

**THE EFFECT OF ACCRUAL LEVELS, DISCRETIONARY ACCRUALS,
POLITICIAN FACTOR AND AGE OF LOCAL GOVERNMENT ON
TOWARDS THE BUDGET FINANCING SURPLUS IN
LOCAL GOVERNMENT REGENCY/CITY OF
SOUTH SUMATERA PROVINCE**



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ACCOUNTING

Proposed as one of the Requirements to Achieve Bachelor Degree of Economics

MINISTRY OF EDUCATION AND CULTURE

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COMPREHENSIVE EXAM APPROVAL LETTER

THE EFFECT OF ACCRUAL LEVELS, DISCRETIONARY ACCRUALS, POLITICIAN FACTOR AND AGE OF LOCAL GOVERNMENT ON TOWARDS THE BUDGET FINANCING SURPLUS IN LOCAL GOVERNMENT REGENCY/CITY OF SOUTH SUMATERA PROVINCE

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Is truly the result of my word under guidance of supervisors. There is no other people work in this script that I copied without mentioning the original source.

I made this statement in good faith. If turn out my statement is not true in the future the I will be willing to accept the sanctions in accordance with regulations, including the cancellation of my degree.

Indralaya, March 2021

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MOTTO AND PRESENT

MOTTO :

“Call upon me, I will respon to you”
(40:60).

“The world is not the resting place, it is the testing place”
(Uknown)

“We all started from knowing nothing. However, we don’t give up”
(Alvi Syahrin)

PRESENT

I Present this script to:

- Allah SWT
- My mother and father
- My grandfather and grandmother
- My family
- My almamater

FOREWORD

Alhamdulillahirabbil'alamin, all praise and gratitude to Allah SWT for His grace, guidance and His help so that the writer can complete the script entitled "The Effect of Accrual Levels, Discretionary Accruals, Politicians Factor and Age of Local Government on Towards the Budget Financing Surplus in Local Government Regency/City of South Sumatera Province." This script was prepared in order to complete the requirements to achieve bachelor degree of economics at the Accounting Department, Faculty of Economics, Sriwijaya University. Broadly speaking, this script aims to analyze the effect of accrual levels, discretionary accrual, politicians factor and age of local governments on the realization of budget financing surplus in local governments both provinces, regencies and cities in the province of South Sumatra in 2015-2019.

The writer realizes that in the writing of this script there are still many deficiencies in both grammar, material and its arrangement. Therefore, the writer really expect constructive criticism and suggestions from all parties to be useful in writing in the future. On this occasion the writer also would like to thank all those who have helped the author in completing this script. Hopefully this script will be useful for readers, especially Sriwijaya University students.

Palembang, March 2021



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Thank you for help and dua from all people, who cant be mentioned one by one. That is the thanks from the writer.

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ABSTRACT STATEMENT LETTER

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ABSTRACT

The Effect of Accrual Levels, Discretionary Accruals, Politicians Factor and Age of Local Government on Towards the Budget Financing Surplus in Local Government Regency/City of South Sumatera Province

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Earnings management research to determine what motivates managers to disclose earnings around zero and use it as an instrument to influence user decisions. Still limited available research in the subject of public sector. This research aims to analyze the effect of the accrual levels, discretionary accruals, politicians factor, the age of local government against the remaining budget financing surplus. The population in this research is financial statements of local governments, both cities, regencies, and province in South Sumatra Province from 2015 to 2019 consisting of 18 local governments who were taken using purposive sampling method. The data were analysed using multiple linear regression analysis using software SPSS version 25. By using 5 calculation models of earnings management, such as de angelo, healy, hribar, jones and modified jones. The results of the analysis show that the discretionary accrual variables and age of the local government have an effect on budget financing surplus, and the political motive variable has no effect on budget financing surplus.

Keywords: *Accrual Levels, Discretionary Accrual, Politicians Factor, Age of Local Government, Budget Financing Surplus*

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ABSTRAK

Pengaruh Tingkatan Akrua, Diskresi Akrua, Motif Politik dan Umur Pemerintah Daerah terhadap SILPA pada Pemerintah Daerah Kabupaten/Kota di Provinsi Sumatera Selatan

Oleh:

**Ria Puspita Ayu Oktavia
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Penelitian manajemen laba untuk menentukan apa yang memotivasi manajer untuk mengungkapkan laba mendekati nol dan menggunakannya sebagai instrumen untuk mempengaruhi keputusan pengguna. Masih terbatasnya penelitian yang tersedia di sektor publik. Penelitian ini bertujuan untuk menganalisis pengaruh dari tingkatan akrual, diskresi akrual, motif politik, umur pemerintah daerah terhadap sisa lebih penggunaan anggaran (SILPA). Populasi pada penelitian ini adalah laporan keuangan pemerintah daerah baik kota, kabupaten, provinsi yang ada di Provinsi Sumatera Selatan dari tahun 2015 sampai 2019 terdiri dari 18 pemerintah daerah yang diambil dengan menggunakan metode purposive sampling. Data dianalisis menggunakan analisis regresi linear berganda menggunakan software SPSS versi 25. Dengan menggunakan 5 model perhitungan manajemen laba, seperti de angelo, healy, hribar, jones dan modified jones. Hasil penelitian ini menunjukkan bahwa variabel diskresi akrual dan umur pemerintah daerah yang berpengaruh terhadap SILPA, dan variabel motif politik tidak memiliki pengaruh terhadap SILPA.

Kata kunci: Tingkatan Akrua, Diskresi Akrua, Motif Politik, Umur Pemerintah Daerah, SILPA

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CHAPTER I

INTRODUCTION

1.1 Background

Accrual accounting is a method that has been used in the private sector. Currently, the public sector or government has begun to use accrual accounting to help map the performance of policies in order to be efficient and effective. In accrual accounting helps make better decisions in order to utilize existing financial resources for commonweal and also its provides a better performance calculation, so that an organization can manage its finance more efficiently and the results can be compared to measure financial performance. The process of adopting this accounting technique is called new public management.

Putting the spotlight on accrual accounting figures could lead public sector entities to report an acceptable level of income, even though the bottom line in public sector is not as in the private for-profit sector. Especially in local governments (LGs), significant surpluses might be interpreted both by citizens and constituents as a sign of excessive taxes, compared to the quality and quantity of services provided. High surpluses could also puzzle central governments about the level of subsidies given. On the other hand, losses might be considered as indications of poor financial management that would attract the criticism of political opponents, the discontent of citizens and eventually sanctions from the central government and monitoring authorities. Actually, substantial economic and political consequences can derive from failing to achieve targets (Hodges 2017) including those defined by supervising authorities.

Implementation of accrual based accounting system in Indonesia was preceded by the birth of a variety of financial regulation and local governments. It

is characterized by the release of packages Finance Law: Law Number 17/2003, Law Number 1/2004 and Law Number 15/2004. One mandate of Law Number 17/2003 is the implementation of accrual accounting in Indonesia, with a maximum limit implemented in 2008 deadline that has been mandated these laws have been passed by the government. This does not mean a failure, because there is hope, and at this time has been running.

In addition to the above financial regulation package the government has also spawned special rules for the implementation of accrual based accounting. The regulation stipulated in the regulation number 64 home minister in 2013 on the application of accrual accounting standards bases and Government Regulation Number 71 of 2010 on government accounting standards (accrual basis). The birth of the regulations regarding the implementation of accrual based accounting system in government and the local governments have a wide range of implications for government and local government. Government and local authorities have to really prepare well so as not to fail in implementation. Besides internally government has issued various regulations as a boost to efforts to implement accrual accounting, there is also encouragement from abroad regarding the implementation of this bases accrual accounting system.

Needs increased transparency and accountability to users and government stakeholders and government to better understand the role of local government. The public increasingly larger current. Government became the wheels of growth of development in our country. A trillion rupiah government manage resources in a variety of forms. The government should be transparent to the public good every tax payer or other communities. Society must receive the correct information, valid,

and reliable and timely. Therefore, the government needs to have the authority in financial management. Authority (discretion) related to reporting gives the government discretion in the preparation of financial statements among others by organizing various accounting policies including the policy on the basis of accounting is the accrual or discretionary accruals.

Various background above makes writer to be interested in examining the government's authority in financial reporting, the reporting of accrual accounting can be seen by use of accrual levels and their discretionary authority accrual on management local government. Accrual levels are grouped into five levels, namely the accrual mild, moderate accrual, accrual strong, super accrual, and radical accrual. Discretionary accruals is the authority of local government (local government management) to determine how much the implementation of accrual reporting levels of government and local government. Government and local authorities should manage its finances with the authority is either in financial management and in the process of preparing financial statements or reporting. Discretion or authority possessed one of them is discretion accrual. Accrual discretion is the authority of local government management to implement accrual in the financial reporting process. The local government applying discretionary accruals pushed side because of the regulatory aspects but also encouraged various other motive (Rohman, Daud, and Ermadiani 2018).

Consequently, the implementation of accrual accounting opens the way for empirical research on earnings management and accounting manipulation and in the public sector, like management in reported earnings can be purposeful. Indeed, earnings management has been a research topic that has only recently attracted the

interest of researchers in the public sector who aim to understand public-sector organizations opportunities and incentives to manipulate their accounting figures (Cohen *et al.*, 2018).

On this research on writer will determine earnings management in public sector with politician factor, that politician wants to mixed earnings in many way to show positive result and close to zero of budget financing surplus with use discretionary accrual. Also political competition give another reason of politician to do earnings management. Because every politicians will make reality of politic promise during campaign period, with increase/decrease the expenditure consistent of their promise to build like various public facilities. It will increase the expenditure so that budget financing surplus or SILPA (*Sisa Lebih Penggunaan Anggaran*) will decrease.

According to Dechow *et al.* (2010), accounting manipulation is a central issue for both academics and practitioners. Several expressions, such as earnings management, creative accounting, income smoothing, window dressing and aggressive accounting, have been used to define accounting manipulation (Jones, 1991). This study uses the expressions “earnings management” and “creative accounting” interchangeably to indicate the manipulation of accounting figures within the regulatory framework using the flexibility allowed by accounting standards and the laws.

Earnings management is an issue that has been extensively investigated in the private sector (Dechow *et al.*, 1995; Xie *et al.*, 2003; (Braam *et al.* 2015), 2015; Kothari *et al.*, 2016; Paiva *et al.*, 2016; Vieira, 2016; Malikov *et al.*, 2017) , while only a few research studies have been devoted to the public sector. Dechow *et al.*

(2010) reviewed more than 300 articles concerning the private sector, while Cardoso and Fajardo (2014) identified only 17 articles concerning creative accounting in the public sector.

Public-sector entities may manipulate accounting numbers because politicians and managers, who face significant pressure from stakeholders must transparent for public in uses fund as efficient as to public facilities and etc. The media, investors, especially citizens, in their capacity as taxpayers, users of public services and voters, exert this type of pressure. Cardoso and Fajardo (2014) argued that factors incentive to manipulation on earning management behaviour. According to Hodges (2017), several issues can be identified as motives for earnings management practices, such as the need: (i) to meet specific targets defined by supervising authorities; and (ii) to report break even position (BEP) to concern that public facilities and services are provided to get it in cost that equal for the quality of its. So its shows that if a public-sector entity does not achieve its predefined targets and or it charges high taxes to citizens, both economic and political consequences can be relevant.

While in the research of Lesmana (2010) in the sector government, states that the older the age of an area, the more high level of disclosures made in the financial statements, cause the older the age of an area the more "track record" it has both in preparing financial statements and can creative to make financial statement to include earnings management.

On the previous research have there different result about research in Cohen *et al.*, (2018) they concern that fundamental factor to electoral cycle is earning management, in line this research (Ferreira, Carvalho, and Pinho 2013) also give

the same result. But in Rohman, *et al.*, (2018) not also give the higher of the earnings management of the reelection.

Object of this research is local government regency/city in South Sumatera province, the amounted to 18 local governments. The local government consists of 1 (one) of the Provincial, four (4) City and 13 (thirteen) regency Government. All local governments have implemented accrual accounting system. Writer use all local governments as research object. With use range data from 2015-2019, the financial statements were examined among others the balance sheet, cash flow statement and operational reports and cash flows of the Provincial, Regency, and City in the South Sumatera area.

In South Sumatera Province have held elections at the same time in 2018, with 9 areas of local government where 4 city and 5 regency. Whereas another local government, there 7 regency that till held same elections on Desember 2020. From the range data that variance cause there is election in this range data and time beginning period also end of period, where politician have to realize their promise in this period, because that reason to get evidence there earning management in every local government or not.

Using the public choice theory as a framework, this study intends to contribute to the debate by investigating the determinants of earnings management behaviour. It develops an earnings management model for LGs, applying it to two research settings by using two different databases. Also in agency theory, many research have made from studies earnings management in private sector. Politicians as executive management, local government as management if cannot realize the Local Government Budgeting or APBD (*Anggaran Penerimaan dan Belanja*

Daerah) where income less with expenditure have financing surplus around to zero. In sides of DPRD as also management, have some demand of their promise and will budgeting the expenditure as big as could, they believe increase income increase expenditure too.

In the public sector, studies on same theory like public choice theory are limited. Based on that reason, writer have chosen to research “**The Effect of Accrual Levels, Discretionary Accruals, Politician Factor and Age of Local Government on Towards the Budget Financing Surplus in Local Government Regency/City of South Sumatera Province**”.

1.2 Formulation of Problem

Based on the description that has been submitted in the background section, the following problems can be taken:

1. How the accrual levels have positive effect in the budget financing surplus in local government regency/city of South Sumatera Province?
2. How the discretionary accrual have positive effect in the budget financing surplus in local government regency/city of South Sumatera Province?
3. How the politician factor have positive effect in the budget financing surplus in local government regency/city of South Sumatera Province?
4. How the age of local government have positive effect in the budget financing surplus in local government regency/city of South Sumatera Province?

1.3 Purpose of Research

The purpose of writing this research based on background and problem formulation is to get empirical evidence, possibility happen about earning

management in effect of accrual levels, discretionary accrual, politicians factor and age of local government effect in the budget financing surplus in local government regency/city of South Sumatera Province.

1.4 Benefits of Research

The benefit or uses of this research is expects by researchers that can be taken, as follows:

1. Theoretical benefits

With this research expect can be used as additional knowledge, especially regarding of earnings management in public sector by look with budget financing surplus. The researchers hope this research can be a reference regarding earnings management in public sector especially in local government.

2. Partial benefits

This research can help prevent future politicians from behaving inappropriately. It is also important to study if authority use discretionary accruals for the purpose of earnings management, as it could contribute to helping he bodies to reduce discretionary in accounting standards.

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