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Muhamad Arief Affandi, University of Trisakti
Etty Murwaningsari, University of Trisakti
Sekar Mayangsari, University of Trisakti
Susi Dwi Mulyani, University of Trisakti

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ABSTRACT

The objective of this research is to conduct empirical test over the effect of accrual-based accounting system and bureaucratic reformation on government financial performance with financial decision making as mediation variable. Financial decision making is a mediation variable used by the current research to fill research gap regarding the effect of accrual-based accounting system and bureaucratic reformation on government financial performance. Data type is cross section involving 258 respondents as sample. The identity of respondents is provided by the Head of the Office of Demography and Civil Registration. Analysis technique is PLS-SEM supported by WarpPLS 7.0. Several conclusions are obtained. First is that accrual-based accounting system has positive and significant effect on government financial performance. Second is that bureaucratic reformation has positive and significant effect on government financial performance. Third is that accrual-based accounting system has positive and significant effect on financial decision making. Fourth, bureaucratic reformation has positive and significant effect on financial decision making. Fifth, financial decision making has positive and significant effect on government financial performance. Sixth, accrual-based accounting system and bureaucratic reformation has indirect effect on government financial performance through financial decision making. This research successfully confirms that financial decision making plays role of mediation in the effect of accrual-based accounting system and bureaucratic reformation on government financial performance. This position correspond with agency theory, new public management theory and decision usefulness theory.

Keywords: Accrual-Based Accounting System, Bureaucratic Reformation, Government Financial Performance, Financial Decision Making.

INTRODUCTION

Government accounting is defined by World Bank as a process involving many activities including recording, analyzing, classifying, summarizing, communicating and interpreting in detail and aggregate any information about government financial issues. Such information can be in the form of financial transaction and other economic events that involve receiving, expending, transferring, utilizing and disposing asset and liability. Before implementing accrual-based accounting system, the government of Indonesia has since long ago used cash-based accounting system. Under cash-based system, economic transaction and other economic events are recognized when cash or its equivalents are received or paid to validate the existence of revenue, expense and financing. Accrual-based accounting system recognizes economic transaction and other economic events by recording and presenting these events in financial report at the time when those events are held. In other words, accrual-based accounting system acknowledges

everything regardless the time when cash or its equivalents are received or paid. Because the recording is made for any flow in resources, therefore, it is believed that accrual-based accounting system can provide more comprehensive information because all the flows of resources are recorded (BPKP, 2013). Within the context of Indonesia, accrual accounting is a kind of accounting that recognizes revenue, expense, asset, liability, and equity of work operational by counting them based on accrual standard, but also acknowledges revenue, expense and financing by counting them based on cash standard (Ritonga, 2018).

Information delivered by accrual-based accounting standards are considered more benefiting than information given by cash-based accounting standards because accrual information is able to give more accurate description about financing and fund procurement services. Information derived from accrual-based accounting can be used to improve government accountability (Carlin, 2005). In addition, information from accrual-based accounting can also help the users in improving financial management, producing more precise comparison of financial performance across many entities, and stabilizing government policies (Chirani & Amin, 2016). The implementation of accrual-based government accounting standards take reference from Government Regulation No.71/2010. The use of this reference is intended to create high-quality financial information and more accurate performance measurement. More specifically, this reference enables the government to make decisions effectively regarding financial management in order to improve government financial performance and also financial services delivered by the government. Several empirical researches showed that the implementation of accrual-based accounting system in the government has brought positive implication to the improvement of government financial performance. One of those researches was done Nogueira & Jorge (2013) in which they found that the implementation of accrual-based accounting standards in Portugal have enabled the users to complete the internal decision making process. Beside this finding, they also proved that the information produced by accrual-based accounting is getting better with the pace of time, and the users become more familiar and experienced with such accounting system. In essence, the implementation of accrual-based accounting system enables the government to make decision more effectively and to improve the quality of its financial performance.

Other empirical research was done by Salleh et al. (2014) in which they discovered that accrual accounting can effectively support outcome-based budgeting system used by the government, and has been successfully in providing data regarding costs and expenses. They also found that information produced by accrual accounting can be used to facilitate the making of public decision or policy concerning the maximization of outputs from the use of limited resources. They came into a deduction that accrual accounting can help improving government financial performance. Next empirical research was conducted by Najati et al. (2016) in which they found that information obtained from accrual-based accounting are more comprehensive and more reflecting the actual condition, and such information is surely useful for the decision makers. They deduced that the implementation of accrual-based accounting can improve reporting quality and financial performance.

Rogosic & Palos (2017) carried out a research on a transition from cash-based accounting system to accrual-based accounting system in Croatia. They used International Public Sector Accounting Standards (IPSAS) as main reference in examining the harmonization of financial reformation in European Union countries. Survey was conducted on chief accountants in Croatian public sector. The survey asked questions about accrual-based accounting system. Answers given to the survey mostly showed the benefits of accrual-based accounting system. For

instance, accrual-based accounting system has enabled the accountants to work more efficiently and more effectively. The information provided by accrual-based accounting system tends to be more transparent. Finally, accrual-based accounting system helps the accountants to improve their performance. Furthermore, there was Kartiko et al. (2018) with a research on 78 financial reports prepared by OECD (Organization for Economic Cooperation and Development) and non-OECD countries. They intended to examine the implementation of accrual-based accounting system in government context and also to find out any steps toward fiscal transparency of central governments. They found that central governments have applied accrual-based accounting system strategically. The implementation of accrual-based accounting system is referring to IPSAS either implicitly or explicitly, and main goals behind the use of this system are going toward fiscal transparency and improving the accountability and performance of central governments. However, other researches revealed that the use of accrual-based accounting standards does not directly produce better change on the accountability and performance of the government. For example, Connolly & Hyndman (2006) found that the implementation of accrual accounting in North Ireland has given different results regarding cost and term timing after comparing the results of trial implementation and actual implementation of accrual accounting. They discovered that the actual implementation of accrual accounting is expensive and only giving less benefits. The benefits of accrual accounting are seemingly overstated due to uncertain cost and expenses involved. Accrual accounting still needs to improved and this improvement may take long process.

The finding above is supported by Adhikari & Mellemvik (2011). They found that the implementation of accrual-based accounting system in Nepalese central government does not yet give the desired results. Actually, Nepalese central government had been familiar with accrual accounting concept since 1980s. The interests of international organizations toward accrual accounting and the existence of professional accountants were among the factors that convince Nepalese central government to use accrual accounting. However, the implementation of accrual accounting in Nepal is a failure because the government is not yet ready to fulfill the conditions of accrual accounting and not receiving enough consultation from professional accountants. New ideas and concepts of accrual accounting are responded reluctantly by the government with low understanding and seeing this situation, professional accountants decide to leave the government behind without counseling. This becomes one strong reason why Nepalese central government replaces accrual accounting concept with cash accounting version. Other reason is that the government considers cash-based accounting system that refers to IPSAS as still better than accrual-based accounting system.

Within the context of Indonesia, the implementation of accrual-based accounting system is not yet as expected. Several researches had been conducted to investigate the implementation of accrual-based accounting system at local governments. Two references were mainly used, respectively Government Accounting Standards and Government Regulation No.71/2010. In general, those researches exposed various evidences regarding the implementation of accrual-based accounting system. For instance, Ritonga (2018) gave several evidences through several deductions. First, the quality of accrual accounting applied by Indonesian governments is still low, precisely at the level of 48.57%. Most accrual transactions are not recognized on time. Second, different perspectives are not yet used in determining the quality of accrual accounting applied by Indonesian governments, especially in differentiating audit status between qualified opinion and unqualified opinion. This fact signifies that Financial Examiner Agency for the Republic of Indonesia is not yet taking accrual accounting quality into account in formulating

audit opinion. Third, different measures are not yet used by local government of regency, local government of municipality, and local government of province in determining accrual accounting quality. Therefore, organizational complexity in processing the transaction and budget does not affect accrual accounting quality.

Other relevant research was done by Nurlis (2018) in which the finding showed that the implementation of accrual-based Government Accounting Standards does not have significant effect on financial reporting quality. Two reasons stand behind this. One reason is that the implementation of Government Accounting Standard is not yet effective. Other reason is that financial staffs do not have adequate experience in making financial reports, or precisely that staffs have been working in accounting field for less than 4 years averagely. Next research was carried out by Efendi et al. (2018) using qualitative method. The finding showed that information from accrual accounting do not benefit the government so much in decision making. The fact that accrual accounting is less beneficial is caused by low understanding among financial staffs regarding accounting issues, probably due to education background that is below average, and also by incomplete and invalid disclosure of financial reports. Taking into consideration of all explanations previously given, researchers find research gap among the results of previous researches. This gap is quite obvious in two points. One point is about the benefit of accrual-based accounting system to government financial management and government financial performance. Other point is concerning the effect of accrual-based accounting system on government financial performance.

In addition to researches on accrual accounting system, there were also several researches on bureaucratic reformation. One previous research considered bureaucratic reformation as a factor that can help the government in creating accountability, improving public service performance, and ensuring the realization of people welfare (Ria et al., 2016). Other research said that bureaucratic reformation is intended to produce a bureaucracy that is clean, efficient, effective and productive in delivering public service. Bureaucratic reformation is also designed to create a transparent and accountable bureaucracy in serving people (Kasim, 2013). Bureaucratic reformation helps the government to build its capacity to enhance public service scope, to establish bureaucracy that is professional, clean, accountable, neutral and effective, which can serve people properly, and also to create the so called democratic governance management in order to achieve better government financial performance (Labolo & Indrayani, 2017; Gaus et al., 2016).

Research on the effect of accrual-based accounting system on government financial performance through the mediation of financial decision making is rarely done within the context of Indonesia. Therefore, the current research will fill the gap of that research, which at least, results of this research will provide solution to the problem regarding poor accounting system in Indonesia. The originality of this research is on the use of financial decision making as mediation/intervening variable in the effect of accrual-based accounting system and bureaucratic reformation on government financial performance. Information derived from accrual-based accounting system are considered more accurate and comprehensive, and therefore, these information should be used in financial decision making in order to improve financial management, to produce more precise comparison of financial performance among entities, and to stabilize government policies (Chirani & Amin, 2016).

The current research produces several results. Accrual-based accounting system has positive effect on government financial performance but bureaucratic reformation does not affect government financial performance. Accrual-based accounting system has positive effect on

financial decision making but bureaucratic reformation does not affect financial decision making. Meanwhile, financial decision making has positive effect on government financial performance. In case of indirect effect, government financial performance mediates the effect of accrual-based accounting system on government financial performance. The contribution of the current research is providing guidance for the implementation of good governance at the Work Unit of Consulting Assignment in the Office of Demographic and Civil Registration. This Office stands under auspices of Directorate General of Demographic and Civil Registration. This Directorate is responsible to the Ministry of Domestic Affairs for the Republic of Indonesia.

LITERATURE REVIEW

Agency Theory, Institutional Theory, Decision Usefulness Theory

Michael et al. (1976) proposed their agency theory by defining

“Agency relationship as a contract under which one or more person (the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decisions making authority to the agent”.

However, agency relationship can cause a problem called information asymmetry where one side in the relationship has more information than the other. In public sector, agency problem often occurs between the elected government officers who act as agent to execute government tasks and the electors (the people) who act as principal that must be served by the government but also has right to supervise the government. Government officers are the provider of public service and they often have more information about policy or decision in relation with the delivery of public service. There is a possibility that these officers become opportunist and take side for the favor of government and ruler while disregarding the interest and welfare of the people. Agency problem can be reduced by requiring government officers to present transparent and accountable financial reports (Zimmerman, 1977).

Institutional theory gives explanation about the mechanism of an organization in carrying out activities that comply with social and cultural values. Goodman & Jinks (2004) said that institutional theory is one of several theories dominantly used by accounting researches to learn about accounting practice in organization. Therefore, institutional theory is closely related with organizational environment. This position is consistent with Carruthers (1995) who declared that under new institutionalism, organizational structure is said to be surrounded by social environment. The discussion about institutional theory, therefore, also talks about how an organization is adapting to the environment. The reason why an organization has structure is that having structure may help the organization to success, or at least to receive recognition (legitimacy) after delivering outcome efficiently. Meyer & Rowan (1977) and Scott (2008) explained that institutional theory is often used to describe action and decision making in public organization. Meanwhile, Lundmark (2008) said that an institution underlain by shared conception will create social reality, and this social reality is also called as an order consisting of rules and standard behaviors. Institution is always changing, and the trigger of this change can be a competition among different logics that explain the existence of institution. Power is always attributed to institutional arrangement and institutional practices. In summary, the core idea of institutional theory is that an organization can be created by the pressure of institutional environment.

Decision usefulness theory was firstly proposed in 1954 by George J. Staubus. In the beginning, this theory was named A Theory of Accounting to Investors. This theory was made due to the problems in historical cost-based accounting. It must be noted that historical cost concept is no longer relevant with the latest accounting assessment that begins to involve market price or use the comparison between current value and fair price. Decision usefulness theory explains the conditions that must be fulfilled if an organization wants to produce high-quality and useful accounting information that can guide users in making decisions. Interestingly, this theory was used as one of various references in the drafting of conceptual frame for Financial Accounting Standard Boards (FASB), which is, Statement of Financial Accounting Concepts (SFAC) that has been prevailed in United States of America until now (Baxter, 2000). One research (Williams & Ravenscroft, 2015) found that the concept of decision usefulness is not actually useful because this concept is no longer corresponding to the current function of accounting policy that is mostly oriented toward regulative function. Managerial posture on the implementation of an accounting standard is always associated with the interest toward the disclosure of accounting information. This disclosure can be in the form of financial reporting that describes financial performance. Other research (Taylor, 2007) showed that performance measurement and financial reporting system are closely related with the instrumental benefit of decision usefulness.

HYPOTHESES

Effect of Accrual-Based Accounting System on Government Financial Performance

The Government of Indonesia has set a reformation plan on accounting field by issuing Government Regulation No.71/2010 concerning Government Accounting Standards that require every government institution to implement accrual-based accounting system. The adjustment to new standards may be not easy but not impossible. It surely involves the efforts to understand and implement accrual-based Government Accounting Standards. These efforts are done by government institutions by the purpose to produce recognition (legitimacy) over all activities done by them in delivering output (outcome), which is in the form of government financial performance that becomes more efficient. If government institutions make this adjustment, then this adjustment represents the condition of institutional theory, which says that an organization will adjust itself to the environment by creating a social reality as an order comprising of rules and standard behaviors that will help organization to attain the success (Lundmark, 2008; Carruthers, 1995; DiMaggio & Powell, 2000). The implementation of accrual-based accounting system at public sector is a government effort to produce transparent and accountable financial reports. Accrual-based accounting system has been proved as able to improve financial performance accountability of government institutions, especially in delivering information about goal, function, and object of expenses (Pamungkas, 2012; Newcomer, 2007; Nogueira & Jorge, 2013; Chirani & Amin, 2016; Najati et al., 2016). Another research (Kober et al., 2010) said that information from accrual accounting can improve accountability and help the users to fulfill their needs in public sector environment. All the statements above give confirmation that the implementation of accrual-based accounting system has positive effect on government financial performance. Accounting information provided in government financial reports, which are presented in compliance with Accrual-Based Government Accounting Standards, have enabled stakeholders to assess the government performance, financial position, and resource

management accountability. If government accounting system is complying with Accrual-Based Government Accounting Standards, then government financial performance will be better and accountable. Based on that position, first hypothesis is written as following:

H1: Accrual-based accounting system has positive effect on government financial performance.

Effect of Bureaucratic Reformation on Government Financial Performance

The government creates good governance by launching many kinds of reformation, including the so called bureaucratic reformation. The process of bureaucratic reformation in government environment is greatly influenced by the ideology of New Public Management (Osborne & Gaebler, 1992). New Public Management (NPM) is a new theory or also a new concept of government management that attempts to apply work practices from private sector to public sector to improve efficiency and effectiveness of government performance. This concept has intention to create what so called society welfare. The use of this concept can be seen from government effort in managing its bureaucracy. The formula of bureaucratic reformation is focused on reforming government roles in designing and organizing the works of government and its apparatus at local, regional and national levels through decentralization process or agencification model (Gaus et al., 2016). Bureaucratic reformation conducted over the government is aimed to develop a bureaucracy that is clean, efficient, effective, and productive, which then opens a way to create transparent and accountable bureaucracy in serving public interest (Kasim, 2013). Other relevant research (Hajar, 2015) explained that bureaucratic reformation enables the government to build capacity to enhance public service scope, to establish bureaucracy that is professional, clean, accountable, neutral and effective, which can serve public interest, and also to create democratic governance management to attain better government financial performance (Labolo & Indrayani, 2017; Gaus et al., 2016). In regard of all the findings above, it can be said that bureaucratic reformation has positive effect on governmental financial performance. Bureaucratic reformation is a way to adopt managerial technique and practice of private sector into public sector. This adoption represents a huge change in the paradigm of government management and this change touches many aspects including structure and reposition of bureaucracy, political system, social system, law, mentality, culture and economic. The government can build public trust by giving results desired by the public, and one of such results is accountable financial performance. If bureaucratic reformation is well implemented, then government management system will change in better way. The most important change is the attainment of better government financial performance. In regard of this position, second hypothesis is developed as following:

H2: Bureaucratic reformation has positive effect on government financial performance.

Effect of Accrual-Based Accounting System on Financial Decision Making

The government does various reformations on public sector management by intention to establish good governance. One reformation is on accounting because the existing public accounting system is no longer relevant with the demand of the new age. Several new goals are made and to achieve them is requiring conceptual change. Therefore, new accounting instrument is introduced to public sector, and this instrument is accrual-based financial reporting. The

position of this instrument has been validated by Government Regulation No.71/2010 concerning Accrual-Based Government Accounting Standards, but the main intention of this Regulation is still to support the existing control and commitment in traditional accounting system that is based on cash (Efendi et al., 2018). Nogueira (2013) found that accrual-based accounting system is greatly useful for internal decision making (for financial, political and technical matters). This system facilitates the organization in processing information regarding budget content and disclosure. The important point from the implementation of accrual-based accounting system is that information produced by this system are available and ready to be used for decision making, which enables the organization to be more transparent and accountable, and helps the organization in assessing the performance of public entities in delivering public interest (Salam & Sutaryo, 2019; Agriyanto et al., 2016). In accordance with all the findings above, it can be said that the implementation of accrual-based accounting system has positive effect on financial decision making. Accrual-based accounting system not only covers the insufficiency in cash-based accounting system but also provide more informative description about financial issues. Accrual-based accounting system enables the government in making decisions on various financial issues such as resource allocation, identification of costs for tangible and intangible products, management of asset and liability, and others. The implementation of accrual-based accounting system can improve the quality of financial decisions, which at least will make the decisions become more logical and rational. By this position, third hypothesis is proposed as following:

H3: Accrual-based accounting system has positive effect on financial decision making.

Effect of Bureaucratic Reformation on Financial Decision Making

Every government will always take all necessary efforts to use the power as good as possible to provide the best public goods and service. The efforts and its good intention make up the so called good governance. The government of Indonesia has made Grand Design of Bureaucratic Reformation by Year 2010-2025, which contains several guidances for the policy making toward bureaucratic reformation. Relevant to this matter, the current research uses Max Weber concept in which this concept views bureaucracy as a machine designed to execute and realize the goals of the state in the administrative realm of governance. Government workers or officers in public service are acting like the igniter or the driver of the machine where they never put their personal interest in decision making (Gaus et al., 2016). While making financial decisions, the government encounters many kinds of interests. If some interests are given priority over the others, then conflict of interests may occur and cause what so called information asymmetry. This situation is just like what has been explained in agency theory proposed by Jensen & Meckling (1976), which indicates that the relationship between government and people (public) is like the relationship between principal and agent. People as principal make agreement with government as agent and this agreement will implicitly and explicitly require agent to act in compliance with the interest of principal. But, agent as the manager of the state always has more information than principal, and consequently, there is always a risk of information asymmetry (Zimmerman, 1977). Bureaucratic reformation is one of several efforts that the government can take to minimize information asymmetry. The government does bureaucratic reformation by revitalizing the system and restructuring public service institutions. Problem of Indonesian bureaucracy is always related with the humans and the system that manages those humans, and therefore, the fast solution is through bureaucratic reformation (Yusriadi, 2018). Delegating

authority from people to government is the manifestation of agency relationship and this relationship will put the government under obligation to be accountable to the people for its performance, especially its financial decision making (Ria et al., 2016). Taking into consideration of all the findings above, it can be said that bureaucratic reformation has positive effect on financial decision making. Bureaucratic reformation is also said as government revitalization that involves various activities such as restructuring public service institutions, simplifying public service procedures, and setting the standards for the use of information and communication technologies, especially in managing public complaints. Bureaucratic reformation is targeted on government as agent to make it more accountable to principal in delivering public service. Government accountability in public service delivery is a neutral power as a product of certain effect from certain class or group in government's financial decision making. Therefore, it can be said that successful bureaucratic reformation is always associated with better financial decision making. Regarding to this position, fourth hypothesis is written as following:

H4: Bureaucratic reformation has positive effect on financial decision making.

Effect of Financial Decision Making on Government Financial Performance

Financial decision making in public sector must be oriented toward the improvement of society welfare. That is why the making of financial decisions should comply with the rules to make the decisions more accountable. The making of financial decisions is always related with social, political and economical aspects. Financial decisions must be presented in financial reports to make it usable by the users when they want to assess government's accountability and financial performance. Therefore, financial reports are the mechanism of assurance that the government is accountable and capable to fulfill its obligation in managing financial resources from taxpayers, donor, creditor and other entities (IFAC, 2013). Several empirical researches found that financial decision making has positive effect on government financial performance. Financial decisions stated in high-quality financial reports can mitigate information asymmetry problem, which consequently helps the government to increase the efficiency and effectiveness of allocation and utilization of economic resources. If financial decisions are in high quality, then government financial performance will also be in high quality, especially when it involves audit status of unqualified opinion (reasonable without exception), which can improve the credibility of government's financial reports (Nogueira, 2013). Relative to this statement, fifth hypothesis is proposed as following:

H5: Financial decision making has positive effect on government financial performance.

METHODS

The current research conducted empirical test on empirical model. Four variables were observed. Two of them are independent/exogenous variables, namely **accrual-based accounting system** and **bureaucratic reformation**. **Financial decision making** is mediation variable. The dependent/endogenous variable is government financial performance. All these variables are latent/unobserved (unmeasurable) variables because these variables are proxied using the perception of respondents on the predetermined indicators. Population of research is civil servants at the Work Unit of Demographic and Civil Registration, which stands under auspices

of the Ministry of Domestic Affairs for the Republic of Indonesia. Sample is further sorted by a sampling technique called purposive sampling to produce sample with certain condition. Certain condition in this matter refers to authority in making decisions regarding accountability in financial management. Based on this condition, the potential respondent leaves only Head of the Office who will be the representative of the Work Unit in the environment of Directorate General of Demographic and Civil Registration at the level of regent or town. From 34 provinces, there were 357 Work Units involved as respondents.

Data were collected with primary data collection method. Field study was carried out at research location with the spreading of questionnaires. Data are differentiated into two, precisely data of respondent demographic and data of respondent perception on accrual-based accounting system, bureaucratic reformation, financial decision making and government financial performance. The collected data are then categorized into time dimension, which therefore, data of this research are cross sectional in nature. Data analysis technique in this research is Partial Least Squares (PLS)-Structural Equation Modelling (SEM), which the operation is supported by computer application of WarpPLS 7.0. Regarding to the path diagram above, two structural equation models are made, respectively:

$$\text{FDM} = \alpha_1 + \beta_1 \text{ABAS} + \beta_2 \text{BR} + \varepsilon_1 \quad \dots\dots\dots (1)$$

$$\text{GFP} = \alpha_2 + \beta_3 \text{ABAS} + \beta_4 \text{BR} + \beta_5 \text{FDM} + \varepsilon_2 \quad \dots\dots\dots (2)$$

Where,

ABAS = Accrual-Based Accounting System

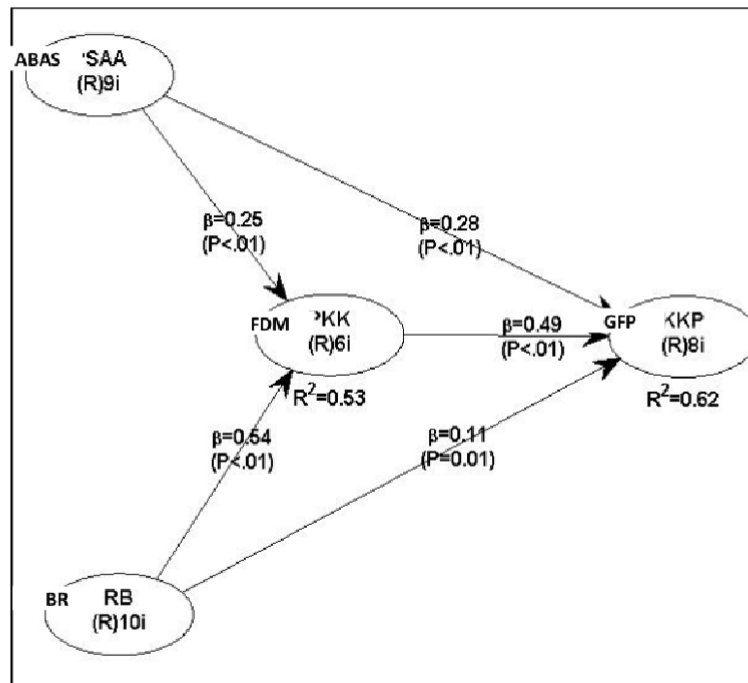
BR = Bureaucratic Reformation

FDM = Financial Decision Making

GFP = Government Financial Performance

RESULT AND DISCUSSION

The evaluation of measurement model is intended to assess reliability and validity of indicators that explain latent variables. All indicators that explain Accrual-Based Accounting System, Bureaucratic Reformation, Financial Decision Making and Government Financial Performance are valid with loading factor value above 0.7. Therefore, all indicators have good indicator reliability. Composite Reliability value of each variable is also very good, which is > 0.7. This result denotes that the condition of internal consistency reliability is fulfilled. Regarding to this position, each variable has good discriminant validity. Structural model evaluation helps the research to operate hypothesis test on Hypothesis 1 to 5. Before evaluating the relationship across constructs, goodness of fit of research model must be evaluated first. This statement is confirmed by P value for APC, ARS and AAR where all the values are < 0.05. Precisely, the value of APC is 0.344, the value of ARS is 0.574, and the value of AARS is 0.572. Each value of AVIF and AFVIF is < 3.3, which signifies that there is no multicollinearity problem across indicators and across exogenous variables. The standing of GoF is 0.288 > 0.25 (medium category), which denotes that research model has very good fit. Each value of SPR, RSCR, SSR and NLBCDR is similar, which is 1. The estimated significance of the relationship across variables can also be arranged in the form of path diagram as shown in the following Figure 1.



Source: Primary data are processed (2020)

Figure 1
ESTIMATED SIGNIFICANCE OF THE RELATIONSHIP ACROSS VARIABLES IN PATH DIAGRAM

DISCUSSION OF RESULTS

Result of analysis shows that the effect of Accrual-Based Accounting System on Government Financial Performance is positive and significant as indicated by positive path coefficient and significant p-value at <0.01 . Regarding to this result, Hypothesis 1 stating that Accrual-Based Accounting System has positive effect on Government Financial Performance is supported and therefore accepted. Any increase in Accrual-Based Accounting System will lead to the increase of Government Financial Performance. The result above supports a tenet in institutional theory, which says that any adjustment done by institutions or organizations through a shared conception is a way to attain the success (Carruthers, 1995; DiMaggio & Powell, 2000; Lundmark, 2008). The implementation of accrual-based accounting system is a form of adjustment and obedience to the regulations. This adjustment is aimed to improve government's accountability and financial performance. The adjustment made by government organizations to adopt accrual-based accounting system is the manifestation of Normative Isomorphism, which is a self-adjustment done by an organization due to the obedience to the prevailing norms in order to be seen similar to other organization (DiMaggio & Powell, 1983).

Result of analysis shows that the effect of Bureaucratic Reformation on Government Financial Performance is positive and significant as indicated by positive path coefficient and significant p-value at <0.01 . In regard of this result, Hypothesis 2 stating that Bureaucratic Reformation has positive effect on Government Financial Performance is supported and

therefore accepted. Any increase in Bureaucratic Reformation is always associated with the increase in Government Financial Performance. The result above supports the principle of New Public Management (NPM), which says that the government attempts to apply work practices from private sector to public sector in order to improve efficiency and effectiveness of government performance, along with the intention to create what so called society welfare (Osborne & Gaebler, 1992). Bureaucratic reformation drives the government and its apparatus to deliver government service through decentralization process or agencification model, but the end point is always to improve people welfare. It must be noted that the positive effect of Bureaucratic Reformation on Government Financial Performance is a form of government adjustment in delivering public service. It is hoped that this adjustment enables the government to produce better financial performance. This position is consistent to a tenet in institutional theory, which says that the structure of an organization is always affected by social environment around it (Carruthers, 1995). The need for bureaucratic reformation has driven the government to conduct self-adjustment to environmental condition by creating more specific organizational structure that can help the government to attain the success.

Result regarding the relationship above seems adequate and supportive to the results of previous researches. In general, those researches said that creating bureaucracy that is professional, clean, accountable, neutral and effective, and establishing democratic government management, are opening a way toward the better government performance (Labolo & Indrayani, 2017; Gaus et al., 2016). However, this position is in contrast to Ria et al. (2016) who found that bureaucratic reformation does not affect financial performance. Furthermore, result of analysis shows that the effect of Accrual-Based Accounting System on Financial Decision Making is positive and significant as indicated by positive path coefficient and significant p-value at <0.01 . According to this result, Hypothesis 3 stating that Accrual-Based Accounting System has positive effect on Financial Decision Making is supported and therefore accepted. The increase in Accrual-Based Accounting System is always followed by the increase in Financial Decision Making. This result is in line with a tenet in decision usefulness theory, which explains that accounting information in high quality will be useful in the decision making. This statement is consistent to the words given by George J. Staubus (1954). The implementation of accrual-based accounting system in financial reports helps the government to make its financial reports become more transparent and accountable. The government can use its own financial reports as guidance in the making of financial decisions.

Result regarding the relationship above has been already adequate and supportive to the results of previous researches. Those previous researches revealed that explicit implementation of accrual accounting can help the government in making financial decisions, in enforcing transparency and accountability, and in assessing the performance of public officers for the sake of people interest (Salam & Sutaryo, 2019; Agriyanto et al., 2016; Nogueira, 2013). In addition to these researches, there are several relevant researches that correspond with the current research. Those researches deduced that information derived from accrual accounting system can help the government in making financial decisions, especially concerning with accountability in expenses (Nogueira & Jorge, 2013; Chirani & Amin, 2016; Najati et al., 2016). Next result of analysis is that the effect of Bureaucratic Reformation on Financial Decision Making is positive and significant as indicated by positive coefficient path and significance p-value at <0.01 . By this result, Hypothesis 4 stating that Bureaucratic Reformation has positive effect on Financial Decision Making is supported and therefore accepted. The increase in Bureaucratic Reformation will lead to the increase in Financial Decision Making. This result supports a tenet in agency

theory, which says that bureaucratic reformation can minimize information asymmetry between authority giver (people or principal) and authority receiver (government or agent). Information asymmetry may cause a conflict in the relationship between government and people, and this conflict is often called as agency conflict. This is consistent to the agency theory proposed by Jensen & Meckling (1976). Previous researches that correspond with the current research include (Ria et al., 2016; Yusriadi, 2018). Those researches clarified that bureaucratic reformation can make financial decision making to be more accountable.

Finally, the result of analysis indicates that the effect of Financial Decision Making on Government Financial Performance is positive and significant as shown by positive path coefficient and significant p-value at <0.01 . Based on this result, Hypothesis 5 stating that Financial Decision Making has positive effect on Government Financial Performance is supported and therefore accepted. Any increase in Financial Decision Making is always related with the increase in Government Financial Performance. This result is in conformity with the argument in agency theory, which says that agency conflict often emanates from information asymmetry between agent and principal. High-quality financial decision making can mitigate information asymmetry problem and improve financial report transparency (Djanegara, 2017). High-quality financial decision making can help the government to get better financial performance. Previous researches that correspond with the result above are (Nogueira, 2013). Both researches deduced that financial decision making has positive effect on government financial performance. Financial decisions that are accountable and in high quality can mitigate information asymmetry problem and can also make the allocation and utilization of economic resources become more effective and more efficient.

CONCLUSION

By virtue of the results of hypothesis test explained in previous section, several conclusions are made. Each conclusion will be elaborated as following. Hypothesis says that Accrual-Based Accounting System has positive effect on Government Financial Performance, Bureaucratic Reformation has positive effect on Government Financial Performance, Accrual-Based Accounting System has positive effect on Financial Decision Making, Bureaucratic Reformation has positive effect on Financial Decision Making, Financial Decision Making has positive effect on Government Financial Performance, mediation role in the indirect effect of Accrual-Based Accounting System and Bureaucratic Reformation on Government Financial Performance.

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