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PUBLIC SECTOR ACCOUNTING REFORMS IN THE INDONESIAN POST-SUHARTO ERA

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PUBLIC SECTOR ACCOUNTING REFORM IN THE INDONESIAN POST-SUHARTO ERA

ABSTRACT

The aim of the study is to understand the institutionalization process of an accrual accounting system in the Indonesian public sector. The data were drawn from three sources: (1) official documents (i.e. laws and government regulations) about the adoption and implementation of accrual accounting in the Indonesian public sector; (2) publicly available information about the social, economic and political developments leading to the process of the adoption; (3) interviews with 36 participants who have been involved in or have an understanding of the internalization of accrual accounting in the Indonesian public sector. Drawn from an integrated model of institutionalization (IMI) adapted from Dillard, Rigsby, and Goodman (2004), and Dambrin, Sponem, and Lambert (2007) inspired by New Institutional Sociology (NIS) this study was able to identify and discuss the features of the institutionalization process, at the national level and within one municipality used as a case study.

This study found that at the economic and political level and in the organizational field the *new ideals* which require the adoption of accrual accounting in the Indonesian public sector have been mobilized by the technocrats (economists and accountants) at the Ministry of Finance since the 1980s. This mobilization occurred when the country encountered a fiscal crisis. The study also identified that the desire to adopt accrual accounting may have been driven by the wish to follow a similar practice adopted in other countries. Nonetheless, a formal adoption of the accrual accounting system was only realized following the collapse of Suharto's regime in 1998 through the issuance of Law 17 (2003) as *new discourses* and government accounting standards in 2005 as *new techniques*. In this municipal case, beyond the economic reasons, the move to formally adopt the accrual accounting system at the economic and political level after Suharto appeared to be part of the government's response to the demand from the public and international financial authorities (the IMF and the World Bank).

At the organizational level, drawing from the experience of one municipal government, the *internalization* processes of the accounting system were primarily motivated by the presence of legal enforcement. This occurs because the political and economic affairs of

local governments in Indonesia are regulated by the central government. Therefore, local governments effectively contribute to the domination of the central government in the mobilization process. Beyond this, the process and outcomes of the institutionalization of the accrual accounting system contradict the intended benefits, as expected in the Law 17 (2003), and the government accounting standards issued in 2005. In this case, the lack of skills and experience in using accrual accounting has increased accounting costs of the municipality and the officials within the municipality have yet to use the accrual-based accounting information for real decision making.

In addition, power and old habits of local actors (i.e. senior officials in a municipal government observed) relating to a corruption practice (bribery) surrounding the adoption have also produced an unintended outcome. In this vein, technical capacity, power, and old habits of local actors affect the extent to which a new accounting system could be internalized. An important insight that we can draw from this study is that the process and outcomes of this institutionalization are not only shaped by the pressures from external factors, but also by activities, processes and routines of actors within organizations.

One of the implications of these findings for policy making is that Indonesian Central Government needs to be aware of the capacity of local governments in implementing policies and programs and provides appropriate incentives to achieve full uptake. A lack of competencies besides making successful implementation difficult, may exacerbate frustration fuelling active resistance. Further research could address the relationship between capability building and the proximity of educational institutions. The thesis indicates that successful implementation is limited. This encourages further research into the factors that impact implementation. The influence of culture such as a common practice of bribery should also be considered.

The public and academics are also reminded that the adoption of a business-style accounting system in the public sector can be costly and may act against its promoted purposes. The thesis also contributes to the public sector accounting literature by reducing the gap between what is known and unknown about governmental accounting practices in one of emerging economies in Asia, that has been rarely investigated.

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ABBREVIATIONS AND KEY TERMS

ADB	Asian Development Bank
ASCLG	Accounting Standards for the Central and Local Governments (Standard Akuntansi untuk Pemerintah Pusat dan Daerah)
BAKUN	Badan Akuntansi Keuangan Negara (State Financial Accounting Agency)
BPK	Badan Pemeriksa Keuangan Negara (State Audit Board).
BPKP	Badan Pengawas Keuangan dan Pembangunan (Audit and Development Supervising Agency)
GASt	Government Accounting Standards
CGAS	Central Government Accounting System (<i>Sistem Akuntansi Pemerintahan Pusat</i>)
IAI	Ikatan Akuntan Indonesia (Indonesian Institute of Accountants)
KSAPD	Komite Standard Akuntansi Pemerintahan Pusat dan Daerah (Committee for Accounting Standards for Central and Local Government)
IMF	International Monetary Fund
UU	Undang-undang (Law)
LOI	Letter of Intent
MOF	Ministry of Finance
MIA	Ministry of Internal Affairs
OECD	Organization of Economic Cooperation and Development
PSAK	Pernyataan Standar Akuntansi Keuangan (Indonesian Financial Accounting Standards Statement).
SAP	Standar Akuntansi Pemerintah (Government Accounting Standards)
WB	World Bank

CHAPTER ONE

INTRODUCTION

1. 1 Introduction

This chapter lays out the background nature and context of the study. To further understanding of the aim, theoretical framework and the contribution of the study, a number of related issues are discussed. These are: the research background; its aim, research questions, and the motivations of the research; the scope, research approach and methods of the study; theoretical framework; contributions of the study; and a brief summary of the thesis's structure.

1. 2 Research Background

Since the 1980s accounting reforms have been central to the new public management practices (Guthrie, 1998; Ryan, 1998; Lapsley Pallot, 2000; Christensen, 2007; Christensen & Rommel, 2008; Mussari & Paulson; 2009; Arnaboldi & Lapsley, 2009; Christensen & Parker, 2010; Amanda & Craig, 2010; Adhikari & Mellemvik, 2010; Qian, Burritt & Moore, 2011; Jagalla, Becker & Weber, 2011). In New Zealand, UK, and Australia the adoption of accrual accounting for the public sector was the corner stone of the new public management practices (Lapsley & Pallot, 2000; Guthrie, 1998; Amanda & Craig, 2010). Based on the new public management (NPM) philosophies, it is believed that the adoption of an accrual accounting system is a necessary requirement to improve the financial accountability and asset management within the public sector. Beyond this idea, accounting scholars believe the adoption of accrual accounting has also been part of broader political and economic reforms in the public sector in Australia, New Zealand and UK since the 1990s (Ryan, 1998; Lapsley & Pallot, 2000; Christiaens, 2001; Carlin, 2005; Connolly & Hyndman, 2006; Christensen & Parker, 2010).

A similar development has also occurred in Indonesia since the end of Suharto's regime in 1998. It is suggested that with the collapse of the Suharto regime in 1998,

Indonesia gained a historic opportunity to develop a more democratic political system and to improve the transparency and accountability of the government (Wanandi, 2002; McLeod, 2005; Baswedan, 2007; Harun, 2007; Harun, Van Peurse & Eggleton, 2012). Since 1999 the country has adopted a multiparty system for the election of legislative members, with the executive, including the president, at the central level and governors and mayors at the local levels (McLeod, 2005, p. 367). In addition, 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 communities. The adoption of the accrual accounting system is said to be part of broader financial management and public sector reforms in the country (Nasution, 2006; 2008).

The promulgation of the government accounting standards in 2005 can be regarded as the culmination of previous efforts undertaken since the 1980s as a means to improve the quality of the Indonesian public sector reporting system. It appears that the purpose of the public sector accounting reform in Indonesia is in line with the new public management philosophies which promote the use of business-like managerial tools, such as the accrual accounting system, output based budgeting, and performance based measurement techniques in government organizations. The use of the new public management-based techniques for the public sector is said to be aimed at facilitating more transparency in agency activities, strengthening the accountability of government, and improving decision-making (Pallot, 1996; Yamamoto, 1999; Lapsley, 1999; Van Peurse & Pratt, 1998; Eggleton, Silalahi, Chong & Kober, 2002; Lye, Perera & Rahman, 2005; Mack & Ryan, 2006).

The proponents of the adoption of accrual accounting in the public sector suggest that the implementation of this technology is not only important for measuring performance and pushing government organizations to be more accountable and efficient, but it is also important to support a proper function of democracy where

people are better informed as to how an elected government spends tax-payers' money (Ball, 2005). Officially this notion applies to the formal underlying principles of recent social, economic, public sector reforms as means to strengthen the accountability, transparency and public sector governance in Indonesia as highlighted by Law 17 (2003) and the Government Accounting Standards (2005). In this vein, increased demand from citizens and international donors for a more democratic political system has pushed successive administrations in the country to reform the political system by adopting direct election mechanisms for the executive positions (i.e. president, governors and mayors) and the members of parliament at the national and local level (Seymour & Turner, 2002; Fitrani, Hofman & Kaiser, 2005; Manao, 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 within the Government at the central and local levels. As suggested by the former Head of the State Audit Board, Anwar Nasution, the recent roles of accounting information and audit reports in the government are totally different from the Suharto era. Nowadays the government reports and audit opinions from the State Audit Board are publicly available. This is in contrast to the Suharto era where accounting and auditing information in the public sector auditing was prevented from public access (Nasution, 2006).

However, at the practical level, the adoption of the new policies including the introduction of a new accounting system is not a simple process (Nor-Aziah & Scapens, 2007; Dambrin, Sponem & Lambert, 2007). Thus it is a mistake for technocrats to see the introduction of accrual accounting as merely a technical reporting innovation (Bale & Dale, 1998). In addition, it has been argued that when accounting reforms do not substantially modify the daily activity of organizational actors within government agencies, the advance of accounting may be only for

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.

ritualistic, legitimizing and rationalizing reasons (Hopwood, 1983; Carpenter & Feroz, 1992, 2001). Ter Bogt and Helden (2000) highlighted “that a wide gap exists between the ideal concept of formal accounting change and its ultimate development and between the newly-developed accounting instruments and their actual application” (2000, p. 263). Ansari and Euske (1987) also raised such a gap. Drawing on these perspectives, studies in the public sector accounting context have to focus not only at the macro-level where public sector accounting policies and reforms take place; but also at the organizational level (Hopwood, 1983; Dambrin et al., 2007). In other words, it is imperative to investigate both how a specific accounting system is developed and adopted and how it is practiced within an organization (Ansari & Euske, 1987; Siti-Nabila & Scapens, 2005; Nor-Aziah & Scapens, 2007).

1. 3 Aim, Research Questions and Motivations

The aim of the study is to explore the institutionalization process of an accrual accounting system in the Indonesian public sector and how it has been implemented in one organization as a case study. In accordance with the aim of the study, the research questions for this study are as follows:

1. How and why has the accrual accounting system been adopted in the Indonesian public sector?
2. How and why has the accrual accounting system been implemented in a municipal government?

This study was motivated by the suggestion to provide an explanation on how an accounting system is institutionalized in the public sector context by understanding the institutional, social, economic, and political aspects of accounting which are still relatively unexplored (Ansari & Euske, 1987; Hopwood, 2000; Dillard, Rigsby & Goodman, 2004; Burns & Scapens, 2006). In this case this study was also motivated by the wish to provide a better understanding about the nature of the linkages between the government and its accounting system and how these linkages are articulated. In this vein this study responds to the call to investigate the

interrelations between accounting and state as suggested by Miller (1990). Miller (1990) stated that although “there is a concern with the interrelations between accounting and state [a government], there has been little explicit attention to ways of thinking about the nature of the linkages themselves, and the concept that may be used to analyze them” (p. 316). A similar notion was also amplified by Yamamoto (1999), Ryan (1998), Baker and Rennie (2006) who show that the introduction of an accounting reform is not an end in itself and therefore it is important to provide evidence of the links between broader changes in the public sector and changes in accounting techniques.

Moreover, most of the articles that have been published in academic journals focus on the public sector accounting reforms in developed nations such as Australia, New Zealand, European and North American countries. Little effort has been invested in empirically examining public sector reforms in developing countries (Sharma & Lawrence, 2005; Marwata & Alam, 2006, Van Helden, Johnson & Vakkuri, 2006). Therefore another rationale for this study is to fill that gap. In addition, prior published studies focusing on public sector accounting in Indonesia are limited and those studies have examined only legal frameworks and details of the Indonesian public sector accounting techniques in the early 1990s (Prodjorharjono; 1999; Marwata & Alam; 2006) and potential problems surrounding the public sector accounting reforms in the country at the national level (Harun, 2007; Harun & Robinson, 2010). These studies have provided avenues to further explore how the public sector accounting reform is directed in the Indonesian public sector. Nonetheless, these studies have yet to investigate how the formal adoption of the private style accounting is actually institutionalized within an organization.

1. 4 Scope, Research Approach and Methods

By using a case study, this study explores the events, evidence, facts, and actions of actors (people or organizations) who were involved in the policy formulation and implementation of the accrual accounting system in the Indonesian public sector.

This study covers a period of time from 1983 until the adoption of the accrual accounting system following the issuance of a set of government accounting standards in 2005. Following Yin's (2003) suggestion, this research focuses on why and how questions on the institutionalization of an accrual accounting system has been undertaken in the Indonesian public sector by examining the people's words, actions and records relating to the topic of the study. The use of a case study has been popular in recent years in managerial accounting, auditing, and financial accounting studies both for developing theories and generating new knowledge (Hoque & Hopper, 1997; Nor-Aziah & Scapens, 2007; Cooper & Morgan, 2008; Sharma & Lawrence, 2008).

As the public sector accounting system in Indonesia is regulated at the central level, the study draws its data from the national level and one municipal government. Therefore the data are collected from three sources. Firstly, it comes from laws and regulations including the Indonesian government accounting standards as the basis information to understand the purpose and claimed rationales of the adoption of the accrual accounting system in the Indonesian public sector. Secondly, to facilitate the triangulation of the data as a means to ensure the credibility (trustworthiness) of the data collected from laws and regulations, information is also collected from publicly available sources such as government reports, audit reports, press releases, and press reports. Thirdly, to complement the information drawn from government rules and publicly available sources, the study also conducts interviews with those who have experienced and were involved in adoption of the accrual accounting in one municipality as case study. At the national level, interviews were conducted with those who were involved in the early development and policy formulation of the accrual accounting system for the public sector policy. At the local level, the interviewees represented those who have been involved in and have a good understanding of the implementation of accrual accounting in a municipal government from 2006 to 2009.

1. 5 Theoretical Framework

Inspired by the suggestions that further studies drawn from NIS perspectives need to recognize not only the social and economic factors, but also the roles actors and their actions in the institutionalization of an accounting system play (Burns & Scapens's, 2000; Hasselbladh & Kallinikos, 2000; Dillard et al., 2004; Nor-Aziah & Scapens, 2007; Dambrin et al., 2007). Therefore the study utilizes an integrated model of institutionalization (IMI) based on the dynamic of institution model of Dillard et al., (2004) and Dambrin et al.'s (2007) institutionalization process model as a basic framework to understand a complete picture of an institutionalization process of an accounting system in a public sector context.

The IMI model offers a basic model to identify the periods of events and actions of people and relevant information related to how the ideals which promote the use of a specific accounting technique are diffused, developed, and implemented at the economic and political level, organizational field, and organizational level. In this vein, the IMI model has been used to identify the actors and their actions, and in which level of the institution these actors operate in the institutionalization of the accrual accounting system in the Indonesian public sector. The IMI model supports Kosovar and Roth's (2002) notion which suggests that the institutionalization process of a new accounting system can be fully complete if there is internalization, which produces a coherent relationship among *new ideals*, *new discourses*, *new techniques* and *internalization* (the actions of people who implement the accounting system). In other words, the extent of the institutionalization process lies in the internalization of underpinning rationales for the implementation of a new accounting system by organizational actors. Thus the use of the IMI model was useful in identifying and examining the process and outcomes of the institutionalization of the accrual accounting system in the Indonesian public sector.

1. 6 Contributions

The thesis contributes to accounting literature and practices in several ways. First, the thesis provides comprehensive evidence that illustrates the motives and

manifestation of the institutionalization process of accrual accounting in a public sector context. It shows how the ideals lead to adoption of the accrual accounting system occurs at the national level, and how it has been implemented in one municipality. In addition, the results of this study reduce the gap between what is known and unknown about governmental accounting practices in the Indonesian public sector as one of emerging economies in Asia.

Finally, the thesis also reminds the public, policy makers especially in developing nations and academics that the adoption of a business-style accounting system in the public sector can be costly and may against its promoted purposes. In this respect, policy makers need to take into account key factors in achieving successful implementation of an accounting system such as the availability of skilled human resources, appropriate supporting programs and rules before the implementation of an accrual accounting system in the public sector is imposed. Cultural and social issues such as corruption are also needed to be taken into account.

1. 7 Construction of Thesis

The thesis is constructed as follows:

- Chapter One lays the ground which sets out the background, aim, research questions and motivations, and scope of the study. This chapter also clarifies the research approach and methods, the theoretical frameworks used in informing the study and contributions of the thesis. Chapter One concludes with the summary of the construction of thesis.
- Chapter Two examines prior studies regarding the process of adoption of the accrual accounting system in the public sector. Moreover, the chapter examines problems that have been encountered in the adoption of an accrual accounting system in general and specific obstacles faced by developing nations in reforming their public sector in particular organizations. This chapter also clarifies the position of the study in relation to the literature on public sector accounting studies.

- Chapter Three discusses the theoretical frameworks used in this study to understand the phenomena under investigation. To provide a comprehensive view on the recent developments of NIS this chapter discusses the nature of NIS and its shortcomings, and also selected prior studies in accounting using NIS. The last section summarizes the main arguments of this chapter.

- Chapter Four discusses an integrated model of institution (IMI) drawn from Dillard et al., (2004) and Dambrin et al., (2007). This chapter discusses four issues: the dynamics of institution following Dillard et al., (2004); institutionalization process model using Dambrin et al., (2007); (3) an integrated model of institutionalization drawn from Dillard et al., (2004) and Dambrin et al., (2007); and (4) the rationale for the use of the IMI model in this study. This chapter concludes with a summary of the chapter.

- Chapter Five discusses the philosophical underpinnings of the study; the strategy of inquiry that has been employed; and the research methods that have been undertaken to collect, analyze and interpret the data of the study. Moreover in the research methods section, three issues are clarified and discussed: the provisions of trustworthiness, types and sources of data and data analysis and interpretation. The final section of the paper recaps its main points.

- Chapter Six lays the background required for understanding the historical context of the Indonesian government. Understanding these issues is important in discussing the nature and the implications of the political and public sector reforms including the policy to institutionalize the accrual accounting system in the Indonesian public sector. Firstly, this chapter presents background information about the geography and population of Indonesia and the history of the country since the colonial era up to the end of Suharto's regime in 1998. In addition, this chapter discusses the political and public sector reforms that have

been undertaken since the end of the Suharto era in 1998. Next, this chapter examines the responses from the bureaucracy in Indonesia to the public sector reforms. The final section of the chapter highlights the main points of the chapter.

- Chapter Seven examines the nature of the political system and the bureaucracy in Indonesia. This examination also discusses the structure of the Indonesian government at the central and local levels, the legal system, and the bureaucracy of the country. The conclusion of the chapter is outlined in the final section of the chapter.
- Drawing from the IMI model used in this study, Chapter Eight examines the institutionalization of the accrual accounting system in the public sector at the economic and policy level and how the accounting system has been institutionalized at the organizational field. Firstly, to understand the historical context of the institutionalization of accrual accounting in the Indonesian public sector, this chapter will examine the history and nature of governmental accounting systems in Indonesia during the colonial era, during Sukarno's era and under the Suharto regime. The second part of the chapter discusses the processes leading to the institutionalization of accrual accounting system in the Indonesian public sector at the social, economic, and political levels. Third, Chapter Eight then provides an examination of the processes of the policy formulation of the accrual accounting system in the Indonesian public sector at the organizational field. The next section this chapter then presents theoretical arguments of the findings. This chapter highlights the conclusions of the chapter, before finally summarizing its contents.
- Drawing from the IMI model, Chapter Nine examines the institutionalization of the accrual accounting system in the Indonesian public sector at the

organizational level by looking at one specific municipal government. First, the chapter examines the economic, political and bureaucratic backgrounds of that municipality. Second, drawing from IMI model Chapter Eight discusses how the municipality institutionalizes the accrual accounting system. Third, this chapter then presents theoretical implications of the findings and conclusions of the chapter.

- Chapter Ten presents an overview of the thesis. The overview will discuss the aim of the study, research approach and contribution of the IMI; main findings and theoretical implications of those findings; contributions and limitations of findings; suggestions for future studies; and recommendation for policy makers. The last section caps the main points of the chapter.

1. 8 Summary

To discuss the background of the nature and context of the study, this chapter has introduced a number of related issues: research background; aim and contributions; scope and research questions, research approach; theoretical framework; limitation of the study. In addition, the chapter has also summarized the structure of the thesis.

CHAPTER TWO

THE ADOPTION OF ACCRUAL ACCOUNTING IN THE PUBLIC SECTOR

2. 1 Introduction

The purpose of this chapter is to examine the literature regarding the adoption process of an accrual accounting system in the public sector and related issues and to clarify the position of the study relating to the public sector accounting reform literature. Firstly, this chapter reviews prior studies which show the motives behind the accounting reforms through the adoption of accrual accounting systems in the public sector worldwide. Secondly, this chapter discusses the mechanism of the public sector accounting reforms and how influential actors (people or organizations) shape the nature and processes of the introduction of an accrual accounting system in government organizations. Moreover, this chapter examines problems that have been encountered in the adoption of an accrual accounting system around the world and specific obstacles faced by developing nations in reforming their public sector organizations. Finally, the chapter clarifies the position of this study relating to the literature on public sector accounting studies.

With respect to the context of the study, firstly the literature reviewed here is limited to prior studies or conceptual papers that examined earlier initiatives of the accrualization of public sector reporting systems in developed economies (e.g., New Zealand, Australia, the UK, Canada) in the late 1980s and 1990s and how an accrual accounting regime is actually implemented within an organization both at the central and local levels. Moreover, the prior literature reviewed also includes papers that evaluated the experience of developing countries in adopting a new accounting system (including accrual system) as part of their efforts to reform their public sector organizations. Most of the literature reviewed here represents major

studies published from the mid-1990s to 2010). To understand such literature it is necessary to understand the theoretical context of public sector accounting reform and the experience of Indonesia in reforming its public sector accounting system. Table 2.1 (p.16) presents a number of studies relating to the process of the adoption of accrual accounting in the context of public sector reforms and relevant issues over the last two decades.

2. 2 Prior studies

Accounting reforms have played a central role in the context of the new public management (NPM) philosophies (Guthrie, 1998; Chang, 2008; Sharma & Lawrence; 2008; Guthrie, Olson & Humphrey, 1999). As suggested by Lapsley, Mussari and Paulson (2009) “the NPM is a model of reform which privileges quantification and results and in which accounting has a central role” (p. 720). Internationally, the adoption of accrual accounting was part of the emergence of the NPM practices in the public sector in the 1970s and 1980s in Australia, New Zealand, and the UK (Ryan, 1998, Lye et al., (2005). Under the banner of the NPM, the adoption of an accrual accounting system has been central in reporting economic activities, measuring costs of services and strengthening the quality of public sector accountability and transparency (Christiaens, 2001; Caperchione, 2002; Christiaens & Rommel, 2008). Lapsley (1999) stated that “NPM development offers the potential of a crucial role for accounting as the means by which measurements are made, achievements are documented, negotiations take place and the language of accountancy assumes a new significance in the life of public service organisations” (pp. 200-201). The adoption of an accrual accounting system is often regarded as vitally important to transform the public sector organizations onto becoming more accountable and efficient (Christiansen & Parker, 2010).

In a study that examines the process of the adoption of an accrual accounting system in the Australian public sector, Ryan (1998) found that the policy formulation of the accrual-based accounting system in Australia was aimed at better

recording and measuring the ways the government spends. This argument was easily diffused as the public was also concerned at the lack of efficiency and accountability of public sector agencies in Australia. Therefore, it shows the ideals behind the move to adopt accrual accounting in Australia were based on economic reasons.

Yamamoto (1999) also suggested that the introduction of accrual accounting in the public sector in Japan too was part of wider economic reforms as the country experienced fiscal and economic problems in the 1980s. A similar view is maintained by Capherchione (2002) who examined why local governments in Italy moved to adopt an accrual accounting system. According to Capherchione, given that organizational, managerial, and economic reforms were put in place – the local governments in the country were pushed to adopt accrual accounting systems as many government services were outsourced. Therefore accrual based reports about financial information and operations were adopted in supporting the government's attempts to improve the efficiency and the quality of the operation of public sector organizations in the country.

A similar finding was also suggested by Lye, Perera and Rahman (2005) who examined the experience of New Zealand in adopting accrual accounting. They found that economic (rational) motive was also the ideal behind the introduction of an accrual accounting policy for the public sector. By looking back at the process leading to a comprehensive adoption of an accrual system in the New Zealand public sector which culminated in the adoption of the Public Finance Act (PFA) in 1989, Lye et al., (2005) suggested that the need to adopt accrual accounting was aimed at recovering the economic position of the country which faced an increase in public debt in the 1970s and 1980s. Lye et al., (2005) noted that prior government reports in New Zealand were criticized as incomplete in giving an overall picture, details and impacts of government spending on the financial

position of the country². Such arguments show the power of ideas which support the use of accrual accounting for the public sector organizations prompted by consultants, politicians and public sector professionals for economic reasons (Ryan, 1998; Lapsley & Pallot, 2000; Christensen & Parker, 2010; Jagalla et al., 2011). In their study, Christensen and Parker (2010) found that decision taken by the state of New South Wales to adopt an accrual accounting system rooted in private sector accounting practice was to make the public sector organizations in the state more efficient. The notion above is consistent with the observation earlier expressed by Lüder (1992) and Ter Bogt & Helden (2000), who stated that under fiscal pressures governments in their studies were pushed to look for a more informative accounting system which would enable them to make a better decision for resource allocation and control. In his study on the adoption of accrual accounting in the public sector in six developed economies (Canada, Denmark, France, Sweden, the UK, and the US), Luder (1992) concluded that the introduction of accrual accounting in these countries was influenced by desire and demand of the users of government reports for informative and complete information about asset management and resource allocation within the public sector.

Unlike the experience of many countries in which the adoption of an accrual accounting system is mainly motivated by the economic motive promoted by local actors (senior officials or politicians), the introduction of private-style accounting tools in developing countries may also be driven by the requirement to comply with the rules imposed by international financial authorities such as the World Bank or

² With respect to the nature of government accounts (reports) prior to 1992 in which the first time New Zealand produced accruals-based Crown Financial Statements (CFSs), they note that these reports were:

- “prepared on a cash basis and did not facilitate financial analysis by users of government financial information,
- not all public sector activities were included;
- and not all contingent liabilities entered into by ministers were accounted for. (Lye et al., 2005, p. 787).

the IMF. In their study, El-Batononi and Jones (1996) suggested that the Sudanese government's attempt to use an accrual accounting system for its public sector was motivated by international credit agencies. A similar pattern also occurred in Fiji (Sharma & Lawrence; 2008) and Ghana (Rahaman, 2009), where the use of private-style accounting and auditing in the public sector organizations in these nations was forced by international donors.

Although the initiatives to adopt accrual based reporting systems were firstly initiated in the UK and US, leading breakthroughs in using accrual technologies for budget formulation report preparation were experienced by New Zealand and Australia (Lapsley & Pallot, 2000). In the case of New Zealand, the country has been regarded as a “success story” with respect to its approach in adopting the private style accounting systems in the context of public sector reforms. As a consequence, the New Zealand model has attracted emerging economies to follow that path with the support of international donor organizations such as the World Bank and IMF (Schick, 1998). As such, governments worldwide have attempted to reform the managerial practices in the public sector by employing value for money principles where efficiency and effectiveness become common themes in resource allocation and performance measurement (Carlin, 2005; Alam & Nandan, 2008; Christensen & Parker, 2010).

Table 2.1 presents selected literature focused on the introduction of accrual accounting and related issues in the public sector and Table 2.1 outlines the OECD member countries that have adopted accrual accounting in their public sector.

Table 2.1

Selected literature on the adoption of accrual accounting in the public sector

Author (year)	Research site	Nature (methods) of study	Main findings
Pallot (1996)	New Zealand Government	A case study based on document examination of the process of the adoption of accrual accounting system in New Zealand	<ul style="list-style-type: none">• Fiscal stress was the main stimulus for the public sector accounting reform.• The approach of the public sector reform was an integral part of wider reforms in the public sector practices.
Montesinos et al., (1996)	Spain	An empirical case study focused on the implementation of an accrual accounting system in Spain	<ul style="list-style-type: none">• The introduction of accrual accounting was promoted by senior officials in the government who suggested that the accounting system was superior to a cash-based system.• The lack of qualified accountants was the main barrier.
El-Batononi & Jones (1996)	Sudan	A case study that explored social and political contexts and problems relating to the Sudanese government's attempts to adopt an accrual reporting system.	<ul style="list-style-type: none">• The accounting reform was stimulated by the pressures from international donors.• Rigid political system, old habits and the lack of qualified staff were the obstacles to the accounting system.
Jones & Puglisi (1997)	Australia (whole government)	A survey study that examined the view from the users of government reports on accrual and cash based systems.	<ul style="list-style-type: none">• The participants from different groups have different views on the usefulness of accrual based reports. The adoption of accrual accounting system is costly.
Khumawala (1997)	India	A case study which investigates contextual variables of the government initiative to reform its public sector accounting.	<ul style="list-style-type: none">• The public sector accounting reform was stimulated by wider reforms in the public sector management.
Ryan (1998)	Australia	A study that examined the process of the formulation of reporting rules in the Australian public sector	<ul style="list-style-type: none">• Professional bodies dominated the processes leading to the adoption of accrual accounting in the Australian public sector.

Table 2.1 (continued)

Author (year)	Research site	Nature (methods) of study	Main findings
Yamamoto (1998)	Japan (local governments)	An empirical study that explored the reasons and problems surrounding Japanese initiative to adopt an accrual reporting system	<ul style="list-style-type: none"> • Corruption and fiscal stress were the main factors that pressured the Japanese Government to adopt the accrual accounting system. • The public sector accounting reform itself was part of wider financial, accounting and auditing reforms in the government.
Lapsley & Pallot (2000)	Local governments in New Zealand and the UK	A study that compared the impact of the adoption of an accrual accounting in the UK and New Zealand (data collection employed interviews and survey instruments).	<ul style="list-style-type: none"> • Local governments in New Zealand were considered more successful in integrating the goals and the actual actions of managers in using accrual reports than were those in the UK. • The gap was caused by different motives and approach behind the use of an accrual based reporting system in the public sector
Ter Bogt & Van Helden (2000)	Dutch (eight municipalities)	A case study that sought to understand the process of the adoption of an accrual reporting system in local governments in the Netherlands.	<ul style="list-style-type: none"> • There was a wide gap between the ideal concept of formal accounting change and its ultimate development, and between the newly developed accounting instruments and their actual application. • The gap existed as the result of low pressure to pay more attention to efficiency and performance issues from politicians and old habits from managers who favored using old types of reports.
Christensen (2002)	New South Wales (NSW)	A review about the historical developments of the adoption of accrual accounting for New South Wales government in Australia.	<ul style="list-style-type: none"> • The emergence of the public management (NPM) theme was the stimulus for the public sector accounting reform. • Consultants and the users of government reports were the main promoters for the adoption of an accrual accounting system for the public sector.
Lye et al., (2005)	New Zealand	A study that examines the process, and the nature of the experience of New Zealand in the reforming its public sector accounting system in the 1980s and 1990s	<ul style="list-style-type: none"> • Changes in government leaders with the support of technocrats who have expertise and knowledge in the private sector managerial practices were the impetus behind public sector accounting reforms.

Table 2.1 (continued)

Author (year)	Research site	Nature (methods) of study	Main findings
Baker & Rennie (2006)	Canada (central government)	This study explored the context and backgrounds leading to the Canadian central government decision to adopt an accrual system.	The reform of public sector accounting was mainly caused by normative and coercive influence from the Auditor General.
Saleh & Pendlebury (2006)	Malaysia (whole governments)	A case study that examined contextual variables (social, economic, and political factors) determines the nature of Malaysian government in using accrual accounting system for its public sector.	<ul style="list-style-type: none"> • The users and preparers of government reports support the use of accrual accounting information. • Professionalism and technological changes were the most important factors in impeding the public sector accounting reform.
Connolly & Hyndman (2006)	UK (Northern Ireland, NI).	A case study based on interviews and document examination that attempted to explain how an accrual accounting system is actually adopted in organizations.	<ul style="list-style-type: none"> • Little was known regarding the consequences of the use of accrual based information in the public sector. • The implementation of the accrual accounting system is complex and expensive.
Mimba, Van helden & Tillema, (2007)	Public sector reforms in several developing countries	A case study that reviews the experiences and problems faced by developing nations in adopting an accrual accounting system or other managerial tools in the context of public sector reforms	<p>The main problems that are faced by developing countries in the adoption of a new accounting system included:</p> <ul style="list-style-type: none"> • low institutional capacity • a limited involvement of stakeholders • high level of corruption;
Saleh (2007)	Malaysia's public sector	A case study that sought to understand the contextual variables surrounding the adoption of accrual accounting	The lack of participation from the accounting profession potentially undermines the government attempt to adopt an accrual accounting system for the public sector.

Table 2.1 (continued)

Author (year)	Research site	Nature (methods) of study	Main findings
Falkman & Tagesson (2008)	Swedish local governments	A study based on interview and survey instruments that investigates problems relating to the adoption of an accrual accounting system in Swedish local governments	Problems of implementation: (1) the lack of competence among the preparers of reports; (2) weak audit quality; (3) the lack of demands for using accrual reports; and (4) complicated rules.
Arnaboldi & Lapsley (2009)	Local government (UK)	This study examined the nature and process of the adoption of an accrual reporting system in the UK	The process of adoption of a new accrual reporting system has created: <ul style="list-style-type: none">• Complexities of rules• The lack of impact on use of accrual reports by the users.
Christensen & Parker (2010)	New South Wales, Australia	A study which explored the political process behind the adoption of accrual accounting for the public sector	The decision taken by the state of New South Wales to adopt an accrual accounting system rooted in private sector accounting practice to make the public sector organizations in the state more efficient.

2. 3 Mechanisms of Changes

As suggested by a number of accounting scholars (e.g. Hopwood, 1983; Guthrie, 1989; Siti-Nabiha & Scapens, 2005) the mechanism or the process of changes (reforms) in the public sector is contingent upon the geographical, social, political, and historical context of a country. This contingency also applies to accounting reforms in government contexts. Ryan (1998) argued that “contemporary accounting practices are historically contingent, emerge under particular conditions, and need to be examined as a historically and geographically localised result of the composition of various lines of force” (p. 519). Therefore it is impossible to provide an understanding of the mechanism of public sector accounting reforms in any country without observing the contextual information surrounding an accounting change in that country. In the case of the change of a government

administration (power) in a country, such a change may facilitate public sector accounting reform taking place or not (Ryan, 1998; Lye et al., 2005).

Table 2.2

OECD countries that have adopted accrual accounting for the public sector

Country	Implementation approach			Year of adoption
	Full accrual accounting system	Modified bash-based system	Accrual basis with supplementary accrual data	
Australia	√			1995
Belgium			√	1997
Canada		√		2002/2002
Finland	√			1998
German	√		√	1998
Iceland	√	√		2992
Ireland	√		√	1995
Indonesia		√	√	2005
Japan	√			1996
Netherlands	√			1994
New Zealand	√			1991
Portugal	√			1998
Sweden	√			1998
Switzerland	√			2008
UK	√			1999/2000
US	√			1997/1998

Source: Carlin (2005, p. 312), Torres and Pina (2003) and Falkman and Tagesson (2008).

The attempt to innovate public sector accounting can be put in place if the new administration (actors) in authority has the incentive to push such a reform. This view is consistent with that of Kingdom (1984) who states that a change of administration within a country opens an opportunity for a new government to bring and raise a new agenda in accordance within its political platform and interest.

The experience from several countries which have undergone radical public sector reforms supports that notion. For example, according to Ryan (1998) the election of Nick Greiner as Premier of the State of New South Wales was the starting point of the formal initiative to adopt an accrual based reporting system in the state. This is consistent with Kingdom's (1984) view as exemplified by Ryan (1998) that

“fundamental policy change can only occur from events in the political arena” (p. 522). In the UK, although the aspiration to use the accrual accounting system for local government began in the 19th century and major reforms were undertaken in 1980s, the formal adoption of accrual accounting (in the UK it is called resource accounting) came only in 1993 (Connolly & Hyndman). Moreover, the actual change of the public sector reporting system in the UK was only realized following the change of government in 1997 (Lapsley & Pallot, 2000).

A similar situation also occurred in New Zealand. For example, the trajectories of New Zealand as the first and only country in the world to adopt a comprehensive accrual regime in the budget and reporting system stems from the change of the administration from a liberal to labour government in 1984 (Lye et al., 2005). The new administration changed the public policy on financial and reporting systems within the public sector toward market based principles. According to Lye et al., (2005) the new government also shifted the fiscal policy to increase revenue and cut government spending on subsidies. Scrutiny of operation and performance of public sector organizations was enhanced with the adoption of the accrual accounting technique as the benchmark in recording and presenting financial information of public sector organizations.

However the source of an accounting change in the public sector cannot be solely attributed to a specific factor (e.g. a change of actors in power). In many cases an accounting reform in the public sector is the outcome of an ideal condition which allows the rise of specific issues which were promoted by the actors at a specific time (Ryan, 1998). Ryan (1998) stated:

[...] there is no one actor or event which determines a policy outcome. Items rise onto agendas due to several factors coming together at a given point in time, and not to the effect of one or another of them singly. However, policy outcomes are not merely the result of a random process of events. They are influenced by the means and motivations of the institutions that support them. (p. 534).

From that perspective, it is worthy of noting that although political changes may exist, an actual change of the public sector may not occur. It depends on the roles of people, or agents of reforms who determine how an actual reform takes place. Lye et al., (2005), who investigated the process of the public sector accounting reform in New Zealand, propose an energetic innovative process of a public sector reform could be successfully mobilized only under a specific condition which includes the change of political figures (administrations) who are committed to reforming the public sector. Moreover, the availability of agents of reforms or agents of changes (e.g., accountants, managers, economists) within or outside the government who understand the technical aspects of specific practices (e.g. an accounting system or performance based budget) is also important. The roles of agents of reforms are particularly important as they know how the underpinning principles of an accounting reform are communicated and mobilized within the group of policy makers. Therefore the roles of senior government accountants, auditors or economists as agents of reforms inside or outside the government also affect the extent to which an accounting reform is undertaken.

A number of studies support that assessment. Christensen (2002) found the roles of consultants and the General Auditor as agent of reforms were crucial to the policy formulation of government accounting rules (i.e. accounting standards for the public sector) in Australia. Such a trend also occurred in New Zealand where the support of technocrats who had expertise and knowledge in the private sector managerial practices shaped the initial process leading to the adoption of an accrual accounting system for the country's public sector (Lye et al., 2005). In Canada, the key events which led to the adoption of an accrual based reporting system at the central level in 2005 indicate that the Office of Auditor General and Canadian Institute of Chartered Accountants were the influential agents in promoting the use of accrual accounting (Baker & Rennie, 2006).

However, unlike the experience of developed economies, accounting reforms (including the adoption of accrual accounting systems) in developing economies

stem from the pressures imposed by international organizations. In Sudan for instance, the pressure which led the Sudanese government decision to adopt accrual accounting in the early 1990s was exerted by the World Bank (El-Batononi & Jones, 1996). In Fiji, the role of international financial authorities such as the World Bank and the IMF is also found by Sharma and Lawrence (2008), to have played a part in the implementation process of a new accounting system in a public sector company. In his study of public sector accounting reform in Ghana, Rahaman (2009) also concluded that the IMF and the World Bank were the main actors behind the adoption of an international style financial auditing system for the public sector agencies in that country.

2. 4 Implementation Problems

The adoption of accrual accounting systems in the public sector remains problematic, meaning that the intended results for improving efficiency would not be automatically achieved by simply implementing a private style accounting system. Even developed nations that adopt accrual accounting still face critical issues both from a conceptual perspective about the nature of accrual information in relation to the public sector and the practical benefit it contributes (Carlin, 2005; Arnaboldi & Lapsley, 2009). The lack of technical capacity and the lack of understanding have led to the under-use of accrual information for managerial purposes in the Netherlands (Ter Borgt & Van Helden, 2000). Therefore, it is not surprising if accounting scholars accentuate that current accrual-accounting experiments lack a conceptual framework and tend to transfer business accounting concepts and techniques to non-business settings without critical consideration (e.g., Van Peursem & Pratt, 1998; Carlin, 2005; Connolly & Hyndman, 2006; Christensen, 2007). As Christensen (2009) stated, 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. Moreover, these ideals are reliant on normative views and emotive grounds (Carlin, 2005; Christensen, 2009, p. 19-20).

In their empirical study, Ter Bogt and Van Helden (2000) reported and conceptualized the problems relating to adoption of a new control system in Dutch local governments. The formal adoption of the new accounting was not followed by a change of user attitudes in using the new accounting information. The internal (managers) and external users (local parliamentary members) still relied on using cash based reports. Ter Bogt and Van Helden (2000) stated that the lack of use of the new system is mainly caused by the old habits and the lack of expertise in using the new reporting system. In their study Ter Bogt and Van Helden (2000) theorized that the gap between the purpose and the actual implementation of a new accounting system can be categorized into (1) the gap between governmental accounting rules and the capacity to implement these rules; (2) the gap between the production and usage of government reports.

A case study by Lapsley and Pallot (2000) which compares the impact of the adoption of an accrual accounting system on the managerial practice of local governments in New Zealand and the UK, finds two problems with respect to using accrual accounting systems in the public sector. The results of the study suggest that differences in motives and strategies behind a move to adopt an accrual accounting system can lead to different outcomes. Lapsley and Pallot (2000) found that the management actions and decisions in New Zealand regional authorities are more integrated with other NPM based practices than those of UK local governments. The difference stems from the fact that the New Zealand approach to the adoption of an accrual policy was not only for preparing reports but also for formulating the budgets. That difference was also caused by the fact that in the UK the adoption of an accrual accounting system was stimulated by the wish to gain legitimacy, whereas in New Zealand it was mainly motivated by rational motives (improving performance of local government agencies).

A study by Connolly and Hyndman (2006) about the adoption of an accrual reporting system in the UK also faces a similar problem. In their study they

observed that little was known regarding the consequences of the use of accrual-based information in the public sector. They also suggest that the implementation of the accrual accounting system is complex and expensive, and therefore the implementation of an accrual accounting system should be undertaken with caution. In a study that investigates the experience of Swedish local governments in implementing accrual accounting systems, Falkman and Tagesson (2008) suggested that the time gap between the purpose and actual implementation of an accrual accounting system in Swedish local authorities was caused by four factors: (1) the lack of competence among the preparers of reports; (2) weak audit quality, (3) the lack of demands for using accrual based reports (possibly due to the absence of sanctions); and (4) complicated and inconsistent rules. In referring to their findings they conclude that the extent to which an actual use of a new accounting system is institutionalized depends on the strategies employed by the actors who use the accounting system in a particular situation and their political interest (Falkman & Tagesson, 2008).

In a study about the process of adoption of accrual accounting in the UK, Arnaboldi and Lapsley (2009) also found that the adoption of an accrual accounting system in UK local governments was not linear. The process leading to a formal adoption was characterized by the conflict between the actors who were involved in the formulation of accounting rules for local governments. Moreover, at the adoption time, information produced based on the accrual-based reports was not used by local managers. In commenting on their study's results, Arnaboldi and Lapsley (2009) stated:

This research also shows that the intended aim of enhancing accountability by improving the accounting information available to users of local authority services and taxpayers has not materialized. The local authorities in this survey did not report much interest in their annual reports and accounts from anyone other than their auditors. (p. 831)

With respect to the results from the studies above, it can be suggested that the intention to adopt an accrual accounting system and the introduction of accruals accounting have raised significant implementation problems. In many cases the attempt has produced very limited improvements in the quality of information provided to managers and other stakeholders, often due to the system's failure to replace traditional government accounting as the entity's main accounting system (Christensen, 2007). Moreover, unlike the development of accounting standards in the private sector, the lack of interest in the associated policy-making, by groups other than accountants and auditors responsible for their preparation, adds to the doubts about the usefulness of accrual accounting in the public sector for external users (Jones & Pendlebury, 1991; 2004).

2. 5 Obstacles for Developing Nations

In developing economies, the installation of a new accounting technology encounters more institutional and technical complexities than it does in developed economies. The most crucial challenges faced by developing countries in the adoption of an accrual accounting system include: (1) low institutional capacity; (2) a limited involvement of stakeholders; and (3) a high level of corruption; (Hope, 2002; Hoque, 2002; Hepworth, 2003; Michael, 2004; Mimba et al., 2007).

2. 5. 1 Low institutional capacity

In a literature study concerning the public sector reforms in developing countries Mimba et al. (2007) suggested that low institutional capacity of public sector organizations is the main obstacle for developing nations in pursuing public sector reforms including the adoption of a new accounting system. They define institutional capacity as “the ability of an institution to decide on and pursue its goals, to perform tasks, and to improve performance constantly” (p. 196). In a governmental organization, institutional capacity can be defined as the organization's ability to identify problems, to develop and evaluate policy alternatives, and to operate the government's programs (Mimba et al., 2007, p. 196).

According to Mimba et al. (2007), the main characteristic of public sector organizations in the developing world is the lack of institutional capacity which includes “weaknesses in regulatory practice, a low level of public accountability, administrative inefficiencies, limited human resources, a lack of facilities, and insufficient funding” (Mimba et al., 2007, p. 196). A number of studies have also suggested that low institutional capacity has led developing countries to a situation in which the procedure of bureaucracy is inefficient, and there is a lack of transparency relating to the information about the cost, quality and volumes of public services (Henderson, 2001; Devas, 2002; Hoque, 2001, 2002; Hopper & Hoque, 2004).

2. 5. 2 A limited involvement of stake-holders

The lack of public involvement or public aspiration in the formulation of public sector policies (e.g. reporting rules) has been a concern of accounting scholars (Jones & Puglisi, 1997; Van Peursem & Pratt, 1998; Kober, Lye & Ning, 2007). In the context of developing nations, the lack of public involvement in the formulation of public sector accounting standards and use of government reports is more apparent. Mimba et al. (2007) stated “compared to developed countries, the involvement of stakeholders – such as citizens – in public sector organizations is rather limited in many developing countries” (p. 196). This situation may also stem from the fact that public sector organizations in developing economies are more concerned with the pressures from donor organizations or institutions at central level which their findings depend on, as compared to local stakeholders, and little access is given to local citizens. This situation eventually causes the public to be less concerned to pressure public sector organizations to provide reports in accordance with their aspiration.

Mimba et al. (2007) noted “[local] stakeholders [in developing nations] may feel that organizations do not give access to sufficient information, which makes it difficult for them to get involved in decision-making processes. Moreover, “[local]

stakeholders might feel that their involvement is only a formality rather than a substantial input for decisions, because most of their interests are not included in the final decisions made” (p. 196). That assessment is similar to the notion that only powerful stakeholders (e.g., public sector officials, public servants, central government institutions, and international donors) have high involvement in developing nations (Hoque & Hopper, 1997).

In a study that examines the contextual variables that affect the adoption of an accrual accounting system in the Malaysian government, Saleh (2007) suggested that the lack of involvement from the accounting profession undermines the government’s attempt to use accrual accounting for the government organization. Saleh (2007) states that that fact differs from the experience of New Zealand, the UK and Australia in which a strong support for accrualization of government accounting systems stems from professional accountants outside the government. Therefore she speculates that the social and institutional context of a similar project in Malaysia may not have a favourable context to the adoption of an accrual accounting system for government organizations.

2. 5. 3 Corruption

According to United Nations (UN) report in 2003 (United Nations, 2003) developing countries in general have relatively high levels of corruption. A recent report by Transparency International (2009) ranked developing nations such as Bangladesh, Indonesia and the Philippines among the most corrupt countries in the world. On the other hand, New Zealand and other developed nations including Norway, Australia, and Singapore are considered as the least corrupt nations worldwide (Transparency International, 2009). In commenting to this fact Mimba et al. (2007) stated:

[...] corruption has become one of the acute problems facing the delivery of public goods and services in developing countries. It increases the costs of the public goods and services delivered to the citizens. The high level of poverty in these countries might be the main reason for their public sector

officials and civil servants to be susceptible to corruption. Countries that pay inadequate salaries to their public sector officials and civil servants seem to have a higher level of corruption. In the case of Indonesia, for example, low salaries were shown to be an important reason for public sector officials to engage in corruption. (p. 199)

Hope (2002) also suggested that one of the major contributors to corruption in African nations is the low level of salaries paid to the public sector employees. This fact coupled with the lack of sound control systems, provides an opportunity for government officials in developing nations to be corrupt. As Michael (2004) suggested “most developing countries are still faced with the problems of a weak control system and a low-income level for most of their citizens in general, and for their public sector officials and civil servants in particular. Therefore, corruption is likely to be a common phenomenon in these countries” (Michael, 2004, p. 1071). That observation implies that corruption is one of the main obstacles to efforts to improve the efficiency and effectiveness of public sector operation in developing nations. On the other hand, in developed nations which are considered the promoters of the public sector accounting reforms, the scale of corruption is comparatively lower than that in developing nations (Mimba et al., 2007).

With respect to the implementation problems and the adoption of accrual accounting systems as discussed, it can be understood as Guthrie (1998) saw it, that the adoption of an accrual accounting system in the public sector is mainly motivated by a normative argument that accrual accounting is better than a cash-based accounting regime (Guthrie, 1998). A stronger criticism was proffered by Carlin (2005) who suggested that “that body of literature which expresses support for the widespread adoption of accrual accounting and financial reporting throughout the public sector is generally characterized by the evangelism of its tone and the lack of empirical evidence put forward to support its claims” (p. 315).

Therefore, the notion that suggests that it would be a mistake for policy decision-makers to simply implement the accrual accounting system as a means for

improving accountability and managerial practices without understanding the operational environment and how the new accounting system is actually implemented within a public sector organization is understandable. How an accrual accounting system is actually implemented depends on the skill and experience of its users, its supporting programs, the availability of facilities (computers and related software), the availability of independent auditors and the attitude of other stakeholders in using accrual information (Hepworth, 2003).

2. 6 Position of the Study

Prior studies in public sector accounting concerning the debate about the implementation of business-like accounting systems for government entities have existed since the 1970s. Earlier studies in public sector accounting (e.g. Zimmerman, 1977; Ingram, 1984) have employed economic based theories in providing explanations for accounting innovations in the public sector. Zimmerman (1977) suggested that economic factors influence the practice of government financial reporting in the United States. He argues that any adoption of specific accounting practices within the government context is aimed at signaling the quality of management to external stakeholders. Ingram (1984) also added a similar notion that “the higher quality of management may lead to benefits in the form of lower interest costs on municipal debt, and increase in the politician’s popularity as a result of recognized performance” (p. 130).

As explained above, the earlier studies in public sector accounting were based on economics-based lenses. However, further developments of public sector accounting studies in the last three decades have been focused on the actual process of the adoption of accrual accounting in the public sector. First of all, from the scope of analysis, these studies could be categorized into two types: national level and organizational level. In the first category, the studies are focused on investigating the social and economic and political factors that affect the direction of public sector accounting reform and the formulation process of public sector accounting standards. These studies are aimed at specifying the social, economic

and political factors and administrative environment prevailing in a country and their impacts on the process of the adoption of an accrual accounting system in the public sector. For instance, included in this category are studies by Pallot (1996) and Lye et al., (2005) for New Zealand; Ryan (1997) and Christensen (2002) and Christensen and Parker (2010) for Australia; Yamamoto (1999) for Japan; Baker and Rennie (2006) for Canada; and Saleh (2007) for Malaysia. Studies by Luder (1992) and Lapsley and Pallot (2000) that investigated the nature of governmental accounting reforms in several countries also fall into the first category.

For the second category, these studies are aimed at identifying how a specific accounting system within a public sector organization is actually implemented. These studies include a study by Ansari and Euske (1987) who investigated how types of accounting information are used within a public sector organization in the US; Connolly and Hyndman's (2006) study which explored how an accrual accounting system is actually implemented in British public sector organizations, and how accrual-based information is used, and its benefits for improving decision making.

Included in the second category are investigations that examined the nature and consequences (outcomes) of an accounting change within a public sector organization. For examples, such studies were carried out by Nor-Aziah and Scapens (2007), Sharma and Lawrence (2008) and Alam and Nandan (2008). An earlier study by Ter Bogt and Van Helden (2000) can also be included in this category as they explored both the nature of the adoption of the accrual-based system in the Netherlands as part of broader public sector accounting reforms and its impacts on the usage of accrual-based reports in Dutch municipalities.

Drawn on these studies, methodologically this study is a combination of both categories because it was designed to explore the process of the institutionalization of an accrual accounting system in the Indonesian public sector at the national level and to explore how the accrual system has been reflected in the actions of people in a municipal government. This duality is required to understand how the interplay

between the social, economic, and institutional context and the actors outside and inside an organization shape the nature of an accrual accounting system and how it is institutionalized in a public sector organization. Beyond this, this study was also designed to respond to the call for a better understanding of the dynamics of the process and roles of actors and power in the institutionalization of accounting as suggested by Burns (2000); Burns and Scapens (2000), Dillard et al., (2004), and Nor-Aziah and Scapens (2007).

Moreover, this study is designed to empirically test the claimed benefits of using an accrual accounting based on the Indonesian government accounting standards against its real implementation within an organization. Finally, the position of the study is to reduce the gap between what is known and unknown about governmental accounting practices in the public sector of one of the emerging economies in Asia, i.e. Indonesia.

2. 6 Summary

This chapter has examined the literature about the process of the adoption of accrual accounting systems in the public sector and other relevant issues. Firstly, it has discussed major prior studies that show the rationales reacting to the aspiration to adopt accrual accounting in the public sector. This chapter has also reviewed the mechanism of the adoption process of accrual accounting systems in several countries. In this vein it has explained the influence of social and political changes and how the roles played by influential actors (organizations or people) shape the adoption process of an accrual accounting system in the public sector. Moreover, this chapter has examined implementation problems in the adoption of an accrual accounting systems in the public sector worldwide and specific situations encountered by developing countries in implementing a new accounting system. The position and nature of the study is also clarified in relation to the public sector accounting literature.

CHAPTER THREE

NEW INSTITUTIONAL SOCIOLOGY AND ITS SHORTCOMINGS

3. 1 Introduction

Recent accounting literature has shown the existence of an increasing number of accounting scholars who hold the view that accounting is not only socially constructed (Hopwood, 2000) but also socially constructing (Lehman & Tinker, 1987; Everett, 2004; Kaidonish, 2008, p.1; Brown, 2009). Paralleling such a trend, a research approach beyond mainstream economic-based models, such as new institutional sociology (NIS, defined on the following page) has also been utilized since the late 1980s in informing public sector accounting studies (see Ansari & Euske, 1987; Carpenter & Feroz, 1992, 2001; Dillard, Rigsby & Goodman, 2004; Baker & Rennie 2006; Norhayati & Scapens, 2007; Norhayati & Siti-Nabiha, 2009; Fowler, 2009; Monteiro & Aibar-Gusman, 2010; Qian, Burritt & Monroe 2011).

Nonetheless, prior accounting studies using NIS perspectives have been criticized as they lacked detailed analyses on how specific accounting systems are used for legitimacy purposes. As Modell, Jacob and Wiesel (2007) stated “until recently, however, NIS has been largely silent about the more specific mechanisms of choice and under what circumstances individual actors, or change agents may influence institutional change” (p. 455). Moreover these studies did not take into account the notions of power, interest and the process by which institutional changes are implemented within organizations (Covaleski & Dirsmith, 1988; Siti-Nabiha & Scapens, 2005; Cruz. Major & Scapens, 2007).

To provide a comprehensive view on the recent developments of NIS this chapter will discuss the nature of NIS and its shortcomings, and also selected prior studies in accounting using NIS. The last section of the chapter summarizes the main arguments of this chapter.

3. 2 New Institutional Sociology (NIS) and its Shortcomings

In the last two decades institutional theory has been extensively used for empirical studies of organizational and accounting changes (e.g. Covalleski, Dirsmith & Michelman, 1993; Nor-Aziah & Scapens, 2007). Scapens (2006) stated that there are three streams of current literature in institutional theory: (1) old institutional economics (OIE), which is concerned with the institutions that shape organizational structures and the thoughts of individual human agents; (2) new institutional economics (NIE), which is concerned with structures used to govern economic transactions; and (3) new institutional sociology (NIS), which focuses on the institutions in the organizational environment that shape organizational structures and systems.

According to Ribiero and Scapens (2006):

The key contention of NIS is that some organisations exist in highly institutionalised environments. In this sense, “environment” is not merely conceptualised as a source of task constraints or a relational network (of customers, suppliers and other near constituencies) that poses demands for operational coordination and control on an organisation. Rather, it includes the cultural rules and social norms that are reflected in specific formal structures and procedures of the organisation. That is, institutionalised organisations tend to adopt structures and procedures that are valued in their social and cultural environment. They do this in order to achieve legitimacy and to secure the resources that are essential for their survival. (p. 96)

DiMaggio and Powell (1983) pointed out that “NIS theory exposes and explains the existence and power of underlying and taken-for-granted rules, norms and expectations, which, transcending technical factors, grant legitimacy to complying organizations” (p. 149). Because organizations adhere to expectations, there is a tendency for those organizations operating in a particular field to become similar in structure and practices. This process of "institutional isomorphism" leads to organizational homogeneity. Three categories of institutional pressures have been identified; namely: “coercive (rules and regulations imposed by regulatory authorities); normative (general societal beliefs and norms, including professionalization); and mimetic (the tendency of organizations to copy the

successful behavior of other organizations in the same field” (DiMaggio & Powell, 1983, p. 150).

According to NIS (Burns & Scapens, 2000), accounting routines can be institutionalized in a ceremonial or instrumental way. In this regard, ceremonially institutionalized accounting routines are organizational rituals, which are used to preserve the status quo, power, interests, and legitimacy of specific groups or individuals rather than to aid decision-making. In many cases, the use of a new accounting system in a public sector organization is not to improve the performances of public sector agencies “but to seek legitimacy as a modern, professionally-managed efficient organisation” (Sharma & Lawrence, 2005, p. 144). By attaining such legitimacy the organization can maintain the support from external constituents for the continuation of organization life (Meyer & Rowan 1977). Siti-Nabiha and Scapens (2005) suggest that “when accounting routines [are] instrumentally institutionalized, it means accounting information is used for facilitating decision-making” (p. 44).

However, the extent of the use of a new accounting system for rational purposes in a specific organization depends on the interplay between institutional factors and the roles of internal actors in the organization. Certain actors in an organization play a significant role in supporting the institutionalization of a new accounting system for technical purposes. On the other hand, other groups of actors might have a different position in accordance with their interests (Nor-Aziah & Scapens, 2007). Nor-Aziah and Scapens (2007) state that “whether accounting is institutionalized ceremonially or instrumentally depends on the wider institutional setting within the organization and roles played by certain actors within the organization” (p. 115)

In addition, prior studies in the public sector context suggested that the extent of the institutionalization of a new public management practice (e.g., decentralization or a new accounting system) as part of broader reforms for managerial purposes also depends on the degree of demand from stakeholders for government agencies to support such reforms (Mimba et al, 2007); the political nature and legal system of a

nation (Lüder, 1992); the capacity of an organization and the competency of its staff (Lüder, 1992; Saleh & Maurice, 2006) and cultural issues (Sharma & Lawrence, 2008).

Furthermore, prior literature suggests that the extent of the institutionalization of an accounting system for technical purposes also depends on the decoupling phenomenon³ that may occur in the adoption and implementation of a new accounting system; namely: (1) decoupling between the development of accounting regulations and the design of the system to facilitate their adoption and implementation (Mimba, Van Helden & Tillema, 2007; Hepworth, 2003); (2) decoupling caused by inconsistencies across government agencies with respect to the extent of their implementation of the accounting system (Nor-Aziah & Scapens, 2007; Hepworth, 2003); (3) decoupling between the production and the use of public sector accounting information (Paulsson, 2006; Connolly & Hyndman, 2006); and (4) decoupling between the costs and benefits of accounting reforms (Connolly & Hyndman, 2006); and (5) decoupling between accrual accounting information produces in accordance with accrual-based public sector accounting standards and the accounting information needed by the users (Jones & Puglisi, 1997; Kober et al., 2007). Although not all of the above authors specifically employ the NIS perspective in their studies and address decoupling issues as the main theme, they provide useful insights into how public sector accounting reforms are not always coupled with their initial purposes.

However, although NIS is regarded as one of the most popular theoretical frameworks in the contemporary organizational literature (Sharma & Lawrence, 2008), prior accounting studies using the new institutional sociology lens have been criticized as they focus mostly on dissemination models (the diffusion of specific

³ A decoupling phenomenon is defined here as a situation when incompatibilities exist between an adopted accounting system with the actual use of the accounting system within an organization (Cruz, Major & Scapens, 2007). A broader definition of the decoupling phenomenon is required to explore how it actually occurs in an organization, without necessarily referring to it as a result of the behaviors and actions from an organization's actors to gain and maintain legitimacy as generally assumed in previous new institutional sociology literature. As highlighted by Nor-Aziah and Scapens (2007), a decoupling phenomenon can be both the result and outcome of the institutionalization process of an externally legitimized practice by actors within an organization.

ideas across organizations or nations), but do not really explain the process by which institutional changes are implemented within organizations (Nabiha & Scapens, 2005; Nor-Aziah & Scapens, 2007; Hopper & Major, 2007). In this regard, in general prior studies using NIS lacked detailed analyses on how specific accounting systems are used for legitimacy purposes and do not take into account the issue of power and interest (Covaleski & Dirsmith, 1988). In fact, according to Hasselbladh and Kallinikos (2000), Siti-Nabiha and Scapens (2005) and Dambrin et al., (2007), it is important to understand the details of the whole processes of institutionalization from how a specific ideal can be formally implemented, to how a new accounting system is internalized into the actions and behavior of actors (accountants and managers) in an organization setting (Beekun & Glick, 2001). Hassan (2005) also stressed that the processes of institutionalization of organizational structures, including the implementation of a new accounting system are not only determined by the pressures from external factors, but also by “the organization activities, processes and routines that may or may not be accepted as institutions” (Hassan, 2005, p. 126).

Such an argument was exemplified by Dillard et al. (2004) who suggested that prior studies using institutional theory “[were characterized with] relatively little theoretical consideration [...] given either to the processes whereby institutional practices are established, transposed and decomposed or the socio-economic and political context that constitutes the framework for these organizational processes (Dillard et al., 2004, p. 507). Beyond this, prior NIS-based studies have been the subject of criticism that these studies lacked attention to the roles of power and interest of actors in an institutionalization process (Norhayati & Siti-Nabiha, 2009). Such a notion supports DiMaggio’s (1988) view that the success of an institutionalization project and the form that the resulting institution takes depend on “the relative power of the actors who support, oppose, or otherwise strive to influence it” (DiMaggio, 1988, p. 13). In line with these criticisms, Nor-Aziah and Scapens (2007) suggested that to deeply understand the process of institutionalization and related decoupling phenomena in the implementation of accounting innovations in a specific setting, future studies should emphasize what actually happens in a specific situation. In responding to the criticism, Nor-Aziah

and Scapens (2007) and Dambrin et al., (2007) developed extended frameworks drawn from institutional sociology perspectives to explore how a new accounting system that is implemented in a specific public sector organization to achieve greater efficiency is constrained by loose coupling as both a process and an outcome are required. Therefore, future new institutional sociology accounting studies, including this investigation, should take into account not only how social, economic, and political factors influence the adoption and implementation of accounting systems in an organization, but also how a new accounting system is actually practiced by the actors within the organization. Therefore, it is necessary to consider technical, social, power and political factors (institutional environments) in understanding accounting and control changes (Abernethy & Chua, 1996; Ribeiro & Scapens, 2006). By recognizing the notion of power and interest the direction of institutionalization process can be better explained as an institutionalization process which also depends "...precisely on the power of the organizational actors' translation and use of societal expectations" (Dillard et al., 2004, p. 510).

In summary, drawing from these arguments the new institutional sociology has been useful in accounting studies as a means to better understand how institutional factors influence organizational structures, managerial practices, and accounting systems of organizations. However, to go beyond the dissemination model, such studies need to focus on detailed institutionalization processes of a specific accounting system, and how an accounting technique is developed, adopted, and used in an organization. In this regard, a specific model based on the new institutional sociology theory is required by accounting researchers to analyze and understand what has actually happened during the process of institutionalization of an accounting system in an organization.

3. 3 Prior Studies Using NIS and Related Lenses

According to Ansari and Euske (1987), the traditional view of accounting is that it is a rational system providing information useful in making economic decisions. Accordingly, the implementation of a new accounting system should provide information useful for management decision making. From this perspective,

accounting systems in public sector organizations are used to improve their efficiency and effectiveness. As highlighted by Scapens (1990), although neoclassical economics-based studies have been very successful in predicting economic behavior at the macro level, these studies have been limited in providing understanding of the behaviors and actions of actors or individual decision-makers within organizations. Given the limitation of economics-based theories in explaining the organizational and social roles of accounting, some literature has used other perspectives (Carpenter & Feroz, 1992). Carpenter and Feroz (1992) suggested that accounting may be viewed as a means of legitimizing the current social and political structure of the organization. In this regard Cooper (1980) stated:

Accounting systems encourage imitation and coercion by defining the problematic (by choosing which variables are measured and reported) and they help to fashion solutions (by choosing which variables are to be treated as controllable). Of course, the way accounting systems are used is highly significant, but nevertheless the structure and elements of accounting systems help to create the appropriate and acceptable ways of acting, organizing and talking about issues in organizations. Accounting systems are a significant component of the power system in an organization. (p. 182)

Other accounting researchers also stress that future studies in accounting that examine accounting innovations in specific settings should employ other alternative theoretical frameworks. In this regard, Ribeiro and Scapens (2006) stated that the simplistic and static character of previous studies examining accounting innovations in specific organizations have led accounting researchers concerned with internal organizational changes to use alternative theoretical frameworks. In responding to the criticism, the new institutional sociology theory has been prominent in extending the study of accounting change to include the social and institutional dimensions of organizations and their environments (Ansari & Euske, 1987; Moll, Burn & Major, 2006). Table 3.1 outlines the sources, year, setting, purpose and method, as well as key findings of major studies using NIS or NIS combined with other lenses (concept of power and interest).

Table 3.1

Selected accounting studies using NIS and related lenses

Source (year)	Setting	Purpose	Methodology/ method	Key findings
1. Ansari & Euske (<i>Accounting, Organization and Society</i> , 1987)	A division of military organization in the US Department of Defense.	To understand how a new accounting system is used in a specific organization	Qualitative /case study	The technical-rational use of accounting is overshadowed by the symbolic and legitimizing purposes.
2. Carpenter & Feroz (<i>Accounting, Organization and Society</i> , 1992)	New York Stated	To understand the incentives of New York's decision to adopt GAAP.	Qualitative / Case study	The decision to adopt a new accounting system was based on legitimacy purpose.
3. Carpenter & Feroz (<i>Accounting, Organization and Society</i> , 2001)	Four stated in the US	To examine how institutional pressures exerted on four stated in the US influenced their decision to adopt GAAP	Qualitative / Case study	(1) The coercive institutional pressure was the main factor leading to the accounting reform; (2) Powerful interests may impede the adoption of the GAAP.
4. Nabiha & Scapens (<i>Accounting, Auditing and Accountability Journal</i> , 2005).	A multinational gas company operating in South East Asia.	To understand how a new performance measurement system is used.	Qualitative/ case study	The new performance measurement is used ceremonially although an alternative new performance measurement system aligned to existing institutionalized ideas. There is no change of behaviors and actions.
5. Baker & Rennie (<i>Canadian Accounting Perspective</i> , 2006)	Canadian Central Government.	To investigate factors leading the Canadian government to reform its accounting system	Qualitative/ case study.	The reform was mainly caused by normative and coercive influence from the Auditor General.
6. Bourguignon, Saulpic & Zarlowski (Working paper, Essence, Center De France, 2006)	A rail public company in France	The extent of decoupling in the implementation of a new performance measurement system	Qualitative / case study	Decoupling mainly happens at the internalization level.
7. Tsamenyi, Cullen & Gonzales (<i>Management Accounting Research</i> , 2006)	A national electric company in Spain	To asses how a new accounting system is adopted.	Qualitative /case study	The reform was mainly driven by institutional and market forces, but it faces resistance from local employees.
8. Ribeiro & Scapens, (<i>Qualitative Research in Accounting and Management</i> , 2006)	An autonomous business unit of a large and diversified of a large company in Portugal.	To explore the adoption of a new management accounting system	Qualitative /case study	The study shows that NIS and OIE can be combined in understanding the roles institutional pressures and mobilization of power by actors in the adoption of a new accounting system by an organization.

Table 3.1 (continued)

Source (year)	Setting	Purpose	Methodology/met hod	Key findings
9. Nor-Aziah & Scapens (<i>Management Accounting Research</i> , 2007)	A public sector company in Malaysia	To explore how a new accounting system is decoupled at the practical level within a public sector organization.	Qualitative / case study	The reform has caused a tension between accountants and operational managers. They suggest that an accounting reform is a complex process because conflicting between ideas and interests of the actors within the organization.
10. Hopper & Major (<i>European Accounting Review</i> , 2007).	A electronic company in Portuguese	To investigate the adoption of activity-based costing system at the organizational level.	Qualitative / case study	The used of NIS and the concept of Institutional Dynamics of Dillard <i>et al.</i> , (2004) has been useful to understand how the adoption of a new accounting system imposed from outside has created conflicts within an organization.
11. Dambrin, Lambert & Sponem (<i>Management Accounting Research</i> , 2007)	A pharmaceutical company	To explore how institutionalization takes place in an organization	Qualitative / case study	The process of institutionalization is not linear as there is no coherent link among the ideals, disclosures, techniques, and internalization.
12. Rautiainen (Journal of Accounting and Organizational Change, 2008).	A Finnish city	To examine the process of performance measurement system (PM) change in a Finnish city	Qualitative / Case study	A political crisis played a significant role in the de-institutionalization process of accounting practices.
13. Norhayati & Siti-Nabiha (<i>Journal of Accounting and Organizational Change</i> , 2009)	A public sector company in Malaysia	To investigate application of a private style accounting system in a public sector company in Malaysia	Qualitative / Case study	The adoption of a new performance measurement system appears to be influenced by isomorphic pressures that mimic other organizations in the same environmental field.
14. Ball & Craig (<i>Critical Perspectives on Accounting</i> , 2010).	Two cities (one city in UK and one city in Canada)	To understand the experience of two cities (respectively in UK and Canada) in adopting waste management practice.	Qualitative / Case study	Interests, beliefs, and activities of actors (managers) shape an deinstitutionalization or institutionalization of a practice in an organization.
15. Qian et al., (<i>Accounting, Auditing and Accountability Journal</i> , 2011)	Twelve local governments in New South Wales, Australia	To investigate the adoption of a of environmental management accounting practice for waste management	Qualitative / Case study	External and internal factors shaped the extent to which a new management accounting system has been used.

To date, the new institutional sociology theory has been used by many studies to understand how a specific accounting system is introduced, adopted, and used in an organizational setting. In an early case study Ansari and Euske (1987) found that the new institutional sociology theory can explain why the use of accounting information in a specific government organization in the US is not necessarily in accordance with the tenets of economic rationality but may support organizational, legitimacy, power and control functions. The same notion is also found in a study by Carpenter and Feroz (1992) which showed that New York's decision to adopt a new accounting system was an attempt to regain legitimacy for the state's financial management practices. Carpenter and Feroz (2001) further developed their previous study by using NIS to explore how institutional pressures were exerted on four government states in the US to adopt the generally accepted accounting standards (GAAP) for external reporting.

In investigating the adoption of a new performance measurement system in a multinational gas company operating in South East Asia⁴ Siti-Nabila and Scapens (2005) found that although the new performance measurement system was formally implemented and modified in accordance with the proposed managerial reform in the company, it was used only for ceremonial purposes. The ceremonial practice of the new performance measurement systems aimed at maintaining the stability within the organization through the implementation of a new performance measurement system. In this context, the existing idea (i.e. the production orientation) and practice have been regarded as an obstacle to the implementation of a new managerial system by affecting the day-to-day activities of actors within the company. Siti-Nabila and Scapens (2005) state:

[...] the financial orientation which underpinned VBM [value based management] conflicted with the prevailing production orientation within Eagle. Thus, in order to preserve stability in the norms and values within Eagle, whilst also maintaining stability in the relationship with NOC [the name of parent company], VBM was implemented in a

⁴ The name and exact location of the company have been disguised for confidentiality reasons (Siti-Nabila & Scapens (2005, p. 67).

ceremonial manner: the rules and procedures of VBM were applied and the necessary KPIs [key performance indicators] were produced and reported to the parent, but without affecting the activities and decisions taken within Eagle. Thus, there was change – albeit ceremonial change. (p. 67)

In the Canadian context, Baker and Rennie's (2006) study also used NIS to understand the historical development of public sector accounting in the Canadian central government. In that investigation they suggested that the decision of the Canadian central government to adopt an accrual accounting reporting system in public sector agencies was a result of pressure from the Auditor General, who was supported by the Canadian Institute of Chartered Accountants. Furthermore, the government's decision was also supported by the active role played by the Canadian Treasury Board to implement a more informative accounting system. In addition, they also found that the Canadian government's decision to adopt was also influenced by a similar pattern adopted in other countries. Commenting on their results drawn from the new institutional sociology perspective, Baker and Rennie (2006) stated:

This study has provided a descriptive account of the interaction of coercive, normative, and mimetic isomorphism relating to a sovereign government, thus adding to the new institutional theory literature by providing insight into the indirect influences on an independent government and its evolving organizational field brought about by globalization. The increased influence of the auditor general suggests the emergence of coercive forces not normally associated with institutional theory (such as that imposed by regulatory bodies or resulting from resource dependency) brought about by the need to improve government performance and accountability. Additionally, the increased permeability of the organizational field of sovereign government resulting from globalization illustrates the potential of mimetic isomorphism as an explanatory theory for government change. (p. 106)

In providing insights on how and where decoupling happens in the institutionalization process of a new performance measurement system in a public railway company in France, Bourguignon, Saulpic and Zarlowski (2006) also employed NIS. In that study they found that decoupling mainly happens at the

utilization level as a result of actors' resistance to the new accounting system while still being willing to appear legitimate in the eyes of both external and internal constituencies. They also show not only the interplay between institutional forces and intra organizational power relations, but also how local employees attempted to mobilize power to resist the new accounting and financial information system imposed.

Their analysis supports the articulation of power as both enabling and conflicting as suggested by Giddens (1976, 1996) and Collier (2001). The articulation of power as both enabling and conflicting means that actors in an organization use their powers through strategies or actions to either support or resist developing and implementing a new accounting system or other managerial tools depending upon their interests (Modell, 2002). A similar view has been suggested by Sharma and Lawrence (2008) that in their actions, the individual actors may [or may not] challenge existing practices and produce and reproduce new practices through new rules and routines. In such a situation, an accounting system can be the source of conflict if actors in an organization have conflicting ideas and interests regarding the implementation of new accounting systems (Carpenter & Feroz, 2001).

In 2006, Ribeiro and Scapens also used NIS with the concepts of actors and power within organizations drawn from old institutional economics (OIE) in investigating the adoption of a new management accounting system in a major corporation in Portugal. They found that the roles, institutional pressures and mobilization of power together shaped the nature of the institutionalization of a new accounting system by an organization. The study also demonstrated that the new management accounting system was introduced as a means to promote change in the manufacturing area, but it was to a great extent decoupled from actual interactions and practices. They argued that "whilst on the one hand NIS provides macro-level explanations of the adoption of specific structures and procedures in organisations that operate within institutionalised environments, OIE adopts a more intra-organisational stance that seeks to shed light on processes of resistance, or on the

decoupling of the formal arrangements and the actual day-to-day practices in organisations” (Ribeiro & Scapens, 2006, p. 107).

Drawing from NIS with the support of the power and political concepts, a study by Tsamenyi, Cullen and Gonzalez in 2007, provided another example of how the accounting domain becomes an arena where conflicting ideas and the articulation of power take place. In that study, Tsamenyi et al. (2007) added insight into the way in which an organization developed a new, integrated accounting and financial information system and how facilitating, coordination, and decision-making were necessary because of the new structure demanded by the institutional environment. However they also found that at the implementation level, the use of a new accounting system was impeded by resistance from employees.

In 2007 Hopper and Major utilized NIS along with the concept of the institutional dynamics of Dillard et al. (2004) in informing their study about the adoption of an activity-based costing system (ABC) by Marconi Corporation, an electrical company in Portugal. According to the authors, the use of the model of Dillard et al. (2004) model helped them to understand how the imposition of a new accounting system imposed by its parent company had created a conflict between the commercial and production groups in Marconi Corporation. They found that the implementation of a new accounting system at the organizational level “has provoked resistance, distrust and conflicts over power, culture and self-identity, despite top management support and efforts to involve employees during implementation” (Hopper & Major, 2007, p. 88). This study also confirmed previous criticisms of NIS where market and legitimacy pressures proved not dichotomous but intertwined (Hopper & Major, 2007)

In a similar attempt Nor-Aziah and Scapens (2007) offered an extended framework based on the new institutional sociology theory in explaining how a new accounting and budgetary system was implemented in a specific public sector organization in Malaysia to achieve greater efficiency. The study explored the way actors in an

organization respond to the imposition of a new managerial tool. It was found that the response to the calls for greater efficiency in the Malaysian public sector resulted in tensions and conflicts between accountants and operations managers. The conflicts automatically obstruct an effective use of a new accounting and budgetary system for managerial purposes. In their study, they suggest that the implementation of new managerial tools within an organization is a complex process because of conflicting ideas, interests and powers from the actors. Drawing on their findings, they offer an extended framework based on NIS theory that the loose coupling can be both the result and outcome of an imposition of a new commercial tool in an organization.

Similarly, Dambrin et al., (2007) developed an institutionalization process model (IPM) inspired by institutional theory. According to Dambrin et al., (2007), the IPM model provides a more systematic framework in detailing the sequential process by which an accounting system is developed, implemented, and internalized in an organization. Drawing from the IPM model they explored the process of institutionalization of a management control system in a pharmaceutical laboratory company in France and they found that changes in the management control system were presented by managers as a means of enhancing the efficiency of the organization. However, in that study they found that it is difficult for a new model to be institutionalized and internalized within an organization, as existing practices coexist with the emerging ideals and systems of control. Drawing on their findings, they suggest that the adoption of a new managerial control system is an important feature of an organizational change, but that it is also important to note “[...] that the institutionalization does not occur through the simple imitation of an action by immediate observers” (Dambrin et al., 2007, p. 201).

In 2008, Rautiainen employed the concept of institutional changes drawn from NIS to examine the process of a performance measurement system change in a Finnish city. Drawing on a case study, the study found that budgeting and accounting change became coupled into action when institutional pressures

affecting change converged. The study also argued that political crisis played a significant role in the de-institutionalization process of accounting practices. In addition, Rautiainen (2008) also suggested that there was a gap between rules and routines – which shows the dynamic nature of coupling of institutional rules and routines. In this case, the researcher suggested that the analysis of both internal and external institutional pressures is vitally important to understand an institutionalization process.

In Malaysia, Norhayati and Siti-Nabiha (2009) used NIS to theorize the application of a private style accounting system in a public sector company in Malaysia. They found that the intention to institutionalize a new performance measurement system cannot be realized if there is a lack of pressure to support the change. They stated that the adoption of a new performance measurement system in the company may be due to isomorphic pressures that mimic other organizations in the same environmental field leading to a ceremonial adoption of the practice. Therefore it is important for researchers to examine not only the impacts of institutional factors on the institutional process of an accounting system, but also how the actors who actually implement the accounting system act and behave in an organization as suggested by Nor-Aziah and Scapens (2007), Dambrin et al., (2007) and Kostova and Roth (2002).

Drawn from NIS's perspective with the support of Lounsbury's (1997) concept of action drawn from institutional theory, Ball and Craig (2010) conducted a study which investigated the experience of two cities (respectively in the UK and Canada) in adopting a waste management practice. They found that the use of NIS theory with the support of the concepts of institutional change from Lounsbury (1997), Lounsbury (2008) and Dillard et al. (2004) was useful in explaining the roles political interest plays in mobilizing a specific practice (a new institution). Referring to the situation within the organizations under study Ball & Craig (2010) suggested:

[...] one implication of their findings is that researchers should pay greater attention to the interests, beliefs, and activities of managers in organizations under scrutiny; and that they should recognise the pursuit of distinctive interests by employees despite conditions of powerful institutional constraint. If there are processes of re-institutionalization in the context of the sustainability agenda, attention should be directed to determining which power and interests are shaping the change, and whether we can locate the processes involved historically. (p. 291)

A later study by Qian et al., (2011) also demonstrated how NIS theory can be combined with legitimacy and stakeholder theories as theoretical frameworks in understanding the state of environmental management accounting practice and the motivations for its use with a view to improving waste and recycling management by twelve local governments in New South Wales, Australia. They found that there is no doubt that local government, as a member of society, was influenced by the expectations of other members in society and its environmental management accounting practices in waste management needed to conform to required or anticipated behavior in the wider social structure. Qian et al., (2011) concluded that although institutional theory and contingency theory provide different explanations, these theories are complementary in providing explanations for the development of management accounting information systems in the organizations under study.

3. 4 Summary

This chapter has discussed the recent development of NIS theory and its shortcomings. In addition the chapter has also examined selected prior studies using NIS and its related lenses. In this regard, Ribeiro and Scapens (2006) stated that the simplistic and static character of previous studies using NIS in examining accounting innovations in specific organizations has led accounting researchers concerned with internal organizational changes to use alternative theoretical frameworks. In responding to the criticism, NIS has been prominent in extending the study of accounting change to include the social and institutional dimensions of organizations and their environments (Ansari & Euske, 1987; Moll & Major, 2006).

In summary, all the studies discussed imply that the recent development of accounting studies using NIS have provided insights not only on how a new ideal from the social and economic contexts becomes institutionalized into an organizational accounting system, but also how a new accounting system is developed, implemented, and translated into specific practices and the actions of actors within a specific context. In addition, as highlighted in the works of Nor-Aziah and Scapens (2007), Dillard et al. (2004) and Dambrin et al. (2007) -- NIS has been extended enabling a better understanding of the specific implementation process and practices of a new accounting system inside an organization. Such an attention is also to be employed in this study as to be discussed in Chapter Four.

CHAPTER FOUR

AN INTEGRATED MODEL OF INSTITUTIONALIZATION

4. 1 Introduction

As discussed in Chapter Three, prior accounting studies using New Institutional Sociology (NIS) have been criticized as they lacked detailed analyses on how specific accounting systems are used for legitimacy purposes. Moreover, these studies did not take into account the notions of power, interest and the process by which institutional changes are implemented within organizations (Covaleski & Dirsmith, 1988; Siti-Nabiha & Scapens, 2005; Cruz, Major & Scapens, 2007). As Modell, Jacob and Wiesel (2008) stated “[...] until recently, NIS has been largely silent about the more specific mechanisms of choice and under what circumstances individual actors, or change agents may influence institutional change” (p. 455).

Therefore it is suggested that further studies drawn from NIS perspectives need to recognize not only the social and economic factors, but also the roles of actors and their actions in the institutionalization of an accounting system (Burns & Scapens, 2000; Hasselbladh & Kallinikos, 2000; Dillard, Rigsby & Goodman, 2004; Nor-Aziah & Scapens, 2007; Dambrin, Lambert & Sponem, 2007). Based on that suggestion, this study employs an integrated model of institutionalization (IMI) adapted from Dillard et al. (2004) and Dambrin et al. (2007) drawn from NIS, as a framework in mapping and analyzing the pattern of events surrounding the institutionalization process of the accrual accounting system in the Indonesian public sector.

In this vein, the IMI model will be used to uncover and understand the role of actors and their actions in the institutionalization of accrual accounting in the Indonesian public sector. It is not the intention of the study to use the IMI model as a totality, but rather to use such a lens in understanding the complexity of phenomena under investigation. To provide a comprehensive view on the usefulness of the methodological frameworks for the study, this chapter discusses four issues: (1) the

dynamic of institution of Dillard et al. (2004); (2) the institutionalization process model of Dambrin et al.'s (2007); and (3) integrated model of institutionalization (IMI) drawn from Dillard et al. (2004) and Dambrin et al. (2007); and (4) the rationale for the use of the IMI model in the study. This chapter will conclude with a summary of the main arguments of this chapter.

4. 2 The Dynamics of Institutionalization Framework of Dillard et al., (2004)

In recognizing the roles of social and economic environments along with the roles of actors in organizations in the process of institutional creation of an accounting system, Burns and Scapens (2000) developed a framework drawn from Old Institutional Economics. This framework conceptualizes that accounting changes are the reflections of routines and actions of actors at the organizational level. This framework, unlike earlier NIS-based studies, shows that recent trends in institutional theory have accommodated the roles of actors and politics in theorizing the process and outcomes of accounting changes in a specific setting (Hopper & Maria, 2005; Siti-Nabiha & Scapens, 2005; Nor-Aziah & Scapens, 2007).

However Dillard et al. (2004) suggest Burn and Scapens's (2000) model did not consider the links between the organizational practices and the organizational field, or the possible influence of societal factors or influential actors. In contrast, Dillard's model postulated that new practices institutionalized by organizational actors are responses to institutional pressures. In other words, there is a need for accounting researchers to take into account the links between social, economic and institutional pressures outside organizations and actors' actions in the institutionalization process of a new accounting system. Dillard et al. (2004) stated:

[All] organizations are subject to regulative processes and operate under local and general governance structures. Organizations are socially constituted and are the subject of institutional processes that "define what forms they can assume and how they may operate legitimately"... An institution is an established order comprising rule-bounded and standardized social practices". (p. 508).

Therefore, according to Dillard et al. (2004) the institutionalization of a formal organizational structure (e.g., an accounting system in an organization) is influenced by the interorganizational context (organization field) in which organizations are institutionally embedded. This notion is not surprising, given the potential roles of accounting within societies. As Habermas (1987) and Dillard and Ruchala (2005) suggested “[...] accounting has a dominant role in constituting the rational practice of modernity [which] follows the logic of instrumental rationality” (Dillard & Ruchala, 2005, p. 609). Such a phenomenon is not only prevalent in the business sector but also in public sector contexts, as stated by Dillard and Ruchala (2005) when they note “the instrumentally rational hierarchical accounting and control systems are no less prevalent and controlling in the public and the not-for-profit sectors” (p. 611). In this vein, the central argument of Dillard’s institutional dynamics is that “[...] the development of formal organization structure is influenced by the interorganizational context in which organizations are institutionally embedded” (Dillard et al., 2004, p. 509) and importantly the model recognizes “the possibility of institutions being created and modified through actions of individuals and/or groups of individuals [outside and inside]” (Dillard et al., 2004, p. 513).

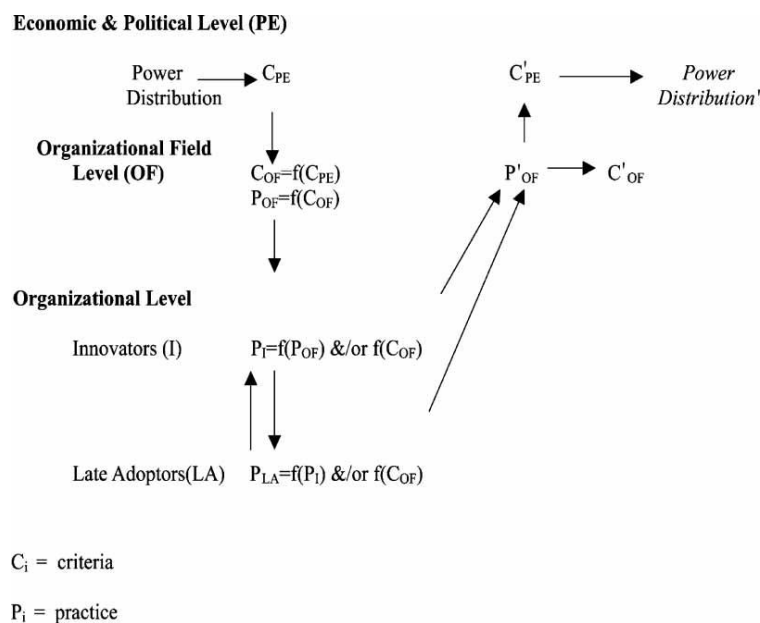
Thus, to understand the interplay between multilayered institutions and the active agency of organizations, Dillard et al. (2004) developed a framework which combined both institutional theory and Giddens’s (2004) structuration as a framework to better understand institutions and change processes (Figure 4.1). Drawn from NIS theory Dillard et al. (2004) stated the framework “allows the consideration of the social, political and economic aspects that make up the context within which an organization functions” (p. 511). According to Dillard et al. (2004) their model was designed to identify an institutional change in a organization as every institutional transformation could be better understood where the societal context can be explicated and linked to social action through the various levels of the social order.

As Dillard et al. (2004) stated, the framework [...] is a multilevel representation of the dynamics associated with the institutionalization process. The framework represents

continual, dynamic change and the significant influence of historical, social, and political factors in the institutionalization, transposition, and deinstitutionalization of practices” (Dillard et al., 2004, pp. 511-12). The framework depicts the process of institutionalization in a recursively cascading manner. According to the model the process of institutionalization of a new accounting system encompasses three levels of institutionalization. They are (1) economic and political level, (2) organizational field and (3) organizational level (Figure 1).

Figure 4.1

Dynamics of institution (Dillard et al., 2004)



Dillard et al. (2004) stated that the economic and political level “represents the overarching societal level of political, economic and social systems, within which norms and values are established and disseminated to members of that society” (Dillard et al., 2004, p. 512). The second level, organizational field, in which specific criteria is developed, which includes socioeconomic configurations such as industry groups, professional institutes, and geographical collectives, and so on. At the third level, organizational level, the framework explains how a specific institution (a rule or practice) it adopted or adapted (Dillard et al., 2004). According to Dillard et al. (2004, p. 513):

the recursive institutionalization process can be viewed as a process contextualized by the most general and widely taken-for-granted norms and practices accepted at the societal level where political and economic systems (PE) use symbolic sense-making criteria (C_{PE}) in articulating and instituting legitimate norms and practices. These norms and practices tend to be strongly influenced by powerful coalitions and represent the macro context for resource allocation.

The framework also indicates that at the macro level institutions can be quite hegemonic in their effect. Hegemonic here is defined as the power to form and organize consent (Ives, 2004, p. 2). According to Dillard et al., (2004), at the organization field-level, the norms and practices established at the macro-level are translated into field-specific expectations. At the macro level, social, economic, and political parameters enter the organizational field through organizational field criteria. Dillard et al. (2004) explain that at the organization level, firms can be characterized as either Innovators or Late Adopters. Innovators are those firms which develop and implement new practices within the parameters set by the organization field-level criteria and/or organization field-level practices. Late Adopters are those firms that adopt the practices developed and implemented by the Innovators. In terms of actors, Dillard et al. (2004) stated that governmental officials, regulators and legislators, may be the primary agents at the economic and political level. At the organizational field, the actors would include, for example, industry leaders, labor unions, and external consultants. At the organizational level, “[...] the managers and workers may be the primary actors” (Dillard et al., 2004, p. 513).

In addition, one of the basic features of Dillard et al.’s (2004) model is the incorporation of the notion of power and interest in understanding institutionalization processes as these aspects are interlinked. By doing so, the direction of institutionalization processes can be better understood as the process of institutionalization also “depends precisely on the power of the organizational actors’ translation and use of societal expectations” (Dillard et al., 2004, p. 510). According to Dillard et al. (2004) although institutional pressures in highly institutionalized environments can be expected to extract organizational responses, there are no

guarantees that there will be a uniform response by all organizations within the same organizational field. Indeed “[...] organizational responses may vary widely based upon the multiplicity of institutional pressures both within and external to an organization as well as the acceptable responses available” (Dillard et al., 2004, p. 515).

A number of reasons are provided that may explain varied organizational responses, including differences in expectations between organizations (Tolbert 1985); variations in the institutional environment due to differences between organizations (Zucker 1987); and differences in the response of individual organizations to institutional pressures (Covaleski & Dirsmith 1988; Carruthers, 1995). However, Dillard et al. (2004) noted that in spite of the varied organizational responses to institutional pressures, one can expect that as the level of institutionalization and the greater need for legitimacy increases, a greater degree of isomorphism will be observed within an organization field.

Therefore, it is suggested that, to provide a better understanding of the complexities of the process and interplays among actors, future studies need to recognize institutionalization as a political process “[...] reflecting the relative power of organized interests and the actors who mobilize around them” (Dillard et al., 2004, p. 510). This view is shared by Burns (2000) who stated that powerful actors (e.g. production or accounting managers) within an organization have the capacity to deploy their power strategies by mobilizing resources or controlling decision-making in accepting or rejecting new practices. In such a situation “[...] formal structures and procedures are adopted in order to acquire legitimacy and guarantee the resources required for the survival of the organization, but they are detached from the everyday organizational” (Ribeiro & Scapens, 2006, p. 97). Drawing from this therefore, it is possible to suggest that an institutionalization of a new structure (rule or technique) which represents the aspiration of strategic actors (e.g. shareholders, tax payers, government organizations) may not be in line with the interest of key actors of an organization adopting the new structure. That is different actors across institutional field levels may have different strategies and actions in institutionalizing an accounting system (Dillard et al., 2004).

Drawing from such a perspective, actors within organizations do not always position themselves as passive actors in institutionalizing a new accounting system as a strategy to maintain secure organization legitimacy and financial support. In fact actors within organizations are strategic agents in an institutionalization process. In this vein the responses of organizations or actors to institutional pressures can vary from passive to active (Greenwood & Hinings, 1996; Dillard et al., 2004). This point shows that the institutionalization process of a particular accounting system is a dynamic process that stems from “[...] the institutional environment, inter-organizational ties, other organizations, as well as from within an organization” (Dillard et al., 2004, p. 515). As such, through understanding the dynamics of (organisation-specific) processes of change, researchers will be better informed to understand the influence of the actors and their strategies at the social, economic, and political level, at the organizational field and also at the organizational level.

4. 3 The Institutionalization Process Model (IPM) of Dambrin et al. (2007)

As with Dillard et al. (2004), and inspired by NIS and how accounting innovations take place and influence existing structures, Dambrin et al. (2007) also proposed an institutionalization process model (IPM). They argue that the model can be used to explain the whole process of accounting institutionalization in an organization. Their model is drawn from Hasselbladh and Kallinikos (2000) who criticized prior literature on the institutional theory which “[...] failed to account for the distinctive character of the process of institutionalization” (Hasselbladh & Kallinikos, 2000, p. 701). According to Hasselbladh and Kallinikos (2000), it is important to develop a more specific model to identify the forms of detailed process by which any adopted systems, procedures, and roles are developed and institutionalized in an organization. Furthermore, Hasselbladh and Kallinikos (2000) state:

Our own suggestion is to be much more limited in terms of what an institutional perspective in organizational analysis should cover. Rather than referring to everything, the notion of cognitive and normative frameworks should be delimited to rationalized beliefs and patterns related to work and performance in the state, formal organizations or professions, at least as far as organization studies are concerned. (p. 702).

Furthermore, they were critical that prior institutional-based studies have been limited in answering a number of important questions as follows:

How is a domain of action delimited and what sorts of procedure are implied? How are the patterns of actions and meaning are framed and actors constituted in particular settings? By which techniques and operations rationalized patterns are constructed and sustained? (Hasselbladh & Kallinikos, 2000, p. 701).

Hasselbladh and Kallinikos (2000) suggested that without answering these questions, the nature of the institutionalization process of a new accounting system (for example) within an organization could not be fully understood. So inspired, Dambrin et al., (2007) offered a basic framework to understand how a specific technique is diffused, developed, adopted, and implemented in an organization. According to Dambrin et al., (2007) to understand a complete picture of how a specific accounting system is institutionalized within an organization, the institutionalization process consists not only of three stages as proposed by Hasselbladh and Kallinikos (2000), but also needs to include the internalization stage of the new system. Therefore, Dambrin et al. (2007) conceptualized four stages of institutionalization: (1) dissemination of new ideals; (2) elaboration of new ideals into policy development (new discourses); (3) development of specific management tools based on new ideals (new techniques); and (4) implementation of specified techniques (internalization). Definitions of ideals, discourses, new technique, and internalization are presented in Table 4.1.

Table 4.1

Definitions of institutionalization stages (adapted from Dambrin et al., 2007, p. 177).

Stages of institutionalization	Definition
1. New Ideals	New institutional logic promoted inside the organizational field (social level)
2. New Discourses	Ways of defining and acting upon reality
3. New Techniques	Systems of measurement and documentation for controlling actions and outcomes
4. Internalization	Objectification (i.e. the articulation of ideals, discourses and techniques) into individual actions

Dambrin et al., (2007) state that the first stage of the institutionalization process -- the dissemination of new ideals -- usually stems from outside the organization or firm. Later stages of the institutionalization usually take place within an organization

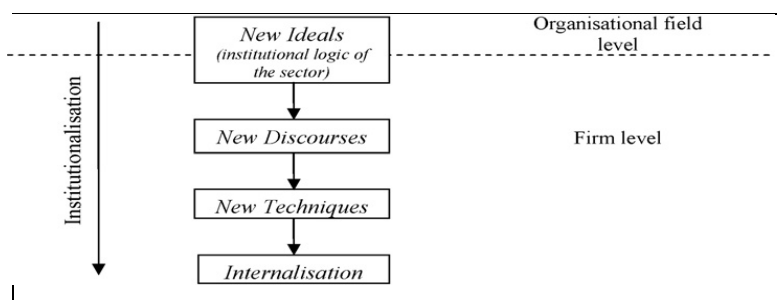
(organizational level). This view is also shared by Dillard et al. (2004) and Hopper and Major (2007) who suggested that new practices formulated and implemented by organizations' actors are the representations of the economic and political parameters [or values surrounding organizations] promoted by strategic actors outside these organizations. Dambrin et al. (2007) also maintained that the institutionalization process is complete when internalization occurs.

The IPM model supports the notion previously exemplified by Kostova and Roth (2002) who state that for an institutionalization process to be fully completed there must be a coherent link between ideals, new discourses, techniques, and the actions of people involved in the institutionalization. Therefore, for example, if the institutionalization of a new accounting system is intended to improve efficiency of a commercial company, then the internalization of the accounting system should support the efficiency improvement of the company's operation. In this case, the internalization reflects the ideal (efficiency improvement) which promoted the wish to adopt the accounting system. In such a situation, the actors within the company mobilize themselves as active actors institutionalizing the accounting system. As Dillard et al. (2004) suggested an active adoption occurs as the actors "[...] view the practice [the new accounting system] as valuable and become committed to the practice" (Dambrin et al., 2007, p. 176).

When institutionalization fails, there is minimal adoption of a practice. In this case following the idea of Meyer and Rowan (1977) and Kostova and Roth (2002), Dambrin et al. (2007) proposed that "[...] when implementation occurs without internalization, there is loose coupling or decoupling and practices are adopted on a *ceremonial* basis" (p. 176). In other words, the extent of the institutionalization process lies in the internalization of underlying rationales for the new accounting system by organizational actors. Figure 4.2 describes the link among new ideals, new discourses, new techniques, and internalization by Dambrin et al. (2007, p. 178).

Figure 4.2

Stages of institutionalization (adopted from Dambrin et al., 2007, p. 178).



Taking into account the model’s principles, this means that the internalization of an accounting system in a public sector organization can be complete if the initial ideals about the purpose of the adoption of a specific accounting system as a means for efficiency and performance improvement are reflected in the actions of people who adopt the new accounting system. That is institutionalization occurs when “[...] the rules are coherently linked to the actions (routines) of actors [in a specific organization]” (Burns & Scapens, 2000, p. 6).

4. 4 An Integrated Model of Institutionalization

Drawing from the dynamics of institution of Dillard et al. (2004) and the institutionalization process model (IPM) of Dambrin et al. (2007), these frameworks can be combined into an integrated model of institutionalization (IMI). The resulting model can be used as a framework in mapping and analysing the historical developments of the Indonesian government’s efforts to adopt the accrual accounting system in the public sector, and how it has been adopted by actors of a municipal government. Table 4.2 presents the integrated model.

Table 4.2

Integrated Model of Institutionalization

(A) Level of institution	(B) Stage of institutionalization			
	New ideals	New discourse	New Techniques	Internalization
Economic and political level	Expected*			
Organizational field		Expected*		
Organizational level			Expected*	Expected*
Note: * The “expected” refers to the anticipated dominance influence at each level and each stage.				

4. 4. 1 The reasons to integrate the models

The value in integrating the two models is based on three reasons. First, the models have the same aim. These models were designed as a response to the critiques that prior studies using institutional lenses failed to integrate the link between social and economic factors and the actions of people in the creation of new accounting practices (rules) within organizations. This notion has also been expressed by other accounting scholars (Hasselbladh & Kallinikos, 2000; Nor-Aziah & Scapens, 2007). Therefore, both the institutionalization models of Dillard et al., (2004) and Dambrin et al., (2007) have a similar aim and thus can be combined for this purpose. The aim is to provide a complete picture of the institutionalization process of an accounting system and both models share this goal.

Second, they serve two different but related issues; stages and levels. In this vein although the Dillard et al. (2004) model is useful for understanding the dynamic features of the transportation of ideas on new accounting practices across the three levels of institution (i.e., at the economic and political level; organizational field; and organizational level), their model fails to offer the stages of institutionalization. Meanwhile, Dambrin et al. (2007) proposed that to understand the nature of the link between the actions of people practicing a new accounting system (for example) and the reasons (ideals) behind its adoption, it is important to know how it has been internalized. Therefore, the IPM model of Dambrin et al., (2007) can complement the concept of institutional dynamics of Dillard et al., (2004) in recognizing the link between the actions of actors at different stages with the ideals or rules outside the organization, as well as within at the economic and political level or organizational field.

Third, although the IPM model of Dambrin et al. (2007) can be used to map the time lines (or periods) of events related to institutionalization into four stages (see column B Table 4.2), it only categorised the institutionalization process of a new accounting system into two levels of institution: organizational field, and firm level. This approach differs from Dillard et al.'s (2004) model which categorized the levels of institution more comprehensively (see Column A in Table 4.2). Therefore combining

these two models into one new model of institutionalization, would allow accounting researchers to map the situation, events, and periods of a process of institutionalization and to explain the dynamic features of the process across the three levels of institution. In addition, the model can be utilized to identify the people and their actions relating to the institutionalization of a new accounting system.

4. 4. 2 The expectations from the IMI Model

Drawing from the IMI model the focus of the study is to examine relevant information relating to the institutionalization of the accrual accounting system in the Indonesian public sector at the economic and political level, organizational field, and organizational level. Meanwhile, the IMI model is also used to identify information relating to the new ideals, new discourses, new techniques, and the internalization of the accrual accounting in the Indonesian public sector. Table 4.3 presents the expectations of how the model will reveal itself in explaining the situation of this study. The expectations are that the levels and stages of institutionalization occur in this case primarily at the points indicated in Table 4.2 and Table 4.3 as discussed below.

Table 4.3

Expected actors and outcomes of institutionalization

Level of institution	Actors	Outcomes
Economic and political level	Central government officials (e.g. Ministry of Finance), Parliamentary members and international organizations and international organizations	Seminars and workshops as a means for disseminating new ideals
Organizational field level	Association of Indonesian Local Governments; Indonesian Institute of Accountants, consultants, local parliamentary bodies	The issuance of local government laws, regulations (new discourses), professional accounting standards.
Organizational level	Officials of local governments	<ul style="list-style-type: none"> • The production of new accounting techniques • The internalization of new accounting techniques in accordance with new ideals and new discourses.

- The diffusion of new ideals is likely undertaken at the economic and political level because at this level the norms and values are established and disseminated to members of a particular society including government organizations. According to Dillard et al. (2004), these norms and practices tend to be strongly influenced by

powerful coalitions and represent the macro context for resource allocation. Hence, macrolevel institutions can be quite hegemonic in their effect. At this level, the diffusion of new ideals is not only mobilized by government organizations but also international organizations (Dillard et al., 2004). Drawing from Dillard's model, Hoper and Major (2007) suggest powerful state bodies at the European Union and national levels and interest groups have important roles in the diffusion of regulatory principles at the organizational field of commercial companies in Europe.

In the context of the public sector in developing nations -- the actors who are involved in the dissemination the new ideals at this level would not only be from government organizations, but also international financial authorities such as the IMF and the World Bank (Table 4.3). It is important to take this into account, especially in emerging economies, where both powerful, domestic actors and international communities have significant impacts on the policy formulation of new accounting and auditing frameworks (see Sharma & Lawrence, 2008, 2009; Rahaman, 2009). Therefore, the expected important actors involved in the diffusion of new ideals in the public sector in Indonesia would likely be these actors. Meanwhile, the dissemination of their new ideals in the public sector in Indonesia can be undertaken through seminars, workshops, and other related programs (Table 4.3 and Table 4.3).

- The mobilization of new discourses is expected to be undertaken at the organizational field (Table 4.2), because, at this level, the dissemination (creation) of new discourses are required to respond to the expectations of new ideals diffused at the economic and political level. Dillard et al. (2004) state at the organization field-level, the norms and practices established at the macro level are translated into field-specific expectations. Based on new ideals diffused from the political and economic level, the actors at the organizational then form criteria for evaluating legitimate action or practice within organizations. These "criteria" and these norms and practices are essentially the concept of new discourses of Dambrin et al. (2007). In the context of this study, the actors at this level would include professional organizations such as the Indonesian Institute of Accountants and others (see Table 4.3). It is expected that the actors in this level would promulgate local government policies (also a type of new

discourses) in local government reporting systems/practices. These may include local laws or regulations issued by local administrations (Table 4.3).

- The establishment of new techniques should primarily occur at the organizational level (see Dillard et al. 2004), because people or actors within organizations are required to develop/formulate specific techniques (for example, accounting systems) to respond to the demands of actors established at the organizational field. Also, financial/accounting managers of specific organizations are often required to develop specific accounting systems to monitor the efficiency of organizations' programs (Hopper & Major, 2007). Drawn from the IPM model of Dambrin et al. (2007) new accounting systems designed within organizations would be essentially new techniques. In the context of this study, it is expected that the actors in this level would include financial or accounting officials of provincial governments, municipalities, or districts (Table 4.3). Hence the expectation is that institutionalization of new techniques will occur primarily at the organizational level (Table 4.2).

- The internalization is primarily expected to be undertaken at the organizational level (Dillard et al., 2004). People/actors within organizations internalize values or norms, or what Dambrin et al. (2007) refer to as the new techniques. Therefore, drawing from Dambrin et al. (2007), it is expected that the internalization of a new accounting system occurs within organizations. This is essentially Dillard's organizational level. The internalization of new techniques not only requires organizational actors to use accounting systems for preparing reports, but also requires these actors to use these accounting systems for particular purposes such as efficiency or accountability improvement, in accordance with the new ideals and new discourses. Therefore, internalization is expected to occur at the organizational field (Table 4.).

However, Dillard et al. (2004) reiterate that at the organizational level, the institutionalization of new accounting techniques would be difficult if there were conflicts between values, beliefs, and norms of different actors within the same level/field. This idea is consistent with NIS's concept of decoupling (Dambrin et al.

(2004). According to Dillard et al. (2004) conflicting criteria may happen (1) between the macrolevel and organization field-level; (2) between the organization level and field-level; (3) between organizational fields (that is, not all organizational fields may accept the same values, beliefs and norms); and (4) between organizations within the same field. Thus these aspects should be taken into account in understanding the nature of institutionalization of a new accounting system at the organizational level in Indonesia. Thus, our expectations may or may not be met in the internalization of accrual accounting in the Indonesian public sector.

▪ Power, authority, and the interest of actors are expected to be influential at each stage and each level of institutionalization (Table 4.2). Power represents the means through which intentions are to be achieved, and powerful actors' desires exerted on others (Buchanan & Badham, 1999). Power is exercised to produce intended effects in line with perceived interests of actors (Burns & Scapens, 2006). Burns and Scapens (2006) conceptualized dimensions of power which include power to control decision-making and power to manage resource mobilization. As Burns (2000) suggests, politics and power can play a key role (though they are not necessarily the only key factor) in driving and shaping change processes. Thus the power and interest should be taken into account as well in understanding the nature of institutionalization of a new accounting system (see Siti-Nabiha & Scapens, 2005).

In conclusion, the IMI model (Table 4.2) thus builds an expectation of the points at which different stages and levels of institutionalization will occur. This expectation is based on the concepts, the logic, and the experiences of Dillard et al. (2004), Dambrin et al. (2007). In this case, their models are combined in a unique way to analyze and understand the institutionalization of the accrual accounting system in the Indonesian public sector.

4. 5 The Rationale for the Use of IMI Model

As Dillard et al. (2004) and Lounsbury (2008) suggested, a major criticism of NIS is its relative inattention to the role of social, economic, and political dimensions, and proactive actors in constructing institutions. Therefore, from a methodological

perspective the use of the IMI model is useful for three reasons. First, the framework can serve as a useful conceptual model in understanding the historical developments of an accounting technology in a public sector context at the national and state levels (e.g. Baker & Rennie 2006; Carpenter & Feroz, 1992; 2001). As NIS-based studies indicate, the wider socio-political environment shapes why and how public sector organizations adopt new accounting systems (e.g. Siti-Nabiha & Scapens, 2005; Dambrin et al., 2007). Public sector organizations, because of government reform initiatives, have to respond to macro level pressures. Consequently, it is crucial to take a macro perspective into account in understanding public sector reforms at the micro-level and the dynamic processes of accounting change, which involves social actions and interactions among actors (individuals/organizations). Thus, it is necessary to analyze both the macro and micro levels of the process of accounting change in public sector organizations (Modell, 2002).

Second, because recent accounting literature drawing on NIS theory has suggested extending the use of this framework at the actual level of innovation, several studies have replied to the call by focusing on both the socio-economic and policy levels, and actual implementation of specific reforms in accounting innovation. In this regard, as Nor-Aziah and Scapens (2007) demonstrated -- the extended theoretical lens based on an institutional perspective was found to be helpful in understanding the internal dynamic process of the adoption of a new accounting system in a specific public sector organization. Other studies also have pointed out the usefulness and applicability of the new institutional sociology to facilitate our understanding of how a specific accounting system is implemented at the practical level (see Model, 2002; Siti-Nabila & Scapens, 2005; Dambrin et al., 2007; Hopper & Major, 2007).

Moreover, the IMI adapted from Dillard et al., (2004) and Dambrin et al. (2007) can complement economic theory by providing explanations as to how accounting information is adopted and used in specific organizations (Ansari & Euske, 1987; Siti-Nabila & Scapens, 2005; Nor-Aziah & Scapens, 2007). With respect to the use of institutional dynamics model of Dillard et al., (2004) and the notion about the roles of

actors and power used in this study, the incorporation of these concepts is required in understanding the complexities in the process of institutionalization of an accounting system. Therefore, by combining the institutional dynamics model of Dillard et al. (2004) and the IPM model adapted from Dambrin et al. (2007), this study not only sheds light on the level of institutionalization, but also the processes that take place throughout the stages of institutionalization of an accounting system in a public sector context.

4. 6 Summary

To provide a comprehensive view on the usefulness of the methodological frameworks for the study, this chapter has examined (1) the dynamics of institution model of Dillard et al. (2004); (2) the institutionalization process model of Dambrin et al. (2007); (3) an integrated model of institutionalization (IMI) adapted from Dillard et al. (2004 and Dambrin et al. (2007), and (4) the rationale for using an IMI model for the study.

CHAPTER FIVE

RESEARCH METHODOLOGY AND METHODS

5. 1 Introduction

The purpose of this chapter is to provide the philosophical underpinnings of the research and the research methods that have been undertaken to collect, analyze and interpret the data of this study. In planning and undertaking research it is important for researchers to fully comprehend the nature, aim and scope of their studies before determining a specific approach in terms of research methodology and methods for their studies (Laughlin, 1995). According to Hart (2003) methodology refers to the principles that “[...] show the appropriateness of techniques used to gather data and the methodological approach employed” (p. 13)”. In addition, methods refer to the specific procedures undertaken in collecting, analyzing, and presenting data (Maykut & Morehouse, 1994).

Lincoln and Guba (1985) state research is “[...] a type of disciplined inquiry undertaken to resolve some problem in order to achieve understanding or facilitate action” (Lincoln & Guba, 1985, p. 549). Given that definition, it is clear that a researcher has to undertake research activities in order to find the solution to a problem, achieve an understanding of a specific phenomenon or to facilitate an action (Lincoln & Guba, 1986). In addition, to provide credible results and a reliable conclusion, it is imperative for researchers to adopt an appropriate research methodology and method for their studies (Lincoln & Guba, 1986). The structure of this chapter is therefore as follows: First this chapter discusses the philosophical underpinnings of research in general. Then it discusses the strategy of inquiry that has been employed in this study. The final section of the chapter then highlights specific research methods that have been used to collect, analyze and interpret the data.

5. 2 Philosophical Underpinnings of Research

An understanding of the philosophic assumptions underpinning research is important when one begins a research project, because questions will come up that were not, or perhaps could not be anticipated (Maykut & Morehouse, 1994). Therefore, it is vitally important for researchers to fully comprehend the basic philosophical perspectives underlying their studies. As Maykut and Morehouse (1994) state:

If the researcher cannot articulate, at least to herself, the reasons for using qualitative methods in a research project, it is likely that she will be unable to defend the project as a rigorous and valued piece of scholarship. The better one understands the larger picture that qualitative research methods fit into, the better one can conduct research within the research tradition that one is working within. (p. 2)

Research in the social sciences, including accounting, can be characterized as belonging to one of a number of paradigms. Each research paradigm has its own set of underlying principles and assumptions. A paradigm is defined by Burrell and Morgan (1979 p. 25) “[...] as the very basic meta-theoretical assumptions which underwrite the frame of reference, mode of theorizing and *modus operandi* of the social theorists who operate within them”. They state that a group of theorists working within a paradigm approach social theory in the same way.

Paradigms are differentiated on the basis of their ontology, epistemology, and view on human nature (Morgan & Smircich, 1980). Ontology refers to the researcher’s beliefs about the nature of reality. Reality can be seen as objective, singular, and separate from the researcher, or reality can be seen as subjective and multiple as seen by participants in a study (Collis & Hussey, 2003). Epistemology refers to how we know what we know (or what is known of the relationship between the researcher and the particular phenomenon that has been researched). On the one hand, the researcher may be viewed as separate from the researched; on the other hand, a researcher may be viewed as being submersed in the world of the research subjects.

According to Burrell and Morgan (1979) “[...] all approaches to social science are based on interrelated sets of assumptions regarding ontology, human nature and epistemology” (as cited in Morgan & Smircich, 1980, p 491). They posit that every paradigm in social science research lies somewhere on a continuum which ranges from subjectivist approaches on the far left, to objectivist approaches on the far right. Although the dichotomy of research based on Burrell and Morgan’s (1979) categorization has been criticized (Morgan & Smircich, 1980) “[...] Burrell and Morgan’s (1979) framework has been an important starting point in methodological debates” (Ahrens, 2008, p. 291).

Creswell (1994) stated that there are two main streams of research; qualitative and quantitative research. According to Creswell (1994, p. 2), qualitative research “[...] is an enquiry process of understanding a social or human problem, based on a complex, holistic picture, formed with words, [and] detailed views of informants and conducted in a natural setting”. Therefore, the basic nature of a qualitative study is that it is way to understand the meaning of a specific phenomena in its context by exploring data based on the words, actions and experience of people in a specific setting (i. e., place, organization, country). Denzin (1997) shares a similar view. Denzin (1997) stated:

In the qualitative approach process and meanings are not strictly explored in terms of quantity, amount, intensity or frequency, but it gives more attention to the socially structured nature of reality, the closeness between the researcher and what is studied, and the situational constraints that shape inquiry. A qualitative approach includes case study, participant observation, ethnography and in-depth interview. The qualitative approach is commonly referred to as critical, naturalistic, interpretive, participatory or phenomenology. (p. 4)

In contrast, “[...] a quantitative research is heavily based on measurements and the analysis of causal relationships between variable” (Denzin, 1997, p. 4). Therefore, statistical procedures play the central role in analyzing the data as suggested by Creswell (1994). In a quantitative study, “[...] an inquiry into social and human problems is based on testing a theory, composed by variables, measured with

numbers and analyzed by statistical procedures (Creswell, 1994, p. 2). This approach is commonly referred to as mainstream, positivistic, or scientific (Creswell, 1994; Yin, 2003).

In relation to this study, the researcher has undertaken a case study as an approach to understand the institutionalization process of an accrual accounting system in an Indonesian municipal government. As a case study, this investigation does not predefine any variables to be tested, but it investigates the words, actions and behaviours of the people under the focus of the study. In other words, the use of a case study for this research is required, because this study is designed to seek a deeper understanding of the phenomena under study from the participants and other sources of data in its context and setting, an approach suggested by Yin (2003) and Nor-Aziah and Scapens (2007).

5. 3 Strategy of Inquiry

As this study aims to seek a better understanding of the process of institutionalization of an accrual accounting system in the Indonesian public sector, it employs a case study⁵. The rationale for the choice of the case study stems from the nature and context of the study. Based on Yin's (2003) definition, and the suggestions from Cooper and Morgan (2008), it is clear that the case study method is needed when a research project is aimed at identifying and explaining the complexity and importance of realities, facts, actions, and behaviours within a specific setting. Therefore, qualitative researchers should equip themselves with a good understanding of the reality and contexts that will be investigated. Familiarity with the context and the topic of the study that are going to be investigated is an important factor that affects the capacity and effectiveness of a qualitative researcher in capturing information and data that are required (Corbin & Morse, 2003).

⁵ The emphasis on the term "the case study" in this section is required as the case study method can be conducted within the quantitative or positivistic tradition (Yin, 2003).

One of the strengths of the case study method lies in the use of multiple types of data gained from different sources of information (Yin, 2003). The use of data from multiple sources is required not only to deeply understand a specific phenomenon within a specific context, but also to provide all relevant information under the focus of a case study. Therefore, any case study, including this research, has to take into account all types and sources of information related to a particular phenomenon (e.g., from interviews with actors to official documents and press reports).

Using multiple sources of data not only aims at providing a better understanding of a specific phenomenon, but also creates the potential for case studies to make significant contributions to the stock of knowledge and practical purposes. In this regard Lee, Collier and Cullen (2007) stated “the capacity of case studies to draw from different data sources creates the potential for a better understanding and insights of organizational phenomena and the potential to contribute to the development of both theory and practice” (Lee et al., 2007, p. 169).

In addition, the case study method can involve either single or multiple cases, and numerous levels of analysis, to better understand a specific phenomenon from more than one population and to compare the results from a specific case with results from other cases (Yin, 2003). Moreover, case studies can employ an embedded design, that is, multiple levels of analyses within a case study (Yin, 1994). For example, a case study can look at a specific institutionalization of an accounting system in an organization by investigating the phenomenon from the central, division, and unit levels. This approach is required if a researcher aims to look at and compare the investigated phenomenon from whole levels within the organization.

Therefore, drawing on its capacity to identify a specific phenomenon from a specific context, and its flexibility in giving interpretation and its capability to understand the complexity of social realities, the case study method is increasingly

used as a research tool in many areas. In economics, political science, psychology, and education, the case study method has been used not only to provide understanding of and insights into a specific phenomenon from a specific setting, but also to generate a theory or test a theory (Yin, 2003). Furthermore, given that the actual practices of an accounting system are complex and not linear (Dambrin et al., 2007), the case study method has the potential to generate a deep understanding of the development and the use of an accounting system in a specific context, as this approach relies for its findings on actual experiences of people under the study (Ansari & Euske, 1987; Dambrin et al., 2007). In other words, the case study can provide detailed information and rich explanations regarding accounting practices from inside a specific organization.

An earlier call to perform the case study method in accounting research came from Kaplan (1983, 1984). According to Kaplan, using the case study method, will enable accounting researchers to identify the nature and actual practices of accounting from empirical data. Other accounting researchers also have emphasized the need to understand accounting practices from a practical level (e.g. Ansari & Euske, 1987; Nor-Aziah & Scapens, 2007; Dambrin et al., 2007). Current developments in accounting studies suggest that the case study method has been used not only in managerial accounting studies, but also in auditing and financial accounting studies (Cooper & Morgan, 2008).

In the public sector accounting context, the case study method has been employed in a number of studies (e.g., Ansari & Euske, 1987, Carpenter & Feroz, 1992, 2001; Christensen, 2002; Baker & Rennie, 2006; Nor-Aziah & Scapens, 2007). In these studies, the case study approach has been used to provide understanding and insights not only as to why and how an accounting system is developed, adopted and implemented, but also how a new accounting system is utilized at the operational level.

5. 4. Research Methods

In developing research methods, it is imperative for a researcher to show a coherent link between the aim and scope of the study, and to determine the types of data and appropriate strategies used to collect the data (Yin, 2003, p. 61). Moreover, a researcher has to take into account the provisions of trustworthiness with respect to the disclosure of any methods that have been used in designing, carrying out and reporting the result of her or his study. As suggested by Creswell and Miller (2000) the provisions of trustworthiness affect “[...] the credibility and authenticity of the findings of a study” (p. 126). Furthermore, the researcher needs to use appropriate methods to analyze the data, determine the coding procedures for the data, and ensure the logic linking the data to the propositions and criteria for interpreting the findings (Laughlin, 1995; Yin, 2003; Creswell, 2003). Taking into account the basic principles underlying a research project which are highlighted above, the following sections discuss: (1) the provisions of trustworthiness; (2) the types and sources of data that have been collected; (3) the data analysis and interpretative lens that were used to examine and understand the data of this study; and (4) the summary of the chapter.

5. 4. 1 Provisions of trustworthiness

According to Maykut and Morehouse (1994) “[...] trustworthiness refers to the believability of a researcher’s findings” (p. 64). In this respect it is imperative for a researcher to convey a methodological approach and the methods that have been used in a study. Following that notion, to enhance the believability of this study, all methods and procedures that have been undertaken are reported. Moreover, to ensure the accuracy and credibility of the findings of the study, the researcher has taken into account the importance of the quality of documents and other sources of information collected, as suggested by Maykut and Morehouse (1994) and Creswell (2003).

In assessing the quality of documents collected, the researcher has followed the suggestion of Flick (2009, p. 257) who stated that there are five principles which

affect the quality of documents: (1) the authenticity, which refers to the question of whether a document is a primary or secondary document; (2) the credibility, which refers to the accuracy of information contained in a document; (3) the reliability of the producer of a document (including the Internet), which refers to the nature of the publisher of the documents (e.g. a government organization); (4) the representativeness, which is linked to its typicality (whether a document contains specified information that is investigated); and (5) the meaning, which refers to the context or meaning contained in a document (or specific source of written information).

Moreover, to ensure the validity of its findings, this study has also taken into account the suggestions of Creswell (2003) as follows:

1. Triangulate different data sources of information by examining evidence from more than one source and using it to build a coherent justification for themes.
2. Use thick and rich description to convey the findings. This may transport readers to the setting and gives the discussion an element of shared experiences.
3. Present the negative or discrepant information that runs counter to the themes. Because real life is composed of different perspectives that do not always coalesce, discussing contrary information adds to the credibility of an account for a reader. (Creswell, 2003, p. 196)

In following these suggestions, this study has collected the data from multiple sources including official documents issued by the Indonesian government and outside the government. Moreover, historical sources reflecting the early development of the ideal leading to the adoption of the accrual accounting system for the government since the 1980s have been consulted. The use of data from the past, along with contemporary information regarding the institutionalization process of the accrual accounting system in Indonesia, is required to provide a rich and detailed explanation of the theme under study.

Furthermore, to enrich the nature of the data and ensure the accuracy of findings, the negative or discrepant information (e.g., the views of people who criticize the use of the accrual based accounting system in the public sector) is also presented to ensure that the study conveys any information relevant to the focus of the study (Creswell, 2003). As Scapens (2006) suggested “[...] accounting change has to be seen as a complex ongoing process” (p. 21), therefore any discrepant information under the focus of the study is not ignored.

In enhancing the trustworthiness of the research, relevant documents (laws, government regulations and government accounting standards, etc.) that were published in the Indonesian language were translated into English by the author, taking into account their contextual meaning to prevent possible bias. All interviews were conducted in the Indonesian language, and aimed at grasping the cultural meaning of information collected during the interviews. Moreover, the translation of document sources along with the interview transcripts was aimed to bring out the meaning of messages, not the literal meaning based on the translation of every single word. To check the validity of the translation of the transcriptions into English, two Indonesian accounting academics were hired to o recheck the translation. Both of them are Indonesian natives and they have postgraduate degrees in accounting from Australian universities.

5. 4. 2 Types and sources of data

As this study responds to the calls for integrating historical evidence and contemporary information with respect to a particular phenomenon, namely the institutionalization process of the accrual accounting system in the Indonesian public sector, the study collected the data from three sources: (1) laws and regulations with respect to the Indonesian government’s policies and frameworks that underlie the recent adoption and implementation of the public sector accounting system; (2) publicly available information regarding the historical developments of the ideals that required the use of the accrual accounting system; and (3) interview evidence from participants who (a) were involved in (or have an

understanding of) the policy formulation of the accrual accounting system in the Indonesian public sector in general and, (b) how the accrual accounting system is institutionalized at a specific municipal government. The study covers the period from 1983 to 2010.

As Modell et al., (2007) suggest, the use of data from the national level along with information from a specific agency can facilitate the examination of how a new accounting system “interplays with similar phenomena in broader political and institutional environments” (Modell et al., 2007, p. 457). In addition, although this study is designed to seek qualitative data, relevant quantitative data (e.g. the cost of reforming the Indonesian public sector accounting system) is also used to provide a more complete picture regarding the institutionalization process of the accrual accounting system in an Indonesian municipal government. As earlier suggested by Yin (1981) “for integrating evidence, quantitative and qualitative data that address the same topic should be assembled together” (p. 60).

5. 4. 2. 1 Laws and regulations

The collection of the data for this study began with the examination of recent laws and regulations about government reporting systems, state finance, budgeting and auditing in the Indonesian public sector. This examination was done to provide a basic understanding for the researcher regarding underlying frameworks of recent public sector accounting practices in Indonesia, both at the central and local level. As a country which adopted a continental legal system, where the nature of organizational and managerial aspects of local governments are heavily influenced by the policy makers at the central level (Alm & Bahl, 2001), understanding those legal sources is imperative to understanding how the government’s policies on the public sector reporting system are adopted at the local level. A number of legal sources which relate to the recent government reporting system in Indonesia were examined. Those legal sources can be categorized into three policy areas: (1) laws and government regulations about state finance, reporting systems, and financial management practices; (2) laws about auditing of state finances and the role of the State Audit Board; and (3) government regulations on financial management and reporting systems at the local level (i.e., for provincial and municipal governments). The list of the regulations is presented in Table 5.1.

Table 5.1

Legal sources related to the reporting and auditing in the Indonesian public sector

Policy area	Legal source	Main content
1. Laws and government regulations about state finance, reporting system and financial management in general for the public sector	Law 17 (2003) on state finance	<ul style="list-style-type: none"> • Basic policies on the state finances including budget formulation • The use of an accrual accounting system. • Financial management within the public sector must take into account economy, efficiency and effectiveness principles.
	Law 1 (2004) on state treasury	<ul style="list-style-type: none"> • Basic policies about the authority of state officials who carry out the tasks related to the management of assets and liabilities. • All government entities must produce financial statements and these reports must be reviewed internally. • Heads of executives (president, governors and mayors) and head of departments are responsible for the government reports they produce respectively.
	Government Regulation No. 24 (2005) on government accounting standards	<ul style="list-style-type: none"> • A set of government accounting standards (GAS) for the central and local governments. • The nature and scope of the GAS. • Examples of reports of local governments (e.g. balance sheets, cash flows, government equity reports, notes to financial statements and budget realized reports).
2. Laws about the public sector audit	Law 15 (2004) on auditing of the management and accountability of state finances	<ul style="list-style-type: none"> • All government reports are subject to the audit that aims at evaluating the truth, accuracy, credibility, and reliability of information concerning the management of, and responsibility for, state finances. • The purpose of the audit is to ensure that the management of government entities is in line with economy, efficiency, and effectiveness principles and in accordance with related laws and regulations.
	Law 15 (2006) on The State Audit Board	<ul style="list-style-type: none"> • The State Audit Board has wide range of roles in auditing all accounts of the Government agencies. • The State Audit Board is required to report its opinions on government reports to heads of executives (e.g. the President, governors, and mayors) and the Parliament. • Any audit findings that indicate criminal irregularities must be reported by the State Audit Board's auditors to police and attorneys.
3. Government (and ministerial) regulation about financial management and reporting systems for local governments	Government Regulation 15 (2005) on local government financial management.	<ul style="list-style-type: none"> • Rules that regulate the whole process of financial management at the local level which include: <ul style="list-style-type: none"> - The planning, budgeting and implementation of government programs. - The authority lines and the organization of local government institutions in relation to financial management at the local level. - The administration and reporting mechanism of government programs. - The control and accountability mechanism of local government finances.
	Ministry of Internal Affairs (MIA) Decree 13 (2006),	<ul style="list-style-type: none"> • The basic principles, frameworks and procedures that have to be followed by local governments in formulating local government projects, formulating the budgets, and administrating and reporting the financial statements. • Examples of reports of local governments.
	Internal Affairs Ministerial (MIA) Decree 59 (2007)	<ul style="list-style-type: none"> • A slight revision of MIA Decree 13 (2006) aims at simplifying a number of accounts with respect to the budget formulation, administration procedures of financial management and reporting practices at the local level.

Source: Law 17 (2003), Law 1 (2004), Government Regulation No. 24 (2005), Law 15 (2006), Ministry of Internal Affairs (MIA) Decree 13 (2006) and No. 59 (2007).

5. 4. 2. 2 Publicly available documents

There is no doubt that the examination of laws and government regulations enhances the researcher's knowledge of the government's policies underlying the accrual accounting system recently implemented. However, relying solely on these laws and regulations would not be sufficient to comprehend information relating to the historical developments, and social, economic and political contexts which have affected the pace and nature of recent public sector accounting reforms in Indonesia. Moreover, legal sources do not reveal information about prominent figures or organizations that were active in promoting the use of the accrual accounting systems in the public sector.

Therefore, this study has also explored publicly available documents such as working papers and speeches of past senior officials in the Ministry of Finance, along with policy papers and other forms of publication issued by international donor organizations such as the World Bank and the Asia Development Bank. Related articles published by professional and academic journals that were published from the 1980s to 2007 were also reviewed. Furthermore, to understand how the government's policies on the public sector accounting system were translated into actual actions by specific actors (people) or organizations, the researcher explored information related to the strategies and programs that were undertaken in implementing the accrual accounting system. This study also assessed to what extent the new accrual accounting system has been used in preparing the government's reports since the issuance of the government accounting standards in 2005.⁶ The examination of this issue was carried out by examining working papers, notes, press releases, audit reports, speeches made by the Head of the State Audit Board, press reports in printed materials (e.g. newspapers and magazines) and the Internet (e.g., the websites of the government agencies and press organizations). The data from those sources is useful to reduce

⁶ Although intense strategies and programs to support the implementation of the accrual accounting system were only implemented by the Government after the issuance of Law 17 in 2003, previous efforts that were undertaken since the 1980s are also reported.

the limitations of data drawn from laws and regulations that underline only the general requirements and purposes of implementing accrual accounting policy in the public sector.

5. 4. 2. 3 Interviews

In the context of the study, the interviews were aimed at complementing the data and information collected through examination of laws and regulations and relevant publicly available documents. Hammond and Sikka (1996) suggested that oral evidence provides many advantages as it reflects the actual experience of participants which is imperative to provide a deeper understanding for a researcher on a specific issue under study. One of the dominant reasons for its use in this study lies in the realization that, as a relatively recent event, the process of the adoption of a new accrual accounting system lacks documentary evidence other than "official" pronouncements. There is no doubt that official documents are typically written from a singular perspective and are often insufficient for revealing problems, disagreements and the self-interested manoeuvrings of individuals and organizations (Christensen, 2002). Inspired by the suggestion of Kvale (1983), therefore, the purpose of the interviews undertaken in this study was "[...] to understand people's views on a specific topic and to understand how those people came to their views" (Kvale, 1983, p. 176; King, 1994). The rest of this chapter will discuss the following issues: the selection of the participants in relation to the scope of the study, how the researcher approached the participants, the demographic aspects of the participants, the themes and process of the interviews, and the right protection for participants.

5. 4. 2. 3. 1 Selecting participants

The participants in this study were selected on the basis of their experience and understanding of the institutionalization process of an accrual accounting system in the Indonesian public sector. Moreover, it is important to note that although this study included a case study focused on a specific setting (a municipal government),

the reporting system of all local governments in Indonesia is regulated at the central level. Hence the researcher had to interview not only people who were involved in the implementation of the accrual accounting system at the municipal government, but also those who were involved in the policy formulation of public sector accounting systems at central government level. This is in line with the view of Scapens and Roberts (1993) who state that “an understanding of accounting practice (as a form of social practice) can only be achieved by exploring the historical development of accounting and the various influences on accounting” (Scapens & Roberts, 1993, p. 1).

The interview approach which is highlighted above is in accordance with the notion that in a case study, a researcher can interview people from different settings (organizations) to facilitate multiple levels of analyses within a case study (Yin, 1994). Interviewing participants from different groups of stakeholders or professions (e.g. the manager of an accounting unit, preparers and users⁷ of government reports, media, and parliament) has been adopted in previous public sector accounting studies (e.g. Jones & Puglisi, 1997; Van Peurseem & Pratt, 1998; Mignot & Dolley, 2000; Christensen 2002; Mack & Ryan, 2007). Thirty six participants were interviewed representing various roles and positions at the national level and the municipal government under study. Drawing on the IPM model of Dambrin et al. (2007), the study’s participants were categorized into four groups, as presented in Table 5. 2 (each group category reflects a stage of the IPM model). As noted in Table 5.2, the interviewees also included the potential users of the municipality reports.

⁷ The selection of the participants representing the preparers and potential users of the accrual-based financial information was directly observed in the municipality studied. In this vein they are the senior official in financial, accounting and planning affairs in the municipality. The selection of the users was based on the government regulations (Law 17/2003 and government accounting standards / 2005) which classify the potential (or the most likely) users of local government reports in Indonesia including local government officials, the State Audit Board and local parliamentary members. In addition, the selection of the reports’ users was based on the suggestion from Butterworth et al. (1989) and Mack and Ryan (2007). They suggested that to know the actual users of annual reports of specific government organizations, researches can observe directly to these organizations. In this case, people representing, consultants, media and non government organization activists in the municipality were interviewed.

Table 5. 2
Details of participants

No	Group of participants	Organizational position / role of participants	No. of participants
1.	New Ideals	2 former senior officials at Ministry of Finance (MOF). 2 academics	4
2	New Discourses	1 senior official (MOF) 1 senior researcher (State Audit Agency) 3 parliamentary members (national level)	5
3.	New Techniques	3 members of the Government Accounting Standard Committee	3
4.	Internalization	1 deputy mayor at the municipal government under study (MGUS) * 3 officials at the financial and asset management division (MGUS)* 2 officials at the planning and budget division (MGUS)* 2 officials at the inspectorate division (MGUS)* 2 officials at the human resource management division (MGUS) 3 auditors (The State Audit Board)** 3 parliamentary members (local level)** 1 senior official in financial and administrative affairs for local governments (Ministry of Internal Affairs)** 2 officials at the financial evaluation division for local governments at a provincial government in which MGUS is part of its jurisdiction** 2 consultants 2 certified public accountants 1 journalist 2 activists of a non government organization	24
Total of participants:			36***
Note: * = internal users of the municipal government's reports under study ** = external users of the municipal government's reports under study *** = Only one woman interviewed.			

The first group was the New Ideals group: i.e., participants who were involved in or have a good understanding of the dissemination of new ideals regarding the need to implement an accrual accounting system in the Indonesian public sector. In this respect, the researcher interviewed two former senior⁸ officials at the Ministry of Finance who were involved in establishing the State Accounting Agency (*Badan Akuntansi Keuangan Negara*, BAKUN) at the Ministry of Finance, which was assigned the responsibility for providing platforms and strategies to reform the government's reporting system in the early 1990s. They are also members of the

⁸ Seniority here refers to someone who has managerial authority, i.e. the head of a sub division of an organization or someone who has at least 5 years in her or his position in the government and was (or is) involved in the implementation of the government accounting standards (2005).

Indonesian Institute of Accountants (*Ikatan Akuntan Indonesian*, IAI). In addition, the researcher also interviewed two academics (a professor and a senior lecturer) who teach public sector accounting at university level.

The second group was the New Discourses group: i.e., participants who were involved in the efforts leading to the formulation and passing of Law 17 /2003 on state finance as the basis for the government to implement the accrual accounting system. The participants who were interviewed in this group included one high official in the Ministry of Finance, one senior researcher at the State Audit Agency, and three members of the National Parliament representing three major political parties who passed the Law 17 (2003).

The third group of participants were the New Techniques group: i.e., three participants who formulated the Government Accounting Standards (*Standar Akuntansi Pemerintahan*). They were also members of the Government Accounting Standards Committee (*Komite Standar Akuntansi Pemerintahan*, SAP) and officials in the Ministry of Finance.

The Internalization group made up the fourth group, i.e., participants who were involved in the internalization of the accrual accounting system in the municipal government under study. The selection of the participants in this group was also based on their understanding of and familiarity with the issues under investigation. In this respect, the participants were identified by their roles as the preparers or the potential users of the financial statements of the municipality. The preparers of the reports in the municipal government who were interviewed included a deputy mayor who holds the official responsibility for financial and accounting affairs and three officials from the financial and asset management division who were assigned the responsibility to prepare the reports. In all cases, interviewees in each category include actors at the economic and political level, organizational field and organizational level (Dillard et al., 3004) as appropriate to their roles.

Moreover, the potential users of the reports of the municipal government selected comprised two officials from the development planning and budget division and

two officials from the inspectorate division. In addition, a number of the users of the financial statements from outside of the local government were also interviewed, namely: two external auditors from The State Audit Board; three members of local parliament; two officials from the Central Sulawesi Province (in which the municipality is part of the provincial government), and one official from the Ministry of Internal Affairs, whose role is to oversee the development and financial performance of the municipal government under study.

To understand whether the municipal government under study has strengthened the skills of its accounting employees with respect to the implementation of the accrual accounting system, the researcher interviewed two officials from the human resources division of the local government. Furthermore, to provide a more complete picture regarding the process of implementation of the accrual accounting system in the municipal government under study, two consultants and one certified public accountant who had assisted the municipal government in preparing its reports were also interviewed. Finally, to note the perspectives of people outside the municipal government, a journalist and two non-government organization activists, who are concerned about local government accountability and transparency issues, were encouraged to reveal their views on the wider roles played by accounting reforms in Indonesia in general and the organization under study in particular.

The demographic attributes (e.g. experiences, educational background) of the interviewees among the groups in this study were different. The participants from the Ministry of Finance, the Ministry of Internal Affairs, and the State Audit Board at the central level, the Public Sector Accounting Standard Committee and the universities are those who have senior positions and related experience exceeding 10 years in accounting and related experience. For example, the two former officials in the Ministry of Finance had worked in the Ministry for more than 20 years. Although three members of the Government Accounting Standards Committee who were interviewed joined the organization only in 2004, their

experience as accounting officials and technical assistants to the Minister of Finance exceeds 10 years. Two academics who were also interviewed have more than a decade experience in teaching and research in public sector accounting. All of the interviewees identified above have tertiary education backgrounds in accounting.

On the other hand, the experience and educational backgrounds of the participants from the National Parliament, the provincial level (in which the municipal government under study is part of its jurisdiction), the municipality studied, the State Audit Board, the local parliamentary members, the accounting and consulting firms, the media and nongovernment organizations, vary greatly. Of the three participants from the National Parliament, none of them graduated in accounting or have 5 years' experience as a national parliamentary member. Two interviewees at provincial government have more than 5 years' experience in finance and budgeting, but only one has graduated in accounting. In the municipal government, although most of the participants had more than ten years' experience as civic servants, their involvement with the implementation process of the accrual accounting system started only in 2006.

Moreover, of these 10 participants in the municipal government, including one Vice-Mayor, the heads of four divisions (Financial and Asset Management, the Inspectorate, the Planning and Budget and Human Resources) and their five staff, none of them had an educational qualification in accounting. Nevertheless, the participants in the Financial and Asset Management and the Inspectorate divisions had been trained to understand the recent rules of the municipal government reporting system. Table 5.3 lists the demographic characteristics of the interviewees.

Table 5. 3
Demography of participants

No	Group of participant	Organization (number of participant)	Educational background	Experience (years)
1.	National level	Ministry of Finance (3)	Post graduate in accounting	> 20 years
		Ministry of Internal Affairs (1)	Post graduate in accounting	> 15 years
		The State Audit Board (1)	Post graduate in accounting	> 15 years
		Academics (2)	Post graduate in accounting	> 10 years
		The Public Sector Accounting Committee (3)	Degree in accounting	> 10 years
		National Parliament (3)	Degree (none in accounting)	≤ 5 years
2	Provincial level	A provincial government in which the municipal gov. under study (MG) is part of its jurisdiction (2)	One participant (post graduate degree in accounting) and one participant (degree in law)	> 5 years
3	Municipal government under study	Deputy –mayor of MG (1)	Degree (none in accounting)	> 20 years
		Financial and management division at MG (3)	Degree (non in accounting)	> 10 years
		Planning and budgeting division (2)		
		Inspectorate division (2)		
		Human resources division (2)		
		Auditors of the State Audit Board at MG (3)	One participant (post degree in accounting) and two participant (degree in accounting)	> 5 years
		Local Parliament (3)	Two participants (degree, but not in accounting, one participant (high school graduate)	≤ 5 years
		Consulting firms(2)	Degree (all in accounting)	> 5 years
		Accounting firms (2)		
		Media (1)		
		NGO (2)		

Meanwhile, of the three interviewees representing the State Audit Board who work in the municipal government under study, two of them had graduated in accounting and had experience as auditors for more than 5 years. None of the three legislative members at the local parliament had graduated in accounting. However, six participants representing consultants and accounting firms, the media and one non-government organization were all graduates from accounting schools with more than 5 years' experience as consultants, certified public accountants, journalists, and nongovernment organization activists.

5. 4. 2. 3. 2 Accessing participants

The researcher's past experience (Harun, 2007), shows that it is difficult in Indonesia to rely on letters to communicate with participants due to the low level of participants, responses to research questionnaires. Communicating via the Internet is a possible alternative, but it is less effective if there has not been previous contact with the participants. For these reasons, the researcher, equipped with official letters on the University of Waikato Management School letterhead, approached the participants directly in their offices or via telephone to discuss the nature of the study and to request an appointment for the interview. Prior to conducting an interview, an explanation was given to each participant pertaining to the aim of the research in relation to the development of public sector accounting in Indonesia. In order to get the participants approval to take part in the study, the researcher not only discussed the purposes of the study but also the nature of the contributions desired from the participants.

Although this strategy was time-consuming and costly, its advantage lies in the direct contact the researcher had with the study's informants. As highlighted by Mack and Ryan (2007) "[...] direct access to users is the most effective way to determine the role of accounting information in accounting research" (p. 137). Moreover, by forewarning the participants of the nature and scope of the study, they had a better opportunity to review relevant materials prior to the interview, thereby enhancing the quality of information collected. As a result, a number of participants were willing to provide the researcher with relevant documents and the names of potential participants to follow up for additional information. This approach is consistent with the snowball sampling method recommended for qualitative studies (Maykut & Morehouse, 1994).

5. 4. 2. 3. 3 Information sought from interviews

The purpose of the interview in the study was to capture information related to the institutionalization process of the accrual accounting system in the Indonesian public sector. Accordingly, the information sought was directed in accordance with the participants' roles in relation to the institutionalization process of the accrual accounting system in the Indonesian public sector.

In addition, in order to specify the information sought from the interviews and to help analyze the institutionalization processes of the accrual accounting system in the Indonesian public sector, official documents published by the Indonesian Government related to the government rules on public sector accounting were reviewed. Drawing on the IMI model adapted from Dillard et al., (2004) and Dambrin et al., (2007), the categorization of the information sought from interviews falls into four groups of questions raised during interviews: (1) the diffusion-stage group: which comprises questions that were designed to identify the social, economic, and political context in understanding how the initial ideals leading to the adoption of the accrual accounting system emerged; (2) the new discourse-stage group, which includes a number of questions that were raised to identify how the formulation of legislative policy to develop a set of the Indonesian public sector accounting standards was mobilized; (3) the new techniques-stage group which consists of questions to identify how the first accrual based government accounting standards in Indonesia were formulated and formally adopted at local level; and (4) the internalization-stage group which comprises questions that were designed to understand the ways in which the government accounting standards were actually adopted and implemented in the municipal government under study. In this respect, the exploration was specifically focused on how the municipal government reports were prepared and used.

The details of information that was sought from interviewees is presented in Appendix 3. The information that was sought during interviews was also used as

the basis for formulating the list of interview questions for the study. However, to keep the interviews flowing in a natural way, those questions were not used in a strict manner as the aim was to allow participants to openly uncover relevant information. This approach is in line with the suggestion from Corbin and Morse (2003) that “ [...] a good interviewer must be able to establish rapport and trust to gather information without controlling the flow of information and record it accurately” (p. 347).

Apart from interviews, the researcher also communicated with the participants in informal talks to gauge the feelings and views of participants about the phenomenon under study. In such a situation, a number of issues and information that were not purposely designed to be covered through interview questions were uncovered. Moreover, some of the participants were also willing to provide the researcher with the identities of participants who could be contacted in order to clarify a specific topic, or when further information was needed.

The interviews with the participants were carried out using face to face interviews (35 people) and a phone interview (one participant). The interviews with 29 participants (>80 %) out of 36 were tape-recorded, and the rest (7 people) refused to be recorded. The use of a tape recorder has been suggested by many researchers (i.e. Yin, 1989; Maykut & Morehouse, 1994, Yin, 2003). The contents of recorded interviews were transcribed as soon as possible after the interviews, as again suggested by Yin (2003) and Creswell (2003). It is important to note, despite the interviews with eight participants being not recorded, all relevant information provided was written down. Therefore, the length of the unrecorded interviews was relatively longer than recorded interviews, to ensure relevant information was captured. The summary of each interview with the participants was then reviewed after each interview and discussed again with participants in order to get clarification, and on their views on the summaries, as provided by the researcher. This clarification was conducted as soon as possible via telephone or second contact, thereby enhancing the credibility of the information. All of the interviews

were held in participants' offices. The duration of interviews of each was from one hour to 90 minutes.

5. 4. 2. 3. 4 Ethical issues

Prior to the start of the research, data collection procedures dealing with human contacts (i.e., interviews) had been approved by the Ethics Committee of the Waikato Management School, The University of Waikato. The basis of the participation of the participants in this study was voluntary. They had the right to refuse to answer any question. In addition they were told that they had the right to withdraw any information that had been provided up until the time that data analysis occurred. Information with respect to the contact address, email and the phone number of the researcher was given to all participants to allow them to address any questions or concerns related to the study.

To protect the rights of the participants, at the beginning of an interview the researcher told the participant the issues of confidentiality assurance. Furthermore, at the outset of each interview the researcher asked permission from the participant to record the interview. If a participant declined any interview being recorded, information from the interview was captured and retained in the form of notes. All information from the participants in this study has been stored in a computer protected with a password and all printed data from the participants was put in locked bags. Participants were also informed that this study would not use their names in any related publication.

4. 4. 3 Data analysis and interpretation

As data analysis and interpretation of data are the core element within the case study method (Scapens, 1990), the study follows the suggestion of Ansari and Euske (1987) and Creswell (1994) who stated that the evidence gathered from interviews and document studies can be analyzed for patterns and themes. Moreover, as the study used a qualitative approach, the analysis and interpretation

of the data collected was facilitated by the interaction of the researcher with the phenomena investigated. In such a situation, the researcher is part of the observed reality. Therefore, the interaction of the researcher with the study's participants and their understanding of the institutionalization of the accrual accounting system in the Indonesian public sector played a crucial role in understanding the themes or realities which emerged during data collection.

Yin (1994) stated "[...] the analysis of data arising from a case study is one of the most difficult aspects of doing case studies and data analysis consists of examining, categorizing, tabulating, or otherwise combining the evidence to address the initial proposition of the study" (p. 102). Therefore, in this study, once the data collection was completed that data was systematically identified and categorized with respect to the relevant information regarding the institutionalization process of the accrual accounting system in the Indonesian public sector.

In this respect the data that was analyzed and examined included: (1) laws, government regulations; (2) publicly available information (e.g. government reports, audit reports workshops, research, and media reports); and (3) information collected from interviews. In understanding the content, context, and meaning of every piece of data collected, content analysis was used in identifying, categorizing, and understanding available information. As suggested by Guthrie, Petty and Yongvanich (2004), this approach is useful to "analyze published information [and other relevant source of data] systematically, objectively and reliably" (p. 287). Guthrie et al., (2004) state that "content analysis is a method of codifying the text of writing into various groups or categories based on selected criteria..." (p. 287).

To ensure that the content analysis was effective, three suggestions from Guthrie et al. (2004) were followed:

- [1] the categories of classification must be clearly and operationally defined;
- [2] objectivity is key [any information or item] must be clear and belong to a particular category;
- [3], the information collected

[should] be quantified, and [4] [the use] of a reliable coder is necessary for consistency. (p. 287)

In implementing these suggestions a number of procedures have been undertaken. Firstly, all data and information gathered were processed by coding, categorizing and labeling the information with respect to the categorization of data and information based on the IMI model as a framework to better understand the institutionalization process of the adoption and implementation of an accrual accounting system in the Indonesian public sector. In this respect the categorization of events or information falls into four types of patterns of information: (1) new ideals, which indicate relevant information about the emergence of the initial ideals which requires the use of accrual accounting information in the Indonesian public sector; (2) new discourses, which present information regarding the formulation process of a government policy or law requiring the adoption of accrual accounting in the public sector; (3) new techniques, which reveal information about the formulation of a set of accounting standards for the public sector; and (4) internalization, which refers to how the new accounting system is actually implemented in an organization.

Secondly, with respect to objectivity, every piece of relevant information was categorized into the four types mentioned above. The data was also tabulated into a specific category (e.g., the period of specific events, actors, people or organizations and the character of specific actions from specific actors). This procedure was useful in understanding the nature of all information relating to the topic under study.

Thirdly, with respect to information collected from interviews, every relevant statement of the interviewees was analyzed and categorized into a specific theme or pattern of information. This process included the quantification of specific information from interviews [e.g. the number of interviewees who stated that the adoption of the accrual accounting is useful for making managerial decisions]. Quantifying any information into number or percentage, helped the researcher to gauge any underlying views of the interviewees on a specific issue. Examples of

categorization of information collected from interviews are presented at the appendices section of the thesis.

Finally, the categorization of any information into a specific category (e.g., the users of accrual-based reports, the implementation problems with respect to the adoption of the accrual accounting system at local level) was consistently used for all sources of information including that from interviews. In this respect, the use of specific theoretical lenses, i.e., the IMP model of Dambrin et al., (2007) was helpful in identifying and categorizing the data collected in this study into a specific theme or pattern of information.

5. 5 Summary

This chapter has presented the philosophical principles of research and methods that were used in collecting, analyzing, and interpreting the data from the research. As earlier discussed, this chapter has addressed the philosophical underpinnings of research in general. Beyond this, the chapter also discussed the theoretical issues underlying the strategy of inquiry that has been employed in this study. The last section of the chapter highlighted research methods that have been used to collect, analyze and interpret the data.

CHAPTER SIX

HISTORY OF INDONESIAN GOVERNMENT

6. 1 Introduction

This chapter lays out the background required in understanding the origins, historical and political contexts of Indonesia. Understanding these issues is important in establishing the nature and the economic and political level to which Dillard et al., 2004) refer and to evaluate implications of the political and public sector reforms including the policy to institutionalize an accrual accounting system in the Indonesian public sector. Firstly, this chapter presents background information on the geography and population of Indonesia and the history of the country from the colonial era to the end of Suharto's regime in 1998. Second, the chapter presents the political and public sector reforms that were undertaken following the collapse of Suharto era in 1998. This chapter will also discuss the responses to the public sector reforms. Finally this chapter will summarize the main points of the chapter.

5. 2 Geography and Population

The Republic of Indonesia is situated in Southeast Asia and is the world's largest archipelagic country. It comprises 17,000 islands and the largest islands are Kalimantan, West Papua, Sumatra, Java and Sulawesi. The topography of Indonesia ranges from coastal lowland to year-round snow-capped mountains in West Papua Island. Approximately 60 percent of the Indonesian terrain is forested and mountainous. The Indonesian population in 2005 was approximately 220 million and was composed of a range of main ethnic groups including Malays, Javanese, Buginese, Arabs, Chinese, and Polynesians (BPS, 2005). Jakarta is the national capital with Bahasa Indonesia as the official and academic language of the country. Hundreds of distinct local dialects are also widely spoken. Dutch is still used by the

older people and English is increasingly popular for both commercial and academic purposes (Zakaria, 2007).

6. 3 History of Indonesia

The modern history of Indonesia can be divided into four periods; the colonial era, the early independence era, Suharto's era and the reform period following the resignation of Suharto as president in 1998 (Ricklefs, 2001).

6. 3. 1 Colonial era and early independence

Historically Indonesia has been influenced by foreign powers drawn to its natural resources. Since the 13th century traders from the Middle East and India have brought Islamic traditions and European powers fought one another to monopolize trade in the Spice Island of Maluku from the 15th century onwards. After 350 years of Dutch rule, since the early 20th century Indonesian founding fathers led by Sukarno attempted to build an independent nation and proclaimed its independence in 1945 (Ricklefs, 2001).

The emergence of nationalism in Indonesia was triggered by the aspiration of local students who were given the opportunity to attend schools from the primary to the tertiary level by the Dutch in the early 1900s. This policy created a new generation who had access to western education systems. Therefore, they were exposed to scholarship, arts and emerging issues in Europe in the early 20th century which included human rights and decolonialization. This generation (including future leaders Agus Salim, Drs. Mohammad Hatta, Sjahrir and Sukarno) became involved in political discussion about independence and formed student and youth organizations as well as political parties. When the Dutch rule collapsed following the Japanese invasion of Southeast Asia in 1942, they continued their independence seeking activities secretly or strategically cooperating with the new regime, as the Japanese promised them independence (Ricklefs, 2001; Anwar, 2010).

After Japan was defeated in War World II, Indonesia proclaimed its independence in 1945. The Dutch came back at the end of 1945 with the hope that its allies (Britain, the USA and Australia) would help to reinstall the Dutch Indische Government in Indonesia. The process of reinstalling the Dutch rule was complex as Indonesia had proclaimed its independence and the help in reinstalling the Dutch colonial government from the allies was half-hearted. The US, Britain, and Australia preferred a transition of power in Indonesia to a new independent and democratic country, as De Kaizer (1993) states: “the attitudes of the Western Allies encouraged the founding of an independent and democratic Indonesia” (p. 120)⁹. Nonetheless full independence was not achieved until 1st July 1950 after warfare with the Netherlands and negotiations that involved the US, Britain, Australia and the United Nations (Ricklefs, 2001). Led by President Sukarno, West Papua was incorporated into Indonesia following pressure from the United States on the Netherlands that culminated in the 1962 New York-Agreement and UN-mandated Act of Free Choice (Saltford, 2000; Chomsky, 1988).¹⁰

6. 3. 2 The Suharto era and its legacy

Given the instability of the social and political situation coupled with intense competition among Islamic, nationalist and communist groups to run the

⁹ In addition, the basic foundation of the new proclaimed nation (the Republic of Indonesia) was based on democratic principles as written in 1945. Therefore when the conflict between the Dutch and Indonesia was settled in a United Nation Security Council meeting in New York in 1949, the US and other major powers at the time backed Indonesia as they were impressed with a speech about the importance to develop a new world order based on human rights and democracy delivered by Sjahrir, an Indonesian representative (Legge, 1988).

¹⁰ Although the incorporation of West Papua into Indonesian territory was approved by the United Nations, until now the case is still controversial given that the majority of Papuans during the transition period in 1960s were reportedly against the integration of their territory with Indonesia. It was argued that Papuans have no common cultural and linguistic background with the Asians of Indonesia. Saltford stated (2000): “[...] Papuans had little or no connection with the Asians of Indonesia” (p. 72). According to Saltford (2000) historically the Papuans have been waiting for a long time to become an independent nation, but the Western Powers (i.e. the US, Britain and Australia) and communist nations at the time were reluctant to block Indonesia’s effort to incorporate the territory. The position of these countries at the transition period benefited Indonesia, as stated by a British official in 1968: “I cannot imagine the US, Japanese, Dutch or Australia putting at risk their economic and political relations with Indonesia on a matter of principle involving a relatively small number of very primitive people” (Saltford, 2000, p. 75).

administration in the 1950s and 1960s, Indonesia lacked an effective government (Ricklefs, 2001). In 1965, the Indonesian economy was technically bankrupt as a result of poor economic governance, and abundant costs were incurred to wage war against the Dutch in West Papua in the early 1960s. A suspected-communist coup in 1965 was foiled by the army under the command of General Suharto. This coup was a momentous moment for the Indonesian army, with the support of the United States toppled Sukarno's administration (Smith, 1998).

After Suharto stabilized the security of the nation, he was appointed by the Parliament as the second president in 1966 and he installed a market-friendly economic policy in his New Order administration (Ricklefs, 2001). He introduced a number of reforms aimed to attract foreign investment such as the privatization of natural resources and the enactment of labor regulations favorable to international investors. He also opened up close cooperation with the World Bank, the Asian Development Bank, and the International Monetary Fund (Rosser, 1999).

Although Suharto was a military man born in a small village in Central Java, in forming his cabinet, he hired Western-educated economists (mainly they were graduates from The University of California at Berkeley, USA) to fill the main ministerial positions in the new government. His decision to post these economists in his cabinet attracted praise from pundits. For example, Hill and Thee Kian Wie (2008) observed:

Once Suharto had assumed effective control of the country in March 1966, these economists moved to centre stage and were progressively inducted into the cabinet. This was a momentous phase in the country's economic history: hyperinflation was quickly brought under control, investment increased and growth resumed. Looking back at this period, it is difficult to imagine a more talented group of economists in cabinet anywhere in the world, with Widjojo, Ali Wardhana, Sadli, Emil Salim, Subroto, Radius Prawiro, Sumarlin, Saleh Afiff and others among its members. (p.152)

Therefore, once Suharto was inaugurated, he maintained a solid administration that lasted for 32 years. He oversaw a strong economic growth that successfully transformed the country from a bankrupt state to one of the new emerging economies in Asia. In the Suharto era, economy, education, health and living standards were improved dramatically (Hill, 1999). The oil boom in the 1970s was effectively used to import capital goods and boost the productivity of agricultural and manufacturing sectors (Papenek, 1993). The economic structure of the country was significantly transformed, with manufacturing and service sectors overtaking agriculture to become the largest sector of the economy in 1991. The contribution of oil was reduced from a main source of the state's revenues in 1970s to a minor one in the late 1990s. After being the largest rice importer in the world for decades, Indonesia became self-sufficient in rice production by 1984 (Booth, 1994).

Leaders and politicians from neighboring countries provide a similar view on Suharto's role in stabilizing the Southeast Asia region and on his approach to free market ideas in the Asia Pacific region. Richard Woolcott (2008), a former Australian diplomat, suggests that Suharto had leadership qualities and made a major contribution in developing the economy of Indonesia and the stability of the neighboring region (Woolcott, 2008). He stated:

In 1965, 70 per cent of Indonesia's population lived below the UN poverty line. Per capita income was only \$US74. Less than 50 per cent of primary school-age children were in school. Thirty years later, those living below the poverty line had been reduced to 14 per cent. Per capita income had risen to \$US997 (a more than 13-fold increase) and a large middle class had developed. Ninety-six per cent of primary school-aged children were in school. World Bank projections in 1995 (since overtaken by the unpredicted East Asian financial crisis in 1997) suggested Indonesia would be the world's fifth-largest economy by 2020. Indonesia's stability and economic progress between 1975 and 1995 were indeed remarkable. No other developing country achieved comparable progress. Much of the credit for this transformation should be given to Suharto and his key civilian economic ministers. (Para 24-26).

Paul Keating, a former Australian prime minister also, praised the achievement of Suharto's administration and its impacts on the strategic and economic position of Australia. Keating (2008) maintained:

More than any figure in the post-Second World War period, including any American president, Suharto, by his judgment, goodwill and good sense, had the greatest positive impact on Australia's strategic environment and, hence, on its history. In the 40 years since he came to power in 1965, Indonesia has been the ballast in South-East Asian stability and the foundation stone upon which ASEAN was built. Suharto took a nation of 120 million people, racked by political turmoil and poverty, from near-disintegration to the orderly, ordered and prosperous state that it is today. Indonesia is a model of harmony, cohesion and progress. And the principal reason for that is Suharto. We can only imagine what Australia's strategic position would be like if Indonesia's 230 million people degenerated into a fractured, lawless state. (Para 2-4)

In a country with diverse ethnicity and religious groups, Suharto also maintained religious tolerance (Cone, 2002) and support for a modern education system. Although almost 90 percent of the Indonesian population is Muslim, making it the most populous Muslim country in the world, Suharto implemented policies that supported the development of a secular Islamic tradition that has been rooted in modern Indonesian history since the early 1900s (Woodward, 2001). He also supported the 1945 Constitution that allows and respects the freedom of religious faith (Cone, 2002; Wahid, 2001).

During the Suharto era the number of Muslim intellectuals grew and most of them "...were exposed to university work that stresses the importance of the nation-state, political and economic development, and the Western concept of human values" (Federspiel, 1991, p. 236). Among them are Soedjatmoko, a visiting fellow at the Cornell University in the late 1960s and former rector of the Nations University

(UNU, 2010), Nurcholish Madjid and Abdurrahman Wahid who later became the fourth President in 1999¹¹.

However, although Suharto's leadership qualities and his economic policies received much praise, three decades later the legacy of his administration has been heavily criticized. Although he maintained economic growth equipped by a relatively stable regime politically since the beginning of his administration, central to Suharto's strength was the imposition of an authoritarian government with support from the army. As Wanandi (2002) states "Suharto mainly used the army as a second line of authority to centralize the political system and the bureaucracy" (p.136). Thus democratic and human rights values were systematically undermined. In his era, of the political parties that were installed by the Indonesian founding fathers in the 1950s only three were allowed to participate in the general elections. The political platforms of these parties were also controlled (Liddle, 1986).

6. 3. 2. 1 Corruption and cronyism

Along with its use of the military, the Suharto administration has also been criticized as lacking in transparency and accountability and for encouraging cronyism practices. This condition led the country to be called one of the most corrupt in the world (BBC, 2004). Although Indonesia experienced economic growth during Suharto's era the achievement was "endowed with an abundance of natural resources, a huge population and a cheap labor force, all of which made it attractive to investors, including foreign investors" (McLeod, 2000, p. 100). McLeod (2000) asserted that the rent seeking within Suharto's regime was not simply the result of an effective economic control following independence "but was consciously put in place for the purpose of generating the rents that Suharto

¹¹ The expansion of Muslim education and reflection on the role of Islam in the modern, secular world system contributed significantly to the growth of the democracy movement that emerged as a major political force following the economic crisis of 1997 [and the end of the Suharto era] (Woodward, p. 2001,p.29). Other examples include Amien Rais, former speaker of the National Parliament (1999-2004), Nurcholish Madjid (a prominent Islamic scholar) and Din Syamsuddin, current head (2010) of the Muhammadiyah, a moderate Islamic organization with 29 million members. They are doctoral graduates from the US universities.

presumably wanted for their own sake, and also needed in order to first attain and then maintain a position of virtually unchallenged authority” (McLeod, 2000, p. 112).

According to McLeod (2000), Suharto strengthened and maintained his position by employing “the Suharto-Business Symbiosis” in at least three ways. Firstly, as the Suharto regime controlled a large number of state owned enterprises (SOE) operating mainly in oil and gas, coal mining, forestry and agriculture, he used these companies to provide jobs for his friends who had retired from the armed forces in order to gain their loyalty and make them dependent on his regime (McLeod, 2000). Secondly, Suharto’s administration endorsed monopoly policies for the companies of his friends (mainly Chinese) and his family in strategic sectors such as food manufacturing, media, transportation, banking and cigarettes (McLeod, 2002).

Thirdly, Suharto employed “a franchise system” through which he controlled the hiring of bureaucratic personnel for strategic positions in all government departments at both the central and local levels and the managerial positions in state-owned companies (McLeod, 2000). According to McLeod (2000), the awarding of these positions and state-backed facilities to the privileged people “was not free of charge” in other words, they must serve the Suharto regime. McLeod (2000) stated:

These franchises were not awarded free of charge, of course: as with the orthodox business franchises, there had to be benefits to both franchiser and franchisee. The payback could be in a multitude of forms: payment to a Suharto controlled *yayasan* (foundation); the provision of loans and award of contracts on favorable terms to first family members and business cronies by state banks, state enterprises and government departments; a flow of information to the top regarding individuals or organizations in order to protect it; and of course clear loyalty to the head of the franchise whenever there might be a public outcry about the way the country was being governed. (p. 101)

It can be suggested that although Suharto was successful in maintaining economic growth during his era, the achievement of the administration was partly supported by abundant natural resources and a cheap labor force. This combined with “effective nepotism and cronyism systems” under the control of Suharto that monopolized major economic activities in state-owned companies and companies of Suharto’s friends with the support of military officials assigned in the bureaucratic positions at the central and local levels.

6. 3. 2. 2 The end of the Suharto era

A combination of dictatorship and cronyism in Suharto’s regime undermined the achievements of Suharto’s well managed economy from the late 1960s to early 1990s. As the financial crisis struck Asian countries in 1997, Suharto’s regime lacked direction in facing the crisis, especially as the economists that had formulated his economic policies since the late 1960 were no longer in Suharto’s cabinet (McLeod, 2000). McLeod (2000) stated: “although Suharto could control everything, he could not control capital, which could vote with its feet in the most democratic arena: the global financial market” (McLeod, 2000, p. 109). As a consequence, the economy of the country worsened and it triggered demonstrations and protests from students and prodemocratic movements who called for Suharto to step down. Suharto finally resigned on 21 May 1998 under these pressures (Hill, 1999).

6. 4 Reforms after the Suharto era

This subsection will discuss political and public sector reforms that have been undertaken since the resignation of President Suharto in 1998, which acted as a catalyst for these reforms.

6. 4. 1 Political reforms

From a political perspective, the first reform undertaken after the Suharto era was the amendment of the 1945 Constitution. As previously explained, the purpose of

the amendment was to create 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 amendment were the changes of regulations with respect to the election of the president as well as governors and regents or majors (Baswedan, 2007). In the past, the president was elected by the members of the People's Consultative Assembly.

In addition, although formally heads of local governments were elected by the members of local parliamentary bodies at the provincial and municipal levels respectively, the final appointments to these positions had to be approved by the President. 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 (5 years each.) Furthermore, political reform in the post-Suharto era has also been undertaken to strengthen the freedom of expression within society. As a result, the number of political parties has dramatically increased and they have been allowed to participate in general elections since 1999 (Baswedan, 2007).

In essence the political reforms that have been undertaken since the end of the Suharto era were to limit the political power of the president that undermined the freedom of expression of people. As stated by Baswedan (2007): "An important feature of Indonesian politics has been the dominance of the president" (p. 323). Therefore, the reformulation of the presidential election process was designed to "increase the president's power by virtue of having gained legitimacy directly from people" (Baswedan, 2007, p. 323). Since the handover of the presidential position by Suharto to his deputy B. J. Habibie in 1998, Indonesia has experienced a relatively peaceful succession of the presidential positions in 1999 through general elections in 1999, 2004 and 2009 (McLeod, 2005; Sukma, 2009). Table 6.1 presents the presidents of Indonesia and their periods since 1945.

Table 6.1

Presidents of Indonesia since 1945

President	Era	Process of installment
Sukarno	(1945-1966)	A committee which prepared the independence of Indonesia (formed by Japanese occupation government)
Suharto	(1966-1998)	People's Consultative Assembly (under the control of armed forces)
B. J. Habibie	(1998-1999)	The presidential position handed over to B. J. the Vice President Habibie as Suharto resigned.
Abdurrahman Wahid	(1998-2001)	People Consultative Assembly (democratic election)
Megawati Sukarno	(2001-2004)	People's Consultative Assembly (democratic election)
Susilo B. Yudhoyono	(2004-2009)	General election (direct democratic election by people)
Susilo B. Yudhoyono	(2009-2014)	General election (direct democratic election by people)

Source: Hill (1999), Vickers (2005), Baswedan (2007) and Sukma (2009).

6. 4. 2 Public financial management reforms¹²

Following the financial crisis in 1997 and 1998, Indonesia and other Asian countries received financial packages from the IMF to recover the economy. These countries had no choice but to improve their banking and fiscal systems and public sector management overall. This point is highlighted in a report by Barclays Economic Review (1998) that stated that: “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” (Barclays Economic Review, 1998, 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 included Law 17 (2003) on state finances, Law 1 (2004) on state treasury, Law 24 (2004) on national development planning, Law 33 (2004) on

¹² This section heavily relies on Harun, Yi and Kahar (*forthcoming*)

financial arrangements between the central government and local governments, Law 15 (2004) on the supervision and accountability of state finances, Government Regulation (GR) 24 (2005) on government accounting standards, GR 58 (2005) on local government financial management and GR 8 (2006) on financial reports and performance measurements. With respect to the budgetary system, government reports and audit function, these new laws and government regulations outline a number of principles that can be summarized as described below.

6. 4. 2. 1 The implementation of a performance-based budgeting system

Since 2003 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 mayors. 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 the public directly.

6. 4. 2. 2 The empowerment of State Audit Board

The State Audit Board has been given a greater role as a means to improve the accountability, transparency, and operation of government organisations at the central and local levels. Audit opinion and recommendations from the State Audit Agency concerning government financial statements are used by 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 the police institution and processed in accordance with laws. This policy applies to all government levels. It can be concluded that current government frameworks outlining basic principles on budgetary and reporting systems and the audit function in the Indonesian public sector follow a similar pattern to those of other countries such as Australia (Guthrie, 1998) and New

Zealand (Lapsley and Pallot, 2000) where the notions of accountability, improved service delivery, and increased transparency have become the arguments for public sector reforms in the post-Suharto era of Indonesia (Harun and Robinson, 2010).

6. 4. 2. 3 The adoption of an accrual accounting system

With the issuance of Law 17 in 2003 issued by the central government, all institutions at the central and local levels are required to use an accrual reporting system called “the cash towards accrual system” along with the existing cash-based system as the basis to prepare their annual reports. Government Regulation No. 24 issued in 2005, which is revised with Government Regulation No 71 issued in 2010, specifically provides the types of reports and accounts that needed to be prepared by government organisations in the country. For local governments, beyond these regulations, local administrations are also required to adopt reporting rules issued by the Ministry of Home Affairs issued in 2006 and 2007 (Harun *et al.*, *forthcoming*). The nature of accrual accounting system imposed on local governments in Indonesian is discussed in Chapter Eight and Chapter Nine.

6. 4. 3 The establishment of the anti-corruption commission

There is no doubt that combating corruption has been one of the main purposes of reforms in the financial and legal areas in the post-Suharto era (Hamilton-Hart, 2001). It is also important to note, that although efforts to eradicate corruption had been in existence since the 1950s and the Suharto era (1966-1998), these initiatives were not backed by the law and were not systematically incorporated into an effective program. However, it can be suggested the issuance of Law 30 (2002) on the Anti-Corruption Commission (*Komisi Anti Korupsi*) indicates a better regulatory framework and that an organization had been put in place to identify and bring corrupt officials to account.

According to its mission statement, the aim of the establishment of the Corruption Eradication Commission is to eliminate corruption from the country. This commission is directly responsible to the President. The main tasks of the new commission are: (1) to investigate any suspect activities which potentially lead to corruption practices and (2) to oversee the governance practices in the Government.

Moreover, this organization has the authority to request meetings and reports in the course of its investigations. The head and senior members of the commission are nominated by the president and approved by the Parliament for a 4 year period. This commission has the authority to authorize wiretaps, impose travel bans, request financial information about suspects, freeze financial transactions and request the assistance of other law enforcement agencies (KPK, 2010). The Indonesian people have high expectations for the commission to succeed in its mission. However, the organization is struggling to succeed as it confronts serious problems (i.e. the resistance from powerful actors within the Government). An article in *the Jakarta Post* ("KPK and anti graft campaign", 2009) shows this situation.

Since its creation, the KPK has been deemed a "super body" with the power to investigate as well as prosecute corruption suspects, and it has shown an impressive record in sending corruptors to prison. Of course, not everyone has been happy with these achievements, particularly those whose interests and comfort have been disrupted by the KPK's work. And a backlash against the commission now threatens to remove its basic powers. At this level, Indonesia's commitment to eradicating corruption is being tested — whether we are willing to struggle hard to continue fighting corruption, or live on with corruption that has apparently now become a way of life here (para 3-4).

In addition, although the commission has been regarded as successful in prosecuting hundreds of cases since 1993, most of the reported cases have not been prosecuted. For example, from 16,200 cases reported to the Commission in 2008, only a small number, (200 cases) were prosecuted. It is suggested that although the Anti Corruption Commission has been praised as a breakthrough undertaken by post-Suharto regimes, the lack of resources and political will from government officials have made achieving its mission generally unsuccessful (Erviani, 2008, p. 3).

It can be concluded that the adoption of decentralization policies for local governments and other reform initiatives (above) reflect that, following the end of the Suharto era, the Indonesian government followed a similar pattern of reforms as did other countries by introducing new public management based practices aimed at improving the efficiency, effectiveness and transparency of public sector

institutions (Alam, 1997; Guthrie, Olson & Humphrey (1999). This is in line with the World Bank's (McLeod, 2006) assessment that suggested that Indonesia now has already put in place an adequate basic legal framework for better public expenditure management. Table 6.2 compares the nature and differences of the political system adopted, nature of relationships between the central and local governments and public sector management practices in the country during and after the Suharto era.

Table 6.2

Comparison of political and public sector management systems in Indonesia

Scope	Suharto era (1966-1998)	Post-Suharto era (1998-onward)
Political system	The number of political parties was limited and the president and local government heads were elected by the parliamentary bodies.	<ul style="list-style-type: none"> The number of political parties is no longer controlled. The president and local governments' heads (i.e. governors and mayors) are directly elected by people.
Public sector financial management practices:		
<ul style="list-style-type: none"> Budgeting system 	Budget formulation was focused on spending policies in accordance with the available resources.	Budget formulation is based on targeted performances.
<ul style="list-style-type: none"> Reporting system 	Budget realized reports	Budget realized and accrual reports
<ul style="list-style-type: none"> 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/attorneys. Audit reports are now available to public.

6. 5 Response to Reforms

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 management reforms in the Indonesian public sector 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 (“State Audit Board,” 2008) in 2007 the Supreme Court declined to be audited by the State Audit Board on one of its revenue accounts.¹³ 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 [who] intentionally prevents the audit conducted by the State Audit Board is considered a crime” (State Audit Board, 2008a, p. 2).

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) (“Reporting 210 cases,” 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 (“State Audit Board,” 2007).

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 Indonesian International Transparency organization, the Parliament is one of the most corrupt institutions in Indonesia (“The Parliament,” 2006). Most of the members of the institution are considered corrupt and even a number of them have been caught directly by the

¹³ According to Bagir Manan (the head of the Supreme Court) his institution’s refusal to be audited by the State Audit Board is due to the lack of specific government regulation on *Biaya Perkara* (court settlement) revenue account (“Bagir: if Anwar,” 2008).

Anti Corruption Commission when they were involved in bribery and receiving illegal money (“Member of parliament,” 2008).

Moreover, the lack of progress in implementing the public sector reforms in Indonesia is also caused by the poor performance of the government 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. The study found that 30 percent of 204 respondents paid bribes to get the services provided by these institutions (“Bribes in the,” 2009). 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 (“Bribes,” 2009).

6. 6 Summary

This chapter has discussed background information about the geography and population of Indonesia and the history of the country from the colonial era until the end of Suharto’s regime in 1998. This chapter has also discussed the political and public sector reforms that have been undertaken since the end of the Suharto era in 1998. It has been observed that the resignation of Suharto as president in 1998 was a historic moment for Indonesia to undertake political reforms in the country. The end of Suharto’s era opened a new opportunity for Indonesia to undertake further reforms concerned with reforming the budgetary, government reporting, and audit policies in the public sector, and the establishment of an anti-corruption committee. It has been shown that the stated aims of the political and public sector reforms were to create a government more democratic, transparent, and accountable, and to achieve efficiency and performance improvement of public sector organizations.

Therefore, it can be suggested that the ideas to reform the political system and public sector practices in Indonesia following the end of the Suharto era were not only driven by economic reasons (i.e. to achieve efficiency and performance improvement of the public sector organizations), but also promoted by the technocrats in the Ministry of Finance and international donors. Beyond this, the ideas of these reforms were also driven by dramatic changes in the political system and prominent government figures in power in the government. Moreover, the changes in the political system of the country following the resignation of former president Suharto in 1998 reflected the aspiration of Indonesian people who demand a more accountable, transparent, and democratic government.

Nonetheless, although the economic and political reforms seem to reflect the aspiration of the Indonesian people, with the support from international organizations (e.g. the World Bank and IMF), these reforms are encountering significant resistance from institutions (and actors) within the Government including the emergence of corruption. This evidence shows that the nature and extent of an accounting reform in the public sector should be understood in social and political changes as well as its historical contexts as exemplified by Scapens and Roberts (1993) when they state that “an understanding of accounting (an information system) change requires an understanding of various organizational and historical contingencies” (p. 30).

CHAPTER SEVEN

NATURE OF GOVERNMENT AND BUREAUCRACY: CURRENT STRUCTUE

7. 1 Introduction

This chapter examines the nature of the current political system and bureaucracy in Indonesia. This examination is focused on the structure of the Indonesian government at the central and local levels, legal system, and bureaucracy in the country. As Dillard et al (2004) understating these issues is important to situate the economic, political and organisational contexts of the institutionalization of a new accounting system context.

7. 2 Central government structure

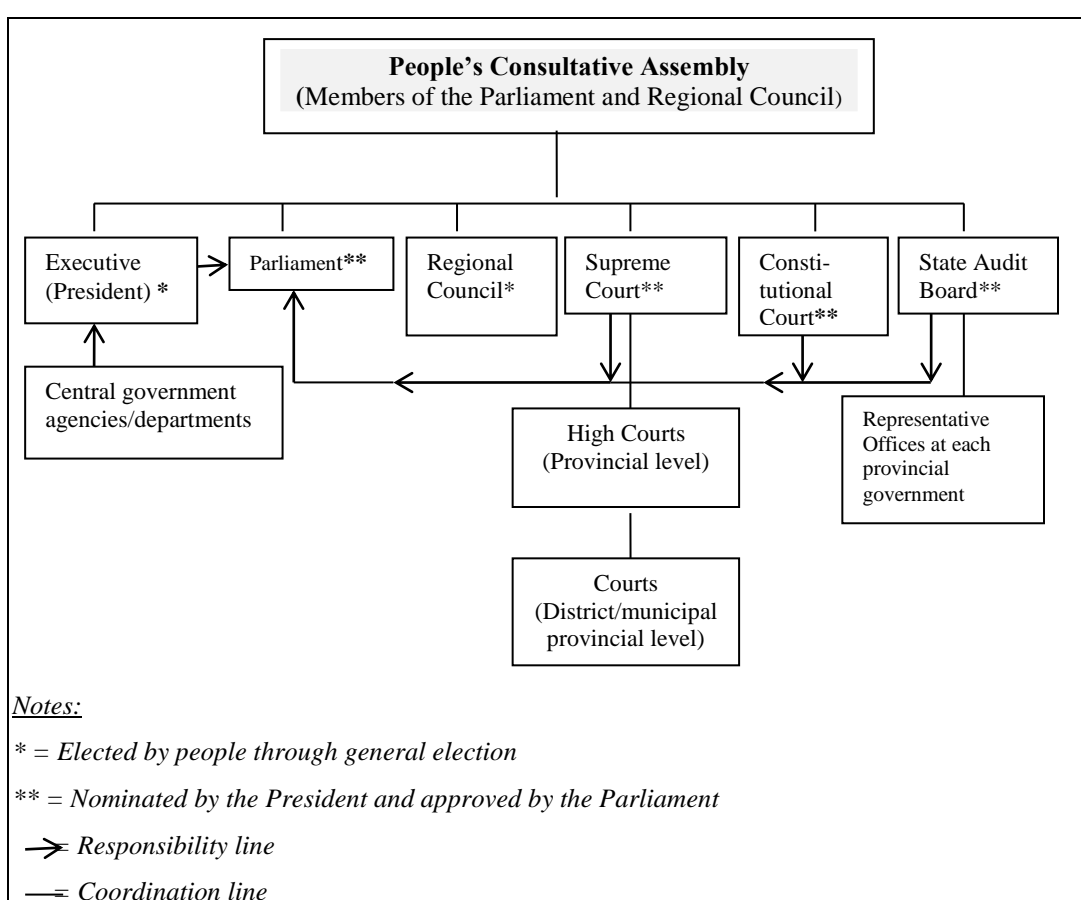
The Indonesian Constitution shows that the formal structure of the political system in Indonesia at the national level bears greater similarities to the democratic presidential system used in the United States than to the monarchy system that was used by the Dutch rulers since the 17th century in the archipelago. Madjid (1996) stated that Indonesian's founding fathers' decision to adopt the presidential system was part of their reaction to a colonial system. That system, which emphasized the strong role of the monarchy system in Europe, dictated how the people in the archipelagoes for hundreds of years should live. Such a historical background – as suggested by Madjid (1996), inspired Indonesia's founding fathers to duplicate the democratic political system of the US for the new nation when they declared the Indonesian independence in 1945. Even the official symbol of Indonesia, known as *Burung Garuda* – as Madjid speculated, was simply a duplication of the Bald Eagle of the US, rather than drawn from local myths (Madjid, 1996).

As with other democratic nations, the Indonesian Constitution also adopts a secular political system where freedom of religion and self-expression are granted by the

Constitution. Nonetheless, during the Sukarno era (1945-1966) and Suharto's regime (1966-1998), the democratic system was not internalized into action. For political reasons, to overcome political conflict between nationalism and communism and local independence movements, both presidents, with the support of the armed forces, dominated political affairs in the country until the end of Suharto's administration in 1998.

Figure 7.1

Central government structure



Source: 1945 Constitution

During these periods, only one free election was held in 1955 under Sukarno's era. Beyond that year, political parties and subsequent elections were totally controlled (Wanandi, 2002). In other words, in practice the political system in Indonesia during Suharto's and Sukarno's administrations was characterized by an authoritarian

presidential regime (Candland & Nurjanah, 2001, p.1). During the Suharto era (1966-1998), the Constitution which gave dominant power to the president's position was never amended. The amendments of the Constitution only occurred after Suharto resigned in 1998, when the basic practices of democracy as written in the Constitution 1945 were readopted such as the use of free elections for the appointment of the executive and legislative positions (Baswedan, 2007).

Since Suharto's resignation in 1998, the 1945 Constitution has also been amended in 1999, 2000, 2001, and 2002 (Tabalujan, 2002). These amendments include the limitation of the authority and term of office of the president (from unlimited terms to two five year terms), the implementation of autonomy policies for local administrations and the establishment of the Regional Council (*Dewan Perwakilan Daerah*) and the Constitutional Court (*Mahkamah Konstitusi*) (Tabalujan, 2002). According to the People's Consultative Assembly Resolution No. 3 (2000), the basic structure of the Indonesian government at the central level consists of seven organizations: the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat*), the executive (led by the President), the Parliament (*Dewan Perwakilan Rakyat*), the Regional Council (*Dewan Perwakilan Daerah*), the Supreme Court (*Mahkamah Agung*), the Constitutional Court (*Mahkamah Konstitusi*), and the State Audit Board (*Badan Pemeriksa Keuangan*).

People's Consultative Assembly

This organization is the highest institution of the Indonesian government's structure. It is comprised of the elected members of the Parliament and the Regional Council. According to the amended 1945 Constitution (Section Two), the People's Consultative Assembly has the authority to amend the Constitution every 5 years and to dismiss the president and vice president through an impeachment. An impeachment of the president can be carried out if she or he is found guilty by the Supreme Court of breaching the 1945 Constitution or committing criminal acts process (Section Three of 1945 Constitution). Members of both the Parliament and

Regional Council are elected by the people for five year tenure. Unlike the members of the Parliament who represent political parties, the delegates of the Regional Representative Council represent provincial governments process (Section Three of 1945 Constitution). For example, in 2009's election, each province had the right to elect four delegates together constituting 132 members representing 33 provinces.

Executive (President)

The executive is headed by the president and vice president. As Indonesia embraces the presidential system, the president is also the head of government, the chief of state, and the commander in chief of the armed forces. The president and the vice president are elected by the people for a five year term and can only be re-elected for one further term.

Parliament

The Parliament has the authority to approve the annual budget and reports of the Government. It also has the authority to approve the head and senior members of the Central Bank, head of the police department, the attorney general and the commander of the armed forces nominated by the president. Currently (2010) there are 550 members of this organization based on the 2009 election (MPR, 2010). The members of the Parliament are divided into a number of commissions such as the commissions of Economic and Development, Law and Foreign Affairs, Trading and Industry, and Security and Defense.

Regional Council

This organization was created in 1999, in response to the increasing demand for local autonomy (Law 22/1999). The main role of this organization is to oversee the relationships between the central government and local administrations, and

formulate recommendations to the central government which aim at improving the quality of decentralization policies and government programs at the local level.

Supreme Court

The Supreme Court is the highest institution to which legal disputes can be appealed in the country. This institution also has the responsibility to oversee all lower courts at provincial and district levels. It is independent from intervention from the executive and other bodies within the country, thus the decisions issued by the institution cannot be reversed by other government institutions. The members of the Supreme Court are nominated by the president and are elected by the Parliament for a five year tenure and can be reelected. At the local level, the function of this organization is carried out by high courts at the provincial level and district courts at the municipal or district level.

Constitutional Court

The Constitutional Court was established in 2000 as the only institution that makes decisions on the constitutionality of laws and disputed election results. The head and senior members of the Constitutional Court are nominated by the president and approved by the Parliament for a five year-term.

State Audit Board

The State Audit Board has the authority to audit the government's reports at the central and local levels. The opinions and recommendations of the State Audit Board on the Government's financial statement are submitted to Parliament. Parliament uses the information to evaluate the performance of the government's organizations. Following the end of the Suharto era in 1998, the role of the State Audit Board was strengthened. The State Audit Board now has the authority to

audit the government's reports at all levels, and perform investigations on alleged or suspected fraud, and it must report its findings to Parliament and law enforcement institutions such as the police or district attorneys. The audit reports of the State Audit Board must also be available to the public (Law 15, 2006). This body has regional offices in most of the provincial governments in Indonesia. The head and five deputies of the organization are nominated by the president and approved by the Parliament for a term of five years.

7. 3 Local government structure

Indonesian local governments are made up of provincial and district (or municipal) governments (see Figure 7.2). Provincial governments are divided into districts (*kabupaten*) in rural areas or municipal (*kota*) governments in urban areas. Each province is led by a governor and at the district or municipal level the head of executive is a regent or a mayor respectively. In combination, these local governments are seen to comprise the organizational field to which Dillard et al., (2004) refer.

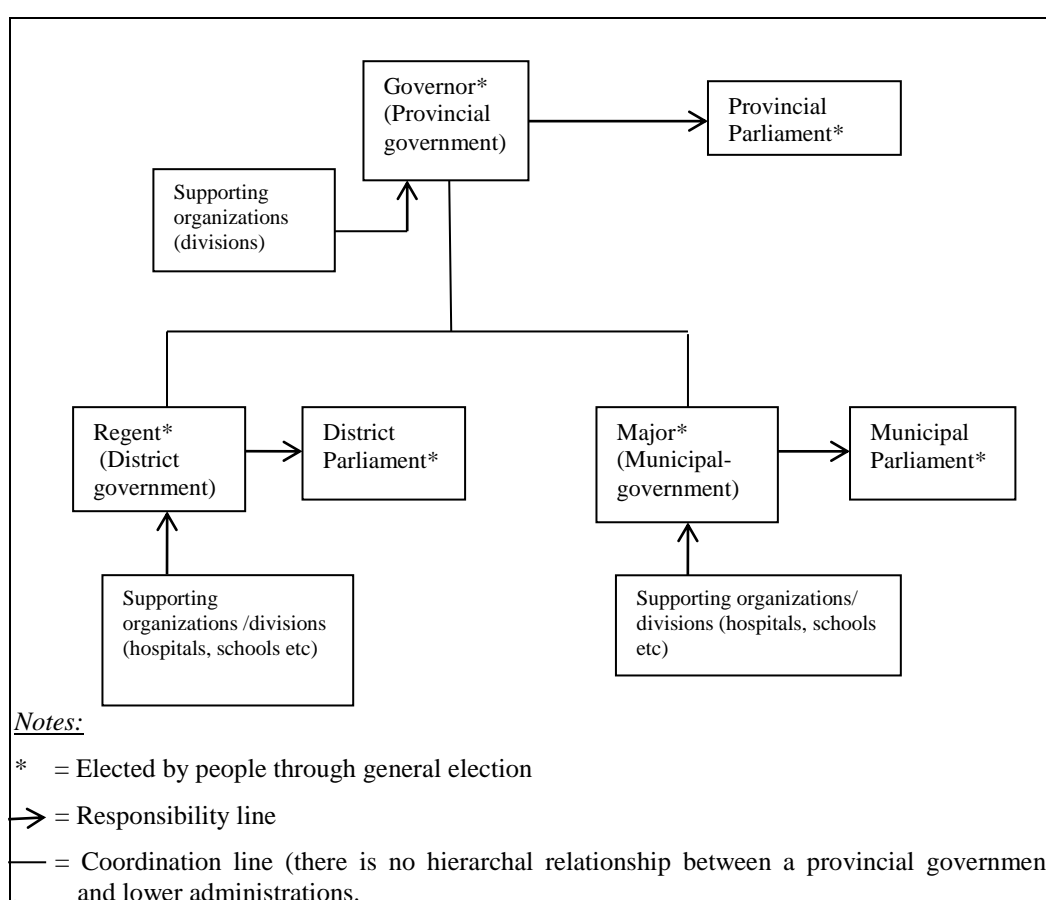
Since Indonesia proclaimed its independence in 1945 the nation has been centrally governed from Jakarta in a system in which the lines of authority, budget, and personnel appointment run outward and downward (Fitriani, Bert & Kai, 2005). Local governments enjoy little autonomy. Their role is largely administrative: implementing policies, rules, and regulations issued at the central level. Regional officialdom is an extension of the Jakarta bureaucracy (Fitriani et al., 2005). As part of the decentralization policies undertaken following the end of Suharto's era, existing local governments at the provincial and district/municipal level were split to create new local governments. As a result the number of local governments was increased dramatically. The number of provincial administrations rose from 26 in the Suharto era to 32 in 2009 (Table 7.1).

Table 7.1
Number of local governments in Indonesia

Era (Year)	Provincial level	District or municipal level	
		District governments	Municipal governments
Suharto era (1966-1998)	26	175	35
Post Suharto era (after 1998)	32	388	93

Source: KPPOD, 2009.

Figure 7.2
Local government structure



Moreover, the number of district administrations jumped to 388 from only 175 in 1999. The number of municipal governments alone almost tripled from only 35 to 93 municipalities in 2009 (KPPOD, 2009). The demographic and size of local governments in Indonesia varies greatly from the most populated provinces like

Jakarta with 10 million (600 km²) to the much larger, but less populated, West Papua (421,981 km²) with only 2 million occupants (Statistics Indonesia, 2009). Great variety defines Indonesian local governments.

7. 4. Legal system

Before the Dutch era, local kingdoms in Indonesia used their customs along with foreign influences from China, India and Arabic. However, the legal system of modern Indonesia is mainly influenced by the continental law inherited from the Dutch (Ong Hok Kham, 1989). Ong Hok Kham states that the nature of the Dutch colonial law emphasizes strong control of a central government over local administrations. In accordance with this emphasis, a lower act must not contradict a higher act. This structure has successfully maintained the archipelagoes as a united state, despite diverse ethnicity, hundreds of languages, and different religions during both the colonial and the modern era (Ong Hok Kham, 1989). The types of legal sources, issuing bodies and the levels of authority which constitute the hierarchy of legal systems in Indonesia are presented in Table 7.2.

Table 7.2
Hierarchy of legal resource

No.	Regulations	Issuing (revising) bodies	Authority / Level
1.	The 1945 Constitution(written by founding fathers of the nation)	People's Consultative Assembly	National level
2.	Laws	Parliament	
3.	Government Regulations	National Government	
4.	Presidential Decrees	President	
5.	Ministerial Decrees	Ministers	
6.	Local Government Regulations	Provincial and district (municipal) governments with local parliaments	Provincial and district level

Source: Iskandar, (2003)

The 1945 Constitution is the highest legal authority in the country which all legislative, executive and judicial organizations must uphold. This constitution was

written by the founding fathers of the nation in 1945. The Constitution can be amended by the People's Consultative Assembly as the highest institution in Indonesia. Under the 1945 Constitution are laws (*undang-undang*). A law is approved by Parliament. The executive branch of the government (i.e. the president) or the Regional Council can propose a bill to the Parliament (Law 10 / 2004). Lower legal sources in the country include government regulations, presidential decrees, ministerial decrees, and local government regulations. It can be concluded that there were three major influences that shaped together to create the legal pattern of modern Indonesian government: the Dutch, Suharto's policies during his era (1966-1998), and post-Suharto changes. Indonesian history explains how these emerged.

7. 5 The Bureaucracy

Despite the fact that the features of the written political system in Indonesia are more similar to the modern republican system of the US and that country has been praised as a successful example of a developing nation than can practice democracy genuinely (Cochrane, 2009), a strong hierarchal control by the central government on local administrations still exists and shapes the nature of the bureaucracy in Indonesia. This situation is rooted in Indonesia's history since the Dutch colonial era, and in the legacy of the Japanese military system, whereby the central government fully controls the political and economic affairs at the local level (Crane, 1995; Wanandi, 2002). For example, provincial governments are divided into districts (*kabupaten*) in rural areas or municipal (*kota*) governments in urban areas. This structure has a long history going back to the colonial era under the Dutch. The Dutch employed a strong control of central government to keep the archipelago under its control, given that the region consists of thousands of islands, diverse ethnic groups, languages and religious beliefs (Ong Hok Kham, 1989).

Moreover, although the Japanese military government occupied Indonesia for only a relatively a short period of time (1942-1945) the legacy of the bureaucracy installed by the fascist Japanese still profoundly affects the nature of the military and bureaucracy in the country up to today (2011). For example, the recruitment

and managerial aspect of local governments' officials are still regulated at the central level (McLeod, 2006). Historically, this outcome is not surprising as soon after the Dutch left in 1942, Indonesia's leaders at the time used this opportunity to mobilize their efforts for independence. This situation matched the interests of the Japanese military regime which also needed local support. In this vein the Japanese also promised Indonesia's leaders independence and helped the local leaders to set up army organizations, and political and administrative units. As Frederick (1983) wrote:

The most significant legacy of the occupation, however, was the opportunities it gave for [...] Indonesians to participate in politics, administration, and the military organizations [set by the Japanese]. [Local leaders such as Sukarno and Hatta at the time] agreed in 1942 to cooperate with the Japanese, as this seemed to be the best opportunity to secure independence. [...] Committees were organized to standardize Indonesian language and [prepare independence]. (Para 3-6).

Based on these observations, and despite the fact that the structure of the Indonesian political system was inspired by the presidential system used in the US, the legacy of the colonial system installed by the Dutch colonial rulers along with the military system installed by the Japanese emphasized a strong hierarchal control by the central government on local administrations. A legacy which remains today. This is not only manifested in the structure of the bureaucracy, but also in the features of government policies that affect the nature of the political and economic relationship between the central government and local administrations. And this legacy has also been reflected in the policies of the post- independence governments in the Sukarno era (1945-1966) and Suharto's military administration (1966-1998). These presidents used the strong central government system to control the nation from having political conflicts among diverse political groups and local governments (Ong Hok Kham, 1989; Wanandi, 2002; McLeod, 2006).

Moreover, although post-Suharto administrations (after 1998) have granted more autonomy to regional administrations for empowering democracy and people's participation as stated in the Law 22 (1999) these autonomy policies appear to be

the transfer of administrative services to local governments, while the policy making of local governments' functions remained regulated at the central level. Therefore, the regional autonomy in Indonesia "can be removed or pulled away again by the central government [any time]" (Prasojo et al, 2008, p. 87). For example, in 2005 there were 111 regulations issued by local administrations have been revised or abolished by the Ministry of Finance and Ministry of Internal Affairs (Tempo, 2005). This figure increased to 400 in 2008 (Antara, 2008). According to Mahi (2010), from 2001 to 2009, 2,907 local regulations on economic affairs such as local tax or investment have been abolished or revisited by the central government. According to Patrialis Akbar, of the Ministry of Law and Human Rights, the abolition or the revision of these regulations was necessary required as these regulations have been considered to be contrary to the laws on investment and business activities issued by the Central Government (Kompas, 2010). Regardless of these reasons, this shows that the Central Government in Indonesia until today still centrally regulates and oversees the economic, political, administrative, and human resource management systems at the local level (Fitriani et al., 2005).

Thus it would also be logical to suggest that politically although the decentralization policies that have been granted to local governments since 1998, were not necessarily motivated by a genuine aspiration to give more autonomy to local regional administrations, they might be an intended strategy imposed by the central government to consolidate its political power to control local governments in the midst of the social economic turbulence that occurred at the time¹⁴. As Wanandi (2002) stresses those local independence movements that occurred soon after 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 of rich provinces like Papua and Aceh. In

¹⁴ At the same time in 1999 Indonesia also was struggling to handle the independence process of East Timor. (Wanandi, 2002).

the Suharto era, these movements were controlled through the support of military and political measures.

Once the Suharto regime collapsed, these independence activities had momentous opportunities to rise. Being aware of the situation, post-Suharto administrations took necessary measures that could prevent such movements from local regions such as in Aceh or Papua. As a consequence, the central government needed to find the best way to handle such a problem. This is indicated by the overnight autonomy policies of President Habibie (1998-1999) that were devised mainly to prevent local independence movements (Seymour & Turner, 2002; Wanandi, 2002). This is also proven by the fact that the autonomy policies of post-Suharto's regimes emphasized strengthening local administrations at the district or municipal level rather than provincial level as the independence movements come from provincial level (Fitriani et al. (2005). According to Fitriani et al., (2005) this 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) noted:

[...] 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. (p. 36).

Therefore, it can be suggested that although the issuance of the so-called new decentralisation laws passed in September 2004 was aimed at improving the earlier decentralization laws issued in 1999, in reality, it also restrengthens the role of the Central Government control over local officials and budgets (Fitriani et al. 2005, p. 60). This is indicated by the fact that these two new laws (Law 33 and 34 issued in 2004) have reduced the roles of municipal or district governments in setting their budgets that were previously granted in the Law 22 and 25 (1999) as they now require the approval of provincial governments for their budget to be passed. In addition, the promulgation issuance of the Law 17 in 2003 and the government

accounting standards issued in 2005 also appear to strengthen the domination of the central government over economic and political affairs at the local level, as local governments are required to use these regulations to prepare their annual reports.

Importantly, the promulgation of the Ministry of Internal Affairs rules on local government financial management issued in 2006 and 2007 has also strengthened the roles of provincial governments in the country on behalf of the Ministry of Internal Affairs in evaluating the budgets and reports of district and municipal governments across the nation, a role that did not exist even in the Suharto era. In conclusion, although Indonesia's post-Suharto administrations have adopted autonomy policies aimed at strengthening the political and economic roles of local governments, the legacies of the Dutch colonial rulers and fascist Japanese occupation that was characterized by a strong control of Central Government over local administrations still affect the nature of the bureaucracy and the policies of the Central Government in controlling local governments in Indonesia.

7. 6 Summary

This chapter has discussed the nature of the political system and the bureaucracy in Indonesia. This examination is focused on three issues: the structure of the government at the central level, local government structure and the bureaucracy in the country.

CHAPTER EIGHT

THE INSTITUTIONALIZATION OF ACCRUAL ACCOUNTING AT THE ECONOMIC AND POLITICAL LEVEL AND ORGANIZATIONAL FIELD

8. 1 Introduction

Drawing on the Integrated Model of Institutionalization (IMI) in Table 4.3 (Chapter Four), the purpose of this chapter is to evaluate the institutionalization of the accrual accounting system in the Indonesian public sector at the economic and political level and also at the institutional field. It is not the intention of the study to use the IMI model as a totality, but rather as a sensitizing lens in understanding the complexity of phenomena under investigation. This chapter first examines the institutionalization process at the economic and political level. Second, the chapter evaluates the processes relating to the formulation of the accrual accounting system at the organizational field. Subsequent sections present theoretical arguments and conclusions of the findings examined in this chapter. Finally, this chapter concludes the main points of this analysis.

8. 2 Institutionalization at the Economic and Political Level

The structure of the discussion is based on the IMI model discussed in the Chapter Four.

8. 2. 1 New ideals (the early 1983-2003)

The initiatives to reform the public sector accounting system in Indonesia started in 1983. The idea to undertake such a reform was expressed by the former Minister of Finance, Radius Prawiro in the 1980s. He suggested that the old cash-base accounting system inherited from the Dutch rule was insufficient to cope with the

increasing size of economic resources and their complexity under the control of the government (Prawiro, 1987).¹⁵ Prawiro (1987) stated:

In broader terms, the accounting and financial reporting systems as practiced in Indonesia today [were promulgated for] measuring and reporting compliance with budget limits set by the parliament. [...] The past two decades have seen a virtual explosion within our economy – both in size and complexity. [...] As these have grown, the old accounting [systems]...have failed to keep pace and have become strained beyond their limits. (p. 10)

Furthermore, Prawiro (1987) notes: “Underlying our efforts is one firm goal: to attain the highest possible standards in the financial management and audits in all levels of the government in Indonesia (Prawiro, 1987, p. 9). According to Prawiro (1987) that goal can be achieved by developing a better reporting system. Prawiro (1987) stressed: “Without reliable, concise, and timely financial information we are [unable] to manage our economy effectively” (Prawiro, 1987, p. 9). That notion is also reinforced by the words of a former senior official at the Ministry of Finance in 1980s:

We simply needed a better recording system to ensure that public money was properly spent for a better result (INT-3).

Another interviewee in the Ministry also provides a similar reason:

As far as I know, the rationale behind the idea [the adoption of the accrual accounting system] was to ensure the Government's spending was more efficient as the revenue from the oil declined (INT-4).

These statements indicate that at the economic and political level, the efforts of the people in the Ministry of Finance who promoted the use of a more informative accounting system in the public sector were based on economic reasons. Viewed

¹⁵ Sugianto et al., (2000) describe the main weaknesses of the ICW accounting system: (1) there is no standard account to record for budgeting and realized expenditures; (2) the group of accounts could not provide the foundation for a proper analysis and control; (3) the Government reporting system is only used for complying with laws and regulations. Therefore, the old government reporting system could not be used for managerial purposes (Manao, 2008).

from the perspective of the institutionalization model of Dillard et al., (2004), it illustrates that the Ministry of Finance used economic reasons to mobilize new criteria at the national level in managing and reporting economic sources in the public sector. In other words, at the economic and political level, economic reasons were viewed as legitimate norms that should be transformed into specific expectations at the organizational field.

In addition to the economic motives, the aspiration to adopt accrual accounting might be motivated by the wish to follow a similar practice to that introduced in developed countries such Australia and New Zealand. In this case, a mimetic phenomenon also drove the Ministry of Finance (Prawiro, 1987). That view is supported by a former senior official in the Ministry of Finance.

In principle [the rationales behind the aspiration to adopt the accrual accounting at the time] are in line with international best-practices [for the public sector] in other countries (INT-34).

A former member of a committee that formulated the Government Accounting Standards issued in 2005 also states that there was an aspiration to adopt the accrual accounting system because such a type of accounting system was also introduced in other countries. He states:

As we have seen in developed countries in the last two or three decades, accrual accounting system has been adopted in the public sector. And this system should be firstly put in place when we are about to measure the efficiency of resource used by the Government (INT-10).

Such a statement indicates that those technocrats in the Ministry of Finance appear to believe that adopting an accrual accounting system could help the Indonesian government in facing an uncertain situation as the result of the fall of the oil price. These technocrats called “the Berkeley Mafia group” in the Ministry of Finance in 1970 and 1980s were mainly graduates from the University California, in the US, including Widjojo, Emil Salim, and Arifin (McCawley, 2011). As McCawley (2011) states they are ‘economic technocrats’, and during the next few years other economic advisers to the government, such as Rachmat Saleh, Arifin Siregar, J. B.

Sumarlin, Radius Prawiro and Sumitro Djojohadikusumo, became part of a wider 'technocrat' group (McCawley, 2011, p. 87). Therefore, it can be suggested that their expertise and academic backgrounds allowed them to be the agents of reforms. Two of the accounting academics interviewed reinforced this view:

What we called Berkeley Mafia had significant impacts on the government policies at the time [in the 1970-and 1980] (INT-4).

Although the president [Suharto] was a dictator, these men listened to them [the economists] (INT-3).

Therefore, in terms of power articulation as Dillard et al. (2004) and Dambrin et al. (2007) conceptualize, the process of the mobilization of the ideals to adopt accrual accounting here indicates the articulation of power by a specific group of government people at the national level. This articulation of power is shown by the actors in the Ministry of Finance who had a leading role in transforming the new ideals that emerged at the economic and political level. As Dillard et al. (2004) state, the ideals and aspirations of powerful groups of people at the economic and political level usually influence the foundations for a specific (accounting) practice to be institutionalized. As Dillard et al. (2004) state the institutionalization of an accounting regime is related to the articulation of the interests of powerful groups "[...] reflecting the relative power of organized interests and the actors who mobilize around them" (p. 501). This occurred in Indonesia.

The dominant role played by technocrats at the Ministry of Finance as the promoters of this accounting innovation at the early stage is also consistent with the notion that professional groups as the agents of social changes have significant roles in advocating the use of a new accounting system. As Scott (2008) stated, "more than any other social category, the professions function as institutional agents – as definers, interpreters and appliers of institutional elements. Professionals are not the only, but are — I believe — the most influential, contemporary crafters of institutions" (Scott, 2008, p. 223). In other countries, such a phenomenon also occurs. In Australia for example, the aspiration to adopt accrual

accounting in the public sector also indicates a significant role played by academic, public sector auditors and accounting professional organizations.

In Indonesia in 1985 the *new ideals* which promoted the replacement of the old accounting system were indicated by the seminar workshops held by the Ministry of Finance and establishment of the Coordinating Agency for Accounting Development (CAAD) in the ministry. An accounting academic interviewed states:

In remember in 1987 we attended one seminar and two workshops attended by senior officials in the ministry [of Finance] and we were also invited (INT-3).

When asked about other activities the Ministry of Finance did to support these ideals, a senior official (INT-1) in the Ministry of Finance pointed to the establishment of the Coordinating Agency for Accounting Development (CAAD) by the Ministry of Finance in 1995. This agency was assigned a task to coordinate programs and activities to support the government in developing a new accrual-based accounting system in the public sector. The interviewee states:

You need to know the establishment of the organization [Coordinating Agency for Accounting Development] is to coordinate and set up programs and activities including seminars or workshops to get ideas and tell people what kind of accounting system we need in the government (INT-1)

In addition, the role of the agency was to evaluate the country's existing public accounting system at the time and provide recommendations for further improvements (Prawiro, 1987). Beyond this, the agency also held overseas visits for senior officials in the Ministry of Finance (Manao, 2008; Ministry of Finance, 2001, 2001a, 2011b). The purpose of the overseas visits was to observe the progress of accounting system in the public sector in other countries. An interviewee in the Ministry of Internal Affairs who is former official in the Ministry of Finance describes the purpose of the program.

We expected senior officials in the Ministry [of Finance] to get an idea what was going on in the UK or the US at the time about the best accounting practice in government organizations in these countries that may be useful for us to follow (INT-23).

However, in the 1990s, efforts to institutionalize an accrual accounting system into a new accounting practice made no further advance (Prodjoharjono, 1999). As with those of 1980s, the public sector accounting reforms in the 1990s continued to focus on the pilot projects and were yet to change the underlying policies, laws and government regulations about government reports. A member of the committee of government accounting standards states:

I know the ministry [of Finance] had several initiatives to reform the existing accounting system at the time [in the late 1980s and early 1990s]. But none [of these initiatives] was successfully practiced (INT-10).

However, the Ministry of Finance with the support of Presidential Decree 35 (1992), attempted to institutionalize the early ideals into a new accounting system (new technique). The decree outlined three objectives: (1) the development of a new government accounting system; (2) the development of a set of accounting standards and principles for the public sector; and (3) the establishment of the Accounting Development Board in the Ministry of Finance.

With funding support from the World Bank, the Ministry of Finance in 1992 established the Accounting Development Board. The role of the Board was to oversee the existing public sector accounting system and develop a new accounting system to replace the cash-based system (Dewi, 2001). However, the establishment of the new institution could be regarded as only a repetition of previous efforts that had been undertaken a decade earlier, and these efforts failed to transform the *new ideals* into *new discourses*. The basic rules regarding government reports still relied on a cash-based system. Although a presidential decree was issued in 1992 (i.e. Presidential Decree 35 in 1992)¹⁶, it was insufficient to change the reporting practices as the framework of government reporting systems (i.e., ICW) still relied on a cash-based system.

¹⁶ A presidential decree is one source of regulation within the Indonesian legal framework, but its position is below a law or the 1945 Constitution. As long as the *Indonesische Comptabiliteitswet* has not been replaced, the legal basis to implement a new accounting system within the Indonesian public sector was weak.

As earlier discussed, under the Suharto era in the 1980s and 1990s, the effort to institutionalize the use of accrual accounting for the public sector was not transformed into a new accounting system or practice. According to the Minister of Finance (Minister of Finance, 2001a, p. 5) there were four reasons for this: (1) the lack of skilled human resources, especially in the accounting area; (2) high officials in the Government were only familiar with the cash-based accounting system and held the view that the cash-based accounting system was sufficient to cope with the requirements of the existing regulations; (3) there was a lack of political support; and (4) there were no accounting standards that could be used as a tool for a uniform treatment for transactions and standardization of the government reports. A senior accounting lecturer states:

I agree since two decades ago that that lack of skilled people [in accrual accounting] within the government is a big problem in replacing the cash-based system. But you know we did not have accounting standards. This is also the problem (INT-4).

In addition, Suharto's administration, which showed an aversion to accountability and proper audit in the public sector, should be seen as a major impediment that hampered the progress of the diffusion of new ideals into new discourse, rules, techniques, and new practices. As suggested by Anwar Nasution, the former Head of the State Audit Board, during that era (1967-1998) the Government totally controlled public access to accounting and audit information in the public sector. Neither accounting information nor audit reports were available to the public (Nasution, 2006). The following statements from interviewees at the Ministry of Finance also support this:

Under the Suharto regime that agency [the State Audit Board] like the Parliament had no function in overseeing the government (INT-2).

You know during that time [the Suharto era] our national leader [President Suharto] controlled everything and did not allow audit opinions to be publicly available (INT-6).

Therefore, it can be suggested that the failure to transform the *new ideals* into new government regulations and accounting techniques during the 1980s and 1990s was not only caused by the lack of technical capacities, but it is rooted in the nature of Suharto's regime that opposed public accounting changes. As a result, despite the technocrats in the Ministry of Finance having had the opportunity to mobilize, their ideals were not successfully implemented. An interviewee at the Ministry of Finance states:

Under President Suharto, you could have brilliant ideas about everything, but no change could happen if the boss [Suharto] did not support them (INT-5).

Therefore under President Suharto, no systematic approach was undertaken to support the adoption of accrual accounting into practice. This fact particularly needs to be taken into account in a country like Indonesia, where a hierarchal and strong domination of central government shapes the nature of the public sector policies and regulations.

8. 2. 2 New discourses (1998-2003)

In contrast to the Dillard et al.'s (2004) model and related expectations (see Table 4.3), the transformation of *new ideals* for the adoption of accrual accounting in the Indonesian public sector into *new discourses* did not take place at the organizational field. Rather it occurred at the economic and political level. As this section discusses the aspiration (*new ideals*) to use accrual accounting in the public sector was transformed into *new disclosures* (government policies/regulations) at economic and political level. Two important events reflect the transformation of the *new ideals* into *new discourses*, namely the collapse of Suharto's regime in 1998, and the issuance of Law 17 in 2003.

8. 2. 2. 1 The collapse of Suharto regime in 1998

Following the economic crisis in 1997 and 1998 and the resignation of President Suharto in May 1998, the efforts to reform public financial practices had become a priority as part of broader political and economic reforms in Indonesia (Prasojo et al., 2007)¹⁷. Therefore, more significant and systematic effort in favour of public sector accounting reforms occurred only after President Suharto was forced to resign in 1998 (Fitriani et al., 2005). Thus, it can be suggested that the public sector accounting reform undertaken after Suharto's downfall was influenced by broader political and economic reforms. A statement from a senior the Ministry of Finance indicates such a development.

I think political reforms following the end of Suharto's regime had a direct impact on other reforms [including public sector reforms] (INT-2).

A senior auditor in the State Audit Board also shares a similar view.

What we are enjoying right now such as the freedom of speech, free election and so on are the results of the Suharto's resignation in 1998. The people wanted him to go. If not [Suharto is still in power], I believe you can even talk like this (INT-27).

An accounting academic also states that the end of Suharto's regime opened an opportunity for the people in the Ministry of Finance to reform the public sector accounting.

You know Suharto did not want to see a strong audit body or parliament that effectively controls the Government. That is the problem. Fortunately, that situation totally changed after the regime was replaced in 1998, [and] public sector accounting reform could be mobilized by the people in the Ministry [of Finance] (INT-3).

¹⁷ In 1998 and 1999 alone, the Government led by President Habibie was not only forced to deal with domestic economic and political agendas such as economic recovery programs, the amendment of the Constitution and increasing demands for local autonomy, general election for the new parliamentary members and the president. The new regime also had to handle the transition of East Timor to be an independence country under the coordination with the United Nations, New Zealand and Australia (Hill, 1999; Seymour & Turner, 2002).

In 1998, Indonesia, after more than three decades under the control of an oppressive regime experienced an era that was defined by putting in place free elections, freedom of the press, and a secular democracy which is in contrast to the situation under Suharto's leadership (Newsweek, 2009). Therefore the demand for better governance from within Indonesia prompted the adoption of a better reporting system for the public sector (Ministry of Finance, 2001b). This observation is also shared by the former Head of the State Audit Board, Anwar Nasution who suggested that the need to improve the quality of the government reporting through the adoption of accrual accounting was considered urgent as the existing reporting system was not reliable (Nasution, 2007, p. 5).

In addition, the efforts to reform the laws and rules about the accounting system in the public sector were supported by international organizations such as the IMF and the World Bank, and democratic countries such Australia or the United States (Chomsky, 1998; Nasution, 2008). A senior accounting lecturer states:

We also need know the demand for Suharto to step down was not only driven by domestic pressures but also the demand from international communities. They wanted a more democratic and better government to replace Suharto's regime. If I am not wrong the former US Secretary of State Madeline Albright also spoke in Manila at the time urging President Suharto to step down (INT-3).

Such a statement indicates there was strong demand and support from both inside the government and international pressures to create reform of the existing laws to support the efforts to make the government more transparent and accountable. For example, with the support from the IMF in 1998, two fiscal and budget advisers were provided by the organization to assist the Indonesian government to formulate policies and strategies to solve the nation's economic crisis and to start reforming the public sector's financial management system (Ministry of Finance, 2001b). In a study conducted by the Ministry of Finance it was suggested that the Government should reform the existing budgeting and reporting systems, and the relationship between the central government and local administrations, and the public sector

audit (Ministry of Finance, 2001b). That suggestion demonstrates that the pressure to reform the financial management practice and auditing laws in Indonesia was also from external sources (Ministry of Finance, 2001b). One of the interviewee in the State Audit Board states:

Soon after the economic crisis in 1998, the IMF and the ADB [Asian Development Bank] came here not only to offer financial aids, but they also conducted studies. It is said such programs are aimed to improve the planning system and governance practices in the [Indonesian] government (INT-27).

Such facts indicate that the IMF and the World Bank play a leading role in the public sector reforms in other developing countries such Ghana and Fiji (Sharma & Lawrence, 2008; Rahaman, 2009). As a consequence, from 1998 to 2003, in addition to the Ministry of Finance, actors who were involved in driving the institutionalization of the accrual accounting system into *new discourse* (new law) and *new techniques* (new accounting standards) for the Indonesian public sector included international financial authorities (the IMF and World Bank), Gajah University and the Indonesian Institute of Accountants (Bastian, 2003)¹⁸. In 2000 for example, the Indonesian Accountants Institute issued a draft of accrual-based accounting standards for the public sector (Ministry of Finance, 2001b). This effort indicates an initiative by a nongovernment organization aimed at creating new accounting techniques (or new accounting standards). A member of the Committee of Government Accounting Standards in the Ministry of Finance also describes the role played by the Indonesian Accountants Institute and other organizations which also developed specific accounting standards for the public sector in the early 2000s. The interviewee states:

¹⁸ The pilot project was supported by a semi-government organisation, Partnership (*Kemitaraan*) led by Indra Bastian, a senior accounting lecturer at Gadjah Mada University. The Partnership is coordinating the support of the international community in initiating a long-term process to improve governance in Indonesia in a durable way. The Partnership is committed to bringing together the Indonesian government, parliament, legislature, judiciary, civil society, corporate sector and the international community to improve standard of governance within Indonesia, which is vital to nation's social, economic and political progress. The UNDP, the ADB and the WB actively support Partnership's programs: [www: kemitaraan.or.id](http://www.kemitaraan.or.id) (accessed on December 26th 2009).

After that year [2000], we know not only this ministry [the Ministry of Finance] which tries to formulate accounting standards for the public sector. The Indonesian Accountants Institute, for example involved in formulating new accounting standards. However, no organizations use them (INT-11).

Similarly, in 2002 Gajah Mada University in Yogyakarta issued a set of public accounting standards (Bastian, 2003). However, no indication has been found that this proposed draft was adopted. As with an earlier attempt mobilized by the Indonesian Institute of Accountants in 2000, effort also failed to be effectively institutionalized, as the draft was applied only as a pilot project in several local administrations (Bastian, 2003). An accounting academic explained the reason why the accrual-based accounting standards failed to be implemented.

I think all the drafts of government accounting standards formulated before 2005 were not used by government organizations. Some of these standards were only used for pilot projects. I think the problem is the existing law on state finance at the time had not been replaced and there was no legal basis for the adoption a new type of government accounting standards (INT-3).

That statement indicates the failure to adopt a new government accounting standards was caused by the fact that the existing law on state finance (a cash-based system) inherited from the colonial era only requires the use of accrual-based reporting system. Therefore the use of new accounting standards was not required.

8. 2. 2. 2 The Issuance of Law 17 in 2003

Prior to 2003 the government's law on state finance (the *Indische Comptabilies Wet* (ICW) – inherited from the colonial era) – remained on the cash-based system, which meant that there was no strong legal basis for other government agencies either at the central and local levels to adopt accrual accounting. A former senior official in the Ministry of Finance describes the reasons behind efforts undertaken by the Ministry:

In early 2000 we recognized the failure of the prior attempts to implement an accrual accounting system was the absence of specific rules [government accounting standards] (INT-5).

An accounting academic also shares a similar opinion:

I think [at the time] there were no accounting standards that could be used by the public sector organizations to produce a specific report based on accrual accounting (INT-3)

These facts may explain why the previous efforts undertaken by the Indonesian Institute of Accountants in 2000, Gajah Mada University, and the Ministry of Finance itself to institutionalize accrual accounting failed to be implemented (Bastian, 2003). In other words, until 2003 the *new ideals* which promoted the wish to use accrual accounting as the basis for preparing reports had yet to be institutionalized into new accounting standards (*new techniques*) as the basis for a new accounting practice. A professor of accounting states:

It is not easy for a country like Indonesia to practice a new accounting system or a new organization structure, if it is not supported by a law or new government regulation (INT-3).

Therefore, when the central government was to set up a number of new laws on state finance, public sector budgeting and audit in early 2003 with the support of international donors such as the World Bank and Asian Development Bank, the Ministry of Finance took an initiative to include the requirement to adopt an accrual based reporting system. This shows that within this government context, rearing the existing law inherited from the colonial era (ICW) was needed to practice a new accounting system. As the Ministry of Finance may have been aware of that situation, the Ministry of Finance then took an active role in drafting a new law, among other things, which required the adoption of an accrual-based accounting system for the public sector in Indonesia. A senior official in the Ministry of Finance (INT-5) who was involved in dictating the new law on state finance stated (i.e. Law 17 / 2003), states the first draft of the laws had nothing to do with accrual accounting. He actively insisted on the requirement to adopt the accrual accounting system when the Law 17 (2003) about state finance was finally passed by the National Parliament. The interviewee states:

Initially the draft of the law had nothing to do with accounting, and I thought I had to fight for this. In a parliamentary hearing that was held to pass the law, I insisted on three important things: all

government agencies are required to prepare a set of financial statements which include budget realized-reports along with balance sheets, cash flows and notes on financial statements; the financial statements must be prepared based on government accounting standards similar to the private sector accounting standards, and those standards have to be set up by an independent body and, [...] All ideas I proposed were accepted and honestly I am proud of that (INT-5).

A member of the National Parliament who supported the Law 17 issued in 2003 also suggests that an active role was played by the representatives from the Ministry of Finance when the new law was passed in Parliament.

They were particularly accountants in the Ministry of Finance. I remember they were active in promoting that kind of system [the accrual accounting system] (INT-9).

At the end of 2003 Law 17 was finally approved by the National Parliament. This was the first time since colonial days that the law on state finance in Indonesia had been amended. One of the basic features of the law is that it requires the Government to produce annual reports based on accrual accounting. This means the issuance of Law 17 in 2003 provided “greater opportunity” for the Ministry of Finance to formulate a set of accounting standards for the government that apply to all government departments at both the national and local levels as discussed in the third section of this chapter.

It can be concluded that from 1998 to 2003 the efforts to institutionalize the accrual accounting system at the economic and political level were part of broader economic and political reforms undertaken in the country. In this case, it is important to note the public sector accounting reforms undertaken following the Suharto era were also part of greater reforms as demanded by the public and international communities. The comments from two interviewees below confirm this situation.

And I have to state that recent reforms in these areas [including public sector accounting] are the result of democratic movements that ended the Suharto regime (INT-1).

Following the fall of Suharto, there is no doubt, comprehensive reforms have been undertaken including the implementation of the autonomy policy for local governments, the improvement of the budget system, the increasing role of the State Audit Board, and now the new law requires the implementation of the accrual accounting in the government both at the central and local level (NI-1).

Accordingly, the fall of Suharto's regime in 1998, and the reforms undertaken following the regime's collapse helped to transform the *new ideals* into *new discourses*.

8. 2. 3 New techniques

As expected by Dillard et al. (2004), in Table 4.3 (Chapter Four) there is no indication that the formulation process of new techniques related to the institutionalization of the accrual accounting systems in the Indonesian public sector took place at the economic and political level, and it do not do so in this case. As reported in the 8.3 section of this chapter, the formulation process of the new techniques would take place at the organizational field. A comparison of IMI model expected and actual Indonesian practices at the economic and political level is illtsreated at Table 8.1.

Table 8.1

Institutionalization of accrual accounting at the economic and political level against IMI model

Level of institution and stages of institutionalization	Expectation and realization	
	Expected	Actual
Economic and Political level		
• New ideals	Yes	Yes
• New discourses	No	Yes
• New techniques	No	No
• Internalization	No	No

8. 2. 4 Internalization

As expected by Dillard et al. (2004), this study found that the internalization of the new techniques of the accrual accounting system did not take place at the economic and political level. As Chapter Nine of this thesis reports, the internalization of the new techniques takes place at the organizational level following the issuance of the government accounting standards in 2005. The nature and the extent to which the internalization of the accrual accounting system has been realized is also analyzed and evaluated in the Chapter Nine of the thesis.

8. 3 Institutionalization at the Organizational Field

Drawing on the IMI model this section will discuss the institutionalization of the accrual accounting system in the Indonesian public sector at the organizational field (Table 8.2).

8. 3. 1 New ideals

As expected by Dillard et al. (2004) and it is reported in the first section of this chapter the diffusion of the new ideals related to the institutionalization of the accrual accounting system in the Indonesian public sector occurs at the economic and political level. There is no indication found that this process has been undertaken at the organizational field. Expectations in this respect, at least are met.

8. 3. 2 New discourses

It is found that the formulation of the new discourses of the accrual accounting system in the Indonesian public sector occurred at the economic and political level. This fact contradicts the expectation of Dillard et al. (2004) who anticipate that such a process should take place at the organisational field.

8. 3. 3 New techniques (2003-2005)

In contrast to the expectation of Dillard et al. (2004) the transformation of the new discourses regarding the adoption of accrual accounting in the Indonesian public sector into *new techniques* did not take place at the organizational level. This process occurred at the organizational field. This was indicated by the

promulgations of Government Accounting Standards issued in 2005 and Decree No 13, and Decree No 59 issued by the Ministry of Internal Affairs. The Government Accounting Standards and these decrees indicate the transformation of *new discourses* into *new techniques* (accounting practices). In this case, general principles which promote the use of accrual accounting are now translated into more detailed accounting techniques/systems.

8. 3. 3. 1 The issuance of government accounting standards in 2005

After the Ministry of Finance had successfully endorsed the *new ideals* to adopt an accrual accounting as stated in Law 17 (2003) as *new discourses*, the next step undertaken by the Ministry of Finance was to translate the law into a set of public sector accounting standards or *new techniques*. The Ministry of Finance with the support of the President issued Presidential Decree 84 in 2004 and established a committee to revise the Accounting Standards for the Central and Local Governments issued by the ministry in 2003. The revised version of the accounting standards was called Government Accounting Standards and issued in 2005. The members of the committee who set up the Government Accounting Standards suggest that the formulation of the accounting standards indicate the transformation of the abstract concepts regarding the adoption of the accrual accounting into specific techniques/system for public sector entities to prepare their reports.

The formulation of the government accounting standards aimed at providing the government with more concrete techniques for report preparations (INT-11).

In 2003, we already had the law [Law 17], but we still did not have detailed accounting standards. This situation prompted Pak [Mr] Budiono (Ministry of Finance in 2003) to set up the committee (INT-10).

These facts indicate that the Ministry of Finance had a leading role not only in transforming the *new ideals* that emerged at the economic and political level, but it was also involved in formulating specific practices (*new techniques*) that should be adopted within the organizational level. These new techniques, namely Government Accounting Standards, provide a legal basis for the Indonesian public sector (including local governments) to adopt the accrual accounting system within the

organizational field. Drawing from Dillard et al., (2005) such developments show that taken-for-granted aspirations at the economic and political level, which promote the use of accrual accounting, were the foundation for the Ministry of Finance to develop a new accounting system as a tangible practice within the organizational field.

However, it is important to note that this situation differs from the notion of IMI model drawn from Dillard et al. (2004) and Dambrin et al (2007) which assumes that, at the social, economic, and political level, the creation of new [accounting] practices should be undertaken by local actors at the organizational level. In the present situation, the Ministry of Finance not only played a leading role as the promoter of the accrual accounting both at the economic, and political level, but the ministry also played a leading role in setting specific rules (i.e., the government accounting standards) as *new techniques*, within the organizational field, that have to be followed by all government organizations. As such other government departments, including local administrations, are positioned as passive adopters. This approach runs contrary to the notion of the IMI model (see Table 4.2, p. 59) which contends that an institutionalization of an accounting technology should be a dynamic process which not only involves actors at the social economic and political level, but also actors within the organizational field and organizational level.

To provide a legal basis for the adoption of accounting standards, the government under the coordination of the Ministry of Finance issued Government Regulation 24 (2005). This regulation was signed by the President, required all government agencies at the central and local levels to use these accounting standards. Although the accounting standards apply to local governments as well as to other government organizations at the central level, the members of the committee were all from the Ministry of Finance and other central government bodies such the State Audit Board and universities. Therefore this regulation is imposed on local administration without consultation. With them Detailed discussion about the lack of local governments' participation in the formulation process of the Government Regulation 24 (2005) is discussed in Chapter Nine.

According to the Government Accounting Standards, six components of financial statements have to be provided. Compared to the old cash-based system which only required the government to prepare budget realization reports, the new government accounting standards require to prepare budget realization reports, balance sheets, financial performance statements, and changes in equity, cash flows, and notes to the financial statements (Table 8.2).

Table 8.2

A comparison of reporting systems used in Indonesia

Reporting system	Types of report
Old reporting system 1945-2003	Budget realization reports
New reporting system (since 2005)	<ul style="list-style-type: none"> • Budget realization reports • Balance sheet • Cash flow • Financial performance statements • Changes in equity • Notes to financial statements

The claimed objective of the Government Accounting Standards is to provide information that will be useful to a wide range of users in making and evaluating decisions about the allocation of resources (Government Regulation 24/2005). According to the Government Regulation 24/2005, the objective can be achieved by (1) providing information about the resources, allocation, and uses of financial resources; (2) providing information about how the entity financed its activities and met its cash requirements; (3) providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments; and (4) providing information about the financial condition of the entity and changes in it.

In addition, the Government Accounting Standards state that these objectives “are very important in developing public sector accountability, transparency, and intergenerational equity” (Government Regulation 24/2005). Two interviewees at the central government (INT 5 and 9) suggest that the adoption of the new government accounting standards reflects the importance of a transparent and

accountable government¹⁹. Moreover, the adoption of the new reporting system in the country is also seen as a welcome break from the previous era (Suharto's rule) that lacked accountability and openness generally.

Implementing [...] better accounting [standards] in the government [is required] when people in this country need more transparent and accountable administration (INT-5).

[...] 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] (INT-9).

Officials in the Ministry of Finance also regard this change as an important move to make the country's public sector organizations more transparent (INT-5 and INT-9). This in line with the view of an auditor in the State Audit Board:

Frankly I think it is quite fair to acknowledge that the new reporting system is more transparent than the old subsystem. Now we can have information about assets and liabilities of our government. We did not have this kind of information before (INT-27).

Therefore, it can be suggested that the issuance of the Law 17 in 2003 and the promulgation of the government accounting standards in 2005 indicate the current reporting system is not only more transparent (at least in terms of providing more information), but also the policy is a response to the demand for a more transparent government. Therefore, it can be concluded that the collapse of the Suharto regime and its political system allowed the mobilization of accounting reforms in the public sector as part of wider political and economic pressures. This conclusion indicates that when a government is forced to be more accountable and efficient, there is a chance that the foundation for a public sector accounting reform can be established.

8. 3. 3. 2 The issuance of reporting rules for local governments

¹⁹ As reported in Chapter Nine, the views from officials in one municipality also support the comments of officials interviewed at the central level that the new accounting system is of important to government accountability and transparency.

Although the issuance of the Government Accounting Standards in 2005 guided local administrations in how to prepare their reports, the process of institutionalizing the accrual accounting system did not end at this point. The Ministry of Internal Affairs also issued its own regulation, namely the Decree of the Ministry of Internal Affairs Decree No. 13 in 2006. This decree was then revised with Decree No 59 in 2007. As with the Government Accounting Standards, these decrees also regulate basic principles,²⁰ frameworks, and procedures that have to be followed by local governments in planning their programs and activities in accordance with the governments regulations issued by the central government.²¹ A senior official in the financial evaluation unit for local governments in the Ministry of Internal Affairs states.

The aim of the decrees is to support local governments in the financial managements of their projects (INT-23).

We want to make sure they follow the rules issued by the central government including the Law 17 (INT-23).

These decrees also highlight procedures and formats that have to be followed by local governments in planning activities, formulating budgets, administrating and preparing annual reports. Local governments, therefore, are not only required to prepare their reports in accordance with the Government Accounting Standards, but they must also follow the ministerial decrees. As a consequence, local governments are required to produce two types of reports. Such a development indicates that the process of the formulation of the reporting rules for local governments in Indonesia was dominated by the central government agency (i.e., the Ministry of Internal Affairs). There is no indication that people at the local level were involved in

²⁰ These principles include the involvement of stakeholders (i.e. tax payers) in drafting development programs and budgets and the use of value for money philosophies in spending and investment of public fund.

²¹ Detailed discussion about the differences and response from the users of the government accounting standards and the decrees issued by the Ministry of Internal Affairs and their implication at a municipal government is discussed at Chapter Nine.

setting the reporting rules for local administrations. An accounting consultant states:

As far as I know local governments only adopt the reporting rules issued by the government (central government). They are never involved in formulating the rules [regulations about reporting systems/accounting standards] (INT-31).

Another interviewee, an accounting academic voiced has a similar opinion.

We never know that anyone from local governments in this country participated in setting regulations for them. All things [regulations] are set at the ministerial level [central government level] (INT-3).

In addition, it is also found that there were no representatives from local governments or their associations on committee members who were involved in formulating the government accounting standards issued in 2005, or in MIA decrees (Government Accounting Standards, 2005, MIA Decree No. 13/2006). These facts show that the domination of government actors at the central level in Indonesia differs from the Dillard et al. (2004)-influenced portion of the IMI model which predicts the main actors in this level (organizational field) would be different actors from those at the economic and political level. For example, the Association of Local Governments (*Assosiasi Pemerintah Daerah*), an organization which is made up of local administrations were not involved in the formulation of the MIA's decrees (INT-13). Moreover, the history and the nature of the Indonesian government which is characterized by strong control by central government agencies of local administrations may have influenced this expected result (Chapter Six0. Table 8.3 illustrates a comparison of the actual institutionalization of the accrual accounting system in the Indonesian public sector at the organizational field against the IMI model. Meanwhile, Figure 8 shows the domination of central government agencies in the mobilization of the *new ideals*, *new discourses*, and *new techniques* in the institutionalization of the accrual accounting system in the Indonesian public sector.

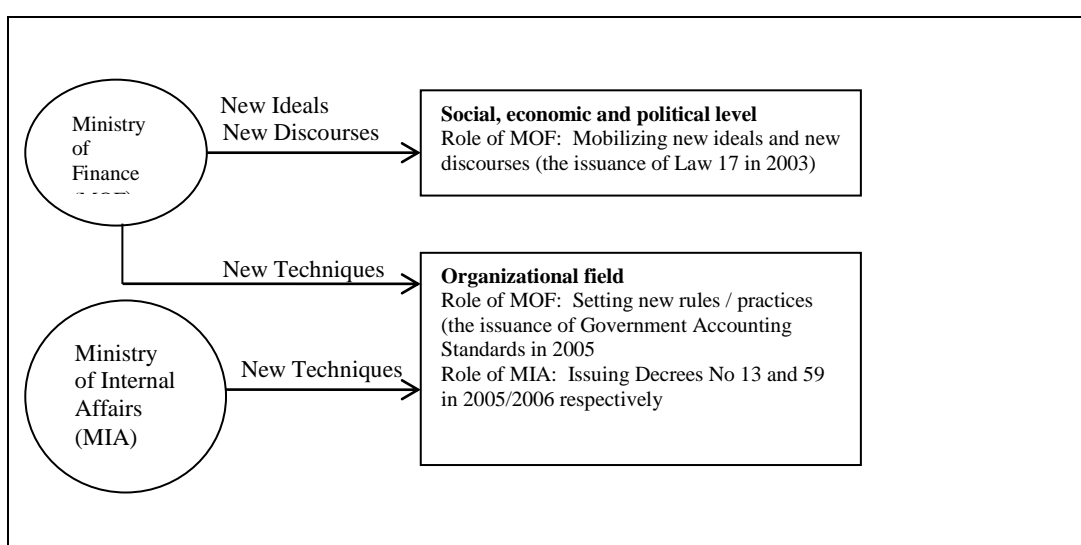
Table 8.3

Institutionalization of accrual accounting at the organizational field against IMI model

Organizational field		
• New ideals	No	No
• New discourses	Yes	Yes
• New techniques	No	Yes
• Internalization	No	No

Figure 8

Mobilization of new ideals, new discourses, and new techniques by actors



8. 3. 4 Internalization

As expected under the IMI model, the internalization of the accrual accounting system into the Indonesian public sector occurs at the organizational level followed by the issuance of the government accounting standards in 2005. The extent to which this internalization occurs is analyzed and discussed in the Chapter Nine.

8. 4 Discussion and Theoretical Implications

This section discusses the theoretical arguments of the findings regarding the institutionalization of accrual accounting in the Indonesian public sector at the economic and political level and at the organizational field. Table 8.4 summarizes the features institutionalization of the accrual accounting system in the Indonesian public sector at the economic and political level and organizational field.

Table 8.4

Features of institutionalization at the economic and political level and organizational field

Level of institution & category of information identified		Stages of institutionalization			
		New ideals (1980s-1998)	New discourses (1998-2003)	New techniques (2003-2005)	Internalization
Social-economic level	Activities (1)	Workshops, overseas visits, and the establishment of State Accounting Agency at the MOF*	Formulation of a law which required the adoption of accrual based system for the public sector		
	Main purposes of activities in column 1 (2)	<ul style="list-style-type: none"> To disseminate the ideals in which accrual accounting was promoted as a means to improve efficiency and performance of the public sector (normative isomorphism) To follow other counties (mimetic isomorphism) 	<ul style="list-style-type: none"> To provide a legitimate regulation as a means to strengthen the accountability and transparency of government (normative isomorphism) To seek legitimacy and to comply with stakeholders' demands 		
	Features (characteristics) of the activities undertaken in column 2 (3)	There was a contradiction between the views of the technocrats at MOF which promoted the use of a more informative accounting system and the action of a powerful actor (the president) who controls accounting and audit information	Political and economic reforms supported by the people and international organizations helped the technocrats at the MOF to mobilize their ideals for the adoption into a new discourse.		
	Influential factor as the cause of the characteristics occurred at columns 3 (4)	Resistance from powerful actors and rigid political system	<ul style="list-style-type: none"> The collapse of the Suharto regime in 1998 Broader political and economic reforms undertaken following from 1998 Public and international /demand supports for a more accountable and transparent government 		
	Outcome (implication) (5)	The ideals about the usefulness of accrual accounting emerged, but accounting reforms in the public sector were controlled.	The issuance of Law 17 in 2003 on state finances.		
Organizational field	Activities (1)			Formulation of a set of accounting standards for local governments	
	Main purposes of activities in column 1 (2)			To provide a set of rules as a legitimate basis for local governments in preparing government reports as required by the Law 17 (2003)	
	Features (characteristics) of the activities undertaken in column 2 (3)			MOF and MIA** dominate the formulation of their own reporting rules for local governments	
	Influential factor as the cause of the characteristics occurred at columns 3 (4)			<ul style="list-style-type: none"> Established roles of the MOF in public sector financial issues and the MIA as coordinating ministry of local governments Resource dependence of local governments on central government funding 	
	Outcome (implication) (5)			<ul style="list-style-type: none"> The issuance of two accounting rules /techniques: <ul style="list-style-type: none"> ✓ The Government Accounting Standards (backed by MOF). ✓ The creation of a new role of MIA in dictating accounting rules for local governments (The issuance of MIA decrees in 2006 and 2007. 	

8. 4. 1 Motives and drivers of reforms

At the economic and political level, the presence of a fiscal crisis prompted the technocrats in the Ministry of Finance to diffuse the ideals promoting the use of accrual accounting in the Indonesian public sector. This process started in 1980s. As the prices of oil dropped in 1983, the technocrats in the Ministry of Finance had to look for an alternative way to report and measure government spending. This situation supports Dillard et al.'s (2004) notion that economic reasons are usually used by powerful groups within the economic and political level in the mobilization process of specific norms and standards at the organizational field. Beyond economic reasons, the aspiration to adopt accrual accounting may also be driven by the wish to imitate a similar accounting system in other countries. As reported by Christensen (2009), Australia and New Zealand's experiences of adopting business-style managerial systems in the public sector, including accrual accounting, inspired other countries to adopt similar practices.

However, after the collapse of the Suharto regime in 1998, the wish to adopt the accrual accounting system in the public sector in the country was not only driven by economic reasons, but also prompted by the government's efforts to gain legitimacy from domestic and international communities. Amid the economic crisis, the government was placed in such a position that it needed political and economic support, domestically and internationally. Therefore, the efforts to attain legitimacy at the economic and political level may have had the potential to facilitate the emergence and mobilization of the *new ideals* and *new discourses* leading to the creation of a new accounting system at the organizational field level.

In this case, some of the technocrats in the Ministry of Finance in the 1980s who raised the *new ideals* also participated in the institutionalization (i.e., setting government policies, laws) of accrual accounting following the collapse of Suharto's regime in 1998. Seen from these facts, it can be suggested the motives

which promoted the emergence of the new ideals and the creation of new discourses (Law 17/2003), and new techniques (government accounting standards and MIA decrees) in the Indonesian public sector were indicated by the presence of economic reasons, the wish to improve transparency, and a desire to follow a similar accounting practice adopted in other countries. In addition the desire to adopt the accrual accounting system was driven by wish to gain legitimacy as the Indonesian government faced a deep financial, economic, and political crisis following the collapse of Suharto's regime. Therefore, the changes in social, economic, and political institutions can shape the nature of the motives behind public sector accounting reforms.

8. 4. 2 Political system and power

The nature of the political system, power and the behaviour of powerful actors within it may have also affected the extent to which accounting reform in the public sector can be mobilized. During the Suharto era the fiscal crisis in the 1980s did not give enough trigger for the Ministry of Finance to substantially reform the underlying rules about state finance. As the Suharto regime was renowned for its lack of openness and accountability, it would not be surprising if accounting reforms in the public sector at the time were poorly carried out. This fact supports the notion that a less democratic government would not favor public sector accounting reform (Lüder, 1992). When the financial, economic and political crisis (social and economic shocks) hit Indonesia in 1998 and forced Suharto's regime to end, the public and international pressures demanded that successive administrations should be more democratic, accountable, transparent and efficient (Wanandi, 2002; Law 17 /2003). Therefore, when the established order (the Suharto regime and its political system) were replaced by a more democratic regime in 1998, their replacement allowed accounting reforms in the public sector to be mobilized by the actors in the Ministry of Finance as part of wider political and economic reforms in the country. This finding indicates that if a government is

forced to be efficient; the foundation for public sector accounting reform can be firmly established.

8. 4. 3 Continued dominant roles of central government actors

Although post-Suharto administrations have adopted autonomy policies for local governments, the regulations and rules about public sector accounting systems in Indonesia until 2007 were still formulated by the central government. These included:

- Government Decree 308 issued in 2002 about state finance
- Law 17 issued in 2003 about state finance
- Government Accounting Standards issued in 2005
- Rules about local government financial management issued by the Ministry of Internal Affairs.

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 legacy is 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. This legacy may explain why during the Suharto era, the public sector accounting reform initiatives promoted by the technocrats in the Ministry of Finance had little power to make any significant progress

Therefore, the collapse of Suharto's regime in 1998 provided the supporters of political and economic reforms in Indonesia with the opportunity 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 a chance for nongovernment 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. However, as indicated in the colonial and Suharto era, after the collapse of Suharto's regime, strong control by the central government institutions was still

dominant in institutionalizing the accrual accounting system not only at the economic and political level but also within the organizational field.

8. 5 Conclusion

This chapter has demonstrated that an integrated model of institutionalization (IMI) model adapted from the works of Dillard et al. (2004) and Dambrin et al. (2007) has been useful as a framework to discuss the institutionalization of the accrual accounting system in the Indonesian public sector. It is found that at the economic and political level the efforts to adopt accrual accounting in the Indonesian public sector were undertaken by the technocrats (economists and accountants) at the Ministry of Finance from the 1980s when the country encountered a fiscal crisis. In addition, it is also found that in the 1980s onwards and early 1990s the wish to adopt the accrual accounting system was driven by the aspiration to follow similar practice that had been adopted in other countries.

Nonetheless a formal adoption of accrual accounting occurred only after the collapse of Suharto's regime in 1998. In this case, at the economic and political level, beyond mere economic reasons, the move to formally adopt the accrual accounting system appeared to be part of the Government's response to the demand from the public, and international organizations such as the IMF and the World Bank, for broader political, economic, and public sector reforms and transparency. In addition, it is also found that the strong control of local governments by the central government that has been rooted in Indonesia's history since the colonial era also allowed the Ministry of Finance and the Ministry of Internal Affairs to dominate the formulation process of *accounting techniques* for public sector organizations including local governments. This finding means that historical, economic, and political factors have affected how accrual accounting has been institutionalized within the social, economic, and political level and organizational field of the Indonesian public sector.

8. 6 Summary

This chapter has revealed the history and nature of the government accounting practices since the *Dutch Indische* (known as Indonesia nowadays) in 1642. This chapter has also discussed the institutionalization of accrual accounting in the Indonesian public sector within the economic and political level. In addition, this chapter also discussed how the accrual accounting system has been institutionalized within the organizational field. Furthermore, the chapter has examined the theoretical implications of the findings and conclusions of the chapter.

CHAPTER NINE

THE INSTITUTIONALIZATION OF ACCRUAL ACCOUNTING AT THE ORGANIZATIONAL LEVEL

9. 1 Introduction

Having discussed the institutionalization process at the economic and political level and at the organizational field level in Chapter Eight, this chapter examines how a municipal government (henceforth MGS) institutionalizes the accrual accounting system at the organizational level following the issuance of the government accounting standards in 2005. To set the context of the study, the chapter firstly examines the historical, economic, and bureaucratic backgrounds of the MGS and the accrual accounting system and accountability mechanism used in the municipality. Second, to understand how the MGS institutionalizes the accrual accounting system the chapter will discuss four stages of the institutionalization of the accrual accounting system in accordance with the IMI model. Finally, this chapter discusses the theoretical implications of the findings and conclusions of the chapter.

9. 2 Background Information of Municipal Government Studied (MGS)

The MGS is one of 10 local governments under the jurisdiction of a provincial government in the Sulawesi Island of Indonesia (Figure 9.1). The local government was established in 1972. In 2007, the estimated population of this city was 308,000. The majority of its population work as employees of commercial organizations, farmers, business owners, fishermen, government employees, and students from rural areas (BPS, 2007). In 2008 the service and manufacturing sector accounted for 41.7 % of the regional domestic product followed by mining and energy (20 %), trading and hospitalities (14 %), transportation and telecommunication (13%).

Moreover, the agricultural and fishing sector contributed 12.7 % to the regional domestic product (BPS, 2007).

Figure 9.1

The location of the municipal government under study (A)



As with most local administrations in Indonesia, the MGS depends on the transfer of grants from the central government in supporting the operations and the provisions of services to its population (BPS, 2007). In 2007 for example, of 376 billion rupiahs²² of its budget for both operational and capital expenditures, 345 billion rupiahs (NZ \$ 47 million) or 92 % was funded by the central government and only 25 billion rupiahs was generated from local levies and revenues. In addition, 260 billion rupiahs (70%) of the total budget was allocated for operational and administration expenditure and 90 billion rupiahs were allocated to capital expenditure and as subsidies in the provision of health care services, education and social welfare (BPS, 2007).²³ Compared to developed economies such as the US, Australia or New Zealand, local governments in Indonesia and other developing countries in general are more dependent on fiscal support from their central

²² 1 New NZ dollar is rated at Rp 6,500 (Bank Indonesia, 2010).

²³ See for examples, Law 17 about state finance (which includes local the financial aspects of administrations), Law 22 and 25 (1999) about economic and political arrangement at local level.

governments (Bahl & Wallace, 2004). Table 9.1 presents key democratic and economic indicators of the municipal government.

Table 9.1

Key demographic and economic information

Key Information	Indicator (2007)
Population	308,000
Total annual budget	376 billion rupiah
Central government's contribution to annual budget	345 billion rupiah (92 %)
Key economic sectors	
• <i>Service and manufacturing</i>	41.7 %
• <i>Mining and energy</i>	20 %
• <i>Trading and hospitalities</i>	13 %

Source: BPS, 2007

9. 2 1 Organizational Structure

Although the Indonesian post-Suharto era has provided greater autonomy for local administrations to manage their political and economic affairs, the basic arrangements of these affairs are still dictated by the central government through laws, government regulations, or ministerial rules. The organizational structure of the municipality consists of (1) the executive side of the MGS (governmental officials) headed by the mayor, and (2) the local parliament (Figure 9.2). The roles of the mayor and the divisions/sub-organizations of the MGS are discussed below.

9. 2. 2 Roles and responsibility of mayor and vice mayor

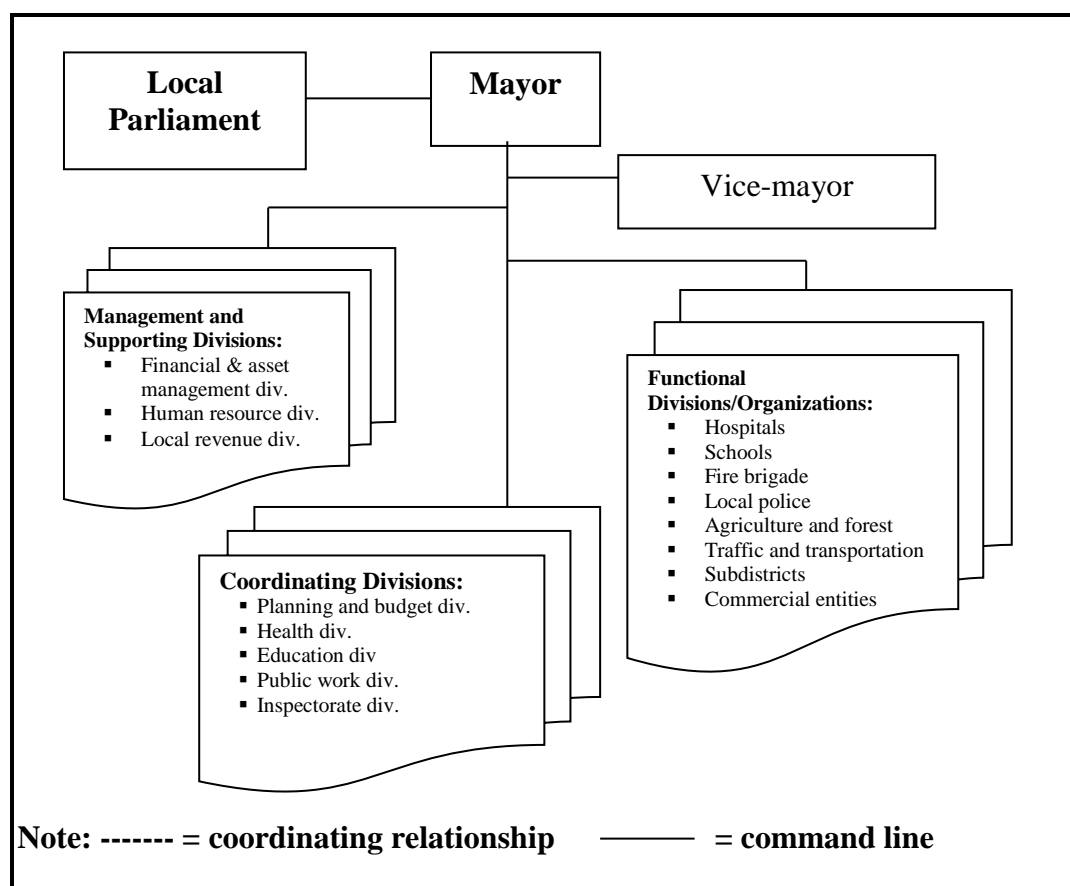
The mayor of the MGS holds the responsibility both for the political and managerial affairs of the municipal government. He or she is responsible to the local parliament²⁴. The mayor has one deputy mayor. The roles of her or his deputy are determined by the mayor. This vice mayor is responsible to the mayor, and three assistants who have responsibilities in economic, political, and social affairs respectively. The post of a mayor in all municipal governments in Indonesia is held for a five-year tenure and the incumbent can be re-elected for a second term by the

²⁴ However, according Law 34 (2004), local parliaments in the country at the provincial and local level need to get the approval of the central government to formally dismiss a mayor (for example).

people. The functional operations of the MGS are coordinated and carried out by sub-organizations as coordinating, functional, management and supporting divisions respectively.

Figure 9.2

Organizational structure of municipal government under study



Source: BPS (2007, INT-13; INT-14)

9. 2. 3 Coordinating divisions

The coordinating agencies are divisions that do not directly involve themselves in the provisions of services to the people; rather they coordinate and supervise the divisions or agencies that produce such services. The coordinating divisions include (1) the Development and Budget Division, which has the responsibility to plan the programs and formulate the budgets of the MGS; (2) the Health Division that coordinates and supervises the hospitals; (3) the Education Division which oversees

the operation of schools; and (4) the Public Facility and Works Division which coordinates and supervises the development and operation of public facilities (e.g. roads, a museum, bridges).

9. 2. 4 Functional divisions

The functional divisions are sub-organizations or agencies that have been assigned the roles and responsibility for providing services directly or through providers of services to the citizens or customers. These divisions include (1) Hospitals; (2) Schools; (2) Fire Brigade Division; (3) Local Police Division; (4) Waste Management Division; (5) Agricultural and Forest Division; and (6) Traffic and Transportation Division. The provision of other services for the citizens, such as the registration of new companies is administrated by the sub-districts of the MGS. In addition, the MGs also has two commercial entities (i.e., a local water company and a trading company) and their daily operations are administrated separately²⁵. These companies are locally funded and do not depend on the funding from central government (INT-13). The staff positions of the divisions are appointed by the mayor and those appointed are responsible directly to the mayor (see Figure 9.2).

9. 2. 5 Management and supporting divisions

The operation of the MGS which is not directly related to the provisions of service is administered by the management and supporting divisions. There are four divisions included in this category: (1) Financial and Asset Management Division that has the role of managing the assets and preparing the reports of the MGS; (2) Human Resource Division, which is assigned the role to manage the MGS's employees; (3) Local Revenue Division which collects local revenues and levies; and (4) Inspectorate Division (or internal audit division) which is assigned the task to oversee and supervise the progress and results of the projects, programs and activities undertaken by other divisions. The Inspectorate Division also has the

²⁵ As commercial companies owned by Indonesian government at the national level as Pertamina (an oil and gas company) or Garuda Indonesia (an airline company) these entities use a set of accounting standards for the private sector i.e., *Pernyataan Standar Akuntansi Keuangan* (Statement of Accounting Standards) adapted from US-GAAP and IAS. This project did not focus on the accounting practices of the companies.

authority to review the reports of the MGS before the State Audit Board audits these reports (see Figure 9.2).

9. 3 Institutionalization of Accrual Accounting at the Organizational Level

This section discusses how the MGS institutionalizes the accrual accounting system in accordance with the IMI model. As expected within the IMI model there is no indication found that the new ideals about accrual accounting adopted in the MGS were mobilized within the municipality. As earlier explained in Chapter Eight this process was undertaken at the economic and political level. As also expected by the IMI model, I did not find that the mobilization of the new discourses about the accrual accounting system adopted by the MGS was undertaken within the organizational level (the municipality). This mobilization of the new discourses was undertaken at the organizational field (Chapter Eight). In addition, I also found that in contrast to the expectation of the IMI model the formulation of the new techniques about the accrual accounting system were not undertaken by the actors within the MGS. As Chapter Eight reports it was undertaken at the economic and political level. Internalization, to some small degree, did however occur at the MGS level. The nature of how the accrual accounting system is internalized is discussed in the following section.

9. 3. 1 Formal accounting systems and accountability mechanism

This section identifies formal rules regarding the accrual accounting system and accountability framework to which MGS officials and local parliamentary members are subject.²⁶ Since 2005, the MGS, as with other local governments in Indonesia is required to prepare its financial statements based on the Law 17 (2003) and the Government Accounting Standards issued by the central government. In addition,

²⁶ The basic principles of the rules about financial management and reporting system for all local governments in Indonesian are similar as they are based on the rules dictated by the central government (see Law 17/2003; Government Accounting Standards, 2005).

the MGS has to follow the Ministry of Internal Affairs Decree No. 13 which was revised by Decree No. 59 (2007) in preparing its reports. As a consequence, the MGS is obliged to produce two types of reports: reports prepared based on the government accounting standards, and reports prepared in accordance with the Ministry of Internal Affairs' decrees (INT-13 and INT-16). According to my interviewees (INT-13 and INT-14) in the MGS, the responsibility for producing the reports is assigned to the Vice-mayor and the task is carried out by accounting officials in the Asset and Financial Management Division of the municipality. The vice mayor states:

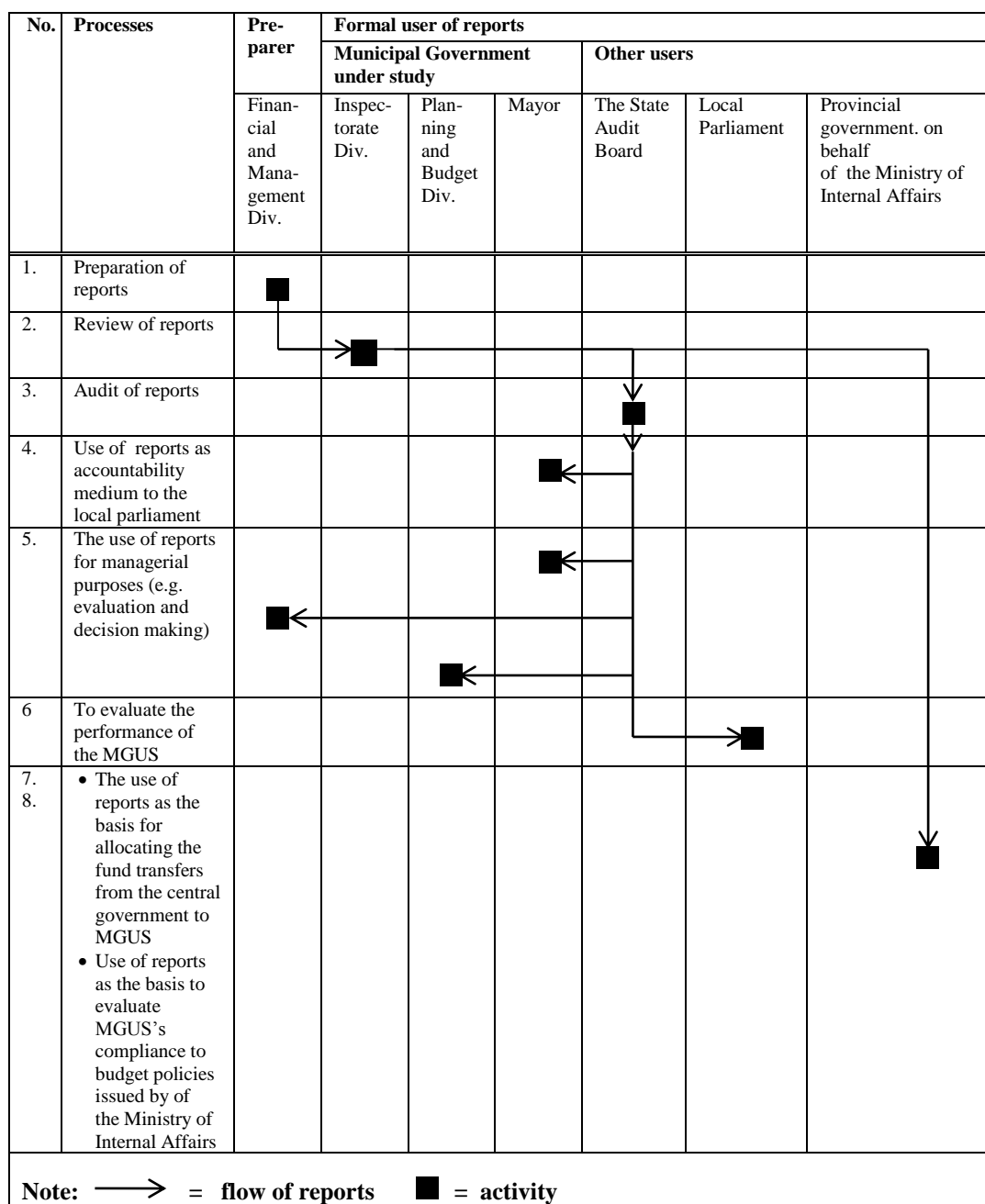
It is my responsibility to produce the reports (INT-17).

These reports are then verified by the Inspectorate Division to ensure that the reports accord with the government accounting standards and related rules. After the verification, the reports are audited by the State Audit Board (BPS, 2007). The audited reports along with the recommendations issued by the State Audit Board, are forwarded to the mayor and the officials in the MGS (BPS, 2007). According to the Ministry of Internal Affairs Decree No. 59 (2007), on behalf of the Ministry of Internal Affairs, the Provincial Government of which the MGS is a part is required to use the MGS's reports by the Ministry to ensure the municipality has followed the budget policies it imposed.

According to Government Accounting Standards and the Ministry of Internal Affairs Decree No. 59 (2007), the reports of local administrations in Indonesia are also used by the Ministry of Internal Affairs to allocate the central government funds to local governments. There are expected to be multiple users of these reports therefore. A Formal process involved in preparing and using of reports in the MGS is presented in Table 9.2

Table 9. 2

Formal process involved in preparing and using of reports



On the accountability side, the audited reports are then submitted by the mayor to the local parliament, as the basis for the local parliamentary members to evaluate the operational and financial performances of the MGS. Outside the MGS, the

government accounting standards stipulate that the potential user of the reports of local governments in Indonesia includes the tax-payers, media, and researchers (INT-14 and INT-16).

According to the Ministry of Internal Affairs Decree No. 59 (2007), on behalf of the Ministry of Internal Affairs, the Provincial Government of which the MGS is a part is required to use the MGS's reports by the Ministry to ensure the municipality has followed the budget policies it imposed. Moreover, according to Government Accounting Standards and the Ministry of Internal Affairs Decree No. 59 (2007), the reports of local administrations in Indonesia are also used by the Ministry of Internal Affairs to allocate the central government funds to local governments. On the accountability side, the audited reports are then submitted by the mayor to the local parliament, as the basis for the local parliamentary members to evaluate the operational and financial performances of the MGS. Outside the MGS, the government accounting standards stipulate that the potential user of the reports of local governments in Indonesia includes the tax-payers, media, and researchers (INT-14 and INT-16).

As explained in Chapter Four for an internalization to occur there should be a coherent link between ideals, new discourses, techniques, and the actions of people involved in the institutionalization within organizations. As stated by Dambrin et al. (2007) internalization refers to "objectification (i.e. the articulation of ideals, discourses and techniques) into individual actions' (p. 177). Therefore, for example, if institutionalization of a new accounting technique were aimed at efficiency improvement – the application of the accounting system would enhance the efficiency improvement process through the actions of the employees who use the accrual accounting in the municipality. Similarly, if the adoption of a new accounting system is aimed at producing financial information for making decision, such information should be used by its users in making managerial decisions on

new government projects, investments, or operational expenditures of organizations.

To identify and evaluate the extent to which the accrual accounting system in the MGS has been internalized in accordance the Government Accounting Standards, a number of issues are discussed. These issues include: the rationales for the adoption of the accrual accounting system; how the accrual-based reports of the MGS were prepared and their implications. In addition, this section also discusses major features which indicate the level of the internalization of the accrual accounting system in the MGS. Table 9.3 summaries how the accrual accounting system should be internalized within the MGS in accordance with the Government Accounting Standards and will be referred to as appropriate in sections to follow.

Table 9.3

Expected accrual accounting internalization in MGS

Basis of evaluation	According to government accounting standards
Reason for adoption	Economic reasons (e.g. increased transparency, accountability and efficiency)
Report preparation	Reports should be prepared by the municipal government employees
Level of report production	Reports should be produced at the municipal and divisional levels
Compliance of reports	Prepared in accordance with government accounting standards
Publication of reports	Should be easily accessed by the public
Potential users of reports	<ul style="list-style-type: none"> • Local government officials • Local parliament • Ministry of Internal Affairs • State Audit Board • The public
Types of reports used for decision making	<ul style="list-style-type: none"> • Cash-based reports (budgeted realization reports) • Accrual-based report
Intended outcome	Transparency and efficiency improvement

9. 3. 2. Rationale for adoption

As explained in Chapter Seven, although the decentralization policy has granted local governments in Indonesia greater autonomy, the rules about budget formulation, reporting and treasury systems, and public sector audit frameworks at local level are regulated at the central level. Nonetheless, based on interviews with the vice mayor and other senior officials of MGS, it is found there was no resistance to the adoption of the accrual accounting system. The vice-mayor (INT-

13) of the municipal government believes that the implementation of the accrual accounting system (via Government Accounting Standards) is important as a means to disclose financial information of the municipal government studied.

I think as the law states [Law 17/2003] the new system (the accrual-accounting system) is useful to improve our financial disclosure (INT-13).

This supports the views expressed by a senior official in the Ministry of Internal Affairs (INT-23) and senior auditor at the State Audit Board (INT-26). A former senior official at the Ministry of Finance at the State Audit Board suggests:

The citizens must be informed where their money has been used and how much. Therefore I think the new regulation [Law 17 / 3003] is useful (INT-2).

However, although the accrual accounting system has been regarded as important to improve the accountability and decision making by local actors, the adoption of the accrual accounting by the MGS appears to be primarily driven by a coercive motive. A senior financial official in the municipality states:

We have to prepare the reports [the accrual-based reports]. It is stated in the Law [Law 17/2030] (INT-13).

A member of the local parliament in the MGS also expressed a similar idea.

If we talk about financial matters [in the local government] we must follow the Regulation No. 13 issued by the Ministry of Internal Affairs and Government Accounting Standards (INT-28).

These statements illustrate that the adoption of the accrual accounting system by MGS is mainly driven by the wish to comply with the law (Law 17/2003) imposed by the central government. A similar point is also made by a manager in the Financial and Asset Management Division of the MGS. He states:

It is the obligation of the local government [local bureaucracy] to implement all regulations imposed to them by the central government including this one [the Law 17/2003] (INT-14).

Thus, that statement reflects that, legally, local governments in Indonesia are required to follow the regulations imposed by the central government. Beyond this, given that the MGS heavily depends on the fiscal support from the central government -- it is economically, politically, and legally important for the municipality (and other local administrations) to adopt the accrual accounting system. This finding differs from the idealistic notion of Dillard et al. (2004) as expressed in the IMI model that institutionalization of a new accounting system allows local (organizational) actors to determine their own rules or practice as a response to the institutional pressures imposed from outside. As Dillard et al. (2004) state, the main actors who create a new practice/technique within an organization would be the managers or the workers of the organization. This is in contrast to the role of the actors within the MGS who adopt a new accounting system that has been technically formulated only by actors at the central level. A senior accounting official in the MGS confirms this situation.

We here only use the system [accounting rules] issued by the central government (INT-13).

A senior official in the Financial and Asset Management Division in the MGS states:

If we do not produce the reports, people [potential users of reports] in the central government would think that we do not obey the laws (INT-16).

Such a predominance of views illustrate that although the efficiency rationale at the MGS is claimed to be important by the officials interviewed in the municipal government, compliance is a stronger motive. Therefore, the adoption of the accrual accounting system in the MGS is in line with the notion of Sharma and Lawrence (2005, p. 145) that an organizations “[...] need to create, maintain, and manage legitimacy in the eyes of external constituent groups in order to receive their continued support”. Therefore, for the MGS, as for other local governments in Indonesia which heavily depend on funding support from the central government, it is economically and politically important to follow rules imposed by the central government. Thus, at the organization level, the MGS cannot be characterized as

either an Innovator or a Late Adoptor as Dillard et al. (2004) theorize, but it can be seen as passive adaptor as the MGS only adopts, the accrual accounting system that has been formulated at the organizational field by the central government agencies (i.e., Ministry of Finance and Ministry of Internal Affairs). Furthermore, the organization only experiences ‘limited’ involvement in the IMI defined institutionalization process (Table 9.4)

Table 9.4

Institutionalization at the organizational level against the IMI model

Stages of institutionalization	Expected	Actual
• New ideals	No	No
• New discourses	No	No
• New techniques	Yes	No
• Internalization	Yes	Limited

9. 3. 3 Preparation of reports

Although the government accounting standards were issued in 2005, the MGS has been able to prepare its report in accordance with the accounting standards only since 2006 because the lack of staff who understand accrual accounting. Moreover, the MGS was only able to produce its consolidated reports, as there were no accrual-based reports produced by all divisions. As acknowledged by the vice mayor (INT-13), given the lack of expertise among the staff in that division, the preparation of these reports was carried out by officials with the assistance of outside consultants and certified accountants.

However, the involvement of consultants was not only realized in the provision of guidance and job-training for existing employees assigned to prepare the reports, they also prepared the reports and other basic work of an accounting clerk. That fact differs from the views of a senior official at the Asset and Financial Management Division who claims that the involvement of consultants or certified

accountants was only to give advice about technical matters with respect to the new reporting system as stated as below:

Consultants only provide guidance and training for our staff. It is a kind of in-training job. They [the consultants] were not involved in technical matters; I mean they do not do the clerical jobs (INT-14).

A consultant (INT-31) who was involved in assisting in the preparation of the MGS's reports state that his work was not only to provide technical guidance; he was also directly involved with the basic accounting work including the collection and classification of transaction evidence, and preparation of the general ledgers up to the writing of the notes to financial statements. A similar comment was made by a consultant, who states that he and his colleagues were involved in the whole processes of preparing the financial statements.

The officials in the municipal government only signed the final reports (INT-33).

In addition, it is found that consultants not only helped the MGS by preparing its reports, but that they are also required to assist the municipality in formulating its budgets. A certified accountant states:

Most of local governments in this region including the municipality [MGS] still very much rely on consultants in preparing their reports, even the consultants or certified accountants are also involved in assisting the government to formulate its budgets (INT-33).

Another consultant (INT-32) offers a similar assessment. It seems that the accrual accounting system may enhance the financial accountability and efficiency of the MGS. However, given the lack of expertise and experience in using accrual accounting, the MGS fails to prepare the accrual-based reports independently. As an illustration, the MGS only has 4 accountants amongst its 6,777 employees across all divisions and units, including teachers in the schools, and nurses or doctors in hospitals who are civic employees (INT-13, INT-14, INT-21; BPS, 2009). Therefore, although the government accounting standards require the MGS to produce the reports (i.e., accrual-based financial statements) of every single division and consolidated reports at the municipal government level, the number of

staff who have accounting skills is limited. Out of the total of 24 of officials in the accounting and bookkeeping section in the Financial and Asset Management Division, only 2 people were accounting graduates.²⁷ Moreover, only 2 of 55 employees in the Inspectorate Division were accountants. Also, most of the staff of the division had not been equipped with accounting experience prior to their current positions.

However the lack of qualified accountants is not solely a problem faced by the MGS. As stated by Manao (2008), Prodjoharjono (2008) and Harun, Van Peurseem and Eggleton (2012) the lack of accounting expertise is a prevalent phenomenon in all government organizations in Indonesia.

Commenting on that issue, an interviewee at the State Audit Board states:

As far as I know, in this local government [MGS] it is difficult to find qualified people that can accomplish their task either at the top position or technical level. Their backgrounds have nothing to do with accounting (INT-20).

In a similar vein, a consultant who was involved in training the accounting and financial officials in the MGS points to the failure of the municipality to internalize the accrual accounting independently because most of the employees in the Financial and Accounting Division do not have appropriate training and professional backgrounds.

The system (now) is difficult to be implemented [...] it is mainly due to their education and professional backgrounds that differ from accounting (INT-32).

Therefore, it can be concluded that the lack of staff qualified in accrual accounting practice means that the MGS is unable to internalize the accrual accounting system in preparing its accrual-based reports. According to Dambrin et al. (2007) this situation shows there is a loose coupling between how the accrual accounting regime should be adopted and the actual capacity of the local actors to adopt it. Thus the lack of technical capacity contributes to the failure of the local government employees to independently adopt the accrual accounting system. In other words, the lack of technical capacity of the MGS's employees contributes to

²⁷ The two staff were new (recruited in 2009) and they had not been involved in preparing the reports of the municipal government when the study conducted (INT-13 and INT-14).

the low level of habitualization, objectification, and sedimentation of the new accounting system through the actions of its users as conceptualized by Tolbert and Zucker (1996). A number of studies have also noted the lack of technical capacity of government officials is a major problem faced by public sector reforms in other countries such as Australia (Rowles, Hutton, & Bellamy, 1998; Pilcher, 2000), the Netherlands (Ter Bogt & Helden, 2000) and Malaysia (Saleh & Pendlebury, 2006).

9. 3. 3. 1 The emergence of an illegal practice

Along with the lack of technical capacity of its employees, the emerging of an illegal practice has also distracted the internalization (through report preparation) of the accrual accounting system from its promoted role for efficiency improvement. This illegality occurs as the preparation of the reports of the MGS involves outside consultants which requires a tender process. This process becomes susceptible to bribery. Consultants need to pay senior officials in the municipality to help them stay involved in the government projects (accounting services).

In the MGS, the consultants or private accountants who assist the MGS to prepare its reports pay about ten to fifteen percent of the total budget of a project as bribery (INT-31). Although the bribery is a new phenomenon in the Financial and Asset Management Division of the MGS, such a practice has been part of the tender process of government projects throughout the country. In other words, the adoption of the accrual accounting has opened up an opportunity for bribery to emerge in the Financial and Asset Management Division of the MGS. This practice did not happen when they used the old accounting system as there was no tendering process in outsourcing the preparation of the accrual-based reports. A local consultant states:

In the past there was no tendering process like now as they [the existing accounting staff] could prepare the cash-based report (INT-32).

Another consultant (INT-33) also clarifies that the bribe is called a “management fee” which indicates a specific percentage of the total project value that has to be paid back by consultants (or other people) to the officials in the municipality if they

are awarded the project. The value of the bribe ranges from 10 to 15 percent of the total budget of a project. He states:

You need to allocate ten to fifteen percent of a project budget [for bribery] if you wish to win the tender (INT-33).

As observed in the MGS, the “management fees” are not included in the formal project agreements between consultant firms and the MGS, nor are they components of costs of any accounting projects (INT-33). Rather, these fees are determined through informal agreements between consultants and senior officials in the MGS. In this case, the consultant firms have to pay back a certain amount of money (a bribe)²⁸ to the officials who have the authority to make decisions in the tendering process (INT-31). In the MGS the payment of the “management fees” does not use the bank service; rather it is paid in cash (INT-33).

It is important to note that the bureaucrats I interviewed in the municipality had a different view about the nature of the bribery. They themselves do not dismiss the presence of such a practice; however they were reluctant to clarify the nature of the “management fee practice”. Even the vice-mayor of the municipality (INT-13) acknowledges the presence of such a practice although he fails to recognize it as corruption²⁹. He states this practice cannot be seen as illegal as there is no obligation for the consultants or service providers to pay anything in order to get the local government project. He states:

It [the management fee practice] is common in Indonesia, where the owners of companies or senior people in the consulting firms give their counterparts in the Government a kind of prize if they have won a government project. I [personally] do not see it as corruption [...] as we never negotiate such as a thing in the tendering process. It is the willingness of the givers and we never impose it on anyone (INT-13).

However, despite the vice-mayor failing to acknowledge the presence of corrupt practice surrounding the tendering process in outsourcing the preparation of the

²⁸ By all accounts bribery is illegal in accordance with the Indonesian criminal law and the Government has established an Anti Corruption Commission to eradicate such practices in the Indonesian public sector (KPK, 2010).

²⁹ According to the Anti Corruption Law this practice is illegal and those who find this practice must report it to the police institution or attorneys (KPK, 2010).

MGS's reports, an audit report of the State Audit Board (2007) does show the presence of irregularities in the municipality³⁰.

However, it is important to note that corruption is not merely the MGS's problem. International organizations (World Bank, 2008a; Transparency International, 2009, Para 4) also have expressed concern regarding the corrupt practices in the Indonesian bureaucracy at the central and local levels. Corruption is not a surprising phenomenon in the Indonesian bureaucracy. As McLeod (2008) reports, one of the practices which leads to corruption in Indonesia is bribes being paid by the users of the services provided by the Indonesian government organizations and companies involved in government projects. A study by Indonesian Procurement Watch in 2010 also finds that 89 percent of companies surveyed in four cities including Jakarta – the capital of Indonesia – are required to bribe government officials in order to win the tenders for government projects (Kompas, 2011). Such facts show that the political and economic reforms that have been undertaken since Suharto left office in 1998, have yet to significantly change the actions and behaviors of people in the bureaucracy. Indonesia is still positioned relatively high in the list of the most corrupt countries in the world (Transparency International, 2009; 2010).

An article from *the Jakarta Post* (a widely read newspaper in Indonesia) reveals an example of the alleged bribery practices committed by people in a tendering process for a government project at the national level. This alleged corruption was committed by a number of the members of the national budget commission in the

³⁰ The State Audit Board identifies a number of audit findings which related to irregularities in MGS that run counter the goal of the adoption of the accrual accounting system which is aimed at increasing the quality of accountability, transparency and improved efficiency within the local government. For example, it was reported that 383,599,998 rupiah (approximately 38,360 US Dollars) of the local government budget in 2006 allocated for the annual costs of the housekeeping of the mayor was not properly used, recorded, administered, and reported in accordance with relevant rules. According to the report, it was only one of audit findings in 2006 totaling 2,439,810,266 rupiah (or equivalent to 248,931 US Dollars) which indicate irregularities or a poor financial management practice (State Audit Board, 2007).

National Parliament, ministerial officials and the financial manager of the Democratic Party, the governing party which nominated President Susilo B. Yudhoyono in 2009 for his second term as president.

The Corruption Eradication Commission (KPK) says that it has found information outlining the role of the House of Representatives' budget committee in corruption cases implicating officials from the Youth Affairs and Sports Ministry, and the Manpower and Transmigration Ministry.

"Currently, the committee is alluded to in several [corruption] cases we are handling. We found some links with the committee," Busyro [Head of the Anti-Corruption Commission] added. Busyro asserted that the KPK would pursue the allegations. "We will trace that direction," he said.

[He also said] The KPK is currently investigating a high profile case implicating former Democratic Party treasurer Muhammad Nazaruddin in a bribery case for the development of the SEA Games athletes' village in Palembang. The case has also implicated other officials including Wafid Muharam, secretary to the youth and sports minister.

Last month, the KPK also arrested a businesswoman and two officials from the manpower and transmigration ministry allegedly linked to a bribery case about an infrastructure development project worth Rp 500 billion [or about New Zealand \$ 72.5 million] (The Jakarta Post, 2011).

The Jakarta Globe (2011) also ran an article which reports a similar type of case.

"The committee [Budgetary Committee in the National Parliament] has also been accused of taking kickbacks associated with projects at several other ministries, including the contract to build the athletes' village in Palembang for the Southeast Asian Games [...]. The House Budget Committee body was allegedly one of the recipients of a Rp 1.5 billion (\$171,000) bribe handed to two Manpower Ministry officials last week by a contractor" (The Jakarta Globe, 2011).

Two members of a nongovernment organization (NGO) who have been actively involved in promoting the transparency of the MGS (INT-35 and 36) share similar concerns. They suggest that political reforms that were undertaken following the collapse of the Suharto regime have changed the political system and new

regulations have been issued. However, corrupt attitudes still exist at all levels of the bureaucracy, including in the MGS (INT-35). The old mentality and behaviors are still held by many public sector officials all across the regions and local administrations in Indonesia where corruption still flourishes. In 2010 alone 13 governors and 33 mayors were suspected of committing corruption (Kompas, 2011a).

Therefore, the emergence of an illegal practice (bribery) surrounding the adoption of the accrual accounting system in the municipality, as earlier discussed, also supports the view of Mimba et al. (2007) who remind us that in developing nations the habits (corruption practices) of local actors affect how a public sector accounting reform works. In this case, the unintended outcome of the implementation of an accrual-based accounting system by the municipality runs contrary to the intended outcomes of the Law 17 (2003) which promotes the use of accrual accounting to improve efficiency and transparency. This is certainly hampered by corrupt practices. Thus the issues of so called “the management fee” in the MGS supports the observations of Burns and Scapens (2000) and Siti-Nabiha and Scapens (2005, p. 269) that “at the organizational [level] the new rules and routines, such as the new accountability systems, might not be institutionalised [as expected] if the new system challenges the prevailing institutions” (p. 269).

9. 3. 3. 2 The increase of accounting costs

In addition to the emergence of corruption, the use of outside consultants or accounting firms by the MGS in preparing its reports increases the costs incurred in the accounting function of the MGS. The increase of the costs occurs because the existing employees performing the accounting function are still paid, regardless of their actual work, but the corruption benefits senior officials who are involved in the tendering process for the outsourcing of the accounting functions. As suggested by a journalist who has reported on the quality of government reports in the municipal government under study:

The local government [MGS] spends a lot of money to pay accounting professionals outside the government to prepare these reports. [...] If the task can be carried out by the existing staff it

would not benefit them privately, because there would be no tendering process which in many cases is vulnerable to bribery and corruption (INT-34).

A certified accountant who assisted the municipal government in preparing its reports has expressed a similar point.

As the municipal government lacks qualified employees in accounting, it needs to pay the professionals from outside. [...] it spends more money than last time for accounting matters [report preparation] (INT-32).

The cost of the preparation of the reports is about 200 million rupiah for this year [about New Zealand \$ 30,000³¹] this year [2009] (INT-33).

These findings are in contrast to the experience of New Zealand or Australia where the adoption of accrual accounting was aided by a human resource management system that helps the business-style accounting regime to work (Lapsley & Pallot, 2000). This type of support has yet to take place in Indonesia. Although the Ministry of Finance has introduced a private-style of human resource management in its ministry to cope with the situation, other ministries at the central level and local governments still use the existing human resource management system inherited from the Suharto era. A distinct feature of the old system is that government employees in the country at all levels are employed on permanent tenure³². The system defines the structure of the government bureaucracy rigidly and is similar to the armed forces (McLeod, 2006). McLeod (2006, p. 286) notes:

The Indonesian bureaucracy has a very rigid organisational structure in which the number of positions at each level in the hierarchy is fixed mechanically by formula [regulated at the central level], rather than by reference to the volume of work required to be carried out at that level (hence the ubiquitous gross overstaffing at lower levels. [...]) the classification or categorisation of positions throughout the civil service in favour of a military kind of organisational structure in which new recruits were not differentiated other than by the level of education attained.

³¹ This figure is equal to the salaries of 5 senior officials in the MGS (INT-35)

³² According to Law 43 (1999) about civic employees, also included as the civic employees are the armed forces and police in Indonesia.

Moreover, the existing human resource management system relies on the strong control of the Central Government on local governments in terms of pay, performance measurement and promotion systems (Law 44/1999). One implication of that is that the MGS is required get approval from the Central Government if it is about to hire new employees. The Deputy Mayor of MGS states:

It is not easy to hire new staff, because we must firstly get the approval of central government, although I really wish all units in this local government had accountants (INT-13).

Moreover, it is also important to note that all civil service employees in Indonesia, including those in the MGS, were recruited as fresh graduates of high schools or universities and the maximum age for appointment as a civic employee is 35 years of age (INT-13). Accordingly, it prevents those over that age from being recruited as civic employees. According to the current regulation (Law 43/1999) on civic employees, it is not easy to fire a civic employee in Indonesia regardless of her or his performance as long as they have not committed serious crimes or openly disobeyed government regulations.

It is not like in the private sector, where we can hire new employees when we need, the process of hiring new civic servants in this local government, like anywhere involves the central government. [...] It is beyond our control (INT-21).

As a result the lack of qualified employees in accrual accounting practice has not only made this local administration unable to independently prepare its reports, but it has also increased the costs for preparing the reports. The root of the problem is that the Indonesian government after the Suharto era still failed to reform the human resource management system at the local government level in such a way to make the civic employees at the local level able to cope with the new accounting regime (McLeod, 2005; 2006). Therefore, one direct implication of the adoption of the accrual accounting is the increase of accounting cost in the MGS. This finding is also in line with notion that the way a new accounting system is internalized can

bring about an unintended outcome as Dambrin et al. (2007) and Siti-Nabiha and Scapens (2005, p. 269) suggest.

9. 3. 4 Major features of internalization

This subsection presents and discusses major features which reflect a low level of internalization of the accrual accounting system in the MGS.

9. 3. 4. 1 Lack of report publication

Although the government accounting standards state that the reports of each government organization in Indonesia can be accessed by the public, the publication of these reports by the MGS is limited. One reason behind the lack of publication is that the MGS has not allocated sufficient resources to produce more reports. An interviewee at the Asset and Financial Management Division of the MGS (INT-15) states:

We do not allocate a specific budget to produce the reports (INT-15).

The lack of budget for producing the copies of the reports has a consequence; the reports are not available in hard copies for the public. For example, the reports of the MGS issued in 2006 and 2007 were circulated only among the formal users of these reports, such as the State Audit Board and Local Parliament (INT-13). Although the reports can be copied by the public, this situation potentially prevents the reports of the MGS being accessed by potential users. A certified accountant interviewed states:

Although the reports have been produced – it is not easy for the public to get the reports (INT-33).

Similarly, a journalist (INT-34) and a non-governmental organization activist in the MGS (INT-35) both complained that the reports of MGS had yet to be published through local media (newspapers). Therefore, it can be suggested that although the accrual-based reports have been produced, the lack of budget commitments has made the reports unavailable for the public. This problem also potentially

undermines the use of the reports by the public as the user of government reports was the intent behind the promulgation of the Law 17/2003 and Government Accounting Standards.

9. 3. 4. 2 Low level of report compliance

One of the bases for understanding the extent to which the reports prepared by the municipal government comply with the government accounting standards is to look at the audit opinions and recommendations issued by the State Audit Board. Since 2006, the MGS has produced its reports based on the government standards. However, the reports issued in 2006 and 2007 were issued with a disclaimer of audit opinion by the State Audit Board (INT-14). Although its reports were awarded a better opinion -- a qualified opinion in 2008 -- its reports produced in 2009 were again issued with a disclaimer of opinion (State Audit Board, 2006; BPS, INT-13; INT-14).

A number of reasons are identified by the State Audit Board as to why the municipality has failed to get an unqualified opinion from the State Audit Board. These reasons included (1) the lack of sufficient supporting documents regarding specific transactions; (2) irregularities with respect to use of cash and allocation of non-budgeted expenses without appropriate approvals; and (3) insufficient records of cash balance from previous periods³³. Table 9.5 summarizes the opinions issued by the State Audit Board on the MGS reports from 2006 to 2009.

³³ This thesis does not report in detail on asset valuation. When the study was undertaken, I did not consider asset evaluation as a significant issue in relation to the implementation of the accrual accounting system in the municipality. Therefore, I do not report asset evaluation issues as a main issue in this thesis for three possible reasons: (1) the consultants who prepared the reports of the MGS fully followed the government accounting standards in compiling the financial information (especially fixed assets) of the MGS when they prepared the reports and (2) the audit reports from the State Audit Board are more concerned with irregularities on operational expenditures, and (3) there is no auditing finding about asset evaluation problem. As reported in this chapter, one the main problems related to the institutionalization of the accrual accounting system in the MGS is the lack of people who can operate (internalize) accrual accounting and use accrual-based information in the MGS. Nonetheless, I believe if the users within the municipality have the capacity and consider the accrual-based information is relevant for them for decision-making, this issue will arise.

Table 9.5

Opinions issued by State Audit Board on MGS reports

Year of report	Opinion issued by State Audit Board	Identified problems
2006	A Disclaimer of opinion	<ul style="list-style-type: none">- The lack of supporting documents regarding specific transactions- Irregularities related budget and cash management- Insufficient recording system
2007	A Disclaimer of opinion	
2008	A qualified opinion	
2009	A Disclaimer of opinion	

Source: State Audit Board, 2008; 2009; 2010; BPS, 2007.

Moreover, according to the State Audit Board, the municipal government has failed to recruit a sufficient number of qualified officials who understand and can carry out the accounting functions in accordance with the accrual accounting system (State Audit Board, 2006; 2007). According to the State Audit Board, this situation has not only contributed to the MGS's lack of technical capacity in terms of skilled employees who understand the technical aspects of accrual accounting, but it also fails to establish an effective internal control system as a basis for preparing reliable reports. An auditor (INT-26) at the State Audit Board who has audited the reports of the municipal government points out:

The problem is the lack of technical capacity of the municipal government [MGS] employees in classifying documents and transaction evidence. The weakness in the internal control has prevented us for issuing a better opinion for their reports (INT-26).

A similar view is also expressed by two financial and accounting officials in the MGS. They state:

The lack of people who can understand the job [to implement accrual accounting] has caused us to fail to achieve a better opinion from the State Audit Board for our reports (INT-15).

If you look at the BPK (the State Audit Board) opinion the key problem is the lack of qualified accountants (INT-16).

Thus, the lack of qualified staff in accounting has not only forced the municipal government to outsource the accounting function to outside consultants as earlier discussed, but it has also made the internal control systems weak. This problem has

also led the State Audit Board fail to issue a better opinion (i.e., an unqualified opinion) for the reports of the MGS. However, it is important to note as earlier explained the failure of the MGS to recruit more qualified accountants is beyond its control, as the recruitment of new employees in the municipality (as with other local administrations in the country) requires the approval of the central government (INT-21).

Therefore, the views of the State Audi Board (2008; 2009) which solely blames the MGS for its failure to recruit more accountants shows a lack of understanding at the central government in treating these problems. In this case, central government agencies, which include the State Audit Board, and the Ministry of Finance and the Ministry of Internal Affairs, have failed to provide appropriate strategies for local authorities to strengthen their human resources. For example, the recruitment of new employees at the local level needs the approval of the central government and the process for getting that approval is complex and takes time (INT-13). As explained in Chapter Seven, the human resource management system at the local level in the country is still regulated by the central government.

Thus, there are inconsistencies and inequities in how the central government agencies impose the adoption of accrual accounting at the local level. This finding reminds us of Falkman and Tagesson's (2008) point when they state that one problem that contributes to the gap between the purpose and actual implementation of an accrual accounting system in the public sector is the lack of coherent strategies imposed by central governments on local authorities.

9. 3. 4. 3 Low level of demand for reports from potential users³⁴

As outlined in Table 9.3, according to the government accounting standards and MIA Decrees (No. 13/2006; No 59/2007), internally the reports of the MGS should be used by the internal auditors (i.e., officials in the Inspectorate Division) to review the compliance of the municipal government's reports with the government accounting standards and related rules. Moreover, the Asset and Financial

³⁴ A detail explanation regarding the potential users of the MGS's reports in this study is presented in Chapter Five.

Management Division and the Development Planning and Budget divisions should use these reports in formulating the MGS's projects and for other managerial purposes (INT-14 and INT-15). Externally, the reports are part of the financial accountability of the mayor to the local parliament, the State Audit Board and the provincial government on behalf of the Ministry of Internal Affairs (See Table 9.2, p.164). However, although the potential users of the reports of the MGS include broader stakeholders such as the tax-payers, investors, donators, and media as stated in the government accounting standards, no evidence was found that they are actual users of the accrual-based reports. The vice-mayor and a senior financial official in the MGS state:

As you know, these reports can be accessed by the public after being audited by the State Audit and formally submitted to the [local] parliament. But in this office, I have never seen anyone outside the office come here and ask for the reports (INT-13).
I think no people from the public read the reports [accrual-based reports] (INT14).

Nonetheless, an auditor at the State Audit Board put forwards a different view which suggests that the public is interested in using the financial information of the municipal government. He states:

Every audit report now is available for anyone after being submitted to Parliament. But those who directly come to us and ask for these reports are the policemen, attorneys, and court staff, and journalists (INT-26).

However, according to the interviewee (INT-26), the information that is sought by these (potential) users is not the reports based on the government accounting standards, but the audit findings concerning alleged frauds or corruption practices. This interest is shared by a participant who is also a journalist of a local newspaper.

I think most of our readers do not really read an essay or news about government reports [...] [if they read the news] people seem to be more interested in reading news about corruption or alleged misuse of public money by the bureaucrats (INT-34).

Drawing from views of the people interviewed (INT 13; INT 14; INT 26 and INT 34) it can be seen that although the rules (Law 17 and the government accounting standards) have clearly stated that the potential users of financial statements of local

governments in Indonesia would include local government officials, the auditors, tax payers, investors, and the public in general, the actual users of these reports, as found in this study, were limited. The actual users found were only: (1) the executives and officials in the municipal government; (2) the local parliament; (3) the Ministry of Internal Affairs and (4) the State Audit Board. This finding means there is a lack of demand from other stakeholders for the reports based on the accrual-based accounting standards.

With respect to how the reports of the MGS have been prepared, the compliance of these reports with the Government Accounting Standards, and the actual users of the reports, a number of conclusions can be drawn: firstly, although the accounting standards also require the MGS to produce the reports both at the consolidated and divisional levels, because of the lack of skilled accounting officials, these reports were only produced at the municipal government level. The lack of qualified personnel also has caused the municipal government to fail to establish an effective internal control system as the basis for the State Audit Board to issue unqualified opinions for the reports of the MGS (State Audit Board, 2008). In this respect internalization has failed to occur (Table 9.2).

Moreover, as there was a low level of demand for accrual based reports from potential users beyond the government organizations, it is fair to suggest there was no real incentive for the municipality to publish the accrual-based reports beyond official requirements. No doubt this situation potentially prevents public access to the municipality's reports as expected by Government Accounting Standards which assume the potential users of government reports in the country would include the public in general. However, the lack of demand for public sector reports in general is not a specific phenomenon of Indonesia. As reported by a number of studies little attention to accounting reports is paid by government officials to the reports of public sector organizations (e.g. Rowles et al., 1998; Ryan et al., 1999; Mignot and Dolley, 2000). The lack of public concern on their reports has also been a concern of accounting scholars including Jones and Puglisi (1997), Van Peurse and Pratt (1998), Pilcher (2000), Connolly and Hyndman (2006) and Andriani et al. (2010).

9. 3. 4. 4 Underuse of accrual-reports for managerial purposes

The following section critically identifies whether the identified users of the MGS's reports actually use the accrual-based reports. The users identified here are those who have been formally required by the government accounting standards to be the users of local government reports (Table 9.2)³⁵. They are: (1) internal users (local officials of the municipal government studied), (2) local parliament, (3) Ministry of Internal Affairs, and (4) State Audit Board. As the following section shows most of these users still prefer using cash-based reports over accrual-based information.

Internal users

Although the claimed benefits of the reports of the MGS are useful for financial accountability and managerial purposes, this study finds no clear evidence that the accrual information in the municipality's reports has been used for managerial purposes (e.g., planning and evaluating programs). The main reason may be that almost none of the officials in the financial and accounting area have ever been exposed to or understand accrual-based information.

Most of us [here] have only been more familiarized with that information [cash based report] (INT-14).

They have no idea about balance sheets and notes to financial statements (INT-16).

The manager of the Financial and Asset Management Division (INT-14) also suggests that given the officials in the division have limited expertise, experience and background dealing with accrual accounting techniques and accrual-based information, it is thus fair to suggest that the production of the accrual-based information is not driven by economic reasons, but to comply with the regulations imposed by the central government. He states:

Now we are also required to produce balance sheets and cash flows, but we only use these reports as our accountability document to the

³⁵Detailed information regarding the people who were interviewees as the preparer and users of the accrual accounting system in this study is discussed in Chapter Five.

State Audit Board. We do not have sufficient numbers of people who can understand the reports (INT-14).

A senior planning official in the MGS also describes the lack of use of accrual-based reports by internal users in the municipality. He states:

[...] we are still more familiar with the budget realization reports. We have used them for a long time (INT-29).

The deputy mayor (INT-13) of the MGS also expresses a similar view which signifies that the past experience of officials, which was solely focused on using the cash-based reports, has influenced the present attitude of officials in the municipal government to continually rely on these reports for making decisions. He states:

We are actually more concerned with cash-based reports, because we have been used to [them] for a long time (INT-13).

Moreover, in the Planning and Budget Division where the programs and budgets of the MGS are formulated, officials in that division have yet to use the accrual-based reports as these reports are not relevant for making decisions (in planning the projects and formulating the budgets of the municipality). As stated by the manager of the Planning and Budget Division of the MGS, the officials in the division are more concerned with non-accounting information about economic and social impacts of government programs for society when they plan any programs such new roads, new schools, clinics and other public facilities (INT-17, INT-18). The manager (Head) of the Planning and Budget Division states:

Information about money [in the accrual based reports] only relates to inputs [resources] to be processed to achieve the goal. Our concern is not on that way. “[...] What we are concerned about is the outcomes of the projects for the society. If you talk about money [accrual-based accounting information] it is the business of those in the accounting or financial division [of the MGS] or the State Audit Board [the external auditors] (INT-17).

Another staff member in the Planning and Budget Division shares a similar view.

When we are planning new roads or new clinics, the first thing we do is to consult with the public. It is nothing to do with reports as you mentioned (accrual-based reports) (INT-18).

These statements illustrate how the accrual-based reports produced in the MGS are regarded as irrelevant in the decision making process by the internal users. In other words, there is a gap between the goals of the use of accrual-based information highlighted in the Government Accounting Standards which promote the benefits of accrual-based reports for managerial purposes and the actual actions of its users in the MGS.

A similar situation occurs in the Inspectorate Division [internal audit division] of the municipality (Figure 9.2) which has the role to review the reports of the MGS. As stated by the supervisory staff at the Inspectorate Division, it is hard to find that officials in that division use accrual information in evaluating the performance of agencies in the MGS, rather they focus on cash-based reports.

Every month we evaluate the physical progress of each project and the cash reports of all divisions. For example, if we are about to evaluate these reports from the Health Division, it means we need oversee how much money that has been spent for each program, and we also directly inspect the projects under examination. Then we compare the progress of these projects and their budgets (INT-20).

The manager of the Inspectorate Division also confirms that almost all officials³⁶ in the local government lack the knowledge and accounting skills required to prepare and use the accrual based reports of the MGS. He states:

We do really lack people with such an expertise [accrual-based accounting skills] (INT-19).

Therefore, although the MGS has produced the accrual-based reports as required by the government accounting standards, there is no evidence that the officials in the local government use these reports (such as balance sheets) for financial management (e.g. making decisions) in planning new government projects, operational expenditures of the municipality and/or recruiting new employees. Therefore, the lack of accounting skills has prevented the internal users from using the accrual-based system as a means for controlling and evaluating the past

³⁶ The division only has one qualified (but unexperienced) accountant amongst its 32 employees.

performance of the divisions of the municipality and for planning new projects and activities of the MGS.

In addition, the accrual accounting information produced is not seen as relevant in making decisions. Therefore, beyond the lack of knowledge, skills and experience in using accrual based report, the attitudes of the officials who regard the accrual based information produced as irrelevant have also meant that the accrual accounting system has failed to be fully internalized in the MGS.

Local parliament

As with the officials on the MGS, the members of the local parliament in the municipality also acknowledged that the reports of the MGS are important to them to evaluate the performance of the municipal government. A local parliamentary member states:

Financial statements are the most important thing we use when we are about to examine the performance of the municipal government (INT-29).

The participant further states that accrual based reports presented through balance sheets are more informative in disclosing government assets, liabilities, and the government's capacity to gain revenue. This comment indicates that the accrual based reporting system is used by at least one local parliamentary member. He states:

I myself prefer balance sheets, because from these reports we can see the information related to government assets and its capacity to fund the budget (INT-28).

A comment from another local parliamentary member indicates a similar view.

On top of that in the balance sheets of the government we can see the accumulation of assets in one year (INT-30).

Nevertheless, such acknowledgements do not mean that accrual-based reports have been actually used by the local parliament in evaluating the municipality's performance. Most of them still favor using cash-based reports when they evaluate the performance of the local government. The following comment from a member

of the Development and Financial Commission in the local parliament indicates that fact:

“[...] we are still more familiar with the cash-based reports. We have used these reports for a long time (INT-29).

A comment from a local parliamentary member also indicates that the local parliament has yet to use the accrual-based reports for decision making. He states:

We are very much reliant on the cash-based information. It is easier to understand (INT-30).

From that comment it can be seen that the extent to which a local parliamentary member uses the accrual information depends on his or her understanding and experience in using accrual-based reports. A local parliamentary member who has experience in using accrual based information is more likely to use that type of information in their task in evaluating the municipality.

My experience as consultant has helped me to better understand current regulations imposed on local governments and the nature of government reports (INT-30).

However, only two of the 45 local parliament members (INT-28 and INT-29) claimed that they have professional backgrounds in dealing with accrual-based information as professional consultants, and that knowledge has helped them be able to understand accrual information presented by the municipal government. That figure implies that only a very small number of the legislative members in the municipal government have the capacity to understand the nature of accrual based information. Moreover, the local parliament has not been furnished with advisors that can assist the local parliament in understanding the nature of accrual based information (e.g., balance sheets) (INT-29; INT-30). This situation inhibits the local parliamentary members from using such information in evaluating the municipal government performance. As a consequence, real demand for accrual-based reports from the local parliamentary members remains low.

Ministry of Internal Affairs

The Ministry of Internal Affairs is also required by its own regulations to use local governments' reports to ensure that government projects and spending policies at municipal/district levels are in accordance with decrees (Decrees of Ministry of Internal Affairs No. 59/2007). This role is carried out by a provincial government (in which the MGS is part of its jurisdiction) on behalf of the Ministry of Internal Affairs. As a senior official in the provincial government which is assigned the role to evaluate the reports of the MGS states:

Our role is to evaluate the completeness and the fairness of all local governments' reports [in accordance with the Decree of Ministry of Internal Affairs No. 59/2007]. [...] What we do now is actually on behalf of the Ministry of Internal Affairs (INT-24).

However, an accounting official in the provincial government (INT-24) suggests that the officials in the province who have been assigned this task have yet to use the accrual-based reports of the municipality. The lack of technical skill in understanding is regarded as an obstacle which prevents them from understanding the accrual-based reports.

And I think, it would be beyond our capacity to examine the local government reports in accordance with regulation [government accounting standards and decrees issued by the Ministry of Internal Affairs] (INT-24).

A senior official at the same division also shares a similar belief. He states that they have yet to use such reports because of the lack of qualified accountants who can understand the nature of accrual based reports (INT-25). Of the 10 officials who had been assigned to evaluate the financial management (including their reports) in 10 districts and one municipality, only one person has an accounting degree (INT-25). The rest were equipped with only basic short-courses in financial management. Thus the lack of technical skills and experience in using accrual-based information has also impeded the provincial government from internalizing the accrual-based reports of the MGS in any meaningful way accordance with the Ministerial Decree No.59 issued by the Ministry of Internal Affairs in 2007.

State Audit Board

Evidence found suggests that the State Audit Board is the only institution at the central government level in Indonesia that has the capacity compared to other government organizations in the country to use the accrual-based reports of the Government at the central and local levels. A professor of accounting interviewed states:

The State Audit Board has hundreds of auditors and accountants who have the skills in supporting the use of the accrual accounting system for the public sector [...]. I believe no institutional that can match that organization in this country (INT-3).

Following the fall of Suharto's administration in 1998, the agency has recruited more auditors to strengthen its human resources, and it has actively published thousands of audit opinions and recommendations in respect of the government reports at all levels in Indonesia (Nasution, 2008). The capacity building of the State Audit Board has been possible, as the constitutional role of the agency following the fall of Suharto's government in 1998 has been strengthened to audit the reports of all government's agencies in the country. This situation contradicts with the situation in the Suharto era when the audit body was poorly resourced and lacked power (Booth, 2005). A senior auditor at the State Audit Board states:

Now we have more roles than in the past. The law [Law 15/2005] states that the government has to follow up our audit findings and recommendations (INT-27).

Apart from the Ministry of Finance which initially promoted the development of accrual accounting policies for the public sector in Indonesia, the State Audit Board the only public sector institution in the government that has technical capacity to audit and evaluate the reports of all government institutions in Indonesia in accordance with government accounting standards. The State Audit Board in recent years has also been active in promoting the implementation of an accrual-based reporting system at the local level in the country (Nasution, 2008; 2009). This finding is consistent with the results of Baker and Rennie's study regarding the vital role of the Office of the General Auditor of Canada in early adoption of accrual

accounting in the public sector in Canada (Baker & Rennie, 2006). Now, the State Audit Board has a relatively informative website³⁷ where Internet users can access information about the progress of good governance practice in the government including the quality of government reports both at the central and local levels. The State Audit Board has hundreds of certified accountants to support the audit body and many of them graduated from western countries (Nasution, 2009).

This means that the real audit capacity has increased and auditors can review accrual-statements, and therefore it can be said that institutionalization has occurred.

An accounting academic interviewed states:

I believe, and I should state honestly that the agency [the State Audit Board] is the only institution in this county that actually uses the reports produced by all government bodies (INT-3).

A senior official in the MGS also made a similar statement which suggests that only the auditors at the State Audit Board have the ability to understand the accrual-based reports of the MGS (INT 15). He states:

The auditors [from the State Audit Board] will know if there is something wrong with our reports (INT-15).

Therefore, it can be suggested that the lack of people who understand and have the experience in using accrual-based information has made the potential users of the accrual-based reports still favor cash-based reports over accrual information. This preference shows that the lack of technical skills (and also experience) affects the link between how accrual-based accounting information should be utilized by its users at the local level in accordance with accounting rules issued by the central government and how it is actually used. In other words, as the cash-based reports are seen to be more useful than accrual-based accounting information, the accrual information is regarded as irrelevant by its users for making decisions. This finding illustrates that the level of technical skills, experience, and the views of its users

³⁷ The website of the State Audit Board can be found at www.bpk.or.id

which undermine the usefulness of accrual accounting information for decision making, contribute to the low level of internalization of the accrual accounting system in the MGS. In the case of the MGS, (1) the lack of skills and experience in using accrual accounting, and (2) the lack of the perceived usefulness of accrual-based information for making decisions has prevented the accrual-based accounting information from being internalized.

9. 4 Discussion and Theoretical Implications

This section discusses the theoretical implications (arguments) of findings regarding the institutionalization of accrual accounting in the Indonesian public sector at the organizational level (a municipal government) after the issuance of the government accounting standards in 2005 as new techniques. Table 9.6 summarizes the main findings which reflect the features of the internalization of the accrual accounting system in the MGS in against the government accounting standards. Table 9.6 also outlines the contributing problems surrounding the institutionalization of the accrual accounting system in the municipality.

9. 4. 1 Resource dependence and technical capacity

Although the accrual accounting system is regarded more informative by the officials in the MGS, the reason the MGS internalizes the accrual accounting is mainly driven by a coercive motive to comply the rules issued by the central government. Given the municipality depends on the fiscal support from the central government, it is important for local administrations in the country to conform to the rules imposed by the central government. This situation also explains why the whole process of institutionalization of the accrual accounting system in the Indonesian public sector (including in the MGS) has been mainly dominated by the actors at the central level. The domination of central government agencies is reflected in the roles of the Ministry of Finance representing the central government, as it was the promoter of accrual accounting in the public sector during the new ideals and new discourses stages.

Table 9.6

The features of the internalization of accrual accounting at the organizational level (after 2005)

Basis of evaluation	According to government accounting standards as ideals and discourses	Internalization	Identified contributing factors
Reason for adoption of accrual accounting	<ul style="list-style-type: none"> The accrual accounting system should be regarded as a managerial tool for accountability, transparency and performance improvement (economic/rational reasons) 	Political factors and legal requirements undermine the internalization of the accrual accounting system for rational/economic reasons	<ul style="list-style-type: none"> ✓ To comply with the Law 17 and Government Accounting Standards issued by the central government
Report preparation	<ul style="list-style-type: none"> Reports should be prepared by the municipal government employees 	<ul style="list-style-type: none"> Outsourced 	<ul style="list-style-type: none"> ✓ Lack of skilled people ✓ Lack of budget
Level of report production	<ul style="list-style-type: none"> Reports should be produced at the municipal and divisional levels 	<ul style="list-style-type: none"> Only available at the municipal level 	
Compliance of reports	<ul style="list-style-type: none"> Prepared in accordance of government accounting standards 	<ul style="list-style-type: none"> A qualified opinion and notes about irregularities issued by the State Audit Board 	<ul style="list-style-type: none"> ✓ Lack of qualified accounting staff ✓ Unreliable internal control system ✓ Suspected illegal practice – bribery (corruption)
Publication of reports	<ul style="list-style-type: none"> Should be easily accessed by the public 	<ul style="list-style-type: none"> No published reports available (except from the State Audit Board's website) 	<ul style="list-style-type: none"> ✓ Lack of budget
Users of reports	<ul style="list-style-type: none"> Local government officials Local Parliament Ministry of Internal Affairs State Audit Board Citizen in general 	<p><u>Identified users of cash-based reports</u></p> <ul style="list-style-type: none"> The municipality's officials Local parliament members Ministry of Internal Affairs (represented by a provincial government in which the municipal government studied is part of its jurisdiction). State Audit Board <p><u>Identified users of cash and accrual-based reports</u></p> <ul style="list-style-type: none"> State Audit Board 	<ul style="list-style-type: none"> ✓ Lack of skills and experience in using accrual-based information ✓ Accrual based information may be regarded unimportant by users (the senior planning officials in the municipality)
Types of reports used for decision making at the organizational level	<ul style="list-style-type: none"> Cash-based reports (budget realization reports) Balance sheets Cash flows Notes to financial statements 	<ul style="list-style-type: none"> Cash-based reports 	
Intended outcome of adoption	<ul style="list-style-type: none"> Increased financial transparency (accountability) Efficiency improvement 	<ul style="list-style-type: none"> Financial accountability increases (as more reports available) Costs of accounting increase 	<ul style="list-style-type: none"> ✓ The wages of existing employees are still paid (regardless of their skills and actual work) ✓ The emerging of a bribery practice

This domination is also indicated by the roles of both the Ministry of Finance which issued the Government Accounting Standards issued in 2005 and the Ministry of Internal Affairs which promulgated the Decree No. 13 in 2006 and Decree No. 59 in 2006 during the new techniques stage of the institutionalization of the accrual accounting system in the Indonesian public sector. At the organizational level, the domination of central government agencies is manifested through the role of the State Audit Board (as public sector auditor) and the Ministry of Internal Affairs as both issuer of local government reporting systems and the user of all local governments' reports in the country. As a consequence, the MGS is positioned as a passive implementer of the accrual accounting system formulated by the central government. This finding contrasts to the notion of Dillard et al., (2004) which categorizes organizations at this level as Innovator which develop their own rules or accounting systems, or Late Innovator which adopt rules or accounting systems developed and implemented by Innovators. In terms of the IMI model, within the MGS, internalization is limited to reporting and not using the reports. So the political and economic contexts of the MGS affect the way it internalizes the accrual accounting system. In this respect, the adoption of the accrual accounting in the MGS is mainly motivated coercive isomorphism.

Beyond this, I also find the internalization of the accrual accounting system in the MGS has produced unintended outcomes. In other words, there is a decoupling phenomenon between the intended outcomes (efficiency and performance improvement) as expected by the rules imposed by the central government. This phenomenon is indicated by two main sources of evidence: (1) as the existing employees in the accounting function of a municipal government under study lack the accrual accounting skills, the preparation of the reports of the municipality is outsourced to outside consultants and, as a consequence, the costs of the accounting function of the municipal government increases; and (2) as the potential users of the accrual-based reports lack the expertise, knowledge, experience and interest in using accrual information, the accrual information produced in the MGS has not been used for managerial purposes. This finding

supports the notion that a low level of institutional capacity and a limited involvement of stakeholders in using public sector reports are the main obstacles to public sector accounting reforms in developing countries (Hope, 2002; Hoque, 2002; Hepworth, 2003; Mimba et al., 2007; Rahaman, 2009). The finding of this study also shows the lack of internalization as “the rules are [not] coherently linked to the actions (routines) of actors [in a specific organization] as suggested by Burns and Scapens (2000, p. 6; Dambrin et al., (2007).

9. 4. 2 Power and old habits of local actors

The power and old habits of local actors have also made the adoption of the accrual based reporting standards in local government subject to growing illegal practices. As the study evidences, the presence of corruption has been part of the internalization of the accrual accounting system in the MGS. The emergence of bribery occurs as the process to internalize the new accounting system (rule) involves an established practice (a tendering process) by existing senior officials in which corruption (bribery) has been practiced. As this fraud did not occur in the accounting function of the municipal government when it was required to produce only cash-based reports, the lack of qualified human resources to implement the accrual accounting system provides an opportunity for corrupt officials to utilize this situation for their own benefit.

Therefore, if the local government had provided more resources on providing accounting training programs for the existing employees (as the recruitment of new qualified accountants depends on the approval of the central government), it might have reduced the need to outsource the preparation of its reports to outside consultants. However this policy may not have served the interest of the senior officials who are involved in contracting out the accounting function of the MGS to private consultants. In this vein they may have preferred outsourcing the accounting function to outside consultants to benefit themselves. As a consequence, the power of local actors influences, and in this case inhibits the way the accrual accounting system can be internalized. As Hopper and Major

(2007) also note that “[...] criteria for allocating material and human resources are linked to domination [exercised by powerful actors]” (Hopper & Major, 2007, p. 66).

Moreover, it is important to note that although the bribery discussed is a type of corruption in the municipal government studied, such a practice is not new as bribery and corruption are prevalent in the tendering processes of government projects in the country overall (World Bank, 2008; Transparency International, 2010). This finding demonstrates how the calls for greater financial efficiency through corporatization in the public sector are not translated into accounting practices of individual organizations, as suggested by Nor-Aziah and Scapens (2007). As old habits and the power of local actors determine how a new accounting system can be internalized (Siti-Nabiha & Scapens, 2005; Ribeiro & Scapens, 2006, p. 99), the adoption of the accrual accounting system in the MGS undermines its claimed benefits as expected by the central government.

9. 5 Conclusions

This chapter has three conclusions. First, despite the accrual accounting system imposed by the central government is regarded as more informative by local officials in the MGS and the central government’s rules (e.g. Law 17/2003), the ways the municipality adopts the new accounting system is mainly driven by regulatory requirements. In this case, the passive position of the municipality (and also other local governments in Indonesia) in institutionalizing the accrual accounting system reflects the domination of the central government in the country.

Therefore the findings of this study slightly differs from the IMI model adopted from prior institutionalization models of Dillard et al. (2004) and Dambrin et al. (2007) which suggest that the institutionalization of new techniques or accounting systems provides opportunities for actors inside an organization to formulate new techniques or rules as a way to respond to the pressures from the economic and political level and organizational field. This difference may stem from the nature of the study which focuses on the public sector in a developing country – whilst the underlying premises of the institutional dynamics of Dillard et al. (2004) and

the IPM model of Dambrin et al. (2007) were drawn from private sector organizations. These differences explain the reason and the nature the institutionalization process of an accrual accounting system of a municipal government reported in this study. Therefore social, historical, economic, and institutional settings of organizations shape the nature of institutionalization of a new accounting system. As Dillard et al. (2004) and Monteiro and Aibar-Gzsman's (2010, p. 408) stated "...the characteristics and role of the accounting system depend on the organizational context in which such a system operates" and how different actors outside and within an organization [may] have different attitudes and actions when they institutionalize a similar rule, structure or technique.

Second, the power and old habits of local actors in an organization determine the extent to which an accounting system is internalized. In this case although the Indonesian government's efforts to reform the public sector accounting through the institutionalization of the accrual accounting system was part of greater political and economic reforms in responding to the public demand and the pressures from international agencies for accountability, transparency and efficiency improvement, the internalization of the accounting system at the organizational level has produced unintended outcomes. These outcomes contradict the intended benefits as expected in the Law 17 (2003) and the government accounting standards. In this vein, there is a gap between the intended outcomes of the adoption of the accrual accounting system imposed by the central government at the economic and political level and the actions and behaviors of the people who adopt the accounting system in a municipality under investigation (organizational level). Here I find the power and old habits of local actors within the MGS have run counter to the instrumental roles of accounting promoted by senior officials in the Ministry of Finance for improving performance and efficiency. Therefore, the nature of the internalization of a new accounting system by an organization is not only determined by the pressures from external factors (Burns & Scapens, 2000) but also by "the organization activities, processes and

routines that may or may not be accepted as ‘institutions’ (Hassan, 2005, p. 126). In this case, real internalization of preparing, controlling, understanding, using, or analyzing accrual-based reports at the organizational level essentially failed.

Third, direct access to information related to the institutionalization of an accounting system, as undertaken in this study, beyond government officials and formal regulations is useful to provide a deeper understanding of the complexity and nature of the institutionalization of a new accounting system at the organization level. As highlighted by Hasselbladh and Kallinikos (2000), Nor-Aziah and Scapens (2007) and Dambrin et al. (2007), prior accounting studies using NIS’s lenses lacked detailed explanation regarding the interaction between institutionalized values, systems and the actors involved in an institutionalization process within a specific setting. Therefore, the contribution of this study is to reduce that gap.

9. 6 Summary

This chapter has analyzed and examined the stages of the process of the institutionalization of the accrual accounting system in the Indonesian public sector in accordance with the IMI model at the organizational level as the promulgation of the government accounting standards in 2005. This chapter has examined three issues. First, it has discussed the historical, economic, and political backgrounds of the municipal government under study, and the accrual accounting system and accountability mechanisms used in the municipal government. The chapter also presents an observation which reflects the lack of internalization of the accrual accounting system in the MGS and theoretical arguments of the findings. This chapter then concludes the main points of the chapter.

CHAPTER TEN

CONCLUDING REMARKS

10. 1 Introduction

This final chapter presents an overview of the thesis. The overview discusses the aim of the study, research approach and contribution of the IMI; main findings and theoretical implications of those findings; contributions and limitations of findings; suggestions for future studies; and implications and recommendations for policy makers and public. The last section summarizes the main points of the chapter.

10. 2 Aim, Research Approach and Contribution of IMI Model

Inspired by the wish to provide a better understanding of how an accounting system is institutionalized in a specific setting as suggested Ansari and Euske (1987), Miller (2007), Hopwood (2000), Dillard et al. (2004), Burns and Scapens (2006), Christensen and Parker (2010) and Jagalla, Becker and Weber (2011) this case study was designed to examine the institutionalization of the accrual accounting system in the Indonesian public sector. In line with the aim of the study, this project poses two research questions:

1. How and why has the accrual accounting system been adopted in the Indonesian public sector?
2. How and why has the accrual accounting system been implemented in a municipal government?



To answer the research questions, I used a case study. As Yin (2003) states such an approach is necessarily required in understanding the complexities of an accounting change in its social, economic, and historical contexts. Moreover, as the study used a case study, the analysis and interpretation are based on the data collected from three sources: (1) official documents relating to the Indonesian government's policies in respect to the adoption and implementation of accrual accounting in the Indonesian public sector at the national and local level; (1)

publicly available information regarding the social and economic developments leading to the process of the adoption of an accrual accounting system in the Indonesian public sector; and (3) interviews with 36 participants as the actors who have been involved in or have an understanding of the institutionalization of the accrual accounting system in the Indonesian public sector both at the central level and municipal government (local) level.

This study uses an integrated model of institution (IMI) (Table 4.2) adapted from the works of Dillard, Rigsby and Goodman (2004) and Dambrin, Sponem and Lambert (2007) drawn from New Institutional Sociology (NIS). The IMI model is useful in identifying expected and actual patterns of the institutionalization process of an accrual accounting system in the Indonesia public sector at the economic, and political level, organizational field and organizational level. In addition the IMI model has also been helpful in identifying: (1) the time-frame [i.e., when specific events occurred]; (2) particular social, economic and political factors; (3) particular actors (i.e., organizations or people) who were involved; and (4) how and why the actions of these actors were articulated in relation to the institutionalization process of the accrual accounting system in the Indonesian public sector. Table 10.1 compares the actual institutionalization process of an accrual accounting system in the Indonesia public sector against the expectations of the IMI model.

Table 10.1

The integrated model of institutionalization: the model vs. actual

Level of institution	Stage of institutionalization (expected)				Stage of institutionalization (actual)			
	New ideals	New Discourses	New Techniques	Internalization	New ideals	New Discourses	New Techniques	Internalization
Economic and political level								
Organizational field								
Organizational level								
Note:  = The level in which the stages of institutionalization take place.  = Limited internalization								

As the Tables 10.1 illustrates, the institutionalization of accrual accounting in the Indonesian public sector reflects the centralization tendency in Indonesian public sector. This is indicated by the domination of central governments actors in the institutionalization of the accrual accounting at each level and each stage of institutionalization against the expectations of the IMI model. In addition, the lack of technical capacity and corruption has also made the internalization of the accrual accounting system at the organizational level limited and produced unintended outcomes. For policy makers and academics, this means that power and technical capacity, among other things, influence the nature of institutionalization. These findings should be taken into account in understanding the institutionalization of a new accounting system.

10. 3 Main Findings

Drawing from its findings, the study offers three main conclusions (Table 10.2) ³⁸. First, as the IMI Model expects the new ideals (aspiration) to adopt the accrual accounting for the Indonesian public sector at the economic and political level were endorsed by the technocrats at the Ministry of Finance and promoted through an economic rationale as the country faced a fiscal crisis in the early 1980s. This situation indicates the presence of a normative motive, given those who endorsed the new ideals to adopt the accrual accounting system were a group of accountants and economists in the Ministry of Finance when the country faced an uncertain situation. In this case, they believed that the adoption of an accrual accounting system would assist the government report and monitor its assets and other financial information accurately. A prominent role of a specific group of professionals in the diffusion of the new ideals for the use of accrual accounting in the public sector has been also reported by Montesinos (1996) in Italy, Ryan (1998) and Christensen (2002) in Australia, Lapsley and Pallot (2000) for New

³⁸ A summary which reflects the details of the institutionalization of accrual accounting in this study is presented in Appendix 11 (p.1).

Zealand (1998), Baker and Rennie (2006) in Canada and Saleh (2007) in Malaysia.

Table 10.2

Actors and outcomes of institutionalization of accrual accounting

Level of institution	Expected		Actual	
	Actors	Outcomes	Actors	Outcomes
Economic and political level	Central government officials (e.g. the Ministry of Finance), Parliamentary members, international organizations	Seminars and workshops are undertaken as a means for disseminating <i>new ideals</i>	Senior officials in the Ministry of Finance	Seminars, workshops, overseas visits by senior government officials
			Seniors officials in the Ministry of Finance with the support of the National Parliament	The issuance of Law 17 in 2003 (a national law)
Organizational field level	Association of Indonesian Local Governments; Indonesian Institute of Accountants, local parliamentary bodies, consultants	The issuance of local government laws, regulations (<i>new discourses</i>)	The Ministry of Finance and the Ministry of Internal Affairs	The issuance of Government Accounting Standards in 2005 and the Ministry of Internal Affairs Decrees in 2006 and 2007
Organizational level	Officials of local government	<ul style="list-style-type: none"> • The production of <i>new accounting techniques</i> • The <i>internalization</i> of new accounting techniques in accordance with <i>new ideals</i> and <i>new discourses</i>. 	Local consultants and limited engagement of the municipality's officials studied.	<ul style="list-style-type: none"> • Limited internalization • The emergence of unintended outcomes

In addition, the wish to adopt the accrual accounting system at the economic and political level might also be driven by the aspiration to follow a similar (accrual accounting) practice that was began to be adopted in other countries in the 1980s and 1990s. Dillard et al. (2004) and Siti-Nabiha and Scapens (2005) state that the creation of an institution is linked to a situation when a group of professionals diffuse an idea to adopt a specific structure or practice from other organizations.

Thus, the global trend which started the adoption of accrual accounting for the public sector in New Zealand and Australia may have won promoters of the business-style accounting system for the public sector in Indonesia.

However, during the Suharto era the nature of the political system used and the attitudes of powerful actors (i.e. President Suharto) to accounting reforms in Indonesia prevented the new ideals from being transformed into new discourses. Consequently, in this era there was no regulatory change in the reporting system of the public sector. Therefore there is a significant difference between the nature of the public sector accounting reforms in Indonesia under the Suharto era and after the regime collapsed in 1998. Under the rule of Suharto, accounting and audit information in the public sector was totally controlled by the regime; therefore, any efforts aimed at reforming the regulatory framework in auditing and reporting systems were also limited. This situation changed after the regime collapsed.

Thus, only several years after the collapse of the Suharto regime, the promoters of accrual accounting in the Ministry of Finance successfully transformed the *new* ideals into new discourses, through the issuance of Law 17 in 2003 and the issuance of government accounting standards in 2005 as new techniques. The creation of the new techniques was also reflected in the promulgation reporting rules³⁹ for local governments issued by the Ministry of Internal Affairs. This finding demonstrates the change in political system and people in power not only brought reform to the political system but also to the public sector management practices. In this case, the change in political system, along with a change of people in power following the collapse of Suharto's regime, provided an opportunity for the supporters of accounting reform in the Ministry of Finance to promote accrual accounting.

Moreover, at the organizational field, beyond economic reasons, the move to formally adopt the accrual accounting system appeared to be part of the

³⁹ MIA Decrees No. 13 (2006) and No. 59 (2007).

Government's response to the demand from the public and international organizations such as the IMF and the World Bank for broader political, economic, and public sector reforms and more transparency. Therefore, after the Suharto era, seeking legitimacy might also have been behind the initiatives to adopt the accrual accounting system. Therefore, a combination of economic/technical reasons (normative pressures], political factors, and the wish to accommodate the demand for a better government from international financial authorities (e.g., the IMF and the World) prompted the Indonesian government to adopt accrual accounting.

Second, this study shows, that at the economic and political level and the organizational field the institutionalization of the accrual accounting system in the public sector reflects the dominant roles of the central government's agencies (i.e., the Ministry of Finance and the Ministry of Internal Affairs). This situation shows the nature of bureaucracy and the attitudes of state actors at the central level influenced the whole institutionalization. The dominant roles of these agencies are indicated by the role of the Ministry of Finance which mobilised the new ideals and new discourses and also the role of both the Ministry of Finance and Ministry of Internal Affairs) which transformed the *new ideals* and *new discourses into new techniques* (i.e. the reporting system rules) for local governments at the organizational level. This situation shows a contradiction between autonomy policies adopted by Indonesia's post-Suharto for local governments and how the accrual accounting system has been imposed on local authorities. Thus, this finding is also in contrast to the normative expectation of the IMI model which suggests that the institutionalization of new techniques or accounting systems provides proportional opportunities both for different actors at the economic and political level, organizational field and organizational level (Table 10.2).

Third, at the organizational level, resource dependence, technical capacity, and power and old habits of local actors shape how an accounting system can actually be internalized. With regard to the internalization of the accrual accounting system in the Indonesian municipal government studied, the way the municipality adopts the accrual accounting reflects its resource dependence on central government fiscal supports. Therefore, the passive position of the municipal

government (and also other local governments in Indonesia) in institutionalizing the accrual accounting system may reflect the historical, political, and economic contexts of local administrations in the country. In this case, such passivity, except with respect to “bribes” (see Chapter Nine) led to ineffective internalization.

Beyond this, it is also found that the lack of technical capacity has also hampered the internalization of the accrual accounting system by the actors in the municipal government in terms of its adoption. In this case, the preparation of the accrual-based reports of the municipality was outsourced to private consultants. A direct consequence of this outsourcing is the increase in the accounting expenditures of the municipality. It is also found the lack of skills and understanding in using accrual accounting may also have meant the officials within the municipality have yet to use the accrual-based accounting information produced for decision making as expected by the government accounting standards. This finding supports the notion that a low level of institutional capacity is one of the main challenges of public sector reforms in developing countries (Mimba et al., 2000; Rahaman, 2009).

In addition, power and old habits of local actors (i.e., senior officials in the municipal government observed) relating to the corruption practice (bribery) surrounding the adoption of the accrual accounting system have also produced an unintended outcome. This situation has not only made the internalization of the accrual accounting system in the public sector fail to improve efficiency but it has also been against the purpose of post-Suharto regimes’ attempts to develop a more accountable government and to eradicate corruption. Thus, the lack of capacity, power, old habits and social contexts of local actors have together contributed to a low level of internalization in the municipality studied, as the “the rules are [not] coherently linked to the actions (routines) of actors [in a specific organization] as suggested by Burns and Scapens (2000, p. 6; Dambrin et al., (2007). These findings show the institutionalization of a new accounting system at the organizational level can be complex and its outcomes can be beyond the control

of those who promote the use of a new accounting system at the economic and political level and organizational field.

In conclusion, informed by the IMI model, this study demonstrates the complexity and dynamic relationships among the historical, economic, and political factors and the actions of actors in the institutionalization of an accounting system in a public sector context in Indonesia. In line with the views of Dambrin et al., (2007), and Nor-Aziah and Scapens (2007) this finding shows the actions of people not only shape the technical aspects of accounting techniques but also affect the extent to which the adoption of an accounting system can actually be internalized. Finally, an important insight that we can draw from this study is that the process and outcomes of the institutionalization of a new accounting system by organizational actors are not only shaped by the pressures from external factors, but also by activities, processes and routines reflected in the actions of local (organizational) actors as stated by Burns and Scapens (2000), Siti-Nabiha and Scapens (2005), and Dambrin et al., (2007).

10. 4 Contributions and Limitations of Findings

This study contributes to the accounting literature in the public sector in several ways. First, the thesis provides comprehensive evidence that illustrates the motivations and manifestations of an accrual accounting institutionalization in a public sector context. It draws attention to the policy making leading to the adoption of the accrual accounting system in the central government and within a local government. As earlier discussed in Chapter Two, prior studies in this area mainly focussed on a specific level or process in the institutionalization of an accounting system in the public sector, at either the national level or local level.

Moreover, this study provides evidence which has implications for an accrual accounting system implementation in other governments. This study reveals what people say and what people do in institutionalizing an accounting system. Beyond this, the results of this study are expected to reduce the gap between what is known

and unknown about governmental accounting practices in the Indonesian public sector as one of emerging economies in Asia.

From the NIS's perspectives, this study contributes to expanding the lens of NIS by developing and using the IMI model adopted from the works of Dillard et al. (2004) and Dambrin et al., (2007). The incorporation of the IMI model into this study was useful, as it provides a skeleton to conceptualize the stages and levels of the institutionalization of an accounting system in a public sector context. In this respect, it contributes to filling the gap in research-based conceptualization about public sector accounting practices in the developed and emerging economies (Marwata & Alam, 2006; Rahaman, 2009). The model was also useful as it helped capture and explicate the roles played at different levels and economic, social, political factors as well as the power of actors in institutionalization processes.

Moreover, this study is also a response to the call to provide a rich explanation about the institutionalization process of specific ideals which require the adoption of a specific accounting technique are diffused within a society, mobilized into a formal structure (i.e. the promulgation of laws or reporting standards), and implemented in an organization as expected by Dambrin et al. (2007). As Hasselbladh and Kallinikos (2000), Nor-Aziah and Scapens (2007), and Dambrin et al. (2007) suggest, prior accounting studies using NIS's lenses lacked detailed explanation regarding the interaction between institutionalized values, systems and the actors involved in an institutionalization process of accounting systems. As such, this study reduces the gap. From a methodological perspective, this study contributes to the public sector accounting literature by answering "why and how" questions from real organizations/actors as suggested by Yin (2003). Such a research approach is required to complement accounting studies drawn from quantitative methods.

The findings of the study are not free from limitations. First of all, as the study was focused on one municipal government in a specific period⁴⁰ (2006 to 2009) the results of the study cannot be generalized as a general pattern that can be attributed to other local governments in Indonesia or other countries. Beyond this, as the municipality and other local governments in the country are still in the early stage of the adoption of the accrual accounting system, the intended outcomes of the adoption may have been able to be realized when the case study was executed. Therefore, along with the period of the study, the social, economic and political contexts of the study should be taken into account in interpreting the results of the study.

10. 5 Suggestions for Future Studies

The research methodology, methods, and the theoretical model employed in this study could be used in investigating similar phenomena in other developing economies. Similar case study research could also be utilized in exploring other types of new public management practice such as public sector audit, performance measurements and output based budget systems at different stages and different levels of institutionalization. In this respect, the IMI model could also be employed to shed light on public sector accounting reforms in other developing countries.

As explained earlier, the IMI model used in the study has the potential to identify the details of an institutionalization process of an accounting system within an organization. Moreover, the model can also be used to identify actors (people or organizations) involved in the institutionalization process of an accounting system and explain the behaviours and actions of these actors. From a historical perspective, the model helps researchers to map the period of public sector accounting reforms in a country. Finally, a future study could also duplicate the approach used in this study to undertake a comparative study of a number of local administrations in a country or a comparative study between two or more countries. As accounting is not merely a technical device, future studies must also consider the nature, and social, and institutional aspects of accounting as a tool for mobilizing power and control over people or organizations. These areas provide interesting grounds for future studies.

⁴⁰ The study covers the period of the implementation from 2006 to 2009 when the municipality for the first time started to adopt the accrual accounting system based on the Government Accounting Standar and the Ministry of Internal Affairs Decree No 13 issued in 2005 and 2006 respectively.

10. 6 Implications and Recommendation for Policy Makers

Apart from its contribution to the dissemination of new knowledge, at the practical stance an enquiry (research) is also required to assist people who need to solve their practical problems (Lincoln & Guba, 1985). In this vein, this project provides a research-based explanation that any adoption of new techniques, rules and accounting systems within the public sector should not undermine the historical, social, political context as well as the institutional capacity of an organization.

First of all, drawing from its findings, the Central Government in Indonesia and other countries need to be aware of the capacity of local governments in implementing a new accounting. In this case, it is important to design and provide appropriate and supporting programs and incentives to achieve full uptake. Hence, policy makers are also reminded that beyond technical factors, cultural and social problems such as corruption may produce an unintended outcome such as bribery in the implementation process of a new accounting system. Such an opinion supports the notion that an accrual accounting system is not merely a reporting system per se. As Hepworth (2003) suggests:

[A]ccrual accounting should be regarded as being about much more than financial reporting. Accrual accounting is about the whole process of financial management. It is partly about obtaining a better understanding of the nature of 'costs', but it is also about a better understanding of what those costs mean for the financial management of government and the outcomes that government is trying to achieve. (p. 8).

Therefore, policy makers in developing nations (e.g. Indonesia in this case) who have been following New Zealand or Australia in the adoption of the accrual accounting system should consider the applicability in accordance with the actual need of each nation and its capacities. Mimba et al. (2007) suggested that "a low institutional capacity, a limited involvement of stakeholders, a high level of corruption, and a high level of informality" (p. 195) are the main barriers to the public sector accounting reforms in developing nations. Understanding such issues is vitally important for policy makers in developing nations as they need to be taken into account (Schick, 1998). From these perspectives, the public sector accounting reform in Indonesia should be focused on the following issues.

Third, there is a need to reform the human resource management system in the public sector of Indonesia at the central and local levels. Apart from the high level of marketization of government functions, the implementation progress of accrual accounting in the public sector in developed economies such as New Zealand and Australia is supported by the adoption of business-styles human resource management systems (Lapsley & Pallot, 2000). As a consequence, this system allows public sector organizations to be competitive as entities in the private sector in attracting required employees. For example, the transfer of private sector employees to public sector organizations has affected the nature of the implementation of an accrual accounting system in the public sector in New Zealand (Lapsley & Pallot, 2000). This contrasts with Indonesia, where the human resource management system used in the public sector is still strictly managed by rules inherited from the old regime (the Suharto administration) which treat civil employees similarly to those within military organizations (McLeod, 2006; Setiyono & McLeod, 2010). Therefore, reforming the human resource management system at the local level in the country is the key to supporting the implementation of the accrual accounting system in the public sector. The availability of more government employees with accounting skills will not only prevent the outsourcing of accounting function of local governments but may also enhance the capacity of public sector employees in the country in understanding and using accrual information for managerial purposes as the expectation of by the Government Accounting Standards.

Lastly, the Indonesian government and also other government which face similiar problems such as corruption, need also to focus its public sector reforms on combating corruption. This problem appears to be one of the most crucial issues encountered by successive administrations following the end of the Suharto era (International Transparency, 2009, 2010). In this respect, although the initial ideals that led to the adoption of the accrual accounting system in the Indonesian public sector were based on providing better control and efficiency, the most serious problem currently faced by the country appears to be corruption. The nature of public sector accounting reforms should be directed at controlling and maintaining

information on specific activities (such as procurement, tendering processes, recruitment of new employees), specific projects (capital investment or asset acquisition), and specific assets (cash and other movable assets) that can be easily manipulated and misused.

10. 7 Summary

This final chapter has discussed an overview of the thesis. The discussion recapped on the aim, research approach, main findings, contributions and limitations of the study. This chapter also has highlighted the suggestions for future studies and recommendation for policy makers.

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Government Regulations

Government Regulation (GR) 58 (2005) on local government financial management and

Government Regulation (GR) 8 (2006) on financial reports and performance measurements

Government Regulation (GR) 15 (2005) on financial management of the public agencies.

Government Regulation (GR) 23 (2005) on financial management of the public agencies.

Government Regulation (GR) 24 (2005) about government accounting standards

Government Regulation (GR) 60 (2008) on government intern control system.

Government Regulation (GR) 58 (2005) on local government financial management.

Government Regulation (GR) 8 (2006) on financial and performance reporting of the government.

Law 1 (2004) on state treasury

Law 5 (2004) about audit and financial accountability

Law 15 (2006) on the state audit board

Law 17 (2003) about state finances

Law 22 (1999) about local governments.

Law 25 (1999) about financial arrangement between the central and local governments

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 25 (1999))

Law 34 (2004) on local government (a revision of the Law 22 (1999))

Law 43 (1999) about civic employees.

Ministry of Home Affairs Decree 13 (2006) about financial accountability for provincial and municipal governments

Ministry of Internal Affairs Decree 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.

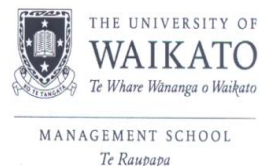
Appendix 1

Ethical approval

Research Office
Waikato Management School
The University of Waikato
Private Bag 3105
Hamilton 3240
New Zealand

Amanda Sircombe
Research Manager

Phone +64 7 838 4376
Fax +64 7 838 4063
Email amandas@waikato.ac.nz
www.management.ac.nz



24th November 2008

Harun
c/- Department of Accounting
Private 3105
Hamilton

Dear Harun

*Ethical Application WMS 08/145
Public sector accounting reforms in the Indonesian post-Soeharto era (the case of a municipal government)*

As per my earlier email the above research project has been granted Ethical Approval for Research with recommendations by the Waikato Management School Ethics Committee.

Best wishes for your research

Regards,

A handwritten signature in blue ink, appearing to read "A. Sircombe".

Amanda Sircombe
Research Manager

Appendix 2

Letter to interviewees

Department of Accounting
Waikato Management School
The University of Waikato
Private Bag 3105
Hamilton 3240
New Zealand

Ian RC Eggleton
Professor of Accounting
Ph: +64 (7) 858 2868 ext: 8102
Email: ian.eggleton@waikato.ac.nz
www.management.ac.nz



10 February 2009

To Whom It May Concern

Harun is a PhD student at the Department of Accounting, Waikato Management School, The University of Waikato, New Zealand. His research examines the process of the adoption and implementation of accrual accounting - an accounting technology intended to strengthen the accountability of government and to facilitate improved decision making.

As part of the research, it is important for Harun to have the opportunity of conducting interviews with those who are (or were) involved in implementing these accounting reforms throughout the public sector in Indonesia. These meetings will assist Harun to gather the data for his thesis.

I believe if Harun has the opportunity of conducting interviews with these people, his research will be of much greater value to Indonesia. The confidentiality of each respondent will be protected. To this end, I hope that you will be able to meet with Harun and to give him whatever support you are able to provide. Please do not hesitate to contact me or his supervisors if you have any issues that you wish to discuss about Harun's research project.

Thanking you for your attention.

Faithfully yours

Ian RC Eggleton

Chief supervisor

Appendix 3.a

Balance sheet of the local government under study ⁴¹

LAPORAN KEUANGAN
PEMERINTAH KOTA ~~XXXX~~
NERACA PER 31 DESEMBER 2006

(dalam rupiah)

URAIAN	UNAUDITED 2006	UNAUDITED 2005	KOREKSI		AUDITED 2006
			DEBIT	KREDIT	
ASSET					
ASSET LANCAR					
Kas di Kas Daerah	9.764.477.415,00	5.001.985.537,00	169.399.780,00		9.933.877.195,00
Kas di Pemegang Kas			86.450.991,55		86.450.991,55
Piutang Pajak	361.878.335,00	1.953.999.525,00	1.498.820.177,85		1.860.698.512,85
Bagian Lancar TP/TGR	53.171.950,00	57.890.857,00			53.171.950,00
Persediaan	1.368.205.414,00	416.296.565,00			1.368.205.414,00
Jumlah Asset Lancar	11.547.733.114,00	7.430.172.484,00			13.302.404.063,40
INVESTASI JANGKA PANJANG					
INVESTASI PERMANEN					
Penyertaan Modal Pemda					-
Jumlah Investasi Permanen	1.548.718.371,00	489.100.000,00			1.548.718.371,00
INVESTASI NON PERMANEN					
Dana Bergulir			463.472.000,00		463.472.000,00
Jumlah investasi jangka panjang	1.548.718.371,00	489.100.000,00			2.012.190.371,00
ASSET TETAP					
Tanah	126.821.882.810,00	120.837.741.878,00			126.821.882.810,00
Peralatan dan Mesin	62.691.862.101,00	46.284.207.950,00		1.585.000,00	62.690.277.101,00
Gedung dan Bangunan	214.781.312.875,00	194.735.406.000,00	501.250.000,00		215.282.562.875,00
Jalan, Irigasi dan Jaringan	129.753.645.750,00	100.553.716.772,00		1.250.000,00	129.752.395.750,00
Asset tetap lainnya	5.479.439.682,00	1.606.055.130,00		940.841.000,00	4.538.598.682,00
Konstruksi dalam pengerjaan	39.110.933.800,00	12.000.000.000,00			39.110.933.800,00
Akumulasi penyusutan	-	-			-
Jumlah asset tetap	578.639.077.018,00	476.017.127.730,00			578.196.651.018,00
Aktiva Lain - lain			477.369.000,00		477.369.000,00
JUMLAH ASSET	591.735.528.503,00	483.936.400.214,00			593.988.614.452,40
KEWAJIBAN					
KEWAJIBAN JANGKA PENDEK					
Utang perhitungan pihak ketiga					
Bagian Lancar Utang kpd Pemr. Pusat	10.736.269.547,00		9.468.037.983,45		1.268.231.563,55
Jumlah kewajiban jangka pendek	10.736.269.547,00				1.268.231.563,55
KEWAJIBAN JANGKA PANJANG					
Utang dalam negeri - Pemr. Pusat	4.803.632.540,00	13.107.944.496,00		5.875.752.842,27	10.679.385.382,27
Jumlah kewajiban jangka panjang	4.803.632.540,00	13.107.944.496,00			10.679.385.382,27
JUMLAH KEWAJIBAN	15.539.902.087,00	13.107.944.496,00			11.947.616.945,83
EKUITAS DANA					
EKUITAS DANA LANCAR					
Selisih Sisa Lebih Perhitungan Anggaran	9.764.477.415,00	5.001.985.537,00		255.850.771,55	10.020.328.186,55
Cadangan Piutang Pajak Daerah	361.878.335,00	1.953.999.525,00		1.498.820.177,85	1.860.698.512,85
Cadangan Bagian Lancar TP/TGR	53.171.950,00	57.890.857,00			53.171.950,00
Cadangan Persediaan	1.368.205.414,00	416.296.565,00			1.368.205.414,00
Dana Yang Harus Disediakan untuk pembayaran Utang Jangka Pendek	(10.736.269.547,00)			9.468.037.983,45	(1.268.231.563,55)
Jumlah ekuitas dana lancar	811.463.567,00	7.430.172.484,00			12.034.172.499,85
EKUITAS DANA INVESTASI					
Investasi Jangka Panjang	1.548.718.371,00	489.100.000,00			1.548.718.371,00
Investasi Jangka Panjang dalam Asset Tetap	578.639.077.018,00	476.017.127.730,00	943.676.000,00	501.250.000,00	578.196.651.018,00
Investasi Dalam Aktiva Lain-Lain				477.369.000,00	477.369.000,00
Dana yang harus disediakan untuk pembayaran Hutang Jangka Panjang	(4.803.632.540,00)	(13.107.944.496,00)	5.875.752.842,27		(10.679.385.382,27)
Investasi Non Permanen Dana Bergulir				463.472.000,00	463.472.000,00
Jumlah ekuitas dana investasi	575.384.162.849,00	463.398.283.234,00			570.006.825.006,73
JUMLAH EKUITAS DANA	576.195.626.416,00	470.828.455.718,00			582.040.997.506,57
JUMLAH KEWAJIBAN DAN EKUITAS DANA	591.735.528.503,00	483.936.400.214,00			593.988.614.452,40

⁴¹ For confidentiality the name of the local government has been covered.

Appendix 3.b.

Budgeted and realization report (revenues and expenditures) of the local government under study⁴²

**LAPORAN REALISASI ANGGARAN
PEMERINTAH KOTA
TAHUN ANGGARAN 2006
(SETELAH AUDIT)**

(dalam rupiah)

NOMOR	URAIAN	ANGGARAN SETELAH PERUBAHAN	Realisasi Sebelum audit	Koreksi		Realisasi Setelah audit
				Debet	Kredit	
1	2	3	4	6	7	8
I	PENDAPATAN					
1.1	Pendapatan Asli Daerah	24.913.869.702,00	22.781.394.480,00	362.941.656,00	-	22.418.452.824,00
1.1.1	Pajak Daerah	13.079.942.000,00	12.567.521.936,00			12.567.521.936,00
1.1.2	Retribusi Daerah	8.357.020.200,00	7.604.570.169,00			7.604.570.169,00
1.1.3	Bagian Laba Usaha Daerah	74.618.371,00	74.618.370,00			74.618.370,00
1.1.4	Lain-Lain Pendapatan Asli Daerah	3.402.289.131,00	2.534.684.005,00	362.941.656,00	-	2.171.742.349,00
1.2	Dana Perimbangan	345.525.579.207,00	346.974.282.800,00	-	489.449.840,00	347.463.732.640,00
1.2.1	Bagi Hasil Pajak dan Bukan Pajak	29.709.694.207,00	32.118.282.800,00	-	79.564.840,00	32.197.847.640,00
1.2.2	Dana Alokasi Umum	288.076.000.000,00	288.076.000.000,00			288.076.000.000,00
1.2.3	Dana Alokasi Khusus	21.139.885.000,00	20.680.000.000,00		159.885.000,00	20.839.885.000,00
1.2.4	Bagi Hasil Pajak dan Bantuan Keuangan dari Propinsi	6.600.000.000,00	6.100.000.000,00		250.000.000,00	6.350.000.000,00
1.3	Lain-Lain Pendapatan Yang Sah	2.110.450.417,00	2.110.450.417,00	-	-	2.110.450.417,00
	Jumlah Pendapatan	372.549.899.326,00	371.866.127.697,00	362.941.656,00	489.449.840,00	371.992.635.881,00
II	BELANJA					
2.2	PELAYANAN PUBLIK	258.631.424.702,00	251.869.776.691,00	89.069.840,00	209.444.655,00	251.749.401.876,00
2.2.1	Belanja Administrasi Umum	187.260.866.175,00	182.153.453.224,00	-	122.901.195,00	182.030.552.029,00
2.2.1.1	Belanja Pegawai / Personalia	157.982.870.470,00	154.382.875.340,00		17.479.600,00	154.365.395.740,00
2.2.1.2	Belanja Barang dan Jasa	19.365.919.451,00	18.517.843.778,00		100.377.765,00	18.417.466.013,00
2.2.1.3	Belanja Perjalanan Dinas	5.219.283.200,00	4.633.552.660,00		4.718.830,00	4.628.833.830,00
2.2.1.4	Belanja Pemeliharaan	4.694.793.054,00	4.619.181.446,00		325.000,00	4.618.856.446,00
2.2.2	Belanja Operasi dan Pemeliharaan	71.370.558.527,00	69.716.323.467,00	89.069.840,00	86.543.460,00	69.718.849.847,00
2.2.2.1	Belanja Pegawai / Personalia	18.242.904.518,00	17.670.580.982,00	80.889.840,00	49.047.400,00	17.702.423.422,00
2.2.2.2	Belanja Barang dan Jasa	26.229.724.215,00	25.420.855.880,00	8.180.000,00	29.950.660,00	25.399.085.220,00
2.2.2.3	Belanja Perjalanan Dinas	5.373.478.305,00	5.194.214.504,00	-	7.545.400,00	5.186.669.104,00
2.2.2.4	Belanja Pemeliharaan	21.524.451.489,00	21.430.672.101,00	-	-	21.430.672.101,00
2.2.3	Belanja Modal	106.425.353.411,00	103.123.199.288,00	115.199.100,00	118.034.100,00	103.120.364.288,00
2.3	BELANJA BAGI HASIL dan BANTUAN KEUANGAN	10.300.255.069,00	9.934.807.378,00	-	-	9.934.807.378,00
2.4	BELANJA TIDAK TERSANGKA	1.129.876.400,00	1.110.101.323,00	-	-	1.110.101.323,00
	Jumlah Belanja	376.486.909.582,00	366.037.884.680,00	204.268.940,00	327.478.755,00	365.914.674.865,00
	Surplus / (Defisit)	(3.937.010.256,00)	5.828.243.017,00			6.077.961.016,00
III	PEMBIAYAAN					
3.1	Penerimaan Daerah					
3.1.1	Sisa Lebih Perhitungan Anggaran Tahun Lalu	5.001.985.537,00	4.995.852.764,00		6.132.772,55	5.001.985.536,55
3.1.2	Transfer dari Dana Cadangan	-	-			-
3.1.3	Penerimaan Pinjaman dan Obligasi	-	-			-
3.1.4	Hasil Penjualan Aset Daerah Yang Dipisahkan	-	-			-
3.1.5	Penerimaan Piutang	-	-			-
	Jumlah Penerimaan Daerah	5.001.985.537,00	4.995.852.764,00	-	6.132.772,55	5.001.985.536,55
3.2	Pengeluaran Daerah					
3.2.1	Transfer ke Dana Cadangan	-	-			-
3.2.2	Penyertaan Modal	1.059.600.857,00	1.059.618.371,00			1.059.618.371,00
3.2.3	Pembayaran Utang Pokok Yang Jatuh Tempo	-	-			-
3.2.4	Sisa Lebih Perhitungan Anggaran Tahun Berkenaan	509.139.244,00	9.764.477.410,00	255.850.771,55		10.020.328.181,55
3.2.5	Pemb. Hasil Penjualan Aset Daerah Yang Dipisahkan	-	-			-
	Jumlah Pengeluaran Daerah	1.568.740.101,00	10.824.095.781,00	255.850.771,55	-	11.079.946.552,55
	Jumlah Pembiayaan	3.433.245.436,00	(5.828.243.017,00)			(6.077.961.016,00)

⁴² See note number 40.

Appendix 3.c

A report (cash flows) of local government under study⁴³

PEMERINTAH KOTA PALEMBANG LAPORAN ALIRAN KAS TAHUN ANGGARAN 2005					
NO	URAIAN	SALDO SEBELUM AUDIT	DEBET	KREDIT	SALDO SETELAH AUDIT
1	2	3	4	5	6
I	ALIRAN KAS DARI AKTIVITAS OPERASI				
	Aliran Kas Masuk				
	Pendapatan Asli Daerah	22.781.394.480,00	362.941.656,00	-	22.418.452.824,00
	Pendapatan dari Dana Perimbangan	346.974.282.800,00	-	489.449.840,00	347.463.732.640,00
	Lain-lain Pendapatan Daerah yang Sah	2.110.450.417,00	-	-	2.110.450.417,00
	Jumlah	371.866.127.697,00	362.941.656,00	489.449.840,00	371.992.635.881,00
	Aliran Kas Keluar				
	Belanja Administrasi Umum	182.153.453.224,00			
	Belanja Pegawai/Personalia	154.382.875.340,00		17.479.600,00	154.365.395.740,00
	Belanja Barang dan Jasa	18.517.843.778,00		100.377.765,00	18.417.466.013,00
	Belanja Perjalanan Dinas	4.633.552.660,00		4.718.830,00	4.628.833.830,00
	Belanja Pemeliharaan	4.619.181.446,00		325.000,00	4.618.856.446,00
	Belanja Operasi dan Pemeliharaan	69.716.323.467,00			
	Belanja Pegawai/Personalia	17.670.580.982,00	80.889.840,00	49.047.400,00	17.702.423.422,00
	Belanja Barang dan Jasa	25.420.855.880,00	8.180.000,00	29.950.660,00	25.399.085.220,00
	Belanja Perjalanan Dinas	5.194.214.504,00	-	7.545.400,00	5.186.669.104,00
	Belanja Pemeliharaan	21.430.672.101,00		-	21.430.672.101,00
	Belanja Bagi Hasil dan Bantuan Keuangan	9.934.807.378,00			9.934.807.378,00
	Belanja Tidak Tersangka	1.110.101.323,00			1.110.101.323,00
	Jumlah	262.914.685.392,00	-	-	262.794.310.577,00
	<i>Aliran Kas Bersih dari Aktivitas Operasi</i>	108.951.442.305,00	362.941.656,00	489.449.840,00	109.198.325.304,00
II	ALIRAN KAS DARI AKTIVITAS INVESTASI				
	Aliran Kas Masuk				
	Penjualan Investasi Jangka Panjang				-
	Penjualan Aktiva Tetap				-
	Jumlah	-	-	-	-
	Aliran Kas Keluar				
	Belanja Modal/Pembangunan	103.123.199.288,00	115.199.100,00	118.034.100,00	103.120.364.288,00
	Pembelian Investasi Jangka Panjang				
	Jumlah	103.123.199.288,00	115.199.100,00	118.034.100,00	103.120.364.288,00
	<i>Aliran Kas Bersih dari Aktivitas Investasi</i>	(103.123.199.288,00)	(115.199.100,00)	(118.034.100,00)	(103.120.364.288,00)
III	ALIRAN KAS DARI AKTIVITAS PEMBIAYAAN				
	Aliran Kas Masuk				
	Penerimaan Pinjaman dan Obligasi				-
	Transfer dari Dana Cadangan				-
	Penjualan Aset Tetap yang dipisahkan				-
	Penerimaan Piutang Pajak Tahun Lalu				-
	Penerimaan UUDP	33.385.032,45			33.385.032,45
	Jumlah	33.385.032,45	-	-	33.385.032,45
	Aliran Kas Keluar				
	Pembayaran Pokok Pinjaman dan Obligasi	-			-
	Transfer ke Dana Cadangan				-
	Penyertaan Modal	1.059.618.371,00			1.059.618.371,00
	Pembayaran Hutang Pajak Tahun Lalu				-
	Belanja Dibayar dimuka	-	80.318.219,00		80.318.219,00
	Jumlah	1.059.618.371,00	80.318.219,00	-	1.139.936.590,00
	<i>Aliran Kas Bersih dari Aktivitas Pembiayaan</i>	(1.026.233.338,55)	(80.318.219,00)	-	(1.106.551.557,55)
IV	ALIRAN KAS DARI AKTIVITAS NON ANGGARAN				
	Aliran Kas Masuk				
	Penerimaan PFK		15.658.837.622,00		15.658.837.622,00
	Panjar Awal Tahun	2.474.032.624,00			2.474.032.624,00
	Jumlah				18.132.870.246,00
	Aliran Kas Keluar				
	Pengeluaran PFK	-		15.658.837.622,00	15.658.837.622,00
	Uang muka/PANJAR				-
	Jumlah				15.658.837.622,00
	<i>Aliran Kas Bersih dari Aktivitas Non Anggaran</i>	2.474.032.624,00		-	2.474.032.624,00
	Kenaikan/ Penurunan Kas Bersih Selama Periode 2005	7.276.042.302,45			7.445.442.082,45
	Saldo Awal Kas	2.488.435.107,55			2.488.435.107,55
	Saldo Akhir Kas	9.764.477.410,00			9.933.877.190,00

⁴³ See note number 40.

Appendix 4

List of information sought from interviews adapted from IPM model

No.	Group of questions	Information sought
1	New Ideals	<ol style="list-style-type: none"> 1. Social, economic and political factors (events) leading to the emergence of the ideal to use the accrual accounting system for the Indonesian public sector. 2. The aims or objectives intended to be achieved by using an accrual accounting system. 3. Prominent figures or organizations and their roles played to support the adoption of the accrual accounting system. 4. The roles played by international donors such as the International Monetary Fund (IMF) and the World Bank in the initial introductions of an accrual accounting system. 5. The problems that were faced during the diffusion of new ideals with respect to adoption of the accrual accounting system for the public sector.
2	New Discourers	<ol style="list-style-type: none"> 1. Actors (figures and organizations) who actively participated in formulation of the new law (Law 17 / 2003 on state finance) which requires the adoption of the ASS in the public sector. 2. The roles of social and political changes on the policy formulation with respect to the adoption of an accrual accounting system in Indonesia. 3. The aims of the adoption of an accrual accounting system in Indonesia. 4. Strategies, program and activities that were carried out by the actors leading to the passage of the legislative policy which requires the adoption of accrual based reporting system. 5. Problems emerged (i.e. conflict of interests amongst the actors) during the formulation of law 17 (2003).
3	New Techniques	<ol style="list-style-type: none"> 1. How process of the formulation of accrual based reporting standards for Indonesian local governments that were required by Law 17 (2003) were undertaken. 2. The actors involved in the formulation of accrual reporting standards for local governments in Indonesia. 3. The purposes of the issuance of the new government accounting standards. 4. Problems emerged (i.e. conflict of interests amongst the actors) during the formulation of the new government accounting standards for local governments in Indonesia.
4	Internalization	<ol style="list-style-type: none"> 1. The purposes of the implementation of the new government accounting standards in a municipal government under study (henceforth MG). 2. The acceptability of the new government accounting standards in MG. 3. The preparers and users of the financial statements of MG. 4. Strategies or programs that have been carried out by MG in implementing the new government accounting standards. 5. The views from the participants regarding the new reporting system at MG. 6. The availability of qualified accountants in MG. 7. The availability of facilities to prepare the financial statements of MG. 8. The use of the financial statements of MG for managerial proposes. 9. The use of the financial statements of MG in the local parliament. 10. Main problems faced by MG in implementing the new government accounting standards.

Appendix 5

List of interviewees (by organization, their roles and date of interview)

No.	Interviewees and their roles	Date of interview	No.	Interviewees and their roles	Date of interview
1	Former chairperson of accounting development unit at the Ministry of Finance (MOF)	17 /2 2009	19	Manager of inspectorate division (MGUS)	25/3/2009
2	Senior official and former chairperson of accounting and reporting bureau at MOF	20/2/2009	20	Senior official of inspectorate unit at MGUS	21/6/2009
3	Professor in accounting	6/7/2009	21	Manager of human resource management division at MGUS	24/3/2009
4	Senior lecturer in accounting	28/2/2009	22	Senior official at human resource management division at MGUS	24/3/2009
5	General directorate at MOF (involved in drafting the law on state finance and formulating the new government accounting standards)	17/2/2009	23	A senior official at the financial evaluation unit for local government at the Ministry of Internal Affairs	21/2/2009
6	Manager of research division and development unit at the State Audit Board	4/4/2009	24	Vice manager of the financial evaluation for local government division at a provincial government (in which MGUS is part of its jurisdiction)	25/3/2009
7	Member of National Parliament (Golkar Party); involved in approving the Law 17 on state finance.	13/5/2009	25	Senior official at the financial evaluation division for local government at a provincial government (in which MGUS is part of its jurisdiction)	31/3/2009
8	Member of National Parliament (PDIP Party); involved in approving the Law 17 on state finance.	15/5/2009	26	Senior auditor at State Audit Board who audits the reports of MGUS	1/4/2009
9	Member of National Parliamentary member (Democrat Party); involved in approving the Law 17 on state finance	2/7/2009	27	Auditor at State Audit Board who audits the reports of MGUS	2/4/2009
10	Member of the committee of government accounting standards	29/5/2009	28	Member of local parliament at MGUS	3/7/2009
11	Member of the committee of government accounting standards	30/5/2009	29	Member of local parliament at MGUS	4/7/2009
12	Member of the committee of government accounting standards	22/6/2009	30	Member of local parliament at MGUS	7/7/2009
13	Deputy of mayor at municipal government under study (MGUS)	19/3/2009	31	A consultant involved in preparing the reports of MGUS	18/6/2009
14	A senior official at financial and asset management division at MGUS	19/3/2009	32	A certified accountant involved in preparing the reports of MGUS	24/6/2009
15	A senior official at financial and asset management division at MGUS	27/5/2009	33	A consultant involved in preparing the reports of MGUS	18/6/2009
16	A senior official at financial and asset management division at MGUS	29/5/2009	34	Journalist writes about governance in the public sector at MGUS	20/3/2009
17	Manager of planning and budgeting division at MGUS	30/3/2009	35	A non government organization activist who is concerned about public sector issues at MGUS	21/6/2009
18	Senior official at planning & budgeting official MGUS	26/6/2009	36	A non government organization activist who is concerned about corruption at MGUS	9/7/2009

Appendix 6

Categorization of themes identified from interviewees

Stage of institutionalization: New ideals (I)

Interviewee code number N=8	Major themes from 8 interviewees about the new ideals relating to the adoption of the accrual accounting system in the Indonesian public sector								
	Motive for accounting reforms			Dominant actor	Supporting actors	Activities undertaken	Problems that blocked further reforms for public sector accounting		
	Improving efficiency	Better ac- countabi- lity & transpa- rency	Follow interna- tional trend	Technocrats (accountants & economists) at the Ministry of Finance	Donors (IMF, World Bank)	The establishment of an accounting body in MOF, seminar and alike	Rigid Political system and lack of political support	Legal barrier	Actor resis- tance
1	1		1	1			1	1	1
2					1		1		1
3		1		1		1	1	1	1
4	1		1	1				1	1
5							1		1
6							1		
10	1		1				1		1
34			1						
Total	3	1	4	3	1	1	6	3	6
Total/N (%)	38%	13%	50%	38%	13%	13%	75%	38%	75%

Appendix 7

Categorization of themes identified from interviewees

Stage of institutionalization: new discourses (II)

Interviewee code number N=11	Themes identified from 11 interviewees relating to the new discourses stage of the accrual accounting system in the Indonesian public sector									
	Motive of the mobilization of the new ideals to be new discourses				Dominant actors	Supporting actors				Activities undertaken
	Improving efficiency	Better accountability & transparency	Part of broader reforms in economic & political system	The lack of accounting standards	Ministry of Finance	Accounting professional bodies	Universities	National Parliament	Donors (the IMF, World Bank)	Legal reforms (the issuance of Law 17 (2003))
1			1		1	1	1			
2	1	1	1					1	1	
3		2	1		1		1			
4			1							
5				1	1					1
6			1		1					
7					1					
8					1					
9	1	1	1							
26	1	2	1							
36			1							
Total	3	6	8	1	6	1	2	1	1	1
Total/N (%)	27%	55%	73%	9%	55%	9%	18%	9%	9%	9%

Appendix 8

Categorization of themes identified from interviewees

Stage of institutionalization: New techniques (III)

Inter- viewee co de num- ber N=7	Major themes of information from 7 interviewees relating to the internalization of the accrual accounting system										
	Purposes of the issuance of accrual based accounting standards		Dominant actors		Dominant actors			Activities undertaken		Problems identified	
	Improving efficiency according to Law 17	Better ac- countability & transpa- rency according to Law 17	Ministry of Finance (MOF)	Ministry of Internal Affairs (MIA)	State Audit Baord	Accoun- ting profesi- onal body	Univer- sities	The issuance of GAS 24 (2005)	The issuance of MIA Decree 13 (2006)	MOF and MIA issued their own rules	Lack of public support
2	1	1	1								1
4	1	1									
5			1	1	1	1	1	1	1	1	
10	1	1	1	1	1	1	1	1	1	1	
11			1		1						
12	1	1						1	1	1	
36	1	1									
Total	5	5	4	2	3	2	2	3	3	3	1
Total/N (%)	71%	71%	57%	29%	43%	29%	29%	43%	43%	43%	14%

Appendix 9

Categorization of themes identified from interviewees

Stage of institutionalization: internalization (IV)

Interviewee code number N=32	Purpose of activities		Major themes of information relate to the institutionalization of accrual accounting													
	Complying with rules	Efficiency improvement	Dominant actors						Implementation problems identified							
			Existing employees + consultants & accounting firms	MOF	State Audit Baord	MIA	Consultants & accounting firms	Local parliament	Lack of expertise	Low level of report compliance with rules	Lack of publication of reports	Lack of understanding on reports by senior officials	Lack of use of accrual based reports for dec. making	Lack of public concern on gov. reports	Increasing costs for the report preparation	Emerging of an illegal practice
2		1		1	1				1						1	
3									1							
4									1							
5				1	1					1			1			
6					1											
8					1				1							
10			1	1					1						1	
11			1						1						1	
12						1			1							
13	1	1	1		1	1	1		1				1	1		1
14	1			1	1	1		1	1				1			
15	1		1				1		1						1	
16	1								1		1	1				
17											1		1			
19									1			1	1			
20									1			1	1			
21									1							
22									1							
23			1			1	1		1				1		1	
24						1			1							
25	1								1							
26		1				1			1	1		1	1	1		
27									1						1	
28	1					1		1					1	1		
29			1				1		1				1			
30			1			1	1		1			1	1			
31									1							
32			1			1	1		1			1	1			
33	1		1				1		1	1		1	1	1		1
34			1				1		1					1	1	1
35									1	1		1				
36									1							
Total	7		10	4	6	9	8	2	28	4	1	8	13	5	7	3
Total/N (%)	22%	9%	31%	13%	19%	28%	25%	6%	88%	13%	3%	25%	41%	16%	22%	9%

Appendix 10

Examples of the Interview Statements (categorization of statements is based on IPM Model of Dambrin et al (2007).

A. Stage of Institutionalization: New Ideals

A. 1 *Impetus of public sector accounting reform in the public*

Sector:

“[...] the accrual accounting system was considered a powerful tool [by the technocrats in the Ministry of Finance] to enhance the efficiency of the Government projects” (NI-1)

“[...] We simply needed a better recording system to ensure the public money was properly spent for a better result” (NI-1).

“[...] As far as I know, the rationale behind the idea was to ensure the Government's spending was more efficient as the revenue from the oil declined” (NI-4).

“[...] this system [the accrual accounting technique] should be firstly put in place when we are about to measure the efficiency of resources used by the Government” (NT-10)

“Most of them [who promoted the accrual accounting system the technocrats in Ministry of Finance of Finance] were graduated from American universities and they knew well what accounting system was considered better in developed countries [...]” (NI-4)

“We expected senior officials in the Ministry [of Finance] to get an idea what was going on in the UK or the US at the

time about the best accounting practice in government organizations in these countries that may be useful for us to follow” (NI-23).

“[...] in principle [the rationales for the use of the accrual accounting] are in line with international best-practices [for the public sector] in other countries” (NT-34)

A. 2 *Dominant actors*

“[...] [it was] the former Minister of Finance who initiated the efforts to improve the government accounting system by providing seminars and workshops” (NI-1)

“the Ministry of Finance since the early eighties actively marketed the ideas to change the cash based system inherited from the Dutch period” (NI-3).

A. 3 *Strategies undertaken:*

[...] [the Ministry of Finance conducted] seminars and workshops [aimed at promoting the accrual accounting system] (NI-1)

“[...] in the eighties until the late nineties when Suharto was still in power, we had to be careful in raising issues like government accountability” (NI-1)

A. 4 *Obstacles:*

“There were no wider social movements from people in the parliament and State Audit Board that openly campaigned the need to improve government report system”. (IN-1)

“[...] under Suharto's regime that agency [the State Audit Board], like the parliament, had no function in overseeing the government”. (NI-2).

“[...] You know during that time, our national leader [President Suharto] controlled everything and not allowed audit opinions to be publicly available]” (ND-6)

B. Stage of Institutionalization: New Discourses

B. 1 Triggers leading to the changes of law in the Government reporting system:

“And I have to state that recent reforms in these areas [including public sector accounting] are the result of democratic movements that ended the Suharto regime (NI-1).

“Following the fall of Suharto, there is no doubt, comprehensive reforms have been undertaken including the implementation of the autonomy policy for local governments, the improvement of the budget system, the increasing role of the State Audit Board, and now the new law requires the implementation of the accrual accounting in the government both at the central and local level.” (NI-1).

“[...] They [the National Parliamentary Members] supported the implementation of a more accountable and transparent [reporting system] in this country”. (NI-2).

“[...] at the time we only had budget realized reports, and we did not have a proper basis [*a set of government accounting standards*] for recording and reporting all those things [*financial data*].” (NND-5)

“What we are enjoying right now such as the freedom of speech, free election and so on are the results of the Suharto’s resignation in 1998. The people wanted him to go. If not

[Suharto is still in power], I believe you can even talk like this” (ND-27).

“It is important to remember that the spirit of the law [*Law 17 / 2003 on state finance*] that recently came into effect after the Suharto’ regime reflected the wish from the people [the public] in this country. The bad thing of our administration in the past was they simply lacked accountability and openness.” (ND-9).

“I think it just reflected the aspiration of the public and students who were very keen to protest the past regime that was renowned of its nepotism and corrupt] ”. (ND-9)

“One of the main impetuses of the change was that the financial law [*about the government reporting system*] inherited from the Dutch era was not compatible with recent developments [*broader reforms in politic, economic and the public sector reforms*]” (I-26)

“[...] although current reporting system.... is more complex ...it is more reliable and informative in revealing information about the Government’s assets and liabilities”. (NI-1).

B. 2 Dominant actors

“For the technocrats in the Ministry of Finance particularly, that situation [*political and economic reforms*] has given them the opportunity to push the Government to implement accrual accounting system.” (NI-2).

“You also need to know only people in the Ministry of Finance who were concerned about accrual accounting for the public sector”(NI-1)

“[...] in a parliamentary hearing that t was held to pass the law, I insisted three important things: all government agencies are required to prepare a set of financial statements which include budget realized reports along with balance sheets, cash flows and notes on financial

statements; the financial statements must be prepared based on government accounting standards similar to the private sector accounting standards, and those standards have to be set up by an independent body and; these financial statements have to be audited by the State Audit Board. All ideas I proposed were accepted and honestly I am proud of that.” (ND-5).

“[...] I know only people from the Ministry of Finance who [initially] wished that [the adoption of the accrual based report system in Indonesia] (ND-6).

“They [the representatives from the Ministry of Finance] were active in promoting that kind of system [the accrual accounting system] (ND-9).

“Current government attempts aimed at improving its reporting system have been more systematic...not only [*supported*] by high officials in the Ministry of Finance but also the Indonesian Institute of Accountants and academicians.” (NI-1).

“We [academics] and consultants also had a similar view [with respect to the implementation of the accrual accounting system for the public sector]” (NI-3).

B. 3 Strategies undertaken

“Following the promulgation of the Law 17 (2003) in 2004, [we worked together in a committee called “Komite Standard Akuntansi Pemerintahan” [Government Accounting Standards Committee] under the supervision of the President to develop a set of accounting standards for the Government both at central and local levels...” (ND-5).

C. Stage of Institutionalization: New Techniques

C. 1 Dominant actor

“[...] it is probably because the Ministry of Finance only invited people who had already supported that idea [the adoption of the accrual accounting standards for the public sector]...” (NI-3)

“I also need to emphasize that there is only one reason why the Ministry of Finance to have been active [*in formulating the accrual based public sector accounting standards*]...because [the ministry] have a significant number of people with accounting backgrounds, and if any agencies do not have sufficient accountants, they would probably have no idea in doing such a thing.” (NT-10).

“[...] Only the Ministry of Finance and the State Audit Board do that [developing the public sector accounting and use the accrual reports] seriously” (NT-11).

“In the Ministry of Internal Affairs [also] issued a set of rules as the guidance for local governments”. (ND-5)

“As you might know, current members of the Committee are from the Ministry of Finance, the Ministry of Internal Affairs, the State Audit Board, the Indonesian Institute of Accountants, universities” (NT-10).

C. 2 Strategies undertaken

“Following the promulgation of the Law 17 (2003) in 2004, [we worked together in a committee called “Komite Standard Akuntansi Pemerintahan” (Government Accounting Standards Committee) under the supervision of the President to develop a set of accounting standards for the Government both at central and local level” (ND-5).

“The Ministry of Home Affairs in 2006 only a year after the promulgation of the SAP (the new government accounting standards) issued its own accounting standards for local governments.” (NT-10).

“Frankly I think it is quite fair to acknowledge that the new reporting system is more transparent than the old subsystem. Now we can have information about assets and liabilities of our government. We did not have this kind of information before” (NT-27).

C. 3 Problems identified

“[...] in the ministry [the Ministry of Home Affairs] in 2006 only a year after the promulgation of the government accounting standards issued its own accounting standards for local governments” (NT-10).

“The issuance of the Ministry of Internal Affairs Regulation in 2006 has made the use of current system [accrual based- reporting system] more complicated”. (NT-12).

D. Stage of Institutionalization: Internalization (the implementation of accrual accounting system in the municipal government under study

D. 1 Purpose of the implementation of the accrual reporting system

“The reports [the municipal's government's reports] are useful, they reveal how we comply with the regulations and they are also used by the auditors.

“[...] it [the new accounting system] is the basis for the State Audit Board to evaluate our performance here” (INT-13)

D. 2 Preparation of reports

“We [...] [prepare the municipal government reports] with the support of an accounting firm”. (I-14).

“You know most local governments rely on consulting firms in preparing their reports.” (I-23).

“[...] this municipal government still very much needs the assistance from consultants or accounting firms in preparing the reports” (I-32).

“The municipal government we are talking about spends a lot of money to pay accounting professionals outside the government to prepare these reports” (NI-1).

D. 3 Dominant actors

“If we talk about financial matters, you must follow the Regulation No. 13 issued by the Ministry of Internal Affairs and Government Accounting Standards)” (INT-28)

“Its role [the role of the State Audit Board] becomes more important after .the Law 17 in 2003 [was issued].” (NI-2).

“We [the Ministry of Finance] have done it in many ways which include [providing] workshops, seminars and training programs designed to support the implementation of the new accounting standards at local level.” (NI-10).

“The reports [the municipal government reports] so far are only submitted to the State Audit Board, the Ministry of Finance, the Provincial Government

[representing the Ministry of Internal Affairs] level and the local parliament...” (INT-14).

“[...] they [local governments are required]... to prepare two types of financial statements based on two different set of rules. One set of reports are prepared based on the new government accounting standards and other reports are prepared based on the Ministry of Financial Affairs regulation]”. (NT-10)

D. 4 Implementation problems

“It mainly relates to the lack of human resources with accounting expertise”. (INT-13).

“The main problem [in the implementation of the accrual accounting system] in this country] at the local level [...] is [the] lack of qualified accountants” (NT-10).

“The process of hiring new employees in this local government, like anywhere involves the Ministry of Human Resources and the Ministry of Finance [...] It is beyond our control.” (INT-21).

“They have to prepare two types of financial statements based on two different set of rules” (NT-10).

“[...] the problem is that the financial regulations issued by the Ministry of Internal Affairs in many cases are not in line with the Law 17 and the Government Accounting Standards” (INT-26).

“The legislative members and the executives in [in the municipal government] many times [...] [are] frustrated with the new regulations [about the financial and reporting system]”. (INT-32).

“[...] both people in these executive and legislative bodies always claim [that] the basic reason leading to the slow progress with implementation of the government reporting system is the rapid changes of regulations” (INT-32).

“the regulation requires them not only to prepare the consolidated financial statement, but each unit of a local government must prepare the reports, but it has not been achieved (INT-26)

“[...] [the recent accounting system is] much complicated” .(INT-14).

“In fact, most of local governments’ reports get disclaimer opinion from the auditors” (INT-33).

“I have never seen anyone outside the office [from the public] came to us and asking for these reports” (INT-13).

“If you talk about money [financial statements] it is the concern of those in the financial unit or the State Audit Board” (INT-17).

“We are actually more concerned on realized budget reports, because we have been used for a long time” (INT-13).

“[...] most of us have been more familiarized with that information [cash based report]...the balance sheets and cash flows... [are used as the accountability report]...to the State Audit Board and the local parliament (INT-13).

“[...] because they can get management fees from the providers of the service [accounting firms or private consultants]. If it is done [the preparation of reports] by the staff themselves... there would be not bribery in tendering processes which in many cases are vulnerable to bribing and corruption practices]. [And you need to know, the value of the bribes is similar to monetary value added to an actual cost of a project. So there is a mark up... (INT-34).

“It is a normal practice in Indonesia, where the owners of companies or senior officials in consulting firms give their counterparts in the Government a kind a prize if they have won a government project” (INT-13).

“I do not exactly know the term you use [about accrual reports]. We do not use that kind of [regulations reports in task]. We evaluate these reports by using our own form “[lack of understanding about the government accounting standards)” (INT-20).

A senior financial officer in the municipal government under study also states that although the use of outside consultants preparing the municipal government reports is costly, without their assistance it can make the local government fail to prepare and present financial statements timely (INT-15).

“The municipal government [...] spends a lot of money [paid to private consultants] to [carry out the accounting function]” (INT-34).

A consultant [the interviewee] states although the value of the management fees he receives from accounting projects in the municipality is relatively high, but to get the project consultants need to have and maintain a good relation with senior officials in the municipal government observed. Hence, a good relation with the officials is identified with a term called “management fee” which means a specific percentage of the total project that have to be paid back by consultants to the officials in the government if they get the project. The value of the percentage is about 10 to 15 percent of total monetary value of a project. The management fees are not included in the formal project agreement [contracts] between consultant firms and

the PMG, nor are these components of costs of any accounting projects. Rather, it is an informal agreement between consultants firms and officials in the PMG which means the consultant firms that have been given the project to pay back a certain amount of money to officials who have the author in tendering process. The payment of the management fees is carried-out in an informal way and not using the bank service. He also suggests that term “management fees” is a “normal” practice that happens anywhere in Indonesia and takes place when someone or any companies involved in government business both in physical and service projects (INT-31).

“The International Transparency organization puts us as one of the most corrupt governments in world]. What does it means? (INT-34).

Appendix 11

The features of the whole institutionalization of accrual accounting in this study

Level of institution & category of information identified		Stages of institutionalization			
		New ideals (1980s-1998)	New discourses (1998-2003)	New techniques (2003-2005)	Internalization (after 2005)
Economic and political level	Activities (1)	Workshops, overseas visits, and the establishment of State Accounting Agency at the MOF*	Formulation of a law which required the adoption of accrual based system for the public sector		
	Main purposes of activities in column 1 (2)	<ul style="list-style-type: none"> To disseminate the ideals in which accrual accounting was promoted as a means to improve efficiency and performance of the public sector (normative isomorphism) To follow other counties (mimetic isomorphism) 	<ul style="list-style-type: none"> To provide a legitimate regulation as a means to strengthen the accountability and transparency of government (normative isomorphism) To seek legitimacy and to comply with stakeholders' demands 		
	Features (characteristics) of the activities undertaken in column 2 (3)	There was a contradiction between the views of the technocrats at MOF which promoted the use of a more informative accounting system and the action of a powerful actor (the president) who controls accounting and audit information	Political and economic reforms supported by the people and international organizations helped the technocrats at the MOF to mobilize their ideals for the adoption into a new discourse.		
	Influential factor as the cause of the characteristics occurred at columns 3 (4)	Resistance from powerful actors and rigid political system	<ul style="list-style-type: none"> The collapse of the Suharto regime in 1998 Broader political and economic reforms undertaken following from 1998 Public and international /demand supports for a more accountable and transparent government 		
	Outcome (implication) (5)	The ideals about the usefulness of accrual accounting emerged, but accounting reforms in the public sector were controlled.	The issuance of Law 17 in 2003 on state finances.		
Organizational field	Activities (1)			Formulation of a set of accounting standards for local governments	
	Main purposes of activities in column 1 (2)			To provide a set of rules as a legitimate basis for local governments in preparing government reports as required by the Law 17 (2003)	
	Features (characteristics) of the activities undertaken in column 2 (3)			MOF and MIA** dominate the formulation of their own reporting rules for local governments	
	Influential factor as the cause of the characteristics occurred at columns 3 (4)			<ul style="list-style-type: none"> Established roles of the MOF in public sector financial issues and the MIA as coordinating ministry of local governments Resource dependence of local governments on central government funding 	
	Outcome (implication) (5)			The issuance of two accounting rules /techniques: <ul style="list-style-type: none"> The Government Accounting Standards (backed by MOF). The creation of a new role of MIA in dictating accounting rules for local governments (The issuance of MIA decrees in 2006 and 2007). 	

Table 11 (continued)

Level of institution & category of information identified		Stages of institutionalization			
		New ideals (1980s-1998)	New discourses (1998-2003)	New techniques (2003-2005)	Internalization (after 2005)
Organizational level	Activities (1)				The production and use of accrual based reports
	Main purposes of activities in column 1 (2)				To comply with the rules imposed by Central Government as a means to maintain and gain legitimacy (coercive isomorphism)
	Features (characteristics) of the activities undertaken in column 2 (3)				<ul style="list-style-type: none"> • Lack of participation of existing employees in preparing accrual based reports • The low level of report compliance to rules • Low level of demand on reports • The lack of use of accrual reports for managerial purposes
	Influential factor as the cause of the characteristics occurred at columns 3 (4)				<ul style="list-style-type: none"> • Lack of expertise • Old habits and social context (corruption) of local actors
	Outcome (implication) (5)				<p>A low level of coherence between internalized practices and the new ideals, discourses and techniques which promote the use of accrual accounting for efficiency , transparency and performance improvement, this is indicated by:</p> <ul style="list-style-type: none"> • The increase of accounting costs • The emergence of corruption

Appendix 12

Publication of author

Publication from this thesis

- Harun, H., Van Peurse, K. & Eggleton, I. (2012). Institutionalization of accrual accounting in the Indonesian public sector, *Journal of Accounting and Organizational Change*, 8 (3).

Publication from other projects

- Harun, H., Yi. An and Kahar, A. (*forthcoming*). Implementation and challenges of New Public Management Practices in Indonesia, *Public Money and Management*.
- Harun, H. & Kamase, H. P. (2012). Accounting change and institutional capacity: the case of a provincial government in Indonesia, *Australasian Accounting and Business Journal*. 12 (3).
- Harun, H. & Robinson, P. (2010). The adoption of accrual accounting in the Indonesian public sector, *Research in Accounting in Emerging Economies*, 10: 235-252.
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