Accrual Management in the Local Government Of Aceh: An Empirical Evidence

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Abstract
Objective –The objective of this study was to examine the factors that influence accruals manipulation in local government. There are 4 (four) factors or variables tested, namely the size of the local government, fiscal capacity, fiscal distress, and the size of the legislature.

Design/Methodology –This research uses multiple linear regression analysis with the dependent variable accrual manipulation and four independent variables. The data used is secondary data obtained from financial reports.

Results –The results of the analysis conclude that the variable size of local government and size of the legislature have an effect on accrual manipulation in district and city local governments in Aceh, while the other two variables, namely fiscal capacity and fiscal distress, have no effect.

Research limitations/implications – This research only examines at the impact of local government size, fiscal capacity, fiscal distress, and legislator size on accrual manipulation in creating local government financial reports in Indonesia and it considers the implications for government financial reports.

Novelty/Originality –The novelty in this research is to include the variable fiscal distress as one of the independent variables. Fiscal distress is a problem in fulfilling local government finances (budget), which is reflected in the budget deficit for several years in a row.

Keywords: Accrual manipulation, local government size, fiscal capacity, fiscal distress, legislature size.

1. Introduction
The consequence of implementing the accrual basis for local governments in Indonesia is that there is a possibility of bias in the financial information presented in local government financial reports (LKPD). LKPD is a consolidated financial report from the financial reports of all Regional Government Work Units (SPKD) and the financial reports of Regional Financial Management Officers (PPKD) who also act as consolidators. Bias can occur due to accrual policies chosen by management or preparers of financial statements to achieve certain goals, which usually have opportunistic tendencies (Pina et al., 2012; 2009).

Financial reporting of local government have to use the accrual basis since 2015 with the goal to account for execution of the budget that requires cash-based information. This provides an opportunity for accrual manipulation by using discretionary accruals in local government (Pessina et al., 2019). Differences in the basis of financial reporting - including format, framing, and rhetoric - in the presentation of financial reports can affect decision making (Baekgaard et al., 2019; Bergmann, 2012).

Studies on accrual manipulation have been carried out in the business sector (Bisogno & Donatella, 2022; Ferreira et al., 2020), however, in the public sector, it has
only developed in the last two decades, when many governments in developed countries began to apply the accrual basis in their financial reporting (Brusca et al., & Rossi, 2015; Pina et al., 2009). The accrual manipulation in local government results in excessively high surpluses or deficits, which can be interpreted differently by the central government, supervisory authorities, the public, and opposing politicians (Bisogno & Donatella, 2022; Cohen et al., 2019; Donatella & Karlsson, 2023). The existence of bias in budgeting which continues with bias in financial reporting causes major information distortions towards the presentation of transparent and accountable information, especially through discretionary accruals, which can lead to fraudulent financial reporting (Kesuma et al., 2017; Rohman et al., 2018; Spathis, 2002).

So far, there have not been many studies on accrual manipulation by local governments in Indonesia. This is because the implementation of accrual-based accounting for financial reporting in local governments has just started in 2015. Since it is still new, the learning process to implement it properly by local governments and examining financial statements by external auditors is still being developed. Various adjustments related to regulations are still being made due to financial reporting to local governments is an integral part of budgeting and financial administration (Abdullah & Junita, 2020; Fahlevi et al., 2022). Therefore, it is important to conduct a study to understand the behaviour of regional government financial managers, namely regional heads, who have power in managing regional finances. Regional heads are politicians who have an interest in being shown to have good performance in financial management if they have the intention to be candidate (as incumbent) in the next general election (Donatella & Karlsson, 2023).

This research is intended to provide empirical evidence about the phenomenon of accrual management in local government by using data sourced from the financial reports of district and city governments in Aceh (23 regional governments) for the 2016-2020 period. The regression model is used to predict the phenomenon of accrual management with 4 (four) determinants, namely the size of the local government, fiscal capacity, fiscal distress, and the size of the legislature. The remaining of this paper is structured as follow. Next section is literature review and hypotheses development. It is followed with research method and discussion of findings. Last section summarizes.

2. Literature Review, Theoretical Framework, and Hypothesis Development

2.1 Theoretical Review

Accrual manipulation can occur when local governments apply an accrual basis of accounting in their financial reporting Cohen et al. (2019); Rohman et al. (2018) so that it can mislead decision makers, such as the central government, members of parliament and other stakeholders. Based on agency theory, accrual manipulation has a motivation to fulfill the interests of the agent, in this case the preparer of financial statements (Pina et al., 2012).

Public choice theory asserts that politicians and government bureaucrats basically pursue their own utility, not the public interest, for example safer careers, better jobs, higher salaries and stronger power (Niskanen, 1971; Buchanan, 1972, 1978). Such utility-maximizing behavior leads to inflated budgets and excess output for the public, waste, higher costs and ultimately inefficiency in the use of public funds (Hood, 1995; Ogden & Anderson, 1999).

Monitoring in the public sector is constrained by distortions in the flow of information because, unlike the 'simple' head-agent relationship that exists in the private sector, the public sector has more layers of institutions between principal (public) and agent (manager). Bureaucrats have superior information over the public as a result of information asymmetry, which can lead to adverse choices and moral hazard in hidden actions of bureaucrats.
Bendor et al. (1985) stated that in conditions of asymmetric and uncertain information, accrual accounting will be used to monitor and link the actions of agents (management) with the interests of principals (public/central government), considering that financial reports are the main tool for disclosing financial information to external users. Therefore, users such as owners, investors, lenders and other decision makers, who do not have access to internal records and/or special purpose reports (Pina et al., 2009).

Most of the empirical studies on earnings management or accrual manipulation are carried out in the private sector and only a few in the public sector, especially government (Ferreira et al., 2020; Pina et al., 2012). Profits (earnings) in the company will be regulated in such a way as to match the desired "target". Most of these studies focus on income smoothing, in which companies avoid extreme profit or loss, by using managerial discretion in their financial reporting. The desired level of profit is achieved by using a choice of accounting methods and policies (accounting choices) permitted by standards and/or through operational decisions (Pina et al., 2009).

2.2 Hypothesis

The Effect of Local Government size on Accrual Manipulation

The operational and services complexity provided by the local government are related to regional financial management systems and procedures, as well as regional financial policies and conditions. Big budgets require greater effort to realize. On the other hand, there is a tendency among OPD (Regional Apparatus Organizations) or SKPD (Regional Work Units) to ask for budget allocations that are larger than the ability to spend them. As a result, at the end of the year there is a surplus of the budget, which accumulates into the remaining excess budget financing (SILPA) (Abdullah, 2012; Abdullah & Nazry, 2015).

The research hypothesis to be tested can be stated as follows:

H1: The size of the regional government has a positive effect on accrual manipulation.

The Effect of Fiscal Capacity on Accrual Manipulation

Local fiscal capacity can be defined as the potential ability of local governments to increase revenue from their own sources in order to pay for the standard service needs of public goods and services (Martinez-Vazquez & Boex, 1997). Fiscal capacity is a measure of the ability of an area to pay for the required public services. Fiscal capacity depends on the revenue capacity and expenditure needs of a region. Baskaran & Bigsten (2013) state that the concept of fiscal capacity refers to the extractive capacity of the state, that is, how much and what type of state resources can theoretically be extracted and to what extent this extraction takes place "efficiently".

Fiscal capacity is the ability of regions to increase their revenues through tax policies to finance public spending. It would be better for the regions to focus on generating regional own-source revenues and profit-sharing funds because these financial resources were initially generated by the regions themselves. In addition, the regions will be able to increase their economic success by exploring their potential to increase their fiscal capacity (Khusaini, 2019). hypothesis research to be tested can stated like following:

H2: Fiscal Capacity has a negative effect on Accrual Manipulation.

The Effect of Fiscal Capacity on Accrual Manipulation

Fiscal distress is defined as a negative or accumulated difference between income and expenditure (Carmeli, 2007), when financial decisions and available resources are inconsistent (Chapman, 2008), or the inability of the local government to minimize or eliminate deficits or generate budget surpluses (Zeedan et al., 2014). This definition is confirmed by other researchers, namely Trussel (2003) who state that fiscal distress is a significant decrease in resources (income or net assets), when transfer
expenditure is more than total income, administrative expenditure is less than total expenditure, more debt, and experienced little income growth, a significant and continuous imbalance between income and expenditure (Trussel & Patrick, 2009), as well as a tendency to experience a deficit for three consecutive years or three cumulative years of more than 5% (Trussel & Patrick, 2012).

The research hypothesis to be tested can be stated as follows:
H3: Fiscal Distress has a positive effect on Accrual Manipulation.

The Effect of Legislature Size on Accrual Manipulation
Schraufnagel & Bingle (2015) stated that legislature have a role in setting government policies that have social benefits, namely education, health and law. According to Lidbom (2011) the larger the size of the legislature, the smaller the size of the government. This is contrary to conventional wisdom. One potential explanation is that the size of the legislature can control the bureaucracy in maximizing the budget. According to Ricciuti (2004) the theory of legislature size has an unlimited effect on government spending due to remuneration and has a cancelling effect on transaction costs.

The existence of asymmetry information between the executive and the legislature regarding plans for the implementation of programs and activities, especially in terms of budget allocation and the expected performance of these programs and activities, has given rise to different preferences between the legislature and the executive over the allocation of increased balance funds. When an increase in balancing funds is seen as an opportunity to increase new budget allocations, politicians can take advantage of this to recommend certain expenditure allocations that are profitable for them (Abdullah, 2012).

As a user of the information presented in the LKPD, the legislature should have the capability to understand the substance of financial reporting. According to Askim (2007) The existence of asymmetry information between the executive and the legislature raises. The fourth hypothesis can be stated as follows:

H4: Legislature size has a positive effect on Accrual Manipulation.

3. Research Method
3.1 Population and Sample
The population in this study were all regencies and cities in Indonesia, totalling 514 (416 districts and 98 cities) with a sample of regencies and cities in Aceh Province, totalling 23 districts/cities. The selection of districts and cities in Aceh is meant for uniformity because all of them receive budget allocations from the Special Autonomy Fund (Otsus). Papua and DKI Jakarta also receive Special Autonomy funds, but in this study the focus is in Aceh Local Government. The purpose of selecting such a sample is to provide evidence that accrual manipulation occurs in local governments with special autonomy status.

3.2 Operational Variables
On the balance sheet or items on the statement of cash flows. The above equation uses balance data. This has weaknesses as stated by previous researchers, namely Hribar and Collins (2002). Hribar and Collins (2002) found that the frequency and magnitude of errors caused by the use of accrual-based balance sheet data to calculate accrual values, thus suggesting the use of accruals taken or using data in other financial statements, namely cash flow statements (Hribar & Collins, 2002). Therefore, we measure the total accrual (ACCRjt) of the statement of the determinants of accrual manipulation that are considered important for more in-depth analysis are:

Local Government Size (LGS). The larger size of local government reflects an increasingly heavy service burden, requiring a larger budget and a wider variety of types
of services. In several studies it was found that the size of the budget is an important factor in evaluating the financial performance of local governments because it indicates the workload that must be completed and has a tendency to leave large budgets (variances).

_Fiscal Capacity (FC)._ Fiscal capacity describes the financial ability of local governments to fulfil their operational obligations, which is reflected in the amount of revenue that can be used based on regional policies or discretion.

_Fiscal Distress (FD)._ Fiscal distress reflects problems in fulfilling regional government budget needs, which is reflected in the budget deficit for several years in a row.

_Legislature Size (LS)._ Legislature size describes the total population and service burden carried by a local government. The number of DPRD members indicates the amount of political costs incurred by the region due to the existence of aspirational funds or main ideas for DPRD members, which tend not to be based on problems or needs that exist in society. This means that the agency problem is relatively greater when the number of DPRD members is also large. This variable is measured using the number of DPRD members.

_Accrual Manipulation (AM)_ is the result of choosing accounting policies as a form of discretion for management to determine the amount of accrual transactions flexibly. Thus, discretionary accruals provide an opportunity for management to correct a surplus or deficit in accordance with the "desires" of the manager/regulator of financial management in the local government. Accrual manipulation is measured using discretionary accrual numbers.

This study measures discretionary accruals with several equations that have been found by previous researchers. So that we can measure the management of accounting numbers, it is necessary to distinguish the constituent variables. First, accruals from the normal activities of an entity (called expected accruals). Accruals resulting from the management activities of the Regional Government are not distorted by the practice of accounting number management (Rohman, et al., 2018).

Second, accruals from accounting numbers management practices (called abnormal accruals). Abnormal accrual (ABNACCR) is an accrual value in which there is a local government's discretionary accrual practice. Because abnormal accruals are unobserved variables, We calculate them using the abnormal accrual formula which is the difference between total accruals (ACCR) and expected accruals (EXPACCR), which is denoted as follows (Rohman et al, 2018):

The formula is (Equation 1):

\[
ABNACCR_{jt} = ACCR_{jt} - EXPACCR_{jt} \text{ or } EXPACCR_{jt} = ACCR_{jt} - ABNACCR_{jt} \tag{Equation 1}
\]

where:

ABNACCR = Abnormal accruals

ACCR = Total accruals (ACCR)

(EXPACCR) = Expected accruals

j = show entity j-th observation

t = t-th year.

Total accruals can be measured using items cash flows as follows (Equation 2):

\[
ACCR_{jt} = -DY_{jt} + COFO_{jt} \text{ or } ACCR_{jt} = COFO_{jt} - DY_{jt}, \text{ .......}(Equation 2)\]

where:

DY_{jt} = Surplus (Deficit) for local government j in year t

COFO_{jt} = net cash outflow from local government operating activities j in year t

### 3.3 Data Analysis

This study uses a multiple linear regression model with independent variable of Accrual Manipulation (AM) and 4 (four) dependent variables, which are Local
Government Size (LGS), Fiscal Capacity (FC), Fiscal Distress (FD), and Legislature Size (LS). Therefore, the multiple regression equation built is (Equation 3):

\[ AM_{it} = a_{it} + b_1 FC_{it} + b_2 LGS_{it} + b_3 FD_{it} + b_4 LS_{it} + e \]  

(Equation 3)

where:
- \( AM_{it} \) = Accrual manipulation to local government \( i \) year \( t \)
- \( a_{it} \) = constant;
- \( b_1-3 \) = Coefficient regression
- \( FC_{it} \) = Fiscal Capacity in the local government \( i \) year \( t \)
- \( LGS_{it} \) = Local Government Size in local government \( i \) year \( t \)
- \( FD_{it} \) = Fiscal Distress on the local government \( i \) year \( t \)
- \( LS_{it} \) = Legislature Size in the local government \( i \) year \( t \).

4. Results and Discussion

Descriptive statistics for all research variables and for each group of samples are shown in Table 1.

Based on Table 1 it can be seen that the average value for the Accrual Manipulation variable (Y) is 76.74 with the lowest and highest values respectively 24.41 and 100. The Government Size variable (X1) has an average of 32.34 with the lowest and highest values of -48.20 and 160.63. The variable Fiscal Capacity (X2) has the lowest and highest values of -88.20 and 938.03, with a mean of 99.47. The variable Fiscal Distress (X3) has a mean value of 32.44 with the lowest and highest values being -48.35 and 174.72, respectively. The average for the Legislature Size variable (X4) is 28.26 with a minimum value of 20 and a maximum of 45.

Based on Table 2 it can be seen that:

The research model uses four independent variables, namely Government Size, Fiscal Capacity, Fiscal Distress, and Legislature Size, which can be used to predict Accrual Manipulation variables. This is indicated by an F value of 23.291 with a significance value of 0.000 which is less than 0.05 (5%).

Overall, this model is able to predict changes in the Accrual Manipulation variable by 47.40 percent. The remaining 52.60 percent is influenced by variables that are not included in this research model.
Partially, only Government Size and Legislature Size variables have a statistically significant effect on Accrual Manipulation in a positive direction. That is, each of the Government Size and Legislature Size variables has a positive effect on the Accrual Manipulation variable.

4.1 Hypothesis Testing Result 1: The Effect of Local Government Size on Accrual Manipulation

The results of the analysis show that the first alternative hypothesis (H1) is accepted which states that local government size has a positive effect on accruals manipulation. This means that the local government size (LGS) variable has a partial effect on accrual manipulation. A negative value on the regression coefficient of the local government size variable indicates a negative relationship with the accrual manipulation variable. This negative relationship means that local government size is inversely related to accrual manipulation that occurs in local government financial reporting. This condition means that the higher the government size, the lower the manipulation of accruals.

The results of this study differ from previous studies where there was no effect between government size and manipulation (Sari, 2016; Sari & Mustanda, 2019). Likewise, Handayani et al. (2022) research results found no influence between government size and accruals manipulation.

Thus it can be concluded that government size has a negative relationship with accrual manipulation in local government financial reporting in Aceh Province during the period 2016 to 2020.

4.2 Hypothesis Testing Result 2: The Effect of Fiscal Capacity on Accrual Manipulation

The second research hypothesis (H2) states that fiscal Capacity has a negative effect on accruals manipulation. Based on the results of data analysis it is known that the coefficient value of the Fiscal Capacity variable (β2) is -0.005 with a significance value is 0.893, or above 0.05%. This means that the fiscal capacity factor has no partial effect on accruals manipulation. A negative value on the regression coefficient of the fiscal capacity variable indicates a negative relationship with the accruals manipulation variable. This negative relationship means that fiscal capacity is inversely related to accrual manipulation that occurs in government financial reporting.

The results of this study are the same as those found by Handayani et al. (2022) that there is no significant relationship between fiscal capacity and accrual manipulation. In addition, Surya (2016) also states that fiscal capacity has no relationship to the occurrence of accrual manipulation. This condition means that the higher the fiscal capacity, the lower the manipulation of accruals. Thus it can be concluded that fiscal capacity is negatively related to accrual manipulation in local government financial reporting in Aceh Province during the period 2016 to 2020, but this relation statistically is not significant.

4.3 Hypothesis Testing Result 3: The Effect of Fiscal Distress on Accrual Manipulation

The third research hypothesis (H3) states that fiscal distress has a positive effect on accruals manipulation is rejected. Based on the results of data processing it is known that the value of β3 is -1.118. This means that the fiscal distress variable has a partial effect on accruals manipulation. Statistically, this negative effect is not significant, because the value of Sign. 0.858 is above of 0.05. Riadiani & Wahyudin (2015) stated that the results of their research found a negative relationship between fiscal distress and accruals. In addition, the results of Handayani et al. (2022) are similar to this study where there is no relationship between fiscal distress and accrual manipulation.

A negative value on the regression coefficient of the fiscal distress variable indicates a negative relationship with the accruals manipulation variable. This negative
relationship means that fiscal distress is inversely related to accrual manipulation that occurs in local government financial reporting. This condition means that the higher the fiscal distress, the lower the manipulation of accruals. Thus, it can be concluded that fiscal distress is negatively related to accruals manipulation in local government financial reporting in Aceh Province during the period 2016 to 2020.

4.4 Hypothesis Testing Result 4: The Effect of Legislature Size on Accrual Manipulation

The fourth hypothesis (H4) states that legislature size has a positive effect on accrual manipulation. The results of data processing show that the coefficient value for the variable legislature size/LS (β4) is 0.012 and is statistically significant because the significance value of the regression results (Sig.) is smaller than 0.5 or 5%, which is 0.000. This means that the variable of legislature size (LS) has a significant effect on accrual manipulation (AM).

A positive value on the regression coefficient of the legislature size variable indicates a positive relationship with the accrual manipulation variable. This positive relationship means that the legislature size variable has the same moving direction as the accrual manipulation variable. The results of this study are in line with what was found by Kusumawardani (2012) that there is an influence between legislature size and accruals. In addition, Handayani et al. (2022) found a significant effect between legislative size and accrual manipulation.

This condition means that the larger the legislature size, the higher the accrual manipulation. Thus, it can be concluded that legislature size has a positive relationship with accrual manipulation in local government financial reporting in Aceh Province during the period 2016 to 2020.

This research is part of a major effort to improve the quality of financial reporting in local government in Indonesia. Submission of accurate information in local government financial reports will improve the quality of decision making by local governments (executive) and DPRD (legislative). So far, there has been no concern about the quality of the information presented in local government financial reports, because they are considered not to be directly related to public services or cash flow from local government accounts. Therefore, concrete efforts are needed in a not too long span of time to fix this condition.

5. Conclusion, Implication and Limitations

The purpose of this study was to examine the factors that influence accrual manipulation in local government. There are 4 (four) factors or variables tested, namely local government size, fiscal capacity, fiscal distress, and legislature size. The results of the analysis conclude that the variable size of local government and size of the legislature have an effect on accrual manipulation in district and city local governments in Aceh, while the other two variables, namely fiscal capacity and fiscal distress, have no effect.

Based on the analysis of the results of data processing, the following can be recommended: It is necessary to conduct more comprehensive research using more variables, longer time (years), and larger observations. This requires more time, effort and money. The phenomenon of accrual manipulation exists in local government financial reporting as an integral part of the accrual basis applied in financial reporting since 2015. The accrual basis provides more complete, even comprehensive, information, but has weaknesses due to accrual manipulation which can cause bias in information presented in the LKPD. Therefore, the Government Accounting Standards Committee (KSAP) needs to further examine the consequences of this bias in financial reporting, especially the losses received by DPRD members as the main users of LKPD.

More encouragement is needed, especially funding from the Ministry of Education and Culture, to explore this issue of information bias through lecturer
research and discussions/seminars/symposiums. This will assist in disseminating research results, so that the message is conveyed to stakeholders, especially the local government (executive) and DPRD (legislative).

References


