

Research article

The Influence of Local Government Characteristics on Performance Effectiveness According to the Accrual-Based Accounting System

Ningrum Pramudiati*, Anandita Zulia Putri

Universitas PGRI Yogyakarta, Faculty of Business, Department of Accounting

Abstract.

This study aimed to determine the impact of non-financial characteristics on the effectiveness of local government performance by using the accrual-based government accounting system. Data were collected from the audit result report (LHP) of provincial, regency, city and regional government financial statements (LKPD) in Central Java for the 2016-2019 fiscal year, which were compiled based on the government accounting standards statement (PSAP). The results showed that the complexity of local government had a positive effect on the effectiveness of local government performance, while the level of leadership education and audit opinion did not influence the effectiveness of local government performance.

Keywords: the level of leadership education, audit opinion, the complexity, the effectiveness, local government performance

Corresponding Author: Ningrum Pramudiati; email: EMAIL

Published: 28 September 2022

Publishing services provided by Knowledge E

© Ningrum Pramudiati, Anandita Zulia Putri . This article is distributed under the terms of the [Creative Commons Attribution License](#), which permits unrestricted use and redistribution provided that the original author and source are credited.

Selection and Peer-review under the responsibility of the ICESRE 2021 Conference Committee.

1. Introduction

Indonesia has a public sector organization consisting of the Central Government and Local Governments that carry out government responsibilities under the law. The principle of decentralization adopted by Indonesia gives authority to regional governments to fully implement regional autonomy. Law No. 23/2014 states that the Government and the Regional People's Representative Council (DPRD) carry out government affairs based on autonomy and co-administration principles. The Regional Government implements the broadest possible autonomy principle and has the authority in the /autonomous region's decision-making process based on the prevailing laws.

Public sector accounting is an accounting process that is carried out until the process of making financial reports for public sector organizations and presenting financial information for public sector organizations by following per under the financial reports

 OPEN ACCESS

that have been presented. Local governments make decisions based on information available in public sector accounting. Local governments make decisions based on public sector accounting information and aim for the people's welfare. Financial accountability, efficiency, and effectiveness of regional finances must continue to be improved to achieve people's welfare. Therefore, an orderly and disciplined administrative process must be carried out by each division or every Regional Work Unit (SKPD) of the Regional Government.

"Accrual-based Government Accounting Standards (SAP)" have been implemented by all Regional Governments in Indonesia in 2015 in accordance with PP No. 71 of 2010 concerning Government Accounting Standards (SAP)" on an accrual basis. Financial reporting has become more informative with the accrual-based Government Accounting Standards (SAP) because all financial information presented is increasingly relevant to the current conditions of the Regional Government. Increasing the quality of financial information will have a positive impact on society. Therefore, related empirical evidence is needed to determine the success of local governments in implementing accrual-based Government Accounting Standards (SAP) and their impact on the performance of local governments. Disclosure of Regional Government Financial Statements is influenced by regional wealth, government complexity, and audit findings. This study uses non-financial characteristics, which include the level of leadership education, audit opinion on regional government financial reports, and the complexity of local governments.

Differences in local governments' financial performance, including effectiveness and efficiency, occur before and after applying accrual-based accounting standards. Recognition of revenue at LKPD after applying accrual-based SAP is more accurate when compared to the PAD target, and total regional revenue can be achieved [1]. Local governments' financial performance can be measured by analyzing regional government financial reports (LKPD). The financial ratios used to measure local governments' performance are efficiency ratios and effectiveness ratios [2]. The research's contribution is that this research examines the effect of the Regional government's non-financial characteristics on financial performance as measured by the effectiveness ratio of the Regional Government Financial Statements in the year the implementation of accrual-based Government Accounting Standards (SAP) in Indonesia.

2. Literature Review and Hypothesis Development

Accrual-based SAP holds the leaders of public sector organizations accountable for (output) and (outcome) so that managers can increase control over outputs and outcomes. For example, public sector organizations are asked to be responsible for all costs associated with the outputs/outcomes they produce. Therefore, accrual-based SAP makes it possible to recognize all costs to support better decision-making with more accurate and complete information by following New Public Management (NPM) theory.

NPM theory complements the weaknesses of institutional theory. The pressures of the institutional environment lead to institutionalization, which will then form an organization. Institutions or institutions are formed from a collection of rules created by humans to regulate and shape political, social, and economic interactions. Then, organizations need adjustments to social norms of acceptable behavior to continue to maintain their survival. There are three institutional formations, namely, isomorphic coercive, which indicates that an organization takes several forms or adopts other organizations due to pressures from the state and other organizations or broader society, isomorphic mimesis, which is an imitation of an organization by other organizations, and isomorphic normative. that occurs because of professional demands [3].

Institutional theory is a theory that is relevant to the application of accrual-based SAP. The application of accrual-based SAP is by following per under one institutional form, namely isomorphic coercive. This theory is used in traditional models to make decisions on the organizational structure of government. A government organization needs to make policies that lead to the process of achieving organizational goals. Public policies are formulated and implemented by government institutions, namely the legislative, executive, and judiciary bodies. There is a strong relationship between public policy and government institutions. This relationship occurs because government institutions have three powers not owned by other institutions outside the government agency.

The government has the authority to give legitimacy (legitimacy) to public policies. Public policies are legal obligations that must be obeyed or implemented by all citizens. Then, public policies that have been passed must be disseminated and apply to all citizens or target groups of the public policy. The government has the power to enforce public policies on members of society legally. Then, the government can impose sanctions on those who do not comply.

2.1. Characteristics of Local Government

Characteristics are unique characteristics that have distinctive characteristics that distinguish something (person) from something else. The adoption of accrual-based Government Accounting Standards (SAP) is influenced by the organization's characteristics or nature [4]. The elements in an LKPD can describe the local government's characteristics [5]. Besides, differences in characteristics may occur due to differences in regional conditions, policies, cultures, and philosophies of each entity. The characteristics examined in this study are non-financial characteristics and financial characteristics of local governments.

2.2. Non-Financial Characteristics of Local Governments

The non-financial characteristics of local governments in this study consisted of leadership education, audit opinion, and the local government's complexity. [6] "State that using an accrual basis must consider the government's readiness as the executive and the parliament as representatives of the people in overseeing ongoing government programs". [7] "Stated that accrual accounting implementation is significantly influenced by financial staff training". "The implementation of accrual-based accounting faces many obstacles, such as the lack of government officials' human resources capabilities, incorrect placement of human resources, and a lack of understanding of the state financial administration staff" [8]. Non-financial characteristics in this study are the level of leadership education, audit opinion, and complexity of local governments.

2.3. Leadership Education Level

The executive and legislative branches carry out the administration of regional government. The chief executive in the district is the district head. Regent is the Head of Region for the regency area. Meanwhile, the mayor is the regional head of the city area. Regents and mayors have a role as holders of regional financial management power. As the Regional Government head, the Regional Head is the holder of the regional financial management power. It represents the Regional Government in the ownership of separated regional assets.

2.4. Audit Opinion

The Local Government audits the Financial Statements to obtain an audit opinion from the BPK. Then, the Regional Government will issue a Financial Report as a form of Regional Government accountability to the public. Regional Government Financial Reports audited by BPK can reduce information asymmetry between the government and the public. The Regional Government hopes to get an Unqualified opinion from the BPK. An Unqualified Opinion is a form of prestige for the Regional Government in carrying out its duties and authorities. Unqualified Opinion assures all Regional Government Financial Report users that the LKPD made is free from material and can raise a good image of the Regional Government's performance. The Regional Government also hopes to get rewards from the Central Government, such as the additional budget for the following year's budget, funding priorities, and priority for adding to the expenditure budget if financial conditions allow [9].

2.5. Complexity

Local governments have several priorities in carrying out regional development tasks [10]. The more functions that become the Regional Government's priority, the more complex the affairs of the regional government will be. Regional Work Units (SKPD) are regional executives in the Regional Government as Budget Users and Goods Users. SKPD includes offices, agencies, secretariat, offices, sub-districts, and sub-districts (villages). The primary role of the SKPD is to prepare an RKA (Work Plan and Budget) for the SKPD concerned in preparing the APBD.

2.6. Hypothesis Development

The adoption of accrual-based Government Accounting Standards, in essence, affects better financial practices and public sector management. As users of the accrual-based Government Accounting Standards, local governments will follow the regulations set by the central government. This accrual-based Government Accounting Standard produces public sector information that has been adjusted to GAAP so that public sector financial practices are more orderly and more accurate [8, 11-16].

Regional heads who have a level of economic education will make more efforts to maximize their performance, namely by increasing performance effectiveness. Economic education continuously learns how to manage minimal inputs to get maximum

output. Local governments must work effectively by generating maximum surpluses so that regional equity also increases for the people's welfare [1]. There is a significant relationship between the level of education in the form of personality and skills on one's performance.

H1: The level of leadership education has a positive effect on the effectiveness of local government performance.

The audit opinion is one form of examining the fairness level of information presented in the Regional Government Financial Statements to convince users of Regional Government Financial Statements. Besides, an audit opinion is a form of local government accountability reported in LKPD [18-19]. Government Regulation No. 15 of 2004 states that the fairness of information from LKPD is shown by four criteria: compliance, adequacy of disclosure, compliance with regulations, and effectiveness of the internal control system. Therefore, the better the regional government's audit opinion, the better the performance of the Regional Government [11].

H2: Audit Opinion has a positive effect on the effectiveness of Local Government performance

Regional Work Units (SKPD) are regional executives in the Regional Government as Budget Users and Goods Users. SKPD includes offices, agencies, secretariat, offices, sub-districts, and sub-districts (villages) [10]. The more SKPD, the more human resources that manage regional assets. The increasing number of human resources will provide a lot of information about managing regional wealth. High knowledge about the management of regional assets is expected to improve local governments' performance by optimizing the management of regional assets to obtain a maximum surplus. Local governments with a high level of complexity will have a more significant number and types of transactions. Local governments need the right media as a means of accountability for SKPDs so that transactions can be recorded more flexibly but still systematically and with direction. Accrual-based Local Government Financial Statements are the media used by Local Governments to account for their performance.

H3: The complexity of local government has a positive effect on the effectiveness of local government performance.

3. Research Method

This study uses data from the Audit Result Report (LHP) of Provincial / Regency / City Regional Government Financial Statements (LKPD) in Central Java for the 2016-2019 Fiscal Year, which has been compiled based on the Government Accounting Standards

Statement (PSAP). Data on LHP LKPD for Provinces / Regencies / Cities in Central Java were obtained from BPK Representatives of Central Java Province. The dependent variable used in this study is the effectiveness of the Central Java Regional Government's performance. The independent variables used in this research are the educational background of the leadership, audit opinion, and local government complexity. The educational background of leaders is measured using dichotomous variables with values 0 and 1. Audit Opinion is measured using 4 values. 4 (Unqualified Opinion); 3 (Qualified Opinion); 2 (Adverse Opinion); 1 (Disclaimer Opinion). Local government complexity is measured using the number of SKPDs in a local government.

4. Data Analysis and Hypothesis Testing

The method of analysis in this study consists of descriptive statistics and multiple linear regression analysis.

4.1. Descriptive statistics

Descriptive statistics are statistics that describe the phenomena or characteristics of the data. The characteristics of the data described are the characteristics of their distribution. Descriptive statistics provide frequency values, such as maximum and minimum values. The central tendency meter measures the data distribution's central values, such as the mean (mean). The average or mean is the total value divided by the number of occurrences (frequency). Dispersion measures the variability (spread) of data against its central value. A dispersion meter or measure of variability, such as the standard deviation.

This study measures the maximum, minimum, average, and standard deviation values. This measurement is used by following per under the needs of research data. However, the leadership background variable is a variable that uses a nominal scale, so that it is not included in the descriptive statistical calculation.

4.2. Multiple Linear Regression Analysis

The processed data does not contain problems of normality, multicollinearity, autocorrelation, and heteroscedasticity. After the classical assumption test in the study did not experience problems, then the multiple linear regression test was carried out. This study uses independent variables and dependent variables. This study's independent

variables are the level of leadership education, audit opinion, and complexity of local government. Meanwhile, the dependent variable is the effectiveness of local government performance.

4.3. Result and Discussion

This study used a classic assumption test consisting of normality test, heteroscedasticity test, multicollinearity test. The following is a table of the results of the classical assumption test and hypothesis testing.

TABLE 1: Kolmogorov Smirnov Test.

Information	Value
N	48
Kolmogorov-Smirnov Z	0.549
Significance (2-tailed)	0,924

The Kolmogorov Smirnov normality test results show that all data are typically distributed for each variable. The significance value of the Kolmogorov-Smirnov normality test is 0.924.

TABLE 2: Heteroskedasticity spearman rho test.

Variable	Value
The level of leadership education	0.806
Audit Opinion	0.090
The complexity of local government	0.434

The Heteroscedasticity test results using the Spearman Rank showed that all variables did not show heteroscedasticity symptoms with a significance value for each variable > 0.05.

TABLE 3: Multicollinearity test.

Variables	Tolerance Value	VIF Value
The level of leadership education	0,986	1,014
Audit Opinion	0,943	1,061
The complexity of local government	0.938	1,066

There is no multicollinearity in any of the variables in this study. The VIF value indicates the number <10.

TABLE 4: Hypothesis Test.

Hypothesis	Beta	Significance Value	Information
H1	0,137	0.817	Rejected
H2	0,013	0.260	Rejected
H3	0,347	0.019	Accepted

Table 4 is a table of hypothesis test results. The hypothesis testing results indicate that the leadership’s educational background does not have a positive and significant effect on local government performance effectiveness. The results of this study support the research of Sunandar & Ida, which states that there is no significant effect on the educational background of the leader. The Government, as an executive institution and the House of Representatives (DPR) as representatives of the people, can have the authority to oversee ongoing government programs [6]. The Regional Government as the Government’s implementer, Regulation has implemented No. 71 of 2010 well. Regional Government Financial Reports (LKPD) of districts and cities in Central Java for 2016-2019 have implemented accrual-based SAP, supporting the creation of efficiency and effectiveness of budgeting and financial reporting [10].

Patrick and Patrick [11] states that the behavior of top management will influence organizational members. In this study, the top management proxy is the regent or mayor as the leader of the Regional Government. The regent or mayor must be ready to implement accrual-based SAP because the regent or mayor is the Head of the Region. The latter has the role of the holder of regional financial management power. If the leadership policy can be appropriately implemented, it will result in good financial performance. Therefore, the level of leadership education does not positively affect the effectiveness of local government performance because there are already guidelines and standards that must be applied by the local government, namely accrual-based SAP.

The second hypothesis test states that the audit opinion does not affect the effectiveness of local government performance. The LKPD audit’s objective is to assess the fairness of Regional Government Financial Statements based on compliance with Government Accounting Standards (SAP), adequacy of disclosure, compliance with regulations, and effectiveness of the internal control system. The BPK examines the LKPD to detect the presence or absence of fraud in the recording and suitability of Regional Government Financial Reports’ preparation against the applicable Regional Government Accounting Standards. Therefore, the better the audit opinion received by

the district/city does not guarantee the performance of the regional government can be said to be economical, effective, and efficient [13].

The application of accrual-based accounting is expected to improve government financial reporting information quality and produce a more accountable and transparent quality of information. Besides, recording will be more accurate when using an accrual basis. If the information generated is accurate, the level of efficiency and effectiveness will also increase. Accurate information is expected to make decisions that are taken even more appropriately. The longer a local government uses an accrual basis, the more mirror errors in applying accrual-based SAP will be.

The third hypothesis test results state that the complexity of the local government has a positive effect on the effectiveness of local government performance. According to Patrick [11], complexity is the work specialization level or a person's expertise in a job. Job specialization is usually measured using the formal knowledge of organizational members [11]. The increasing number of Regional Government Work Units (SKPD) in public sector organizations indicates that the more functions that the Regional Government must carry out and the greater the specialization of work or expertise of Regional Government staff in each field.

The Regional Head delegates the authority to manage regional finances to the SKPD head. The head of the SKPD acts as a budget user. The more SKPD, the more human resources that manage regional assets. The greater the level of specialization in each field, complete information on regional asset management. High knowledge about the management of regional assets can improve local governments' performance by optimizing the management of regional assets to obtain a maximum surplus.

5. Conclusion

This study indicates that the complexity of local government as one of the non-financial characteristics of local government has a positive effect on the effectiveness of local government performance. Meanwhile, the non-financial characteristics of the level of leadership education and audit opinion do not positively affect the effectiveness of local government performance.

This study's limitation is that the data used in this study are minimal, limited to Central Java's province from 2016 to 2019. Therefore, the results of this study cannot be generalized. The sample used should use more samples so that the research results are more accurate, for example, by using data from local governments throughout Indonesia to be generalized. Besides, the measurement of local government financial performance

only uses the local government's performance effectiveness ratio. Measurement of local government performance can not only be measured by the financial ratios in the financial statements. However, the accuracy in implementing accrual-based SAP is one indicator for measuring local governments' performance.

References

- [1] Pramudiati N. Kinerja pemda sebelum dan setelah penerapan SAP berbasis akrual. *Efektif Jurnal Ekonomi dan Bisnis*. 2019;10(1):11-16.
- [2] P.J. DiMaggio and W.W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields.," *American Sociological Review*. vol. 48, no. 2, pp. 147–160, 1983.
- [3] Beechy TH. Does full accrual accounting enhance accountability. *The Innovation Journal: The Public Sector Innovation Journal*. 2007;12(3):1-8.
- [4] Lesmana FJ, Gunardi A. Perbedaan kinerja keuangan dan abnormal return sebelum dan sesudah akuisisi di BEI. *Trikonomika Journal*. 2014;11(2):195-211.
- [5] Tarigan EP, Nurtanzila L. Standar akuntansi pemerintahan dalam mewujudkan akuntabilitas dan transparansi pengelolaan keuangan daerah. *JKAP (Jurnal Kebijakan Dan Administrasi Publik)*. 2013;17(1):29-45.
- [6] Usman U, Sunandar S, Farida I. Analisis faktor-faktor yang mempengaruhi implementasi akuntansi akrual pada entitas pemerintah daerah. *Journal of Accounting and Investment*. 2014;15(2):101-113.
- [7] T. Mercadal, "Organisation for Economic Co-Operation and Development.," In: *The SAGE Encyclopedia of Pharmacology and Society*. pp. 1018–1020. *SAGE Publications, Inc.*, 2455 Teller Road, Thousand Oaks, California 91320 (2016).
- [8] S. Sutaryo, I.A. Naviantia, and M. Muhtar, "Audit Opinion on Government Financial Report: Evidence from Local Governments in Indonesia.," *International Journal of Economics and Management Journal homepage*. vol. 14, no. 1, pp. 129–144, 2020.
- [9] Badriyah SN. Implementasi pp no. 71/2010 tentang sap berbasis akrual: Tujuan, manfaat, hambatan dan strategi. *Ebbank*. 2015;2(2):225-230.
- [10] Falkman P, Tagesson T. Accrual accounting does not necessarily mean accrual accounting: Factors that counteract compliance with accounting standards in Swedish municipal accounting. *Scandinavian Journal of Management*. 2008;24(3):271-283. <https://doi.org/10.1016/j.scaman.2008.02.004>
- [11] D. Susanti, H.A. Amir, and W. Tiswiyanti, "PENGARUH KARAKTERISTIK PEMERINTAH DAERAH, OPINI AUDIT DAN TEMUAN AUDIT TERHADAP KINERJA PEMERINTAH

DAERAH (Studi Pada Pemerintah Kabupaten/Kota di Sumatera Tahun 2010-2013).,”
Jurnal Akuntansi & Keuangan Unja. vol. 2, no. 4, pp. 11–20, 2017

[12] M. Andani, S. Sarwani, and N.W. Respati, “PENGARUH KARAKTERISTIK PEMERINTAH DAERAH DAN OPINI AUDIT TERHADAP KINERJA PEMERINTAH PROVINSI DI INDONESIA.,” *Jurnal Akuntansi*. vol. 9, no. 2, pp. 111–130, 2019

[13] N. Pramudiati and B. Siregar, “Local Government Characteristics, Adoption of Accrual Accounting, and Government Performance.,” *The Journal of Social Sciences Research*. vol. 2018, no. SPI 2, pp. 153–160, 2018.