

ROLE OF CULTURE IN THE PREPARATION STAGE OF THE IMPLEMENTATION OF ACCRUAL BASED ACCOUNTING

(SURVEY ON LOCAL GOVERNMENT OF WEST JAVA AND BANTEN PROVINCE, INDONESIAN)

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Abstract

Reformation of accounting plays an important role and dominant in the implementation and success of practices and other NPM (New Public Management) techniques in public sector organizations. Without adequate and successful implementation, the new accounting system could not provide accurate and relevant information. This study aimed to examine the influence of culture (with dimensions according to Hofstede, 1980) on the implementation of accrual accounting in the preparation phase. The study was conducted at local Government in the region of West Java and Banten Province, Indonesia. The test results showed that the culture through the dimensions of power distance, uncertainty avoidance, masculinity/femininity had an effect on the implementation of accrual accounting.

Keywords: New Public Management, Culture, Power Distance, Uncertainty Avoidance, Masculinity/Femininity, Accrual Accounting

INTRODUCTION

The reformation of government accounting is often the first step of government reformation and is regarded as an essential condition or prerequisite for the success of other government reformation under New Public Management (NPM) transformation, such as organizational and managerial reform (Christiaens, et al., 2001; 2003). Effective and successful implementation of

accounting reformation plays an important role and dominant in the implementation and success of practices and other NPM techniques in public sector organizations. Without proper implementation and success, all the benefits, objectives and expectations of reform will be lost due to the fact that the new accounting system will not be able to provide managerial and financial information that is relevant and accurate for the backup (Christiaens and Van Peteghem, 2003).

Adoption of NPM in Indonesia in the field of State financial reform began with the enactment of legislation in finance State (Law No. 17 (2003) on State Finance, Law No. 1 (2004) on State Treasury and Law No. 15 (2004) on Management and State Financial Responsibility). One of the provisions of Law No. 17 (2003) on State Finance requires the Governmental Accounting Standards as the basis of preparation of financial reports for government agencies. In one of the explanations on the Law of the State Treasury noted that Governmental Accounting Standards is set in a government regulation No 71 (2010). One of the main features of these changes is the use of the cash basis of accounting into accrual basis. Simply put, cash-based accounting recognizes and records the transaction in the event of cash receipts and spends and not recording assets and liabilities, while the accrual basis of accounting recognizes and records the transaction at the time of the transaction (both cash and non-cash) and records assets and liabilities. Law No. 17 (2003) on State Finance requires the government to implement accrual-based accounting system no later than 5 years since the publication of the Act. Then as the implementation guidance, the Government Regulation No. 24 (2005) was published regarding the Government Accounting Standards, but until the time limit set, the government has not managed to implement the new accounting system, until the issue of Government Regulation No. 71 (2010) concerning Governmental Accounting Standards to replace Government Regulation No 24 (2005). In the Government Regulation No 71 (2010), the deadline for the implementation of accrual accounting system postponed until 2014.

According Martowardojo (2012), the implementation of accrual accounting should be done carefully with proper preparation and related structured with rules, systems, human resources, and commitment of the entire leadership of K/L, the adoption of accrual accounting in the first years of implementation does not significantly reduce the quality of the financial statements. The implementation of accrual accounting should be viewed as an important opportunity to improve the quality of information (Claudia & Carla, 2013).

According to Jan Hoesada (2010), the implementation of accrual accounting in the Indonesian government cannot easily be implemented as in the private sector. There are several challenges faced by the government to implement such a system, including the availability of accounting systems and information technology systems, the commitment and

political support from leaders and decision-makers in government, provide the Human Resources (HR) that are competent and professional in financial management, environment/society must also appreciate and support the successful implementation of government accounting, the support from auditors, the availability of accrual-based budgeting system, the internal party resistance to change towards accrual-based accounting system.

According to Halim (2012), said that the difficulties of implementing accrual based budget in the government are related to two reasons, namely the accrual based budget is believed to be a risk in the budgeting discipline and there is resistance from the legislature to adopt accrual based budget. According to Budi Mulayana (2009), the application of accrual is only used for financial reporting and not to the budget; the weakness is it's not going to solve the problem seriously/comprehensively. If the financial statements resulting from different bases, then the risk is as if only an accounting exercise alone. According to Director General of Regional Finance; Yuswandi A. Temenggung (2014), the application of accrual basis in the area will be quite complex. It is conceivable; there are currently 491 provincials and districts/cities in Indonesia. With all the diversity that exists, would be more difficult to practice, some things that become obstacles to the adoption of accrual-based the Government Accounting Standards in the area, namely the availability of Human Resources (HR) and Organizational Working Procedure Structure of Work Unit and Regional Financial Management Official.

The application of accrual-based accounting system is an ongoing and integrated process. The impact resulting from the adoption of this system cannot be seen in a short time. An understanding of the factors that influence the success or failure in the introduction of a new accounting system, particularly in the context of the government is important. The success or failure of the implementation of accrual accounting in government cannot be separated from the role of the labor force and the influence of factors that exist in the work force, ranging from human resources factors such as the level of education of staff, training provided, and educational background of leadership, a factor such organizational quality and support information technology consultants, and other situational factors such as experience working unit, in running the cash basis to the accrual and the size of the labor force.

Formulation of the Research Problem

Based on the background described above, in general the problem that can be formulated is how the implementation of accrual accounting in local government by considering culture. The study emphasis is more on how the cultural dimensions play a role in the implementation of accrual-based accountancy. Therefore, a problem that can be defined is how the cultural dimensions can affect the implementation of accrual accounting.

Research Purpose

The purpose of this study is to determine that the cultural dimensions affect the implementation of accrual accounting is running successfully. Specifically, this study aims to design a cultural dimension may affect the implementation of accrual accounting in local government.

FRAMEWORK

In practice, the implementation of accrual-based accounting system in the public sector does not always go easy, because one reason is the different environmental characteristics of public sector compare to the business sector which in practice is always very familiar with the system. Applying accrual accounting cannot be seen as a technical exercise accounting, it needs to involve a change of culture. According to Hofstede (1980), association of accounting values, based on relationships to Hofstede's cultural dimensions is founded on the argument that culture influences accounting. Basically, accounting values will affect the accounting system; therefore cultural factors directly influence the development of accounting and financial reporting system at a State level (Douppnik & Tsakumis, 2004).

Accounting practices include the preparation of financial statements, detect misstatements, and other accounting activities will look the same in the whole world, because it follow the same or similar standards. However, these practices may contain some differences that are influenced by cultural dimensions (Zarzeski, 1996) provide in-depth observation of how different accounting practices originating between cultures. Accounting standards, accounting written rules which are formed by the practice of accounting, accounting implicit rules, performed in a particular culture. The rules are different because of how business relationships are developing in various cultures. Business relationship is different because of the environment or culture in which relationships are formed, including external factors such as different legal, economic and political climate of the country. According to Askary, Pounder, and Hassan (2008.145) accounting is shaped by the environment in which it operates. Many factors such as values, religion and politics make up these environments making accounting and its practices differ in as many ways as there are cultures.

According to Torres (2004), Meyer and Hammerschmid (2010), the culture plays a role toward how to implement NPM. Culture helps to explain, understand and even explain the typology of public management (Hood, 1998). According to Hofstede (1990), the national culture represents a country, with heterogeneity in terms of employment, occupation and level of education. This heterogeneity could encourage the successful implementation of the adoption of an accounting option. Cultural differences are factors that affect the accounting system of the

cultural dimension can build relationships between cultures with accounting values (Gray, 1988). Based on these descriptions, the hypotheses of this study are as follows:

1. Power distance affects the implementation of accrual accounting
2. Uncertainty avoidance affects the implementation of accrual accounting
3. Masculinity/femininity affects the implementation of accrual accounting
4. Collectivism/Individualism affects the implementation of accrual accounting

RESEARCH METHODOLOGY

The study

Local government in Indonesia must implement accrual accounting in 2015, therefore this research examines the early stages of development based on accrual accounting implementation with Ouda model (2010). For this, a descriptive research design was adopted.

The data

This study uses primary data in the form of a questionnaire distributed to 100 accounting staff consist 32 district/cities in local government of West Java and Banten Province. Data processing was performed by using Partial Least Square (PLS) with software SmartPLS 2.0. Model fit test was conducted to test whether the hypothesized model can present the results of research well.

Analysis and Findings

Validity and Reliability

Value of outer construct models or correlations between variables were initially not meet convergent validity because there were quite a lot of indicators that had a value below the loading factor of 0.60. Modification of the model was done by issuing the indicators that had a value below the loading factor of 0.60. Based on 14 indicators of culture in the test, 11 were declared valid and 3 invalid. As for the implementation of accrual accounting of the 21 indicators tested, 16 declared valid and 5 invalid.

Further examination of the convergent validity was the construct reliability by looking at the output of composite reliability or Cronbach's alpha. Criteria said to be quite reliable if the value of the composite reliability or Cronbach's alpha greater than or equal to 0.3 but it is better if above 0.7. Evaluation of the discriminant validity was done in two stages, namely see the value of cross loadings and comparing the value of the square correlation between the construct values with AVE or construct correlation with root AVE. Criteria in cross loadings was that each indicator that measures the construct had to correlate higher than the other construct

Correlation indicators to power distance construct were 0,867740; 0.736561; 0.913564; 0.330134; and 0.439844. The indicator correlation value is higher than the other construct. Similarly, the indicators of uncertainty avoidance, masculinity/ femininity, collectivism/ individualism and implementation of accrual accounting were higher correlated with their construct. Based on the results of cross-loading table, each indicator correlated higher its construct than with other construct, so that can be said it have good discriminant validity.

Testing inner models or structural models was made to see the relationship between the constructs, the significance value and R-square of the research model. Structural model was evaluated using the R-square, for the dependent construct using the t test and the significance of the path coefficients structural parameters.

In assessing the model with PLS begins by seeing the R-square for each dependent latent variables. In principle, this study uses one variable that is influenced by other variables, namely the implementation of accrual accounting variables that influenced the variable power distance, uncertainty avoidance, masculinity/femininity and collectivism/individualism. R-square value for the variable implementation of accrual accounting obtained by 0.607832, or 60.6%.

ANALYSIS AND FINDINGS

Hypothesis Test

The first hypothesis testing result shows that the influences of power distance on the Implementation of Accrual Based Accounting (ABA) with the coefficient path of 0.243 with a t value of 4.290. This value is greater than t table (1,960). This result means that the power distance has a positive and significant impact on the implementation of Accrual Based Accounting.

Table 1. Hypothesis Test Results

Hypotheses	Coefficient Path	T. Statistik	Conclusion
Power Distance → Implementation of Accrual Based Accounting	0,243	4,290	Has positive and significant effect
Uncertainty avoidance → Implementation of Accrual Based Accounting	0,225	3,576	Has positive and significant effect
Masculinity → Implementation of Accrual Based Accounting	0,550	9,110,	Has positive and significant effect
Collectivism → Implementation of Accrual Based Accounting	-0,002	0,030998	Has negative and insignificant effect

This dimension relates to social inequality, including relationship with authority. This refers to the evaluation of the unbalanced distribution of power in institutions (Licht, Goldschmidt, Schwartz, 2001). Power distance in the Local Government in West Java and Banten shows relatively low. District and City government in West Java and Banten Province almost have a balanced power and no social inequality, so this allow early stages of implementation goes well marked with change management, bureaucratic support in the form of policy changes on the financial management area.

The second hypothesis testing result shows that the effect of uncertainty avoidance on the Implementation of Accrual Based Accounting (ABA) with the coefficient value of 0,225 with t value of 3.576. The value is greater than t table (1,960). This result means that uncertainty avoidance has a positive and significant impact on the implementation of Accrual Based Accounting. This dimension refers to the uncertainty and ambiguity. High Uncertainty Avoidance emphasizes beliefs, rules, and institutions that provide certainty and suitability (Licht, Goldschmidt, Schwartz, 2001). District/City Government of West Java and Banten province in conditions more emphasis on rules for creating certainty and suitability. This affects the early stages of implementation of accrual accounting. Local government policy changes by creating local regulation or legislation to support the implementation. Besides this also for the sake of certainty and suitability of Local Government in cooperation with academic and consultant and consistently perform budgeting for the implementation of accrual accounting program, perform financial information systems development stage area.

The third hypothesis testing result shows that the influence of masculinity on the Implementation of Accrual Based Accounting (ABA) with the coefficient path of 0.550 with t value of 9.110. This value is greater than t table (1,960). This result means that masculinity has a positive and significant effect on the Implementation of Accrual Based Accounting. This dimension relates to the social implications of gender. High masculinity shows appreciation of achievement, heroism, assertiveness and material success, while the opposite Femininity emphasize relationships, modesty, caring for the weak, and interpersonal harmony (Licht, Goldschmidt, Schwartz, 2001). District/City Government in West Java and Banten emphasis on the achievement of the values of heroic and decisive. This condition creates a support in the implementation of accrual accounting; the initial stage is to improve the communication strategy through discussion and dissemination rules of Regulation No. 71 (2010).

The fourth hypothesis testing result shows that the influence of collectivism on the Implementation of Accrual Based Accounting (ABA) with the coefficient path of -0.002 and a t value of 0.030998. This value is smaller than t table (1,960). This result means that collectivism have a negative and insignificant effect on the Implementation of Accrual Based Accounting.

This dimension concerns the relationship between individuals and groups. It refers to the preference for loose social relations in which the individual is expected to take care of just for themselves and their families than the close knit relationship where one can expect greater in the group (eg, family, clan) to keep them in exchange for loyalty not doubt (Licht, Goldschmidt, Schwartz, 2001). Local government in district/city in the province of West Java and Banten in condition collectivism sufficient, meaning the needs that are important to employees' is to establish a close relationship amicably coworkers. This condition is an obstacle in the implementation phase. Improved skills of individuals in carrying out the implementation has no special attention, other than that there is no support for individuals to receive certification in the field of government accounting that shows competence in the field of government accounting.

CONCLUSION

Culture is a representation of a country, where the existing heterogeneity could affect the selected accounting practices. Accountancy implementation of accrual is a new system in the Regional Government in global, therefore the culture inherent in the region will affect the implementation of accrual-based Accountancy. Cultural conditions in the region of West Java and banten government tend to have considerable power distance, high uncertainty avoidance; more masculine and collective influence the early stages of implementation of accrual accounting. It is marked by a change of management and bureaucratic support in the form of policy changes on the financial management area, improved communications strategy, cooperation in academics and consultants as well as efforts to resolve accounting issues that occur during this time. In addition there are things that need to be improved, namely an increase in the skill of the local governments and the still not effective support of international institutions.

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