed for sustainable operations, associated risks, and uncertainties, and also be able to present information to users about the indication of whether resources have been acquired and used in accordance with the budget. In addition, to find out whether the money obtained and used have been in accordance with the provisions including compliance with the limit of budget usage set in the *APBD* (Riantiaro & Azlina, 2016).

Users can use local government financial reports to assess local government accountability and information in decision-making. The decision-making process, be it economic, social, or political, is carried out by:

Providing information on the appropriateness of obtaining economic resources and their allocation to the established budget and laws and regulations;

1. Providing information on the number of economic resources used in local government activities and the results achieved;
2. Providing information on local government efforts to fund all activities and meet cash needs;
3. Providing information on the financial position and condition of a local government with regard to both short-term and long-term sources of income, including tax and levies;
4. Providing information on changes in the financial position of the Bandung City Government.

The Government of Bandung has produced financial statements required by Peraturan Pemerintah No. 105 Tahun 2000 and Article 81 paragraph (1) *Kepmendagri No.29 Tahun 2002* and Appendix XXIX point (11). The regulation is updated by Peraturan Pemerintah No. 25 Tahun 2005 on Government Accounting Standards, Peraturan Pemerintah No. 58 Tahun 2005 on Regional Financial Management and Regulation of the Permendagri Nomor 13 Tahun 2006 concerning Guidelines on Regional Financial Management jo Regulation of the Permendagri No. 59 Tahun 2007 on Changes on Permendagri Nomor 13 Tahun 2006. The Financial Statements are as follows; Budget realization report; Balance sheet report; Cash flow statement; Notes to the financial statements. After the enactment of Peraturan Pemerintah No. 71 Tahun 2010 on the GAS, financial statements that must be presented by local governments including Bandung are as follows: (1) reporting the implementation of the budget consisting of reports on the realization of the budget and reports of changes in the balance of more budgets; (2) Financial reporting consisting of the balance sheet, Balance

Sheet, Operational report, Statement of changes in equity, and cash flows; and (3) Notes to the Financial Statements

The various accounting bases or systems are on a cash basis, accrual basis, cash base modification, and a modification accrual basis. In simple terms the process can be described as shown in Figure 2.

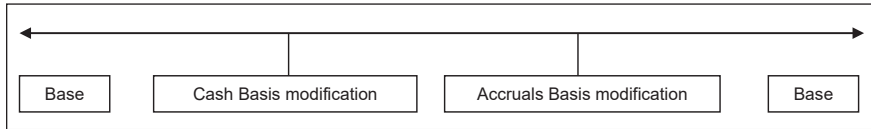


Figure 2: Cash base and accrual base

As shown in Figure 2 above, the cash basis is the simplest form of accounting. According to this basis, transactions are recognized/recorded when they cause a change or result in cash flow, either raising or lowering of cash flow. If an economic transaction has no effect on cash, then the transaction will not be recorded. In fact, an economic transaction does not always affect the cash alone, and it could be a transaction that does not affect the cash at all. The cash basis, as previously described, specifies that the recognition/recording of economic transactions is only made when the transaction raises a change in cash flow. If a transaction does not cause any changes to the cash flow, the transaction is not recorded.

The accrual basis is an accounting basis that recognizes transactions and other events at the time the transactions and events occur (and not only when cash or cash equivalents are received or paid). Therefore, transactions and events are recorded in the accounting records and recognized in the financial statements in the periods in which they are incurred. Paragraphs (12) and (13) of the Attachment XXIX Kepmendagri No.29 Tahun 2002 states that: (12) a modified cash base is a combination of a cash base on an accrual basis. (13) cash receipts transactions or cash disbursements recorded at the time the money is received or paid (cash basis). At the end of the period, adjustments are made to recognize transactions and events in the current period even if the cash receipts or disbursements of such transactions and events have not been realized (Al-Kasswna, 2012).

The accrual basis of modification records transactions using the cash basis for certain transactions and uses the accrual basis for most

transactions. The restrictions on the use of an accrual basis are based on practical considerations (Mardiasmo, 2004). An example is the recognition of income receivables. Not all income receivables (such as tax revenues) are recognized on an accrual basis. The restriction is the period of the receivables. If the income receivable is the maturity of 3 months or more, then the transaction receivable is removed.

CONCLUSION

The Bandung City Government had embraced the policy of the Regional Financial Accounting System in accordance with the Permendagri Nomor 13 Tahun 2006 which consists of accounting recognition, accounting measurement, and accounting presentation. However, the accounting policy is not fully in accordance with the Government Accounting Standards (GAS) as stipulated in the Peraturan Pemerintah No. 71 Tahun 2010. The accounting policies undertaken by the Bandung City Government are conducted through two stages, including financial accounting reporting and accounting policy preparation account. Financial accounting information system in the Bandung City Government is a series of procedures ranging from the process of data collection, recording, summary, until the financial reporting in the framework of accountability of the implementation of the Regional Revenue and Expenditure Budget. Implementation of accounting information system capable of producing local government financial reports that are useful for users of financial statements in assessing accountability and making economic, social and political decisions.

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