

The Institutionalization of Accrual Accounting: The Perspective of New Institutional Sociology Theory

Rizky Ayu Savitri✉, **Zaenal Fanani**

Faculty of Economics and Business, Universitas Airlangga,
Jl. Airlangga No.4, Gubeng, Surabaya, Jawa Timur 60286, Indonesia

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Abstract

This study aims to understand an accounting system change of a local government in Indonesia. This study is a qualitative and interpretive case study. Data collection is done through interviews of key actors who were involved in the process of accrual accounting institutionalization and documentation. The result of this study shows that the institutional isomorphism occurs on the implementation of accrual accounting at the local government. Coercive isomorphism are shown by the finding that the adoption of accrual accounting was affected by the central government, namely by issuing the regulations such as Government Regulation no. 71 of 2010 and Regulation of the Minister of Home Affairs no.64 of 2013. Normative isomorphism was found on the findings of consultant and academic involvement in the implementation of accrual accounting. Mimetic isomorphism was found when the local government conducted benchmarking to the other local governments that became the best practice in the accrual accounting implementation in Indonesia. In reality these three forms of institutional mechanism were interact each other, then contribute in influencing the practices and the actors during the accrual accounting institutionalization process in the local government.

Keywords: Accrual Accounting; Local Government; New Institutional Sociology

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INTRODUCTION

Government Regulation Number 71 Year 2010 concerning Government Accounting Standards mandates accrual based accounting to be implemented in Fiscal Year 2015. In order to support the policy at the local government level, the Regulation of the Minister of Home Affairs Number 64 Year 2013 on the Implementation of Accrual Based Government Accounting Standards in Local Government was issued. In Government Regulation No. 71 Year 2010, it is also mentioned that accrual accounting is the best practice in the international world and needs to be applied in order to improve the quality of government financial reporting information, which is intended to produce better performance measurement as well as facilitate more transparent and accountable financial and asset management.

The government is implementing accrual-based SAP with the aim of improving the quality

of financial information presentation from the government, both in terms of transparency and accountability (Beest, Braam, & Boelens, 2009; Cirstea, 2014; Pina, Ivanov, & Torres, 2016; Surepno, 2015) The implementation of accrual-based SAP, which is imprinted in Government Regulation 71 of 2010, has consequences for compulsory and enforceable because of the true nature of legislation. The implementation of accrual accounting is a mandatory behaviour, which means that the government apparatus must apply accrual accounting in the management of state finances (Afdalia, Pontoh, dan Kartini, 2014; Suhendro, Sylvia Veronica, and Nauli, 2015). Therefore, the problem of accrual accounting implementation in the government sector is no longer related to whether accrual accounting should be adopted or not, but about how the accrual accounting concept can be done in accordance with the relevant regulations and bring a variety of good changes for the organization or called institutionalization on the standard of accrual-based financial accounting within the organization.

When accrual accounting is applied, it will bring the consequences of changes as well as the improvement of the organizational financial management practices (Carlin, 2005; Kober, Lee, and Ng, 2010; Ter Bogt and Van Helden, 2000). When accrual accounting is applied to a government organization, the organization must adapt the accounting techniques of financial administration by beginning to recognize and record the effect of transactions and other events at the time the transactions and events occur, regardless of when cash or cash equivalents are received or paid. Over time, the accounting techniques will be repeated and then become part of the routine received by the organization and changes occur (Burns and Scapens, 2000; Kober et al., 2010; Siti-Nabiha and Scapens, 2005).

The ability of organization to implement change is largely determined by human resources owned (Christensen, 2002; Harun and Kamase, 2012; Ter Bogt and Van Helden, 2000). Research related to accrual accounting implementation finds that there are still obstacles and problems in the implementation of accrual accounting, especially related to the lack of human resources competency as the actors of change (Ahmad, 2016; Harun and Kamase, 2012; Nor-Aziah and Scapens, 2007; Setyaningsih, 2013; Suhendro et al., 2015; Kasim, 2015; Maimunah, 2016). As it is generally known that not all financial management personnel, especially in local government have an accounting background (Harun, 2007; Harun and Robinson, 2010). Thus, the problem of financial managers competency needs more attention because the mindset of financial managers is one of the goals of change in the implementation of accrual accounting (Knutson, 2002).

The motivation of this research is to know how accrual accounting is institutionalized at local government level in Indonesia. This study explores the process of accrual accounting institutionalization at local government agencies from the perspective of the actors involved by exploring their understanding on the realities that occur during the institutionalization process. The purpose of this study is to understand the reality of accrual accounting institutionalization in government organizations.

In order to provide guidance for the implementation of this research, the research question asked in this research is how the process of accrual accounting institutionalization takes place in the local government environment. This study takes a period of time in which accrual accounting has been thoroughly executed as mandated by Government Regulation No. 71 of 2010 that is period 2015 until now. Previous research conducted in Indonesia is mostly done in the transition period from cash basis to accrual (Harun and Kamase, 2012; Harun, Van Peurse, and Eggleton, 2012; Setyaningsih, 2013; Suhendro et al., 2015; Susanto and Djuminah, 2015) while this research is conducted in the full implementation phase of the accrual basis. Thus, this research seeks to present an update view of the GAS reform agenda, especially in Indonesia.

Institutionalization is a process by which the component of formal structure is widely accepted, as it deems appropriate and necessary, and to meet the legitimacy needs of the organization. Basically, institutionalization is one of the process of social environment change (Tolbert and Zucker, 1983). In Indonesia, the implementation of accrual accounting in the government sector is still new and the process is still running today. Consequently, in Indonesia

the topic of this research can still be explored more deeply.

Harun and Kamase (2012) examine about the adoption of accrual accounting at provincial governments in Indonesia shows similar results. Using Economic Theory and Institutional Theory, the study finds that the Indonesian government follows the path of government entities in developing countries when deciding to adopt NPM-based practices and adoption of accrual accounting indicates the behaviour of local governments as a form of obligation to comply with regulations set by the central government.

Normansyah, Kamil, and Idawati (2015) use institutional theory to understand how accrual accounting systems are applied to the Financial and Development Supervisory Agency (BPKP). The results of the study find that the implementation of accrual-based accounting in BPKP is influenced by isomorphic coercive, mimetic and normative pressures. The process of institutionalization and internalization of accrual based accounting in BPKP is supported by the commitment of superiors, policies that support implementation, employee motivation, work culture and learning culture, as well as facilities and infrastructure that support knowledge management within the organization.

Research of Sari, Djamhuri, and Kamayanti (2015) also shows that the implementation of accrual accounting gets mixed reactions from the executors in the field. The addition of the item number of the financial statements components to be made, as mandated by Government Regulation Number 71 of 2010, makes accrual basis as if it is something complicated. The complexity is further strengthened with no relationship between the budgeting system and financial reporting.

This study uses New Institutional Sociology (NIS) to understand the process of accrual accounting institutionalization to local governments. NIS theory is one of the theory which can be used to capture and fully understand the process of changing a specific dynamic accounting system. NIS is considered capable of explaining organizational change and accounting changes because it represents the social and institutional dimensions of the organization and its environment so that it is used quite often in some of the earlier studies related to accounting changes, as practiced by Harun et al. (2012); Nor-Aziah and Scapens (2007); Siti-Nabiha and Scapens (2005); Ter Bogt and Van Helden (2000).

Institutional theory is one of the theory that can be used to capture and fully understand the process of changing a specific dynamic accounting system (Harun and Kamase, 2012; Hassan, 2015; Ribeiro and Scapens, 2006). Institutional theory arises from studies in the field of sociology. Burns and Scapens (2000) introduces a framework for institutional change that explains how institutional principles are embedded in rules and routines, how the rules and routines are carried out, how they are produced in every organizational action, and how the rules and routines are institutionalized as they are at all times.

According to New Institutional Sociology theory, organizations tend to adopt influential systems, structures and procedures in the social and cultural environment in which they are situated. Organizations do so in order to gain legitimacy and protect the resources they need to maintain their existence (Ribeiro and Scapens, 2006). Influential ideas are then formalized, considered legitimate, and considered a way of thinking for the organization.

Organizations are shaped by various phenomena that occur in their environment and tend to be similar (isomorphic) to the environment. This is due to the interdependence in terms of technical and exchange, or indeed because of structural, the organization reflects the socially constructed reality (Meyer and Rowan, 1977). Dimaggio and Powell (1983) states that there are three types of institutional mechanisms that encourage organizations to adopt a new regulation or practice that is (1) coercive isomorphism, in terms of rules and policies determined by policy makers; (2) normative isomorphism, related to beliefs and norms prevailing in society, including professionalism; and (3) mimetic isomorphism, an organizational tendency to copy successful behaviours of other organizations in the same field.

METHOD

This research is a qualitative research using interpretive paradigm. Case study approach is chosen because this research is designed to seek a deeper understanding on the phenomenon of the ongoing accrual accounting institutionalization process investigated from the informants and other data sources (Yin, 2003:14) in the context and natural setting of the object of study. By using case studies, this study explores the events, facts, evidence, and actions of actors involved in the process of accrual accounting institutionalization to achieve research objectives.

The object of this study is the reality that occurs in the process of accrual accounting institutionalization obtained from the perspective of the actors involved. Hence, the research subjects in this study are the employees who understand the situation and condition of accrual accounting institutionalization process in local government.

In order to gain sufficient understanding and data, this research chooses informants directly involved in the process, especially the actors involved in financial administration activities of local government. The informants are selected because they are considered master, understand the data, informations and facts from the object of the research, they are key persons or people who know the real condition of the accrual accounting institutionalization.

The informants consist of structural officials and staff from the Regional Finance and Asset Management Agency (BPKAD). This research takes informants from the BPKAD because BPKAD is the coordinator of local financial management and the leading sector of accrual accounting implementation in local government which becomes the setting in this research.

Data analysis technique in this research is developed by the researcher in accordance with the condition of data obtained at the time in the field. Broadly speaking, data analysis technique refers to (Miles, Huberman, & Saldaña, 2014) which includes data reduction, data display, and conclusion and verification. Data reduction is done by summarizing all records in the field by choosing something substantial and important in relation to the accrual accounting institutionalization at local government. The result of the summary will be made of matrix form so that it looks certain pattern as the whole picture on the part of the research result. The process of verification is carried out throughout the research to get a good conclusion.

RESULTS AND DISCUSSIONS

The discourse to start implementing accrual-based SAP in local government environments emerged when GR No. 71 of 2010 was issued. This was derived from the following informant statement:

“Actually indeed if the initial trigger should be GR 71 (BPKAD Structure).”

As confirmed by other informants:

“If it was regulated actually since GR No. 71 Year 2010. And it’s also Permendagri 64 states no later than 4 years after the new Permendagri must have done full accrual no longer CTA. And 4 years after Permendagri it means starting from fiscal year 2015 is the implementation of accrual basis accounting (BPKAD Staff 4).”

The Regulation of the Minister of Home Affairs Number 64 Year 2013 set the time limit for the implementation of Accrual-based SAP is at the latest starting from Fiscal Year 2015. According to the mandate of legislation, it was finally decided to start applying accrual accounting to all SKPD in local government environment which became the setting of this research at the beginning of FY 2015.

Hence, from the condition above can be drawn a conclusion that underlying the adoption of accrual accounting in local government is the motivation to meet the obligations that have been mandated by government regulations. Local government has made Government Regulation

Number 71 Year 2010 and the Regulation of the Minister of Home Affairs Number 64 Year 2013 as the basis for applying accrual accounting in their governmental environment.

The initial motivation which derived from the central government to subordinate governmental organizations to implement accrual-based SAP was done by issuing legislation. For then each of these governmental organizations made the laws and regulations to underlie their actions in implementing the stipulated provisions. Therefore, it could be said that the local government which became the setting of this study voluntarily complied with the legislation and implemented accrual-based SAP on a timely basis. So, it could be stated that the institutionalization process of accrual accounting in the local government environment reflected the existence of coercive isomorphism symptoms.

According to Dimaggio and Powell (1983) coercive isomorphism arose due to encouragement that came from the rules and policies which determined by policy makers. The institutionalization of accrual accounting in the local government environment began with the issuance of Government Regulation No. 71 of 2010 concerning Accrual SAP, further reinforced by the issuance of Permendagri Number 64 Year 2013 as technical guidance on the implementation of accrual accounting at the local government level. The institutionalization of accrual accounting in the local governmental environment occurred because of the demands of government regulations that had logical consequences to be implemented.

Coercive isomorphism symptoms also found in the results of the study Harun and Kamase (2012) which showed that the adoption of accrual accounting indicated the behaviour of local government as a form of obligation to comply with the regulations set by the central government. Similar result was also obtained by Normansyah et al. (2015) who found that the implementation of accrual-based accounting at BPKP was influenced by coercive isomorphic pressure in order to gain legitimacy for BPKP to appear as a “top performer” or had superior performance.

Indeed, legislation was indeed “forced” so that behaviour to abide by the rules appears to be a mandatory behaviour to fulfil aspects of formalities. The behaviour was directly proportional to the objectives to be achieved by the compliance was to gain legitimacy by emphasizing the aspect of “in order to appear good” because it has complied with the rules (Normansyah et al., 2015).

The compulsory behavioural context to meet the formalities aspect in accrual accounting institutionalization within local governmental environment was also found in the research results in the field. As revealed by the following informants:

“Yes one of them .. So the other local governments are just chasing the obligations. The important is it has been accrual, visible .. there’s the report .. Yes it’s done. (BPKAD O 2).”

The result of the transcript explicitly indicated that there was an element of awareness on the existence of “accrual accounting” obligations for local governments as has been mandated by the legislation. The informant stated that some of the accrual accounting executives had idea that they only needed to implement accrual accounting and produced financial statements that were prepared on an accrual basis as the final output as a form of compliance.

Regional Financial and Asset Management Agency, as the leading sector of accrual-based SAP in the local government environment, in fact has begun to introduce the concept of accrual accounting by the end of 2014 by organizing socialization, workshops and technical guidance to introduce the concept of accrual accounting to financial managers of all SKPD in local governmental environment.

BPKAD parties did not hesitate to involve academics parties from reputable universities and professionals in the effort of introducing the concept of accrual accounting. The academic and professional involvement in the implementation of accrual accounting was reinforced by the following informants:

“So if BPKP continued what the Ministry of Finance is, KSAP in this case, we invite them if as speakers to give a source of input or brainstorming from us (Structural BPKAD).”

The involvement of academics in the institutionalization of accrual accounting did not stop until the introduction of the accrual accounting concept only, but also in the preparation of accrual accounting policies in the internal environment of local governments. Developing policies is one of the first steps taken by BPKAD to initiate the institutionalization process of accrual accounting. The involvement of academics in the formulation of the policy was because BPKAD saw the academic competence and understanding of accrual based SAP.

The involvement of consultants and companion teams from academics also occurred at the time of assistance desk which routinely conducted by BPKAD every month since the beginning of the fiscal year 2015. This was known from the document review of activities conducted by BPKAD regarding their efforts to institutionalize the concept of accrual accounting in the local governmental environment which became the setting of this research.

The activity of assistance desk was conducted by inviting PPK, Accounting Functions, Receiving Treasurer, Expenditure Treasurer, and Goods Manager from each SKPD by bringing the data and evidence of financial transaction responsibility every month. The assistance desk was a kind of assistance activity aimed at providing consultation and guidance for SKPD in applying accrual accounting.

The facilitation team consisted of academics, structural officers from BPKD accounting department, and BPKAD accounting staff as a companion of SKPD. The facilitation team was involved from the beginning of the institutionalization process of accrual accounting that starts with providing guidance to the financial managers human resources (HR) of SKPD related to the introduction of the accrual accounting concept, evaluation of accounting recording techniques, practice in the field until the preparation of financial statements based on accrual based SAP.

“ Ah this is because we only have short time at that time for its implementation while we apply for what the term is like changing staff with background (read: education background) in a mass in the local government is also not possible. So what can be done is the implementation of learning by doing when the implementation is done. So the gap between the accounting function and the background of accounting in each SKPD was big enough at that time. So if you notice that Government Employees here are not entirely right man on the right job yes. So what we got is that we use. So inevitably we have to update our HR (BPKAD Structure).”

One of the way which taken by BPKAD related to human resource education was the concept of learning by doing by organizing desk assistance. The existence of desk assistance activities was expected to help the concept of accrual accounting which was difficult to become easier to implement. The involvement of the facilitation team was very dominant because of the limited understanding of the financial managers HR on the accrual accounting concepts and techniques, since not all financial managers HR of each SKPD had an accounting education background.

Limited human resources who had accounting education background became a separate issue in the implementation of accrual accounting to local governments. Therefore, inevitably each SKPD was forced to utilize their existing human resources, at that time even for accounting functions there were those who were not from undergraduate accounting majors. Because on the recruitment of government employees was also constrained by the moratorium policy, it required some kind of concept and practical education of accrual accounting for financial managers human resources.

When an organization adopts a concept driven by a motivation from within organization for a professional change, characterized by the existence of consultant or team involvement as professionals in their field, then the institutionalization process can be categorized as a normative motivation (Dimaggio and Powell, 1983). The result of Amirya, Djamhuri, and Ludigdo's research (2014) found normative isomorphism when Brawijaya University in applying budget and accounting system and Public Service Agency (BLU) involved consultant and accompanying team of BLU Financial Management Pattern.

Simultaneous with the effort to embed the concept of accrual accounting on the human resources of BPKAD financial managers made a visit to the best practice of accrual accounting

application. Best practice of accrual accounting application was another local government agency that has successfully applied accrual accounting to the scope of their government. BPKAD involved accrual accounting managers human resources, in particular PPK-SKPD and accounting functions, on the Thinking and Field Visitorship Activities of the Accrual Based Accounting Policy Implementation.

In order to obtain a more realistic description related to the implementation of accrual accounting in the local governmental environment, BPKAD initiative to conduct benchmarking, one of them to the Provincial Government of Special Region of Yogyakarta. The comparative study activity was intended to share experience in accrual accounting implementation from best practice to financial manager human resource. The activity also aimed to build good communication between local governments to support each other in the implementation of accrual-based accounting.

“For the term what.. exchange ideas with them so if later there are related problems easier to communicate . That’s the first. At the time of Jogja, at that time ee what its name was also a province that accruals are recognized as good by Kemendagri at that time (BPKAD Structure).”

The condition of accrual accounting implementation at the benchmarking locus, which in some ways was better than that which has been done alone could be a matter of evaluation and input to be as good as the local government or better in the future.

“There are some things that they are good. Yes at that time. Now, ee if in terms of their application was good because it has been online. We have not yet. (Structural BPKAD).”

Accrual accounting implementation model that has been implemented by the local government that became the best practice could inspire BPKAD in developing the implementation pattern of accrual accounting towards more advanced. One of them was to realize the integration of budgeting, financial management and asset management application system online.

BPKAD party obtained information on the process of local financial management and administration after accrual accounting has been applied to the government that became the best practice of accrual accounting implementation through the comparative study. Then, BPKAD separated the information they got about which ones could be applied in their environment and which ones needed to be further developed. The inspiration to build the method of accrual accounting implementation from the benchmarking result by BPKAD local government which became the setting of this research indicated the existence of mimetic isomorphism symptoms.

Dimaggio and Powell (1983) stated that mimetic isomorphism was an organizational tendency to mimic the success of other organizational patterns which derived from the same environment. The organizations that became the pilots were considered the most legitimate or most powerful organizations (Lande, 2006). The result of the research conducted by Normansyah et al. (2015) showed that in the implementation of accrual accounting in the BPKP environment was found symptoms of mimetic isomorphism indicated by the implementation of benchmarking activities to the state of New Zealand to observe the implementation of accounting system in the public sector there. While in the study of Norhayati and Siti-Nabiha (2009) the symptoms of mimetic isomorphism were indicated by the presence of private sector management techniques advocated by consultants to enable the organization to explore their potency which was relevant to organizational strategy.

As stated by (Meyer and Rowan, 1977), according to the ceremonial context, accrual accounting as a product of an institutional process could be carried out by the organization only to the context of fulfilling the obligation to obey the formal demands of legislation. The institutionalization of accrual accounting in the local government environments was also a reflection of the desire to comply with applicable regulatory standards to achieve the goal of obtaining legitimacy.

From the perspective of institutional theory, legitimacy is a condition that reflected cultural harmony, normative support, or conformity with applicable laws and regulations (Scott, 1995). This condition was also apparent in the process of accrual accounting institutionalization in the local government which became the setting of this study, where in reality it was found that the three forms of institutional mechanisms that was coercive isomorphism, normative isomorphism and mimetic isomorphism interacted with each other, then contributed in influencing practices in the field and the actors involved during the institutionalization process of accrual accounting.

Recognition of the legitimacy was one of them obtained by local government which became the setting of this research with the success of reaching the title of WTP over LKPD FY 2015 from BPK RI in 2016 and the LKPD FY 2016 in 2017. Hence, the local government which became the setting of this research had 2 (two) times got “good acknowledgment” of their accrual-based SAP implementation.

CONCLUSIONS

To increase the transparency and accountability of financial management, local governments began to migrate the base of accounting records, from cash-based to accrual-based. In the migration of accounting records base there has been institutionalization process in local government environment. As we know that the process of institutionalization is caused by some encouragement, this research has found that in the process of institutionalization in the local governmental environment which becomes the setting of this research appears isomorphism symptoms.

Coercive isomorphism symptoms which is indicated by the findings that the adoption of accrual accounting in the local governmental environment that becomes the setting of this research is the motivation from the central government by issuing legislation, namely Government Regulation No. 71 Year 2010 and Permendagri Number 64 Year 2013. Normative isomorphism symptoms is known from the findings that the local government which becomes the setting of this research, through BPKAD, involve consultants and academics in the implementation of accrual accounting, both when the process of policy formulation, socialization activities, and the assistance desk. Mimetic isomorphism symptoms are found when benchmarking activities scheduled to local governments that become best practices in the implementation of accrual accounting in Indonesia. In reality, these three forms of institutional mechanism interact with each other, then contribute to influence the practices in the field and the actors involved during the institutionalization process of accrual accounting.

This study provides theoretical contributions related to the use of New Institutional Sociology theory to understand the institutionalization process of accrual accounting. The practical contribution of this research is that this research is able to provide information for other local governments to understand about how accrual accounting is institutionalized to the local government, both technically and managerially. The results of this study can also be used as guidelines to develop policies and strategies in the implementation of accrual accounting.

Limitations of this study are the results of this study is not intended for generalization and taking research data is only done on one local government in Indonesia. However, it is still possible for other regional governments that have the same contextual conditions with local government that becomes the setting of this research to be able to make the results of this research as input information when applying accrual accounting in their organization.

This study opens up a wider space or even feeds the future research to further explore the results of the accrual accounting institutionalization process in the government sector, especially in the local government. This research can be used as a basic foundation that can be compared with subsequent research in the following years related to the implementation of accrual accounting in the government sector.

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