PalArch's Journal of Archaeology of Egypt / Egyptology

MOTIVATION AND ABNORMAL ACCRUAL CHARACTERISTICS ON FINANCIAL STATEMENTS OF LOCAL GOVERNMENTS IN INDONESIA

Rindu Rika Gamayuni

Economics and Business Faculty University of Lampung

Rindu Rika Gamayuni. Motivation And Abnormal Accrual Characteristics on Financial Statements of Local Governments in Indonesia -- Palarch's Journal of Archaeology of Egypt/Egyptology 19(2), 969-991. ISSN 1567-214x

Keywords: Abnormal Accruals, Local Government Financial Reports (Lkpd)

ABSTRACT

Purpose - The specific purpose of this study is to prove whether there is manipulation or management of accounting numbers (abnormal accruals) in Government Financial Statement (LKPD), and what factors cause the practice of abnormal accruals in Indonesia's LKPD.

Design/methodology/approach - This study uses quantitative research methods with secondary data. Data analysis used independent t-test, correlation test, multiple linear regression test. The population in this study is all provincial governments in Indonesia.

Findings - The results of the study prove that there is a positive and significant correlation between abnormal accruals and a surplus deficit in LKPD in Indonesia. There is the management of accounting data (abnormal accruals) on the Local Government Financial Report (LKPD) so that the surplus-deficit value is close to zero, with the motive to provide effective and efficient financial performance information. AA that occurs is AA depreciation expense. However, there is no significant correlation between AA and AA for receivables, payables, and leverage, meaning that the AA that occurs is not due to the management or manipulation of the value of receivables, debt, and leverage.

Practical implications – The results of this study serve as input for regulators to make appropriate accounting policies related to the accrual basis of accounting so that financial statement information is of higher quality, namely relevant (correct) and reliable (reliable) for decision making.

Social implication - Financial reports are expected to present actual financial statements so that they can be used, relied upon, and relevant for making important local government decisions.

Originality value - The originality of this research is established to prove whether there is abnormal accrual management in district/city government LKPD in Indonesia, what specific account causes this abnormal accrual, and what motivates the local government to carry out this practice is the novelty of this research and will provide information contribution to science. In addition, it also helps provide a basis for consideration for local governments to review accounting standards that regulate accrual policies so that financial reports can be of higher quality and used for decision making.

INTRODUCTION

The New Public Finance Management (NPFM) reform resulted in a public sector governance reform, marked by the adoption of accrual accounting policies in many countries, including Indonesia. In Indonesia, Government Accounting Standards (SAP) are accrual-based on Government Regulation (PP) Number 71 of 2010. The accrual accounting system uses estimates or judgments in measuring items in financial statements, for example in asset valuation or liability or liability valuation, so this results in the opportunity to choose policies in the preparation of financial statements that can lead to the management of the numbers presented in the financial statements(R Pilcher, 2011). In the private sector, this is referred to as earnings management. (Healy & Wahlen, 1999)states that earnings management occurs when managers use judgment in financial reporting and structuring transactions to alter financial statements that can mislead some stakeholders about the company's performance and can influence decision making. Earnings management motivation exists in both the private and public sectors, although with different objectives. In the public sector or local government, revenue generation is not the main goal, but the management of numbers has become a way for politicians to match the numbers in financial reports to their interests.(Cohen et al., 2019; Garrone et al., 2013; Robyn Pilcher & Van Der Zahn, 2010). The motivation for managing financial statement figures in the public sector is to meet certain financial objectives set by a higher level of authority, or the motivation to use a break-even position (at a surplus/deficit) to signal that they have provided services at a reasonable cost and financial management is efficient. effective in terms of funding from the central government(Clémenceau & Soguel, 2018; Martini et al., 2020; Robyn Pilcher & Van Der Zahn, 2010).

Abnormal accrual is one form of accrual policy carried out by the government to shift the budget and expenditure in one fiscal year so that certain government goals can be achieved, where this method is difficult to detect and use to manipulate accrual accounting policies. (Pellicer et al., 2016). The level of abnormal accruals is a calculation for researchers to find out whether the abnormal accruals affect the surplus/deficit (excess/shortage) of budget financing in the Regional Government Financial Report (LKPD).(R Pilcher & Zahn, 2010; Stalebrink, 2007). *Abnormal accrual* which is a specific characteristic of accruals can occur in depreciation expense accounts, receivables, and payables (Pellicer et al., 2016; Stalebrink, 2007). This

depreciation (depreciation) cost is related to the depreciation of the asset. According to BPK RI (2017), there are several problems related to fixed assets that can be a loophole for manipulation of abnormal accruals, including (1) fixed assets controlled by other parties and the whereabouts of fixed assets are unknown, (2) the calculation of asset depreciation is not accurate where there is an accumulated depreciation value of fixed assets that exceeds the asset value.

Several Abnormal accrual research has been carried out on local governments by(Clémenceau & Soguel, 2018; Cohen et al., 2019; research in the public sector in Indonesia, particularly regarding specific *abnormal accrual* which has never been studied in Indonesia. Based on the phenomenon of accrual accounting policies that have just been implemented in Indonesia, theories and previous research related to abnormal accruals which are still very limited in the public sector, the researchers are interested in examining this in district/city local governments in Indonesia to provide empirical evidence on motivation and characteristics of abnormal accrual management, It is also useful as consideration for standard makers in terms of accrual policies so that LKPDs provide quality information. The Problem is: (1) Is there manipulation/management of accounting numbers (abnormal accruals) to achieve a surplus or deficit close to zero, in LKPD in Indonesia? (2) Is there any special manipulation/management (specific abnormal accruals) on the accounts of depreciation expense, Receivables, and Debt on LKPD in Indonesia? (3) Is there a relationship between leverage and abnormal accruals on LKPD in Indonesia?

LITERATURE REVIEW

Agency Theory (Agency Theory)

The agency theory which was originally proposed (Jensen & Meckling, 1976) states that there is a conflict of interest between the principal and the agent. The government acts as an agent as an information provider, and the people are represented by the DPR as the principal information users. They will only get secondary information which is certainly less than the government. This is where the information gap or information asymmetry between the principal and agent occurs, which can lead to the practice of manipulating or managing accounting numbers (abnormal accruals) in LKPD.

Abnormal Accrual (AA) and its Characteristics (Specific Abnormal Accrual) in Local Government Financial Statements

In the application of the accrual accounting method, there are 2 variables in the calculation of total accruals, namely: Non-Discretionary Accruals / NDA (company conditions) and Discretionary Accruals / DA or Abnormal accruals / AA (management policies) where these two variables will result in the calculation of Total Accruals. NDA is a variable whose changes are related to economic phenomena and can be explained, while for DA or AA it is an error term variable or changes that are not related to economic phenomena but are the result of policies made by management. AA is accruals arising from

transactions made or accounting treatment chosen to manage revenue(Pellicer et al., 2016). AA is a government policy to determine the accounting treatment to be chosen, or in other words to manage accounting numbers. AA is considered to have a patterned relationship with other aspects of the organization (local government), such as total accruals, income, receivables, buildings, property, and equipment. AA's goals in the public sector(Pellicer et al., 2016)include: 1) reducing surpluses, appropriating unused, or retaining funding for use in subsequent accounting; 2) increase surplus or unused allocation to create a perception of efficient performance; 3) changing spending information to prevent government or media scrutiny and criticism; 4) provide funds for expenditures that are available for use in other expenditures. according to (Marquardt & Wiedman, 2005; Pellicer et al., 2016; R Pilcher, 2011), there are three individual accrual components (specific AA) that can be used to achieve the surplus/deficit objective for the year, namely depreciation expense account accounts receivable account and payable account.

Surplus / Deficit (as motivation for Abnormal Accrual practice)

Surplus/deficit in LKPD called SILPA/SIKPA is the difference more/less between the realization of income and expenditure, as well as the difference between receipts and expenditures of financing in the APBN during one reporting period. According to PP No. 71 of 2010, SILPA/SIKPA is presented in the Budget Realization Report and Changes in Budget Balance Reports. SILPA/SIKPA will have a balance of 0 (zero) at the end of the fiscal year. If there is an excess budget (SILPA), the government can budget SILPA on financing receipts at the beginning of the next fiscal year (Permendagri number 52 of 2015). A surplus/deficit close to zero indicates the government's success in managing its budget or finances. In order to realize a surplus/deficit close to zero, accrual accounts can be managed(Clémenceau & Soguel, 2018; Martini et al., 2020; Pellicer et al., 2016).

There is the practice of manipulation/management of accounting numbers (abnormal accruals) to achieve a surplus/deficit close to zero in LKPD in Indonesia (Abnormal Accrual Motivation Test)

The local government is suspected of carrying out accounting number management practices (which are indicated by the presence of abnormal accruals) to make the surplus/deficit figure for this year close to zero. (Pellicer et al., 2016). The surplus/deficit for 1 year is the difference between expenditure and income, positive if there is a surplus and negative if there is a deficit.Previous research was conducted on local government by(Clémenceau & Soguel, 2018; Ferreira et al., 2013; Leone & Van Horn, 2005; Martini et al., 2020; R Pilcher & Zahn, 2010; Stalebrink, 2007; Verbruggen & Christiaens, 2012). In the case of a Swedish city, abnormal accruals are increased to generate small surpluses across the entire accounting period, and also when large deficits are reported to exhibit "big bath" behavior. (Stalebrink, 2007). If the expenses charged to the account are more than the revenue recognized then this results in a deficit for the year, otherwise a surplus. The motivation for the practice of abnormal accruals carried out to determine the surplus/deficit in the

budget, allegedly to disguise poor financial performance, management weakness, or lack of fund management in the provision of public services, as well as to achieve projected performance targets in the financial plan (Rohman, 2018).

AA is the difference between the surplus/deficit (recorded in the financial statements or those that have been managed) minus the pre-manage income (unmanaged surplus/deficit) (Pellicer et al., 2016). Based on this formula, it indicates that there is a positive relationship between AA and SD recorded in the LK. If the SD recorded on the LK is the same as the SD that has not been managed (pre-managed income or expected AA), it means that there is no AA or the local government is not managing the value of SD. However, if there is a difference in the value between the SD recorded on the LK and the SDs that should be/pre-manage income/expected AA, it means that there is AA or SD management in the local government to approach the value of zero.

Pellicer et al. (2016) stated that the higher the pre-manage income (unmanaged surplus/deficit), the local government tends to use procedures that will reduce the surplus, to get a surplus that is close to zero. As a consequence, abnormal accruals will decrease. For example, it is indicated by abnormally higher depreciation costs (because amortization costs are negative accruals). On the other hand, the lower the pre-managed income (unmanaged surplus/deficit), the local government tends to use procedures that will increase the surplus/deficit, to get a picture of a surplus/deficit that is close to zero. As a consequence, abnormal accruals will increase. Thus, it is assumed that there is a negative relationship between pre-managed income and abnormal accruals, and there is a positive relationship between AA and surplus/deficit. This means that if there is a positive abnormal return indicating that the surplus/deficit is higher than it is, there is a tendency for the regional government to use procedures that will increase the surplus/deficit to approach zero. On the other hand, negative abnormal returns indicate that the surplus/deficit is lower than it is, there is a tendency for the regional government to use procedures that reduce the surplus/deficit to approach zero. The practice of managing accounting numbers (abnormal accruals) is related to the surplus/deficit value, so the hypothesis raised is: On the other hand, negative abnormal returns indicate that the surplus/deficit is lower than it is, there is a tendency for the regional government to use procedures that reduce the surplus/deficit to approach zero. The practice of managing accounting numbers (abnormal accruals) is related to the surplus/deficit value, so the hypothesis raised is: On the other hand, negative abnormal returns indicate that the surplus/deficit is lower than it is, there is a tendency for the regional government to use procedures that reduce the surplus/deficit to approach zero. The practice of managing accounting numbers (abnormal accruals) is related to the surplus/deficit value, so the hypothesis raised is:

Hypothesis 1. There is a positive relationship between the practice of manipulation/management of accounting numbers (abnormal accruals) with the surplus/deficit of LKPD in Indonesia.

There Is Manipulation/Management of Accounting Numbers on Specific Abnormal Accruals (Depreciation Costs, Receivables, And Payables) On LKPD In Indonesia (Abnormal Accrual Characteristics Test)

There are 3 specific abnormal accrual accounts, namely: namely, the depreciation expense account accounts receivable account and payable account (Pellicer et al., 2016; R Pilcher, 2011). In the Australian local government, (Robyn Pilcher & Van Der Zahn, 2010) found that unexpected depreciation (depreciation expense) was used to adjust financial performance, for the possibility of receiving higher capital contributions from higher government authorities. Based on studies(Marquardt & Wiedman, 2005), depreciation expense is assumed to be a constant gross part of the building, property, and equipment asset accounts. The specific component of abnormal accruals is the difference between the actual depreciation expense and the expected value. Receivables are expected to have a constant proportion of service revenue because an unusual increase in receivables usually accompanies the recognition of questionable revenue (an indication of abnormal accruals).(Verbruggen & Christiaens, 2012). Similarly, specific abnormal accruals for accounts payable. An agency will be compelled to delay the recognition of debt and accelerate the recognition of receivables, or vice versa.

In this case, we estimate the abnormal components of each of these accruals to determine whether there are special accruals (depreciation expense accounts, accounts receivable, and accounts payable). used to manage surplus/deficit figures. In the previous study, all accrual components were scaled with the previous total assets, so that their values could be compared(Marquardt & Wiedman, 2005). Based on the theory and previous research, the hypothesis is proposed as follows:
H2: There is a relationship between specific abnormal accruals (depreciation expense account, receivable account, and payable account) with abnormal accruals on LKPD in Indonesia

The Relationship Between Leverage and Abnormal Accruals On LKPD

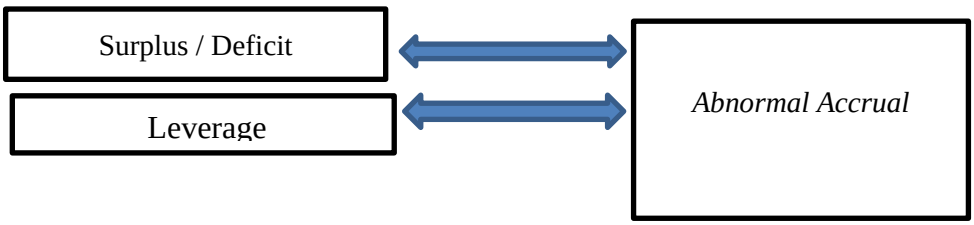
In the previous literature, leverage (total liabilities divided by total assets) was associated with abnormal accruals (Noe et al., 2017). In the previous literature, leverage is measured using different ratios, including long-term debt divided by total assets, total debt divided by total assets (Warfield et al, 1995; Reynold and Francis, 2001; Frankel et al, 2002, and Balsam et al, 2003). There are two conflicting explanations of the relationship between earnings management and leverage. A theory states that companies with higher debt levels have a greater incentive to use accruals to increase revenue or profi t(Noe et al., 2017; Reynolds & Francis, 2000). Another theory related to accounting conservatism states that there is information asymmetry in gains and losses (Watts, 2005). There is empirical evidence that there is a tendency to recognize more gains/revenues than losses/losses. Local governments with lower (higher) leverage are expected to use an accounting policy of increasing (decreasing) income (Cohen et al., 2019; Pellicer et al., 2016). Both theories refer to the private sector, and there is still very limited theory or empirical evidence in the

public sector, so this study uses correlation analysis to examine the relationship between leverage and abnormal accruals.

If there is a positive correlation between leverage and AA, it shows that the higher the leverage, the higher the AA, which means that there is a tendency to increase income. On the other hand, if there is a negative correlation between leverage and AA, it indicates that the higher the leverage, the lower the AA will be, the local government will use less income creating (increase income) or do more income decreasing (lower income) in its accounting policies. The results of research on local governments in the UK state that there is a negative correlation between leverage and AA. This provides evidence that local governments in the UK use more income decreasing (reducing income) than income creating (increasing income) in implementing their accounting policies, this supports the theory of conservatism.

H3: There is a relationship between leverage and abnormal accruals on LKPD in Indonesia.

Figure 2.2 Framework for Thinking



METHODS

Population and Research Sample

The population in this study is all local governments in Indonesia consisting of 34 provincial governments, in the period after the application of the accrual basis, namely 2016 to 2019. The withdrawal techniques sample used is purposive sampling, namely, the sample is selected with special criteria to be relevant to the research design. Specific criteria for sample selection are:

1. Local governments that have applied the accrual basis to LKPD
2. LKPD has been audited
3. LKPD has complete data for LKPD ending December 31, 2017 –
4. 2020. And financial reports for 2016 – 2019 (for data lag 1 year before).

The final sample chosen as the sample in this study was the entire population, namely 34 provincial governments for 4 years of observation, thus there were 136 objects of observation.

Data Collection Methods (Types and Data Sources)

This research is a type of quantitative research using secondary and primary data. Secondary data sources are company records or documentation, government publications, industry analysis by media, websites, the internet, and so on(Now, 2003). Secondary data is local government financial reports (LKPD) in Indonesia obtained from the official website of the BPK RI (https://e-ppid.bpk.go.id), BPK RI office in Jakarta. Meanwhile, primary data was obtained through direct interviews with Regency/Municipal Governments in Indonesia, namely government officials from the finance department as respondents. The results of the interviews will strengthen the results of statistical data analysis.

Variable Operation

Table 3.1 Operationalization of Research Variables

Variable		Measurement
Abnormal accrual (Cohen et al., 2019; Pellicer et al., 2016))		The equation to find abnormal accruals: ABNACCRjt = TACCRjt – EXPACCRjt, ……[1] ACCRjt = - DYjt + COFOjt = COFOjt - DYjt ……..[2] ACCRjt/FY m-1 = 1/FY m-1 + (delta REV m/FYm-1) + (PPE jt/FY m-1) + j,t …… [3] Modified Jones model formula: ACCRjt/TA j t-1= (1/TA j t-1) + (delta REVjt/TAjt-1 - delta ARjt/TA j t-1) + (PPEjt/TA j t-1) + ε j,t [4]
Specific Abnormal accrual (Pilcer 2010, 2011)	Depreciation Cost	ABDEPjt = [DEPjt – (DEPjt-1 * PPEjt/PPEjt-1)] /TAjt-1
	Receivables	ABARjt = [ARjt – (ARm-1 * REVm /REVm-1)] /TA m-1
	Debt	ABAPjt = [APjt – (AP jt-1 * REV jt / REV jt-1)] /TA jt-1

Leverage	Total Liabilities / Total Assets

Statistical Analysis Method

Statistical analysis methods used in this study are descriptive statistical analysis methods, independent t-test different test, multiple regression tests, and Pearson Moment correlation test.

Hypothesis Testing 1. There Is a Practice of Managing Accounting Numbers (Abnormal Accruals) To Achieve a Surplus/Deficit Close to Zero

To test the practice of managing accounting numbers (indicated by the presence of abnormal accruals) in the context of managing surplus/deficit, regardless of whether local entities follow a strategy of increasing income or decreasing income, this study uses absolute abnormal accruals as research conducted by (Ballantine et al., 2008; Pellicer et al., 2016). If the absolute mean of abnormal accruals is equal to zero, it means that there is no surplus/deficit management practice, on the other hand, if the absolute mean of abnormal accruals is not equal to zero, it means that there is a practice of managing surplus/deficit accounting numbers.

The Testing Stages Are As Follows:

1. Equation formula to get Abnormal accrual:

ABNACCRjt = TACCRjt – EXPACCRjt [1]

Information:

ABNACCRjt = Abnormal accruals or discretionary accruals of local government j in year t.
TACCRjt = Total Accruals of Local Government j in year t.
EXPACCRjt = Expected Accruals or non-discretionary accruals Local government j in year t.

Equation formula to get Total Accrual:

Total accruals (ACCR) can be measured using balance sheet items or cash flow statements. This study uses a cash flow statement because the frequency and magnitude of errors caused when using balance-based accrual estimates can be substantial, so it is recommended to use accruals from a cash flow statement. Then measure the total accruals from the statement of cash flows as follows:

ACCRjt = - DYjt + COFOjt = COFOjt - DYjt [2]

Information:

DYjt = Surplus/Deficit in local government j in year t.
COFOjt = Net cash flow from operating activities at local government j year t

Equation formula to get Expected Accrual or Non-discretionary accrual.

Expected accruals (EXPACCR) were obtained from estimation using the Jones Model (Jones, 1991)and modification of the Jones Model (Dechow et al., 1995). This model is often used in the private sector but is also used in the public sector.

The Jones Model formula is as follows:

ACCRjt/FY m-1 = 1/TA m-1 + (delta REV m/FYm-1) + (PPE jt/FY m-1) + j [3]

Information:

ACCRjt = Total accruals to local government j, in year t
? REVjt = change in revenue at local government j in year t.
PPEjt = gross value of tangible fixed assets in local government j in year t
TAjt-1 = Total assets in local government j in year t-1

REVj (Revenue) related to the accrual is service income, and PPE to control depreciation/depreciation expense. According to previous research, all variables are scaled with assets to solve estimation problems.

Next, look for Expected Accrual using the modified Jones model. This model is used to detect the practice of managing accounting numbers related to abnormal increases in income.

Modified Jones model formula:

ACCRjt/TA j t-1= (1/TA j t-1) + (delta REVjt/TA j t-1 - delta ARjt/TA j t-1) + (PPEjt/TA j t-1) + j,t [4]

Information:

ACCRjt = Total accruals to local government j, in year t
Delta ARjt = change in receivables from local government j year t
Delta REVjt = change in revenue to local government j in year t.
PPEjt = gross value of tangible fixed assets in local government j in year t
TA j t-1= Total assets in local government j in year t-1
, = regression coefficients
j,t = unspecified random factors

From equation 4 above, the regression coefficients, are obtained and then the regression coefficients are used to obtain the expected return.

Expected Accrual or non-discretionary accruals obtained by:

EXPACCRjt = α (1/TA j t-1) + (delta REVjt/TA j t-1 - delta ARjt/TA j t-1) + (PPEjt/TA j t-1)

The last step to get the abnormal accruals value (ABACCRjt) is to enter the calculation into equation [1], namely

ABNACCRjt = TACCRjt – EXPACCRjt

The next step is hypothesis testing:

Hypothesis testing 1. There is a practice of managing accounting numbers (abnormal accruals)

Pearson Moment Correlation Test

To prove the existence of a relationship between surplus/deficit and abnormal accrual:

ABNACCRjt/TAjt = + (Surplus or Deficit / TAjt) +
Information:
ABNACCRjt = Abnormal accruals Local government j in year t.
TAjt = Total Assets of Local Government j in year t.
, = regression coefficient
= error

Independent t-test Beda

Test the difference between the AA that occurs with the expected AA (AA that should be). Performed with the Mann Whitney test because the data is not normal (non-parametric test).

Hypothesis testing 2. There is a practice of managing accounting numbers (specific abnormal accruals) which has a significant relationship with abnormal accruals

Looking for Specific Abnormal accrual: is depreciation for this year minus expected depreciation (expected or supposed depreciation value).

Specific Formula for Abnormal accruals from the Depreciation Cost account at the local government j year t:

ABDEPjt = [DEPjt – (DEPjt-1 * PPEjt/PPEjt-1)] / TAjt-1

Information:

ABDEPjt = Abnormal accrual from Depreciation Expense account at Local Government j year t
DEPjt = Local government depreciation expense j year t

DEPjt-1 = Local government depreciation expense j in the previous 1 year
PPEjt = gross value of property, building, and local government equipment j year t
PPEjt-1 = gross value of property, building, and local government equipment j in the previous 1 year, t-1
TAjt-1 = Total Assets of local government j year t

The specific formula for abnormal accruals from accounts receivable to local governments j year t:

ABARjt = [ARjt – (ARm-1 * REVjt /REVm-1)] / TA m-1

ABAR = Abnormal accrual from Accounts Receivable to Local Government j year t
REVjt = Revenue (Revenue from services) local government j year t
REVjt-1 = Revenue (Revenue from services) of local government j in the previous year
ARjt = Accounting Receivable (Receivable) of local government j in year t
ARjt-1 = Accounting Receivable (Receivable) of local government j in 1 year before
TAjt-1 = Total Assets of local government j year t

Specific formula for abnormal accruals from accounts payable to local governments j year t:

ABAPjt = [APjt – (AP jt-1 * REV jt / REV jt-1)] / TA jt-1

ABAP = Abnormal accrual from Accounts Payable to Local Government j year t
APjt = Accounting Payable (Debt) of local government j in year t
APjt-1 = Accounting Payable (Debt) of local government j in 1 year before
REVjt = Revenue (Revenue from services) local government j year t
REVjt-1 = Revenue (Revenue from services) of local government j in the previous year
TAjt-1 = Total Assets of local government j year t

The next step is a correlation test to prove the existence of a relationship between specific abnormal accruals (depreciation costs, receivables, debts)l with abnormal accruals:

$ABNACCRjt/TAjt = + 1 (ABDEPjt/TAjt) + 2 (ABARjt/TAjt) + \beta 3 (ABAPjt/TAjt) + \varepsilon$

Information:

ABNACCRjt = Abnormal accruals Local government j in year t.
TAjt = Total Assets of Local Government j in year t.
ABDEPjt = Abnormal accrual from Depreciation Expense account at Local Government j year t

ABARjt = Abnormal accrual from Accounts Receivable to Local Government j year t
ABAPjt = Abnormal accrual from Depreciation Expense account at Local Government j year t
, 1, 2, 3 = regression coefficient
= error

Hypothesis testing 3 (There is a relationship between leverage and abnormal accruals on LKPD.

Correlation test to prove the relationship between leverage and Abnormal Accrual:

ABNACCRjt/TAjt = + (Leverage / TAjt) +

Information:

ABNACCRjt = Abnormal accruals Local government j in year t.
TAjt = Total Assets of Local Government j in year t.
, = regression coefficient
= error

RESEARCH RESULTS AND DISCUSSION

Research Descriptive

Table 2. Descriptive Statistics of Variables

Descriptive Statistics				
	N	Minimum	Maximum	mean
ABNORMALACCRUAL	136	-.03	.86	.3712
LEVERAGE	136	.00	.15	.0371
ABACCDEPRESSION	136	-.09	.07	-.0009
ABAC ACCEPTABLE	136	-.18	.09	-.0038
ABACCUT	136	-.23	.15	-.0066
SURDEFTA	170	-.06	1.04	.0883
SURDEF	136	-689427764618.12	3259061783 6063.00	18830308 73928.91 28
Valid N (listwise)	136			

In local governments in Indonesia, there is an average of Positive abnormal accruals of 0.371 which indicates there is the surplus/deficit is higher than it actually is, meaning local governments tend to use procedures to increase the surplus/deficit to near zero. Local government procedures or policies in this case, for example, increase abnormal returns of income, abnormal returns of receivables, or reduce abnormal depreciation costs. The minimum value of AA is -0.3 but only occurs in 1 sample of local governments. The maximum value

of AA is 0.86. The highest leverage of 0.15 means that the portion of total debt is 15 percent of total assets.

The average value of AA depreciation is -0.0009, this indicates that the depreciation expense recorded in the financial statements is lower than the expected depreciation or depreciation expense that should have occurred, meaning that the regional government is implementing a strategy to reduce the value of PPE (Plant, Property and Equipment) so that depreciation expense decreased. The AA value of depreciation expense is -0.0009. it means that depreciation is used to increase SD in that year, by an average of 0.09% of the total assets of the previous year. The average value of AA Receivables is -0.0038, meaning that the receivables recorded in the financial statements are lower than the expected accounts receivable or receivables that should have occurred. This shows that there is a strategy to reduce the value of receivables so that the value of receivables is lower than it should be. This is in order to lower the surplus to near zero.

The average value of AA Debt is -00066, meaning that the debt recorded in the financial statements is lower than the expected account payable or debt that should have occurred. Thus, there is a strategy to reduce the value of debt so that the value of debt is lower than it should be. AA receivables and AA payables show an average value of -0.038 % and -0.06% of the total assets of the previous year. As a consequence, there is an effect of delaying the recognition of receivables and delaying the recognition of payables amounting to 0.038 % and 0.06% of the previous total assets, respectively.

Furthermore, Table 3 below is the results of the correlation test to prove the results of testing hypotheses 1,2 and 3:

Table 3. Pearson. Correlation Test Results

Correlations								
		ABNORMALACCRUAL	SURDEF	SURDEFTA	LEVERAGE	ABACCDEPRESSION	ABAC ACCEPTABLES	ABACCUT
ABNORMALACCRUAL	Pearson Correlation	1	-.142*	.208**	-.011	-.116	.021	.091
	Sig. (1-tailed)		.050	.008	.449	.089	.406	.147
	N	136	136	136	136	136	136	136
SURDEF	Pearson Correlation	-.142*	1	.158*	-.120	.013	-.081	.024
	Sig. (1-tailed)	.050		.033	.081	.441	.175	.392

	N	136	136	136	136	136	136	136
SURDEFTA	Pearson Correlation	.208**	.158*	1	.210**	.031	-.200**	-135
	Sig. (1-tailed)	.008	.033		.007	.361	.010	.058
	N	136	136	136	136	136	136	136
ABACCDEPRESSION	Pearson Correlation	-.116	.013	.031	-.072	1	.113	-.056
	Sig. (1-tailed)	.089	.441	.361	.203		.095	.259
	N	136	136	136	136	136	136	136
ABAC ACCEPTABLES	Pearson Correlation	.021	-.081	-.200**	.052	.113	1	.276**
	Sig. (1-tailed)	.406	.175	.010	.274	.095		.001
	N	136	136	136	136	136	136	136
ABACCUT	Pearson Correlation	.091	.024	-135	.086	-.056	.276**	1
	Sig. (1-tailed)	.147	.392	.058	.160	.259	.001	
	N	136	136	136	136	136	136	136
LEVERAGE	Pearson Correlation	-.011	-.120	.210**	1	-.072	.052	.086
	Sig. (1-tailed)	.449	.081	.007		.203	.274	.160
	N	136	136	136	136	136	136	136
*. Correlation is significant at the 0.05 level (1-tailed).								
**. Correlation is significant at the 0.01 level (1-tailed).								

Hypothesis Testing 1.

There Is a Practice of Managing Accounting Numbers (Abnormal Accruals) To Achieve a Surplus/Deficit Close To Zero

The correlation value between AA and SD is positive at 0.208 with a significance of 0.008 (less than 0.01), meaning that there is a positive and significant relationship between AA and SD with a significance level of 99%. A positive and significant correlation means that the higher the AA, the higher the SD, and vice versa. These results support the proposed hypothesis and are by the statement(Pellicer et al., 2016), that there is a positive relationship between AA and SD. The higher the AA indicates that the local government tends to manage SD by increasing the SD to be close to zero. It can be seen in the descriptive statistics (Table 2) that the average value of AA in local governments in Indonesia is positive at 0.37. This condition means that the local government has a deficit (expenditures are greater than revenues, but the local government tends to manage it by increasing it to approach zero. In this case, there is local government motivation to set the calculation surplus/deficit in the budget close to zero, in particular by increasing the SD figure to near zero, as well as for achieving the performance targets projected in the financial plan. (Rohman, 2018). Policies taken by the local government to increase SD include early recognition of receivables and delaying debt recognition, reducing depreciation costs by lowering the value of PPE (Plant, Property, Equipment).

Conditions in this local government are different from conditions in private companies because there are differences in goals or profit orientation. In private companies whose principle is profit-oriented, namely to obtain the highest profit, positive AA indicates there is a tendency to manage earnings by increasing profits. There is a profit that is higher than the profit that should be. In local governments the orientation is non-profit, the motive is not just profit, but the efficient and effective performance shown by SD is close to zero, as evidenced in the results of this study, which supports the results of previous studies by(Clémenceau & Soguel, 2018; Martini et al., 2020; Robyn Pilcher & Van Der Zahn, 2010). The management of the numbers with adjustments to the financial statements is carried out by politicians with the motivation for the local government's interest(Cohen et al., 2019; Garrone et al., 2013; Robyn Pilcher & Van Der Zahn, 2010).

Additional testing for hypothesis 1: Independent Difference Test t-test

Test the difference between the AA that occurs with the expected AA (AA that should be). Performed with the Mann Whitney test because the data is not normal (non-parametric test).

Table 4. Two-Sample Kolmogorov-Smirnov Test

Test Statistics		
		ACCRUAL
Most Extreme Differences	Absolute	.485
	Positive	.485
	negative	-.007
Kolmogorov-Smirnov Z		4,002
asymp. Sig. (2-tailed)		.000
a. Grouping Variable: GROUP		

Based on Table 4 above, the data normality test with Kolmogorov-Smirnov Test indicates that the data is not normal because of the value of a Symp. Sig. (2-tailed) of 0.00 (less than 0.05). So the independent t-test was carried out using the Mann-Whitney test.

Table 5. Mann-Whitney Test

Ranks				
	GROUP	N	Mean Rank	Sum of Ranks
ACCRUAL	1.00	136	98.08	13339.00
	2.00	136	174.92	23789.00
	Total	272		

Test Statistics	
	ACCRUAL
Mann-Whitney U	4023,000
Wilcoxon W	13339,000
Z	-8.055
asymp. Sig. (2-tailed)	.000
a. Grouping Variable: GROUP	

Group 1 is the group of expected accruals (accruals that are expected or should occur), while Group 2 is a group of abnormal accruals or accruals that occur. Based on the results of the different tests with the Mann Whitney test in table 5 above, there is a significant difference between the two groups, as seen from the Asymp Sig result of 0.00, which is less than 0.005.

Table 6. Descriptive Statistics for Expected Accrual and Abnormal Accrual

Descriptive Statistics						
	N	Range	Minimum	Maximum	Sum	mean
EXP.ACC	136	1.31	-.08	1.23	27.27	.2005
ABN.ACC	136	.89	-.03	.86	50.48	.3712
Valid N (listwise)	136					

Based on Table 6, the average Expected Accrual value is 0.205, lower than the Abnormal Accrual value of 0.3712. AA is higher and significantly higher than EA indicating that there has been management of accounting numbers in LKPD in Indonesia, where the management or deviation (abnormal/discretionary) of accruals is greater than the expected accrual value.

Hypothesis Testing 2.

There Is a Practice of Managing Accounting Numbers on Specific Abnormal Accruals (Depreciation Costs, Receivables, And Debts) Which Have A Significant Relationship With Abnormal Accruals.

The correlation value between AA and Specific Accruals is AA Depreciation cost is -0.116 with a significance of 0.089 (less than 0.1), meaning that there is a negative relationship between AA and AA Depreciation expense with a significance level of 90%. A negative and significant correlation means that the higher the AA, the lower the AA. Depreciation costs will be lower, and vice versa.

These results support the proposed hypothesis, that there is a practice of managing accounting numbers caused by specific abnormal accruals of depreciation expense. There is the management of accounting numbers as evidenced by the existence of abnormal accruals specific to depreciation expense. The existence of AA depreciation expense indicates that the local government has increased or decreased depreciation expense than it should be because AA depreciation expense is obtained from the difference between the depreciation expense incurred and the depreciation expense that should have been.(Marquardt & Wiedman, 2005). The results of this study support the results of research in Australia by (Robyn Pilcher & Van Der Zahn, 2010)who found unexpected depreciation (depreciation expense) was used to adjust financial performance. The results of this study provide empirical evidence that local governments in Indonesia manage accounting numbers on depreciation costs. If AA is negative, it means that the depreciation expense incurred is less than it should be. On the other hand, positive depreciation expense AA means that the depreciation expense incurred is greater than the depreciation expense that should be. Based on the statistical descriptive table in Table 2, the average value of AA depreciation costs for local governments in Indonesia is negative, which means that the depreciation costs incurred are less than the depreciation costs that should be. In this case, it indicates that the

local government is managing accounting numbers by lowering depreciation costs than they should be. Based on studies (Marquardt & Wiedman, 2005), depreciation expense is assumed to be a constant gross part of the PPE asset account, so the management of decreasing depreciation expense is carried out by decreasing the value of PPE assets. The results of this study are also consistent with the research conducted to local governments in England by (Stalebrink, 2007; Pilcher and van der Zahn, 2010), that there is a management of accounting numbers in LKPD in Indonesia through the management of depreciation costs, which aims to achieve SD close to zero.

The correlation value between AA and Specific Accruals, namely AA Receivables is 0.021 with a significance of 0.406 (more than 0.5), meaning that there is a positive relationship but not significant between AA and AA Receivables. These results do not support the hypothesis that there is a significant relationship between AA and AA receivables. Thus, the AA that occurs in local governments in Indonesia is not caused by the management of accounts receivable figures. There is no significant management of accounts receivable figures (decreasing or increasing accounts receivable) for local governments in Indonesia.

The correlation value between AA and Specific Accruals, namely AA Debt is 0.091 with a significance of 0.147 (more than 0.5), meaning that there is a positive relationship but not significant between AA and AA Debt. These results do not support the hypothesis that there is a significant relationship between AA and AA debt. Thus, the AA that occurs in local governments in Indonesia is not caused by the management of debt figures. There is no significant management of debt figures (reducing or increasing debt figures) in LKPD in Indonesia. In this case, there is no delay in the recognition or initial recognition of receivables and debts at LKPDs in Indonesia.

Hypothesis Testing 3 (There Is a Relationship Between Leverage and Abnormal Accruals On LKPD.

The correlation value between AA and leverage is -.011 with a significance of 0.449 (more than 0.05), meaning that there is a negative relationship between AA and leverage but not significant. So this result does not support the theory which states that companies with high debt levels tend to use accruals to increase revenue or profit(Noe et al., 2017; Reynolds & Francis, 2000). The level of leverage or debt that occurs in LKPD in Indonesia is not related to AA. Also does not support other theories related to accounting conservatism which states that there is information asymmetry in gains and losses(Watts, 2005). Based on the results of this study, there is no tendency to recognize more gains/income than losses/losses on LKPD in Indonesia. There is no information asymmetry related to gains and losses in LKPD in Indonesia. The results of this study also do not support the statement in the study(Cohen et al., 2019; Pellicer et al., 2016), that local governments with lower (higher) leverage are expected to use accounting policies to increase (decrease) revenues.

CONCLUSIONS AND IMPLICATION

Conclusion

1. There is a positive and significant correlation between AA and SD on LKPD in Indonesia. The higher the AA indicates that the local government tends to manage SD by increasing the SD to be close to zero. Thus, H1 is supported, there is a management of accounting numbers by increasing the SD in LKPD in Indonesia to near zero, with the motivation for the benefit of the local government to show better financial performance than the local government. This proves the existence of information asymmetry in local governments, which supports agency theory.
2. There is a negative and significant correlation between AA and AA depreciation expense. There is a management of accounting numbers on LKPD in Indonesia through the management of depreciation costs, which aims to achieve SD close to zero.
3. There is no evidence of a significant correlation between AA with AA receivables and AA with AA debt. AA that occurs in LKPD in Indonesia is not caused by significant AA receivables and debt AA. There is no delay in recognition or initial recognition of receivables or payables at LKPDs in Indonesia.
4. There is no evidence of a significant correlation between AA and the level of leverage. AA contained in LKPD in Indonesia has nothing to do with leverage. The government does not manage leverage significantly.
5. AA that occurs in local governments in Indonesia is positive AA. A positive AA indicates that the local government's financial statements have a deficit (expenditures are greater than revenues), but local governments tend to manage it by increasing it to approach zero, as indicated by increased AA. In this case, there is local government motivation to set the calculation surplus/deficit in the budget close to zero. Other empirical evidence from this study shows that the characteristics of AA (management of accounting numbers) in LKPD that occur are caused by managing depreciation costs by lowering depreciation costs. This reduction in depreciation expense aims to increase the deficit to bring SD closer to zero so that local government performance looks more efficient and effective. However, the characteristics of AA or the management of accounting numbers on LKPD in Indonesia are not caused by the significant management of receivables, debts, and leverage.

LIMITATIONS, THEORETICAL AND PRACTICAL IMPLICATIONS

The limitation of this study is that it uses a sample of all provinces in Indonesia, but has not used a sample of city districts. However, this research has succeeded in providing empirical evidence that there is a surplus deficit management approach to zero in the Financial Statements of Local Governments in Indonesia. Several other countries have provided the same research results. However, there is still very little research that can prove how much abnormal accrual (number management) occurs in LKPD, and how much AA or management will affect the actual performance of local governments. Does the local government's financial performance presented in the LKPD show the real condition of the real local government's financial performance? For this reason, further research is needed both in Indonesia and

in other countries. This can provide empirical evidence on the impact of the application of accrual accounting on the actual financial performance of the company. Will the application of the accrual basis increase the fairness of the financial statements or can it even lead to deviations (abnormal) gaps that cause information asymmetry, namely not presenting the actual financial statements. Financial reports are expected to present actual financial statements so that they can be used, relied upon, and relevant for making important local government decisions. Will the application of the accrual basis increase the fairness of the financial statements or can it even lead to deviations (abnormal) gaps that cause information asymmetry, namely not presenting the actual financial statements. Financial reports are expected to present actual financial statements so that they can be used, relied upon, and relevant for making important local government decisions. Will the application of the accrual basis increase the fairness of the financial statements or can it even lead to deviations (abnormal) gaps that cause information asymmetry, namely not presenting the actual financial statements. Financial reports are expected to present actual financial statements so that they can be used, relied upon, and relevant for making important local government decisions.

The results of this study are also expected as input for regulators or the government as policymakers to determine the next steps to make appropriate accounting policies related to the accrual accounting basis so that financial statement information is of higher quality, namely relevant (correct) and reliable (reliable) for decision making.

REFERENCE

Ballantine, J., Forker, J., & Greenwood, M. (2008). Public and private sector auditors and accruals quality in English NHS hospital Trusts. British Accounting Review, 40(1), 28–47. https://doi.org/10.1016/j.bar.2007.09.002

Clémenceau, M., & Soguel, N. (2018). How does depreciation management affect subsequent fiscal performance? The case of the Swiss cantons. Swiss Journal of Economics and Statistics, 154(1). https://doi.org/10.1186/s41937-017-0017-4

Cohen, S., Bisogno, M., & Malkogianni, I. (2019). Earnings management in local governments: the role of political factors. Journal of Applied Accounting Research, 20(3), 331–348. https://doi.org/10.1108/JAAR-10-2018-0162

Ferreira, A., Carvalho, J., & Pinho, F. (2013). Earnings Management Around Zero: A motivation to local politician signaling competence. Public Management Review, 15(5), 657–686. https://doi.org/10.1080/14719037.2012.707679

Garrone, P., Grilli, L., & Rousseau, X. (2013). Management Discretion and Political Interference in Municipal Enterprises. Evidence from Italian Utilities. Local Government Studies, 39(4), 514–540. https://doi.org/10.1080/03003930.2012.726198

Healy, PM, & Wahlen, JM (1999). A Review of the Earnings Management Literature and Its. Accounting Horizons, 13(4), pp.365-383. http://www.aaajournals.org/doi/abs/10.2308/acch.1999.13.4.365

Jensen, C., & Meckling, H. (1976). THEORY OF THE FIRM : MANAGERIAL BEHAVIOR , AGENCY COSTS AND OWNERSHIP STRUCTURE I . Introduction and summary In this paper WC draw on recent progress in the theory of (1) property rights , firm . In addition to tying together elements of the theory of e. 3, 305–360.

Jones, JJ (1991). Earnings Management During Import Relief Investigations. Journal of Accounting Research, 29(2), 193. https://doi.org/10.2307/2491047

Leone, AJ, & Van Horn, RL (2005). How do nonprofit hospitals manage earnings? Journal of Health Economics, 24(4), 815–837. https://doi.org/10.1016/j.jhealeco.2005.01.006

Marquardt, CA, & Wiedman, CI (2005). How are Earnings Managed? An Examination of Specific Accruals. SSRN Electronic Journal, December. https://doi.org/10.2139/ssrn.375660

Martini, R., Agustin, R., & Sari, KR (2020). Accrual Discretion Policy on Excess/Less Budget Financing at the Provincial Level. TEST Engineering & Management, 9925, 9925–9935. https://www.researchgate.net/profile/Rita_Martini3/publication/343809861_Accrual_Discretion_Policy_on_the_ExcessLess_Budget_Financing_at_the_Provincial_Level/links/5f40e39ba6fdcccc43e-B520/Accrualcess-Discretion-the-Policy-Exancing-Level

Noe, K., Forgione, DA, Smith, PC, & Liu, H. (2017). Managerial Law Article information : To cite this document : About Emerald www.emeraldinsight.com. 29(1), 1–19.

Pellicer, MJA, Hodges, R., & Marti, C. (2016). Earnings Management in English Local Governments: Determining factors and instruments. Financial Accountability & Management, 17463, 1–21.

Pilcher, R. (2011). Local governmental management of discretionary and specific accruals. International Journal of Accounting, Auditing and Performance Evaluation, 7(1/2), 32–60. https://www.inderscienceonline.com/doi/abs/10.1504/IJAAPE.2011.037725

Pilcher, R, & Zahn, M. Van der. (2010). Local governments, unexpected depreciation and financial performance adjustment. Financial Accountability & Management. https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1468-0408.2010.00503.x

Pilcher, Robyn, & Van Der Zahn, M. (2010). Local Governments, Unexpected Depreciation and Financial Performance Adjustment. Financial Accountability and Management, 26(3), 299–324. https://doi.org/10.1111/j.1468-0408.20100.00503.x

Reynolds, JK, & Francis, JR (2000). Does size matter? The influence of large clients on office-level auditor reporting decisions. In Journal of Accounting and Economics (Vol. 30, Issue 3, pp. 375–400). https://doi.org/10.1016/S0165-4101(01)00010-6

Rohman, A. (2018). Analysis Effect of Accrual Discretion Against SILPA (SIKPA) Budget Calculations on Local Government. Sriwijaya International Journal of Dynamic Economics and Business, 2(4), 293. https://doi.org/10.29259/sijdeb.v2i4.293-316

Sekaran, U. (2003). Research methods for business A Skill-Building Approach Fourth Edition Uma. In Journal of Chemical Information and Modeling (Vol. 53, Issue 9). https://doi.org/10.1017/CBO9781107415324.004

Stalebrink, OJ (2007). an Investigation of Discretionary Accruals and Surplus-Deficit Management: Evidence From Swedish Municipalities. Financial Accountability & Management, 23(4), 441–458. https://doi.org/10.1111/j.1468-0408.2007.00437.x

Verbruggen, S., & Christiaens, J. (2012). Do Non-profit organizations manage earnings toward zero profit and does governmental financing play a role? Canadian Journal of Administrative Sciences, 29(3), 205–217. https://doi.org/10.1002/CJAS.1219

Watts, RL (2005). Conservatism in Accounting - Part I: Explanations and Implications. SSRN Electronic Journal. https://doi.org/10.2139/ssrn.414522