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The adoption of accrual accounting in the Indonesian public sector

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ABSTRACT

Purpose – *The purpose of this article is to examine the contextual variables that influence the pace of public sector reforms through the adoption of accrual accounting for the Indonesian public sector.*

Design/methodology/approach – *The study employs a historically informed study based on a modified version of the Luder's (1992) Contingency Model (LCM). The data are drawn from official documents issued by the Indonesian government about reporting system for the public sector in the country and interviews with the key figures involved in the public sector accounting reforms in Indonesia. The study also uses publicly available information addressing the recent progress in the implementation of the accrual accounting system in the Indonesian public sector.*

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Key findings – *The adoption of accrual accounting in the Indonesian public sector was stimulated by the economic crisis, prodemocratic movements, and international pressures for the reform of the public sector. However, the public sector accounting reforms in the country are confronted with significant implementation barriers which include legal issues, the lack of political supports, and skilled human resources. These barriers in turn threaten the intended purposes to be achieved through the greater economic and public sector reforms in the newly democratic Indonesia.*

Research limitations/implications – *The arguments of the study should be understood in the context of the institutional setting of Indonesia as a developing country. Nonetheless, the findings of this study show an example of the complexity faced through the use of the private sector accounting practice in the public sector context.*

Originality/value – *The findings of the study support the notion that the nature of legal system, political support, and human resource capacity influence the extent to which an accounting system is adopted in the public sector.*

Keywords: Accrual accounting; local government; decentralization; implementation barriers.

1. INTRODUCTION

In many jurisdictions, public sector reforms have been accompanied by accounting reforms (Guthrie, 1998; Ryan, 1998; Carlin, 2005; Connolly & Hyndman, 2006; Christensen & Parker, 2010). The change from cash-based accounting or budgetary accounting to accrual accounting is often a significant element in reforms of the public sector, a process which Power and Laughlin (1992) suggest is a shift toward the accountingization of the public sector. The introduction of accrual accounting, perceived to be a superior accounting technology, is intended to facilitate greater transparency in public sector agency activities, strengthen the accountability of government, and improve the quality of decision making within government.

However, while public sector reforms delivered through the introduction of accrual accounting aim at improving the performance of the public sector operation, there is no guarantee that a government will be any more accountable for its achievements and that provision of goods and services will be any better. Hopwood (1983) notes that it is difficult to distinguish between the advance of accounting for ritualistic, legitimizing, and rationalizing reasons and its advance from the belief that it can change and improve organizational performance. In addition, recent literature in the public sector accounting also critically questions the benefits of the use of the private style accounting systems for the public sector (e.g., Carlin, 2005; Connolly & Hyndman, 2006; Christensen, 2007; Christiaens & Rommel, 2008; Nor-Aziah & Scapens, 2007).

Therefore, to provide evidence of the links between broader changes in the public sector and changes in accounting techniques, it is important to examine the political and economic context in which changes to financial reporting have taken place and to assess the impact of these changes on public sector management practices. The rest of this article is structured as follows: (1) the purpose and context of the study; (2) research questions, theoretical model, and methods used in the study; (3) the background of Indonesian public sector reform taken after the fall of President Suharto in 1998; (4) the introduction of accrual accounting in the Indonesian public sector; (5) an interpretational history of the introduction of accrual accounting in the Indonesian public sector drawn from Luder's (1992) Contingency Model (LCM); (6) conclusion, implication of the findings, and limitations of the study.

2. PURPOSE AND CONTEXT OF STUDY

The purpose of the study is to examine the pace of current public sector reform in Indonesia, which is adopting accrual accounting as part of the waves of political and economic reforms flowing from the fall of the Suharto regime in 1998. As most published accounting research on public sector accounting reforms has focussed on developed countries (see Neu, 2001; Sharma & Lawrence, 2008), this study is set to address the experience of an emerging economy in undertaking a public sector accounting reform as most research tends to be written from the perspective of, and in reverence for, first-world institutions and a wealthy subset of first-world population (Lawrence & Wynne, 2010, p. 1). Therefore, this study not only documents and provides an understanding of accounting regulation within Indonesia, but also investigates the contextual variables affecting the pace and extent of Indonesian public sector reform realized through the adoption of accrual accounting.

3. RESEARCH QUESTIONS, THEORETICAL MODEL, AND METHODS

In relation to the purpose of the study, three research questions are raised as the basis in collecting and analyzing the data of the study: (1) What were the stimuli of the public sector reforms in Indonesia? (2) Who were the main promoters of the adoption of the accrual accounting system in Indonesia? (3) What were the main problems with respect to the public sector accounting reforms in Indonesia?

The model that is used as the lens in this study is the LCM for governmental accounting innovation developed by Luder (1992). According to Luder (2001), the primary objectives pursued by the model were twofold. First, it was intended to serve as a framework for empirical investigations into governmental accounting reforms and to thereby facilitate the comparison of the findings reported by different research studies. Second, it was meant to constitute a complex hypothesis explaining the influence of context on a specific reform or innovation process, and to trigger further research directed at confirming, falsifying, and amending the hypothesis.

Luder (1992) also suggests that the model is fundamentally an economic model that posits an information market exists for the users and producers of governmental accounting information. The attitude and behavior of users and producers is shaped by their respective environments. If the conditions are ripe, as occasioned by some stimuli (such as financial scandals or a government financial crisis), the interaction between demand and supply could spark governmental accounting innovations. The model suggests that there are contextual and behavioral variables relevant to explaining the outcome of the governmental accounting innovation process. The contextual variables can be placed into several categories: (1) stimuli, (2) the social environment for government, (3) characteristics of the political administrative system, and (4) barriers to implementation (Monsen, Nazi, & Jyvaskyla, 1998).

With respect to the research questions of the study, the most relevant notions of the LMC model used in this study are focused on three aspects: stimuli, promoter, and implementation barriers of the accounting change.

3.1. Stimuli

The LCM suggests that situational factors in the form of financial problems, financial scandals, the sophistication of capital markets, the influence of external standard setting, and professional interests stimulate reforms.

These situations or events usually occur at the initial stage of the innovation process and create a need for improved financial information on the part of the users of accounting information. This need for more informative financial information exerts pressure on the producers of information to adopt accrual accounting. The LCM suggests that the economic crisis is one of the primary factors in stimulating public sector accounting reform.

3.2. Promoter of Change

According to Luder (1992), promoters of change in public sector accounting are people and organizations with a vested interest in wanting the change. Those promoters could include international donors, members of legislative, international accounting firms, accounting profession, and academics.

3.3. Implementation Barriers

Implementation barriers are the features of a political or bureaucratic environment that impede the adoption of a public sector reform such as accrual accounting (Luder, 1992). According to Luder (1992), a policy of decentralizing government, a civil law system (i.e., a non-Anglo-Saxon system), and a lack of qualified accountants are important barriers to the reform of public sector accounting.

The LCM has been widely used in comparative international governmental accounting research (CIGAR) studies of the factors affecting adoption of public sector accounting innovations (Monsen et al., 1998). In addition, this model also has been used for application to developed and developing nations (e.g., Godfrey, Devlin, & Merrouche, 1996; Christensen, 2002; Saleh, 2007). A further development of the LCM model was shown by Luder and Jones (2003) in exploring the mass move to adopt the accrual accounting system by local governments in nine Europe countries. In the study, they suggest that although the accrualization process of reporting systems at local level in Europe continues, the stage of implementation is diverse in different ways.

4. METHODS

As this study investigates the contextual variables that influence the pace of public sector reform in Indonesia through the adoption of accrual accounting, the validation of data through across verification was necessary and important. Therefore, in informing the study the data were drawn from three sources. First, this study explores official documents issued by the Indonesian government in relation to the government reporting systems in the country issued since the early 1990s (e.g., laws, government regulations, presidential decrees, ministerial decrees, Indonesian governmental accounting standards). Table 1 outlines key rules about the public sector reporting system in Indonesia.

Second, the data are based on interviews with six key individuals in their roles as the promoters, producers, and users of governmental accounting information. The interviews were conducted by the first author with representatives from the Ministry of Finance, the State Audit Board, Indonesian Institute of Accountants, as well as academics in Indonesia. These people were involved in the early efforts of the government in reforming the public sector accounting system in Indonesia. The interviewees are grouped into three categories on the basis of the revised contingency model (Christensen, 2002; see Table 2). Face-to-face interviews were conducted with four interviewees, while responses from two interviewees were obtained through electronic mail.

All interviewees agreed to the audio taping of their interview, and while notetaking did take place during the interviews, this was kept to a minimum. The interviews took place in Jakarta in 2004. In addition, to cope with recent progress of public sector accounting reforms in Indonesia, this study

Table 1. Key Regulations Related to the to the Public Sector Reporting System in Indonesia.

Year	Regulations	Content
1907	Belasting Accountantdienst in 1907	The establishment of state accounting bureau
1917	Tax accounting bureau	Auditing regulations
1925	State finance (*Indische Comtabiliteistswet*)	Budgeting and reporting system for central and local governments
2002	Financial Minister Decree 308 (2002)	The adoption of accrual accounting for central and local governments
2003	• Financial Minister Decree 337 (2003) • Law 17 on state finance	All government institutions at all levels are required to adopt accrual accounting
2005	Government Accounting Standards (GAS)	All government institutions at all levels are required to adopt accrual accounting as part of their annual accountability report

Table 2. Interviewees.

Cohort	Interviewees (Organization)
User of information (UoI)	Interviewees 1 and 2 (State Audit Board)
Producers of information (PoI)	Interviewees 3 and 4 (Ministry of Finance)
Promoters of change (PoC)	Interviewees 5 and 6 (a partner of an accounting firm and a professor in accounting, respectively; both interviewees participated in the formulation of the Government Accounting Standards in 2005)

also draws attention to the recent data in documentation and literature such as the mass media and the audit reports issued by the State Audit Board since the early 2000s to 2008. As a historically informed field study, the analysis of data was conducted through two steps: (a) interpreting the data obtained from interviewees and archival data (in this procedure, responses recorded from interviewees and other resources were analyzed to determine which comments or suggestions were relevant to the issues addressed) and (b) analyzing the interpretation of evidence from previous step to conform to the LCM in public sector accounting reform in Indonesia.

5. THE ADOPTION OF ACCRUAL ACCOUNTING

The Indonesian government's efforts to improve the reporting system had existed since the 1980s during the Suharto era (Prawiro, 1987). However, these efforts failed to formally replace the cash-based system due to the lack of human resource and low political commitment from the government reflected in its failure to replace the old state finance law (i.e., *Indische Comtabiliteistswet* (ICW) issued in 1925 during colonial era) which only required the use of accrual-based reporting system (Nasution, 2009; Prodjoharjono, 1999).

A more systematic public sector accounting reform was only prompted recently as part of wider economic and political reforms in the country following the collapse of the Suharto's administration in 1998 (Manao, 2008).

The first draft of accrual-based Government Accounting Standards (GAS) was issued in 2000. The draft was called "Accounting Standards for the Central and Local Governments" (2002) issued by a committee established by the Ministry of Finance. After receiving comments and views from the State Audit Board, Indonesian Institute of Accountants, universities, and others, the Ministry of Finance through Financial Minister Decree 337 (2003) promulgated "Accounting Standards for the Central and Local Governments" (2003). Importantly, Law 17 (2003) that later required all government institutions to adopt accrual accounting added significant support to the provisions of Financial Minister Decree 337. In 2005, the government finally issued a set of GAS (2005) as the basis from the government to prepare the financial statement of the Indonesian government at central and local levels. The GAS formally replaces the old system which required the government to prepare budget realization reports only. The GAS requires all government institutions at central and local levels to implement the system in 2006.

The nature of the GAS substantially differs from the cash-based system previously used. It is stated that the objective of the GAS is to provide information that will be useful to a wide range of users in making and evaluating decisions about the allocation of resources. The GAS also states that these objectives are very important in developing public sector accountability, managerial performance, transparency, and intergenerational equity. According to the GAS, the central and local governments are required to present six components of financial statements: budget realization, balance sheet, financial performance statements, changes in equity, cash flows, and notes to the financial statements. The old reporting rule only required the government to produce budget realization reports (see Table 3).

5.1. Implementation Constraints

Although legal reforms have been undertaken to support the adoption, the study identifies that the government is still confronted with significant implementation barriers that undermine its effort in developing a more

Table 3. Comparison on the Indonesian Reporting System.

Accounting System	Features
Old system (pre-2005)	• Budget realization reports
New system (after 2005)	• Budget realization • Balance sheets • Financial performances • Changes in equities • Cash flows • Notes on financial statements

transparent and reliable public sector accounting system. These barriers include legal issues, lack of political will and support from the parliament, and the deficiencies in skilled human resources.

5.1.1. Legal Issues

With respect to the legal issues, two important issues need to be noted. First, although Law 17 (2003) supports the adoption of accrual accounting within the Indonesian public sector, the GAS (2005) have yet to be set by an independent body. It is apparent that the committee assigned the responsibility for the setting of accounting standards remains a government-backed organization. This signifies the government's inconsistency and the lack of coherence approach in bridging the wish of the laws issued and the government strategy in setting the new GAS.

> … in a more democratic era, the government should not dominate how its own accountability and accounts should be set up …. (Interviewee 5)

Second, it is important to note that Law 17 (2003) that requires the adoption of accrual accounting at the national and local levels, runs counter to Law 22 and Law 25 about local autonomy issued in 1999. As these two laws provide a greater autonomy for local governments in determining their own programs, financial management and reporting system, thus all local governments in the country also have the right to select any accounting systems (i.e. an accounting regime) which suit their capacities. Such an interpretation of the effect of Law 22 weakens the power of Law 17 (2003) and the GAS (2005) in directing the accounting practices to be implemented by local government. This contradiction between the two laws potentially weakens the efforts of central government in its attempt to implement uniform accounting standards throughout the nation.

> We don't really understand why the government issues contradicting laws. I think the implementation of the new accounting system has made the accounting function in the government more complicated. (Interviewee 1)

5.1.2. Lack of Political Will

This factor will potentially undermine any attempt to improve the accountability of financial management in the public sector. As stated by Interviewee 1, this problem led to the failure of prior public sector accounting reforms undertaken during President Suharto's era. The interviewee also suggests that while Indonesia has entered a new economic, social, and political era, the government remains somewhat reluctant to embrace a greater level of responsibility for reforming public sector accounting. Moreover, Interviewee 2 claims that the government does not follow up the audit findings and recommendations of the State Board Auditor. Interviewee 2 stated:

> It is the task of auditor to state their findings and to give recommendations and it is the responsibility of the government to implement the recommendations. However, since President Habibie [1998–1999], including the current President Megawati [1999–2004], the government simply lacks the will for improving government accountability.

Interview 3 claims the resistance of the government to the implementation of a more informative accounting system is also fueled by the low commitment of government bureaucrats toward accountability. A very clear example of this problem was indicated in a report issued by the State Audit Board (*Kompas Daily*, 2008). This report suggests that the Constitution Court declined to review Law 28 (2007) on tax that prevents the State Audit Board to audit the tax revenue account in the Ministry of Finance. This resistance is against the 1945 Constitution (basic constitution of the country) which assigns the State Audit Board to audit every account belonging to the government. Commenting on the fact, Interviewee 3 claims that the main problem in the implementation of the accounting system in the government is the fact that most of high-level managers in all departments have low commitment to accountability. Interviewee 3 states:

> For one thing they do not know the importance of accountability but for another, that almost nobody has much interest in accountability since the money is not there any longer.

The State Audit Board (2008) also finds seven obstacles that potentially undermine the public sector accounting reform in Indonesia: (1) limited access given to auditors on tax revenues and payable tax and Court Revenue account; (2) the weakness of internal control systems and review mechanism within the government; (3) fragmented government bank accounts; (4) insufficient information system technology; (5) low compliance of the government officials to related regulations regarding the revenues and disbursements; (6) the lack of coordination within the government at the central and local levels; (7) rapid changes in regulations leading to different interpretations.

5.1.3. Lack of Response from Society and Parliament

It is important to acknowledge that previous reforms in the Indonesian public sector accounting were initiated by the central government (Prawiro, 1987). The Central Government Accounting System (1992), the Accounting

Standards for the Central and Local Governments (2003), and GAS were set up by a committee under the coordination of the State Accounting Agency at the Department of Finance. While Indonesian society seems to be concerned about reforms intended to improve the accountability of government, it is less bothered about the reform of public sector accounting practices. As Interviewee 4 states:

> Now we have a board in the Indonesian Accounting Institute that develops accounting standards for the public sector. However, Indonesia society is not concerned about participating by responding to the exposure draft promulgated by Indonesian Accountants Associations. The Parliament also lacks concern accounting issues.

Interviewee 3 notes:

> Somehow the parliament is also concerned with this issue; however they do not exactly know what it is. Accountability report is not really what they would like to see. They know the importance of accountability but they could not understand and could not comprehend the accounting process. Even if we use the term like accounting system or accounting standards, it is something outside their capability.

Moreover, Interviewee 5 suggests that those who were involved in formulation process of the GAS were only those who formulated the new accounting standards. The interviewee also indicates that the diffusion process of the previous drafts of the new accounting standards only involved the same people. The lack of participation from parliamentary members and other group people in the country is also supported by Interviewee 6.

5.1.4. Lack of Qualified Staff

The lack of skilled and experienced accounting staff within the government represents a serious problem affecting the adoption of accrual accounting throughout all levels of the Indonesian public sector. Interviewees 5 and 6 of the study point out that the lack of skilled staff within the accounting function of the government across the nation is the biggest problem faced in adopting the new reporting system. A senior auditor at the State Audit Board also suggests that the government now requires at least 21,700 accountants to support the implementation of the new accounting system at the central and local levels (Prodjoharjono, 2008). Other report also suggests the government requires at least 46,000 more skilled staff in accounting. The capital Jakarta alone still lacks about 5,000 accountants as it employs only 22 qualified accountants (*Detik News*, 2008). The lack of qualified accountants in the government is mainly caused by the disparity in remuneration rates for accountants in the public sector when compared with their private sector counterparts, inducing many accountants to seek better paid jobs in the private sector. While training existing personnel is a solution to the problem of insufficient public sector accountants, it takes time, and the outcome is not always as effective as recruiting new skilled personnel (Ministry of Finance, 2001).

6. INTERPRETING THE EVIDENCE

On the basis of evidence discussed above, this section examines the adoption of accrual accounting in the context of broader public sector reforms within Indonesia. We employ the LCM as the skeleton in examining the data. Our approach is consistent with the aim of Luder (1992) model in seeking to explain the attempts of the Indonesian government in moving from the traditional government accounting to a more informative accrual-based accounting system.

6.1. Stimuli

The LCM hypothesizes that the economic crisis is the main factor that led a government to adopt accrual-based accounting for the public sector. However, we find evidence that the initiative to reform Indonesian public sector accounting has existed since Suharto's era in the early 1990s prior to the economic crisis in 1997 and 1998. This is consistent with the policy adopted by the Suharto administration in the late 1960s to implement a free market economy policy by encouraging foreign investment in Indonesia. For much of the Suharto administration, accounting reforms were not intended to make the government more accountable but were the result of international pressure. As stated by Rosser (1999):

> accounting reform in Indonesia was not the product of rational choices by wise technocrats or neo-colonial domination but rather of structural pressures generated by periodic economic crises. It is also argued that accounting policies in developing countries have, for the most part, been imposed by developed countries initially through colonialism, and then through the influence of transnational corporations, foreign aid donors, and professional accounting institutes. (p. 2)

However, current public sector accounting reforms in Indonesia cannot be isolated from the broader reforms occurring within Indonesia's economy and political system that followed the resignation of Suharto in 1988. While the role of donor countries and international pressure are still influential in directing public sector accounting reforms as part of broader reforms in economic, banking, and financial sectors (Khambata, 2001), domestic forces are also exerting some influence as stated by Interviewees 5 and 6 of the study. These interviewees also view that democratization, the need for greater accountability, and the reduction of corrupt practices have been important stimuli pressuring government toward a more fulsome embrace of accrual accounting. Therefore, it was not only the economic crisis, as proposed by the LCM, but also the prodemocratic movement and pressure from the international donors that has further stimulated the Indonesian government's attempts to reform public sector accounting.

6.2. Promoters of Change

In accordance with the LCM, the potential promoters of public sector accounting reforms in the public sector are international donors, members of parliament, international accounting firms, accounting profession, and academics. We find evidence to support this view except for the minor roles of parliamentary members and international accounting firms. Since the early 1990s and in spite of the failure of the early reforms sought by the IMF and the World Bank (Interviewees 3 and 6), international donors continue to be active promoters of public sector accounting reform (Marwata & Alam, 2006). This reality can be understood as the world and IFM played crucial roles in the economic reforms following the collapse of the Suharto's administration in 1998 (Grenville, 2004).

Moreover, academics and representatives from accounting profession (i.e., Indonesian Institute of Accountants) have been influential as the promoters of public sector accounting reforms in the country. This can be seen from members of the Public Sector Accounting Standards Committee who set up the government. Most of them are academics and from accounting profession (PSAC, 2005). In addition, as noted by Interviewees 2 and 4, the Indonesian Institute of Accountants has actively provided comments and suggestions on drafts of public sector accounting standards issued earlier. However, there is little evidence to suggest that members of parliament (Interviewee 3) have been active promoters of public sector accounting reform in Indonesia (Interviewee 2). Interviewees 5 and 6 also support this notion as there is no member of the legislative body who has a good understanding on accounting issues. Despite the potential role of the Indonesian parliament in promoting the reform process, as many parliamentary members do not appreciate the importance of accrual accounting to improving the accountability of government, the actual support offered by the parliament has been minimal (Interviewee 3).

International accounting firms do not appear to be actively participating in the recent process of reforming Indonesia's public sector accounting or in ensuring compliance with those public sector accounting reforms in the form of the GAS as stated by Interviewees 3 and 6. The minimal influence of international accounting firms over public sector accounting reforms may be due in part to the nature of the Indonesian legal system. In Indonesia, the authority of the state determines any administrative and procedural system that is to be used within the public sector. Thus, the reform agenda for Indonesian public sector accounting is totally controlled by the government although the members of the public sector accounting committee represent a different group of people (Interviewees 2 and 4). Thus, this evidence indicates that international donors, accounting profession, and academics were the main promoters of accounting reforms for the Indonesian public sector.

6.3. Implementation Barriers

According to the LCM, the main barriers to the successful adoption of accrual accounting by the public sector include a policy of decentralizing government, a civil law system (i.e., a non-Anglo-Saxon system), and a lack of qualified accountants. Drawing from recent experience of the Indonesian government in using the new accounting system, the obstacles proposed by the LCM fit the contextual situation faced by the country.

First of all, currently the conflict between legal requirements and how those laws are implemented constitutes a serious barrier to the successful implementation of accrual accounting at all levels of government. As discussed above, Law 17 (2003) is in conflict with Law 22 (1999). Law 17 (2003) requires government agencies to adopt accrual accounting while Law 22 (1999), in delegating responsibility to local government for the management of its own development programs, suggests that local government is under no obligation to implement any particular form of accounting practice as part of its own administrative systems (e.g., accrual accounting).

Furthermore, while Law 17 (2003) assigns the responsibility for the setting of governmental accounting standards to an independent body, this has yet to occur. The GAS has been set up by a committee under the control of the government and not by an independent body as required by Law 17 (2003). This can be understood as the Indonesian legal system which upholds the Continental System provides little opportunity for nongovernment organizations to have a significant role in formulating government policies as proposed by the LCM. Nonetheless, a similar situation also occurs in European countries (Grossi & Pepe, 2009). Furthermore, the adoption of accrual accounting by central and local governments in Indonesia will be retarded by the lack of suitably qualified accountants. As discussed earlier, the majority of local government accountants can only call upon their experience of the cash-based accounting system, a system inherited from the Dutch colonial era. Thus, the lack of skilled and experienced accountants within local government represents a serious threat to the successful adoption of accrual accounting. In addition, the public sector accounting reform in the Indonesian public sector also encounters the lack of political will and support from public sector organizations, the parliament, and the society in general in the country. In this vein, although legal reforms have been undertaken which requires the adoption of a better reporting system, the lack of political will and commitment to the introduction of accrual accounting from senior government officials and parliamentary members and the low level of citizen participation also constitute significant barriers to the successful implementation of accrual accounting within the Indonesian public sector.

7. CONCLUSION, IMPLICATION, AND LIMITATION

Using LCM, we demonstrate how the economic crisis, the prodemocratic movement, and international pressures for the reform of the Indonesian public sector stimulated the reform process that culminated in the passage of legislation that requires all levels of government to adopt accrual accounting (see GAS) for the central and local governments. However, despite these legislative provisions and decree, significant barriers to the adoption of accrual accounting by the Indonesian public sector are identified. We believe that these barriers are of sufficient magnitude to retard the pace and extent of reform achieved through the adoption of accrual accounting.

The most significant barriers to the reform process include: (1) Law 22 (1999) which grants powers to local government to determine its own administrative requirements, (2) the lack of suitably qualified accounting staff within the Indonesian public sector, and (3) minimal parliamentary and citizen interest in the introduction of accrual accounting. As the policy to adopt the accrual accounting system was part of greater economic and political reforms as a means to strengthen the accountability, transparency and efficiency of the public sector in the country — these barriers potentially undermine the very conditions that stipulated the process of the reforms itself. In other words, the failure of the Indonesian public sector to fully embrace accrual accounting would undermine the purposes intended to be achieved through the economic and public sector reforms.

One implication of the findings of this study is that any adoption of the private sector–style accounting in the public sector context would not automatically bring intended outcomes. In this case, social, political, and institutional contexts of a country shape the extent to which an accounting reform takes place. As the legal system and the attitudes of powerful political actors to accounting reforms in developing economies potentially differ from developed countries, the intended outcomes of any public sector reforms for improving efficiency and performance in these countries may not be realized. This notion must be taken into account by the policy makers of public sector accounting reforms in the developing countries (Nor-Aziah & Scapens, 2007; Rahaman, 2009).

This study has several limitations. First, we examine efforts to adopt accrual accounting in the Indonesian public sector by analyzing what we believe to be the significant historical events surrounding the reform process. As Christensen (2002) suggests, the history that we analyze by way of a version of the LCM may be criticized as being "doctrinal" in approach. Second, the model that has been employed to inform our study of the adoption of accrual accounting in Indonesia is too coarse in its analysis. It could be argued that a more finely detailed differentiation of the "groups" of actors (e.g., promoters, producers, and users of accounting information) could have been used to sift through the events surrounding the adoption of accrual accounting by the Indonesian public sector. Thus, subsequent studies could examine the introduction of accrual accounting through the perceptions of public servants at the level of central and local governments.

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