THE EFFECT OF DISCRETIONARY ACCRUAL ON SILPA/SIKPA BUDGET OF LOCAL GOVERNMENT IN INDONESIA

Undergraduate Thesis

By:

Shinta Ayu Rohana

**FACULTY OF ECONOMICS AND BUSINESS
LAMPUNG UNIVERSITY
BANDAR LAMPUNG
2021**

ABSTRACT

**THE EFFECT OF DISCRETIONARY ACCRUAL ON SILPA/SIKPA
BUDGET OF LOCAL GOVERNMENT IN INDONESIA**

By

SHINTA AYU ROHANA

One of the reform agendas in Indonesia is realizing good government accounting. In order to realize these reforms, local governments must make accountable and transparent financial reports as a form of accountability for local governments for the budget used to the central government and the public, so that this forces local governments to adopt accrual-based accounting. This study aims to find the effect of discretionary accruals on SILPA/SIKPA of Report on Local Government Finances (LKPD) in Indonesia. This study uses 34 LKPD provinces in Indonesia 2016-2019. The results of this study indicate that discretionary accruals with the Hribar model have an effect on SILPA/SIKPA meanwhile discretionary accruals with the Modified Jones model showing that there is no effect on SILPA/SIKPA.

Keywords: Discretionary accrual, SILPA/SIKPA, Report on Local Government Finances (LKPD).

ABSTRAK

**PENGARUH DISKRESI AKRUAL TERHADAP ANGGARAN
SILPA/SIKPA PADA PEMERINTAH DAERAH DI INDONESIA**

Oleh

SHINTA AYU ROHANA

Salah satu agenda reformasi di Indonesia adalah mewujudkan akuntansi pemerintahan yang baik. Dalam rangka mewujudkan reformasi tersebut pemerintah daerah harus membuat laporan keuangan yang akuntabel dan transparasi sebagai bentuk pertanggungjawab pemerintah daerah terhadap anggaran yang digunakan kepada pemerintah pusat dan publik sehingga hal ini memaksa pemerintah daerah untuk megadopsi akuntansi berbasi akrual. Penelitian ini bertujuan untuk menemukan pengaruh diskresi akrual terhadap SILPA/SIKPA pada laporan keuangan pemerintah daerah (LKPD) di Indonesia. Penelitian ini menggunakan 34 LKPD provinsi di Indonesia tahun 2016-2019. Hasil dari penelitian ini menunjukan bahwah Diskresi akrual dengan model Hribar memiliki pengaruh terhadap SILPA/SIKPA sedangkan untuk diskresi akrual dengan model modifikasi Jones menunjukan tidak adanya pengaruh terhadap SILPA/SIKPA.

Kata Kunci: Diskresi akrual, SILPA/SIKPA, Laporan Keuangan Pemerintah Daerah (LKPD).

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Undergraduate Thesis

As one of the Requirements to Achieve
BACHELOR OF ACCOUNTING

In
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LAMPUNG UNIVERSITY
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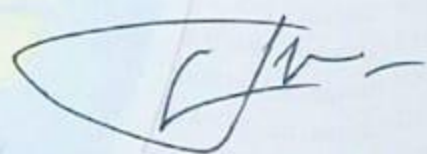Student Name : *Shinta Ayu Rohana*

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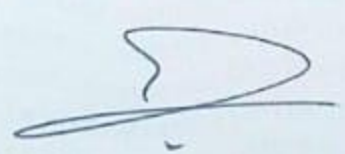Faculty : Economic and Businnes

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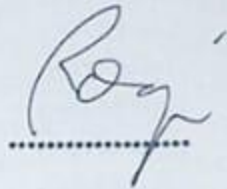Head of The Department of Accounting

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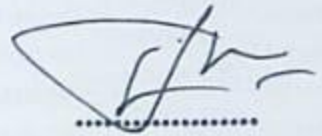NIP. 19700817 199703 2002

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With this stated that my thesis entitled "THE EFFECT OF DISCRETIONARY ACCRUAL ON SILPA/SIKPA BUDGET OF LOCAL GOVERNMENT IN INDONESIA" is true of my own work. In this thesis, there is no whole or partial of the writings of others by copying or forgin in the form of a series on sentences or symbols that show ideas or argument of thoughts of other authors, which I acknowledge as my own waiting, other that or take it from someone else's writing without giving the original author's acknowledgmen. If in the future proves that my statement is not true then I am ready to accept sanctions in accordance with applicable regulations.

Bandar Lampung, November 10th, 2021

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BIOGRAPHY

The author was born in Kayuaguang, South Sumatera on August 17th, 1999 with full name Shinta Ayu Rohana as the youngest child of four siblings. Her father's name is Mr. M.Husin and her mother's name is Mrs. Marseanah. The older brother's name is Matcik Ary Sutanza, sister's name is Ramah Afrillia, and then last brother's name is Randy Husin. The author complated her kindergarten education at Taman Kanak-kanak (TK) Bhayangkari in 2004, continued and graduated from SD Negeri 17 Kayuagung in 2011. Took the junior high school eduacation in Islam Terpadu (IT) Bina Insani Kayuagung Junior High School, and graduated in 2014. The author complated the senior high school education in SMA Negeri 3 Unggulan Kayuagung High School and graduated in 2017. After graduated from senior high school, author continued study at the University of Lampung with accounting major through SNMPTN.

In the second semester author selected to be part of International Class and got the scholarship to joined the Short Couse Program in Japan that was run by Aoyama Gakuin University (AGU) Japan in 2018. During university life, She active joined Pusat Informasi Konseling Remaja (PIK-R) Raya organisation as 1st Runner UP Puteri Duta Generasi Berencana University of Lampung 2019 and she also participated in the election of the Duta Generasi Berencana Lampung provinces

held by the BKKBN and succeeded in the top 20 stages. She was chosen to be the secretary Building English Competence or 2nd division of EEC (Economic English Club) in 2020. And then she joined tax volunteer at Kantor Pelayanan Pajak (KPP) Tanjung Karang, Lampung in 2021.

DEDICATION

Alhamdulillahirabbilalaamiin...

Praise be to Allag SWT for all the grace, blessings and grace so great to the author

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(And it will be said unto them): Lo! this is a reward for you. Your endeavour

(upon earth) hath found acceptance.

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Let it flow, do what you want to do because only you know what you want.

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Stop looking for the best in people, watch what they show you instead.
(Arch Hades)

Never stop believing yourselves.
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Bandar Lampung, November 10th, 2021
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I. INTRODUCTION

1.1 Background

Accounting in Indonesia is divided into two parts: accounting in the private and public sectors. These two sectors are the supporters of economic growth and development in Indonesia. Accounting entities in the private sector are profit-oriented companies, while public sector accounting entities are government-oriented services to the public. One of the reform agendas in Indonesia is realizing good government accounting. To realize good government accounting, management, policies, systems, strategies, performance measurement, and accountability by public sector accounting entities are needed.

According to Government Regulation No. 71 of 2010, Public sector accounting entities are units in the government that manage budgets, assets, and obligations that carry out accounting and present financial reports based on accounting held. In public sector accounting entities, there are also reporting entities, which are government units consisting of one or more accounting entities responsible for submitting financial statements. Reporting entities are divided into two parts, namely the central government and local governments. Provincial, district, and city governments are included in local government.

The central government gives local governments broad authority to manage their households, but there is little central government intervention. The rights and

authority granted are essentially a mandate that must be accounted for in an accountable and transparent manner, both to the local community and the central government. The form of local government accountability for the authority given is related to the preparation, management, presentation, and reporting of regional finances. However, despite this broad authority, it does not mean that local governments can use this authority at will without clear directions and goals. Report on Local Government Finances (LKPD) aims to provide helpful information for decision-making and demonstrate reporting entities' accountability for the resources entrusted to them. According to Gimeno (1997) in Ouda (2003), government accounting systems should provide appropriate information for the decision-making process. Accounting information should be helpful for politicians to choose goals and values for managers to design strategies to achieve goals.

The need for accountable and transparent Report on Local Government Finances (LKPD) forces local governments to adopt accrual-based accounting financial reports. Applying accounting to governments and local governments in the international world also encourages the emergence of accrual-based accounting. This is indicated by the tendency of the international community to use accrual-based accounting in government and local governments (Chan J. L., 2010). Accrual-based accounting financial statements in Indonesia are regulated in Government Accounting Standards (SAP) in Government Regulation No. 71 of 2010. The application of accrual-based accounting consists of several stages, namely: In 2010, the Government Accounting Standards Committee (KSAP) issued accrual-based government accounting standards regulated in Government Regulation Number 71 of 2010 concerning Government Accounting Standards

(SAP) replacing Government Regulation Number 24 of 2005 which uses cash to accrual basis. In the 2010-2012 period, the government still implemented cash-based government accounting. In the 2013-2014 period, the government's accounting is accrual-based. The government begins to apply depreciation for fixed assets and presents the book value, namely the acquisition value of fixed assets plus capital arising from these assets less depreciation. Finally, in 2015, the government began to implement full accrual-based government accounting. Starting in 2015, depreciation and amortization of tangible assets must be reported in the Government Financial Statements. The development of public sector governance is encouraged by international institutions such as the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and the World Bank.

Accrual-based accounting, according to Halim & Kusufi (2007), transactions and events are recorded in accounting records and recognized in financial statements in the period that occur. According to Boothe (2007), accrual-based accounting is considered to have several benefits for public sector organizations. Government management is given accounting discretion in applying accruals to facilitate management in preparing financial reports (Watts & Zimmerman, 1978).

The existence of broad authority granted by the central government to local governments and the accrual basis applied in financial accounting reports on public sector entities, then there are discretionary accruals. Discretionary accruals aim to regulate and establish accrual policies on local government financial accounting accountability and transparency. However, there are times when local governments

misuse this given authority for personal interests, such as corruption, collusion, and nepotism that harm the public.
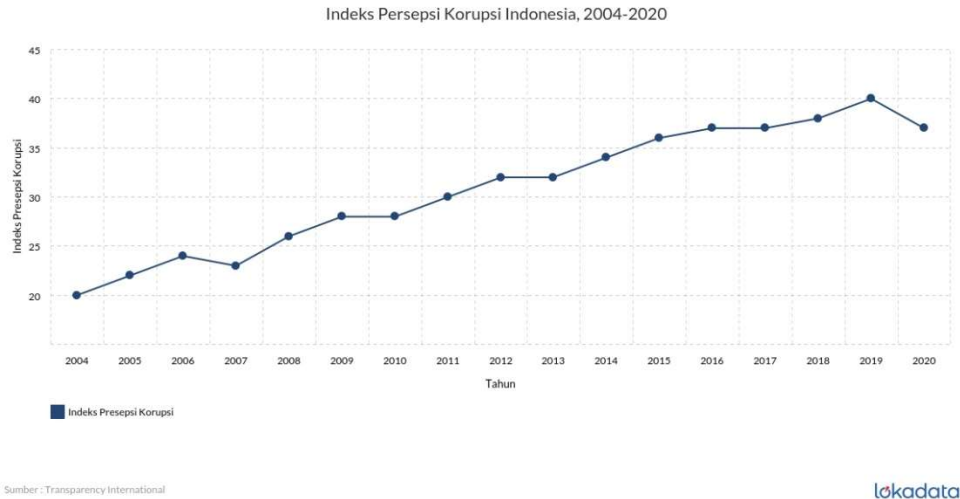
(Source: Transparency International: lokadata.beritagar.id)

It can be seen in the table above that the level of corruption in Indonesia is increasing. 2019 was the highest peak of corruption cases in Indonesia where. In the 2019 Annual Report of the Corruption Eradication Commission (KPK), it was announced that there were 21 cases in 14 regions and 70 suspects that had been decided at the Corruption Crime District Court. Most of these cases are related to APBN and APBD. The Corruption Eradication Commission (KPK) report is a description given by the central government to local governments in managing regional budgets.

According to Sandra Cohen et al. (2018), the findings from the analysis provide evidence that local governments are involved in earnings management. The critical factor is the election cycle, as earnings management appears less when the mayor is re-elected than when elected for the first time. Furthermore, the pre-election period creates conditions that foster earnings management attitudes.

From the background and phenomena described above, it can be seen that there are differences in objectives between the private sector and public sector entities. There are certainly differences in the application of policies used in the private sector and public sector entities from these differences in objectives. Related to this, the researcher focuses on policies in the public sector that use accrual-based accounting policies. So in this study using the discretionary accrual variable and the SILPA/SIKPA value, the use of the SILPA/SIKPA value variable as a benchmark for local government performance in achieving the goals of public sector entities while for the benefit of discretionary accruals to see whether the authority made to regulate policies in local governments influences the achievement of these goals.

The data used is secondary data, where this data comes from Report on Local Government Finances (LKPD) from 34 provinces in Indonesia. And this research will also use the Hribar and Modified Jones model to calculate Discretionary accruals. The reason for using the Hribar model is because the accounts used to calculate discretionary accruals are directly related to SILPA/SIKPA in the Report on Local Government Finances (LKPD), such as surplus/deficit with the assumption that all changes in local government services are credit or payable which creates receivables for the local government because of discretionary accruals. Meanwhile, the modified Jones model is the latest formulation for calculating discretionary accruals and accounts that are used more than other models. The modified Jones model is also designed to eliminate the tendency to use erroneous estimates from the previous model to determine discretionary accruals when discretion exceeds income. This model has been widely used and tested for the private sector (DeFond, 1994). Therefore, the research title

is **" THE EFFECT OF DISCRETIONARY ACCRUAL ON SILPA/SIKPA BUDGET OF LOCAL GOVERNMENT IN INDONESIA".**

1.2 Problem Formulation

From the background that has been stated previously, several problems can be formulated, namely:

- Does discretionary accruals applied by local government management affect the value of SILPA/SIKPA the Report on Local Government Finances (LKPD) Provincial in Indonesia?

1.3 Scope Of Problem

Based on the background and problem identification, the authors limit the problems in this study, namely using the Discretionary Accrual variable as the independent variable. This research will use SILPA/SIKPA budget for local government and only uses accrual-based financial reports for the dependent variable. This study uses Hribar and Modified Jones model to calculating discretionary accrual.

1.4 Research Benefit

The results of this research can be used by various parties, such as:

1.4.1 Theoretical Benefits

The results of this study are expected to add further references and literature in other research, especially in relation to the analysis of the application of Discretionary Accrual to SILPA/SIKPA budget in the Report on local government finances (LKPD) for the current year, which is expected to also contribute to the development of the public accounting sector.

1.4.2 Practical Benefits

The results of this study are expected to provide consideration for the government in making regulations for the application of accrual-based accounting in public sector accounting so that local governments can fulfill the public interest in general and that there is no fraud or deviation in starting and planning to report and can improve services to the public.

II. LITERATURE REVIEW

2.1 Grand Theory

2.1.1 Agency Theory

Agency theory explains or predicts the relationship between principal and agent. Agency theory in public sector entities explains the relationship between the central government and local governments as principals and agents. According to Jensen & H. Meckling (1976), assumes that agents consider their interests and maximize revenue, and share costs or use costs to achieve benefits that are beneficial to management or agents.

The concept of agency theory is the relationship or contract between the principal and the agent. The principal employs the agent to perform tasks on behalf of the principal, including delegating authorization for decision-making from the principal to the agent. According to Bravo (2002), the contribution of principal-agent theory to local government assumes that: (a) monopolistic behavior is limited by community efforts to monitor the results of local government policies; (b) local government policies affect the value of local government assets. Apart from politicians, local government bureaucrats have various motives in applying discretionary accruals. Mueller (2003) public choice theory assumes that politicians and government bureaucrats pursue their own goals and act according to their

preferences, thus having certain behaviors.

Local government management can exercise its authority by using accounting options to hide poor financial performance, control funding shortfalls in the provision of public services, avoid cost increases or service deficits, and meet estimated financial performance targets for public sector entities. According to Gudono (2009: 176), agency theory raises two principal-agent and agency problems (adverse selection and moral hazard). The principal-agent problem, which can be called the agency dilemma, is a problem or conflict that arises because the agent takes actions that benefit himself by exploiting the superiority of the information he has, but harming the principal, which will lead to agency cross (Gudono, 2009: 176-177). Adverse selection occurs when the principal does not know the agent's ability to make a wrong choice about the agent (Gudono, 2009: 177). A moral hazard occurs when the agent consciously has an information advantage but does not fulfill the contract that has been agreed with the principal (Gudono, 2009: 177). Incentive contracting is needed to limit the preferences of these different agents (Anthony and Govindarajan, 2007: 532). In addition, reward and punishment are part of the incentive; it can motivate agents to work in the principal's best interests.

This illustrates that in the preparation of financial statements, local government management is motivated by being responsible for the budget used to carry out the programs that have been prepared. The government prepares financial reports at the end of the year to comply with regulations and as a benchmark for measuring the performance of the regional government.

2.2 Discretionary Accrual

Discretionary Accrual is the accruals arising from transactions carried out or accounting treatments chosen to manage income (Ronen & Yaari (2008). Discretionary Accrual is the government's policy to determine the accounting treatment that will be selected, or in other words, to carry out the management of accounting numbers. Discretionary Accrual is considered a patterned relationship with other organization (local government) aspects, such as total accruals, revenues, receivables, plant, property, and equipment (PPE). According to Plicher (2011), the objectives of Discretionary Accrual in the public sector include:

1. Reducing surpluses, unused allocations or maintaining funding for use in subsequent accounting.

2. Increase surplus or unused allocation to create perceptions of efficiency performance.

3. Changing expenditure information to prevent government or media scrutiny and criticism.

4. Providing funds for an expenditure that is available for use in other expenses.

According Jones (1991) developed an earning management model by dividing total accruals into non-discretionary and discretionary. A discretionary Accrual is a form of accrual policy that is not due to the needs of the company's condition but is carried out by management to shift costs and income from one period to another to fulfill certain management objectives. Discretionary accruals are an effective way to reduce earnings reporting, which is difficult to detect and are used for manipulating accounting policies related to accruals.

A discretionary accrual is a form of accrual policy that is not due to the needs of the entity's condition but is carried out by the government to shift budgets and expenditures within one fiscal year period so that certain government objectives can be met. Discretionary Accrual is an effective way to reduce reporting on the budget and expenditure of a government, where this method is challenging to detect and is used for manipulation of accounting policies related to accruals.

2.3 Report on Local Government Finances (LKPD)

The Regional Government Financial Report (LKPD) is the responsibility of the regional government to the central government and the community for the budget used in the implementation of the regional development and development program.

Each region is a unit that will make financial reports and will be submitted to the Central Government. The central government, which is also a unit that will combine the financial statements of the regional governments, then prepares the consolidated financial statements of the Unitary State of the Republic of Indonesia by the provisions of Government Accounting Standards (PSAP) No. 11. The central government uses this report as an illustration in making budget decisions for the following year.

Article 32 of the constitution Number 17 of 2003 concerning State Finance mandates that the form and content of the accountability report for the implementation of the APBN/APBD is prepared and presented following government accounting standards (SAP). The accounting standards as referred to in paragraph (1) shall be prepared by an independent standards committee and

stipulated by a Government Regulation prior to obtaining consideration from the State Audit Board.

Meanwhile, Government Regulation No. 71 of 2010 regulates the Government Accounting Standards (SAP) on an accrual basis. This Government Accounting Standard (SAP) recognizes LO-income, expenses, assets, debt, and equity in accrual-based financial reporting, and recognizes LRA-income, expenditures, and financing in reporting budget implementation based on the basis set out in the APBN or APBD, namely cash base. The accrual basis for Operational Report (LO) states that revenue is recognized when the right to earn income has been fulfilled even though cash has not been received in the state/regional general treasury account or by the reporting entity and expenses are recognized when the obligation resulting in the decrease in net worth has been fulfilled even though cash has not been issued from state-regional general cash account or reporting entity. Revenues such as external or foreign assistance in the form of services are also presented in the Operational Report (LO).

This government regulation also regulates the preparation of financial statements according to the accrual-based Government Accounting Standards (SAP), which requires reporting entities to prepare and present seven basic financial reports which are divided into two types of reporting, namely accrual-based financial reporting (Balance Sheet, Operational Report (LO), cash flow reports, and reports of changes in equity) and cash-based budget implementation reports (budget realization reports (LRA) and reports of changes in excess budget balances).

The financial statements generated from the accrual-based government accounting standards (SAP) application are intended to provide better benefits for

stakeholders, both users and auditors of government financial reports, compared to the costs incurred. This is in line with one of the accounting principles: the costs incurred are proportional to the benefits obtained.

2.4 SILPA/SIKPA

The excess/less difference in budget financing (SILPA/SIKPA) is the more/more minor difference between the realization of revenues and expenditures during one reporting period. The difference more/less between the realization of income-LRA and spending, as well as receipts and expenses of financing during one reporting period, is recorded in the SILPA/SIKPA post. SILPA/SIKPA is obtained from closing the Surplus/Deficit account and Net funding at the end of the fiscal year, to be subsequently transferred to the Report on Changes in Over Budget Balance.

SILPA/SIKPA is presented in the Budget Realization Report and the Budget Balance Change Report. Meanwhile, the Remaining budget (SAL) is shown in the report of changes in the over-balance of the employee. The remaining budget (SAL) was affected by SILPA/SIKPA and the correction of the previous year's bookkeeping errors. Reports on changes in the Financial Balance are only reported in the consolidated reports of the State General Treasurer (BUN) and Report on local government finances (LKPD).

According to Permendagri No. 13 of 2006, at the Regional Revenue and Expenditure Budget (APBD), government management could not budget for a SILPA/SIKPA because the government implemented a balanced budget system

where the total net financing had to cover the budget deficit. SILPA/SIKPA will have a 0 (zero) ratio at the end of the year budget. According to Permendagri No. 52 of 2015, if there is an overbudget (SILPA), the government can budget the value of the SILPA at the beginning of the following year's budget receipts.

The corrected transactions in SILPA/SIKPA are (1) Non-recurring returns, income from the previous fiscal year. (2) Realize the difference in the cash exchange rate at the State General Treasurer (BUN) and cash at the expenditure treasurer. (3) Correction of financing receipts for the previous fiscal year.

2.5 Previous Research

Table 2.1 Previous Research

No	Author (Year)	Research Title	Variable	Research Result
1	Rita Martinia, Resy Agustin, and Kartika Rachma Saric (2020)	Discretionary Accrual Policy on the SILPA/SIKPA Budget Financing at the Provincial Level	Government operational activities in a certain year period with SILPA/SIKPA	The Discretionary Accrual through total accruals, income changes, and PPE simultaneously have a significant effect on SILPA/SIKPA in the provinces in Indonesia.
2	Abdul Rohman, Rochmawati Daud, and Ermadiani. (2018)	Analysis Affect of Discretionary Accrual Against SILPA (SIKPA) Budget Calculations on Local	**Independent Variable :** Discretionary Accruals variable. **Dependent Variable** : SILPA	In local government finances, there are discretionary accruals, where the discretionary accruals affect SILPA (SIKPA) from calculating the local

		Government	(SIKPA) for the LRA reports	government's current year budget.
3	Abdul Rohman, Rachmawaty Daud, dan Ubaidillah (2018)	Analisis Pengaruh Laporan Hasil Pemeriksaan, Diskresi Akrual Dan Tingkat Akrual Terhadap Kinerja Keuangan Pemerintah Daerah	**Independent Variable :** Laporan Hasil Pemeriksaan, Diskresi Akrual, dan Tingkat Akrual **Dependent Variable :** Kinerja Keuangan	Hasil dari penelitian ini menunjukan bahwa model pertama (Healy, Angelo, Jones, dan Monifikasi Jones) menunjukan bahwa ketiga variabel independent ini tidak memiliki pengaruh terhadap kinerja keuangan tepatnya pada sisa lebih (kurang) perhitungan anggaran pemerintah daerah dan untuk sebaliknya model kedua (Hribar) menunjukan adanya pengaruh secara signifkan.
4	Robyn Plicher (2011)	Local Governmental Management Of Discretionary and Spesific Accrual	Discretionary accruals and spesific accruals	Various political, commercial, and social factors, as well as based on the size and location of different local governments, force local governments to use certain accrual accounts to manage revenues.
5	Joseph Drew (2018)	Playing for keeps: local	**Dependent Variable :**	Incentives given to the private sector are usually

| | | government distortion of depreciation accruals in response to high-stakes public policy-making | Unexpected depreciation **Independent Variable** : Depreciation, Infrastructure property plant and equipment | not higher than the incentives given to the public sector. |

2.6 Framework

2.6.1 Framework Hribar and modified Jones Model
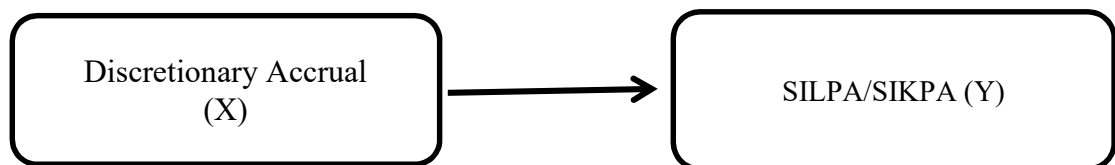
Figure 2.1. Framework Hribar and Modified Jones Model

2.7 Hypothesis

2.7.1 The effect of Discretionary Accrual to SILPA/SIKPA in Report on Local Government Finances (LKPD)

According to Hery (2016), the primary purpose of financial statements is to provide reliable information regarding the economic resources of the company's, obligations, net worth derived from profits, the company's potential value to

generate profits, assets and liabilities, and disclose other relevant information requirements.

The calculation of total accruals in private and public sector entities is divided into two, namely: (1) Nondiscretionary accruals (company conditions) and (2) Discretionary accruals (management policies). Nondiscretionary accruals are variables whose changes are related to economic phenomena and can be explained. In contrast, discretionary accruals are error term variables or alterations associated with economic phenomena but are policies made by the entity's management.

According to Guna & Herawaty (2010), the existence of discretionary accruals allows managers to intervene in the preparation of financial statements so that the profit value in the financial information does not reflect the actual value or condition of the company. With the granting of broad authority by the central government to local governments in the management and reporting of accrual-based local government finances, it is expected to provide accountability in the form of financial reports that are accountable and transparent. However, sometimes the given authority is misused by local governments to achieve their interests and disguise ineffective government performance by increasing or decreasing the value of SILPA/SIKPA in annual reporting. This is also based on the 2019 annual report of the Corruption Eradication Commission (KPK) announcing that there were 21 cases in 14 regions and 70 suspects decided at the Corruption Crime District Court. Most of these cases are related to the misuse of APBN and APBD. The Corruption Eradication Commission (KPK) report is an illustration of the abuse of authority

given by the central government to regional governments in managing regional budgets.

Not many researchers have discussed topics like this, so the researchers used several previous journals as references in this study, namely the research conducted by Abdul Rohman et al. (2018) entitled Analysis of the Effect of Discretionary Accrual on SILPA/SIKPA Budget Calculations in Regional Governments shows that the Provincial, Regency and City Governments of South Sumatra have tried to apply accrual-based accounting. Still, in the financial statements, an accrual value from the Discretionary Accrual policy affects SILPA/SIKPA from the calculation of the current year's budget. Research by Rita Martinia et al. (2020) shows that the existence of Discretionary accruals through total accruals, changes in income and plant, property, and equipment (PPE) simultaneously affects SILPA/SIKPA in local governments in Indonesia. Research from Robyn Plicher (2011) shows that the findings support the existence of different political, commercial, and social factors based on the size and location of different local governments, causing the use of accrual accounts to manage revenue. Based on this explanation, the researchers used the hypotheses to be tested were:

H1: Discretionary Accrual by the Local Government Management has an effect on SILPA/SIKPA in Report on Local Government Finances (LKPD) by using the Hribar Model.

According to Hribar & Collins (2002), the frequency and magnitude of errors caused by the use of accrual-based balance sheet data to calculate the accrual value, it is recommended that the use of accruals be taken or use data in other

financial statements, namely cash flow statements.

H2: Discretionary Accrual by the Local Government Management has an effect on SILPA/SIKPA in Report on Local Governmnet Finances (LKPD) by using the Modified Jones Model.

According to Dechow & Sweeney (1995), estimate the expected accruals using the modification Jones model. This model is a control model for earnings management due to an abnormal increase in revenue, assuming that all changes in local government services that are credit or payable (thus creating receivables for local governments) are due to earnings management (accounting statistics).

There is a relationship between the central government and local governments, namely the giving of broad authority for local governments to regulate their own households which are given by the central government. The existence of this authority causes local government management to use accrual-based financial reporting and implementation in the hope of being able to increase or decrease SILPA/SIKPA. SILPA/SIKPA is one of the indicators for measuring the financial performance of local governments, the closer the SILPA/SIKPA value is to 0, it will show that the realization of the budget used by the local government in local development has been used efficiently whereas on the contrary, the government does this to cover its poor financial performance. The better the assessment of the financial performance of the regional government, the more profitable the local government will be because in the next planning budget period the local government will receive a larger injection of budget funds than in the previous year.

III. METHODOLOGY

Research methodology is a series of systematic procedures that need to be observed when researching to account for the research results.

3.1 Research Object

The object of this research is the Discretionary Accrual of SILPA/SIKPA in the Report on Local Governmnet Finances in Indonesia for 2016-2019.

3.2 Type of Research

The data used in this study are :

3.2.1 Descriptive Research

Descriptive research conducts analysis only to the level of description, namely analyzing and presenting data system so that it is easier to understand and explain. Descriptive research aims to systematically and accurately describe facts and characteristics about a population or a particular field. According to Whitney (1960: 160), the descriptive method is fact-finding with the right interpretation. It can be said that descriptive research is research that tries to describe a phenomenon, an event that is happening at the moment, or an actual problem.

The type of research used is descriptive research, where this type of research aims to describe the effect between the independent variable (Discretionary Accrual) and the dependent variable (SILPA/SIKPA).

3.3 Research Data

Sources of research data can be obtained through:

3.3.1 Secondary Data

Secondary data is information collected or obtained from a second party. The form of this data can be in the form of a record or documentation, publications, and analysis by the media, Web sites, the internet, and secondary data can also be a collection of journals published by researchers and available information from both publications and non-publics. sources published inside and outside the organization that can be useful for research, Sekaran (2011).

The source of research data used in this study is secondary data and will use documentation as a data collection method. The data is in the form of Report on Local Govermnet Finances (LKPD) in Indonesia, which are taken from the official website Audit Board of the Republic of Indonesia (BPK-RI) https://e-ppid.bpk.go.en. The data taken from the financial statements will be tabulated with excel, and the test is processed using SPSS 26.

3.4 Population and Sample

3.4.1 Population

According to Pandey & Pandey (2015), the Population is the entire mass of observations where the research sample will be formed. The Population also refers to a particular group.

The Population in this study is the Provincial Government Financial Reports (LKPD) in Indonesia. The reason for using regional financial reports is only for

provinces because provinces usually have higher budgets and expenditures than districts and cities; besides that, there are also differences in financial reports between districts and provinces, where districts only manage budgets that are only in the district area, while for the province to manage the existing budget in the province and district/city (including provincial accountability).

3.4.2 Sample

In this study, the researcher used non-probability sampling strategies where the subject is selected according to the author to serve as a sample. According to Hadi (1990:75), sampling is the way of doing get a sample. Sampling was constituted to choose some of the individual processes in research. The purpose of sampling is to use some individuals to get information about the population. Sampling is the way to take a sample. This research sampling technique used to take a sample is purposive sampling homogen because the data was selected according to the Criteria. According to Arikunto (2010:183), purposive sampling is the process of selecting a sample by taking a subject that is not based on the level of the area but is taken based on the specific purpose.

The object of this research is the local government in Indonesia, especially 34 provinces in Indonesia. The research data is in Report on local government finances (LKPD) in 2016-2019. Financial reports used as testing materials are budget realization, operational statements, balance sheets, and cash flow statements from the provincial governments of 34 provinces in Indonesia. Samples were taken based on purposive sampling homogen. The criteria used were Report on local government finances (LKPD) Province audited by the Audit board of the Republic

of Indonesia (BPK-RI) and Provinces that had used an accrual-based financial

reporting system as seen from the operational reports.

Table 3.1 Local Goverments in Indonesia

No	Local Goverments	No	Local Goverments
1.	Nangroe Aceh Darussalam Province	18.	West Nusa Tenggara Province
2.	North Sumatra Province	19.	East Nusa Tenggara Province
3.	West Sumatra Province	20.	West Kalimantan Province
4.	Riau Province	21.	South Kalimantan Province
5.	Riau Island Province	22.	Central Kalimantan Province
6.	Jambi Province	23.	North Kalimantan Province
7.	Bengkulu Province	24.	East Kalimantan Province
8.	South Sumatra Province	25.	Gorontalo Province
9.	Bangka Belitung Province	26.	North Sulawesi Province
10.	Lampung Province	27.	South Sulawesi Province
11.	Banten Province	28.	Central Sulawesi Province
12.	West Java Province	29.	Southeast Sulawesi Province
13.	DKI Jakarta Province	30.	West Sulawesi Province
14.	Central Java	31.	Maluku Province
15.	DI Yogyakarta Province	32.	North Maluku Province
16.	East Java Province	33.	West Papua Province
17.	Bali Province	34.	Papua Province

3.5 Research Variables

A variable is a characteristic or attribute of an individual or an organization that (a) researchers can measure or observe and (b) varies among individuals or organizations studied. Measurement means that the researcher records information from individuals by asking them to answer questions. And when variables vary, it means that scores will assume different values depending on the type of variable being measured, Creswell (2012:112). The variables in this study can be defined into several variables, namely:

3.5.1 Independent Variable

An independent variable is an attribute or characteristic that affects or affects an outcome or dependent variable, Creswell (2012:116). In this study, researchers used independent variables, namely:

3.5.1.1 Discretionary Accrual

Discretionary accrual is one way of evaluating whether a public entity is practicing earning management or not. In this study, the author used Discretionary Accrual as the independent variable (X). The variables used in this study use the items contained in the budget realization statement, operational statement, balance sheet, and cash flow. These items include total accruals, total assets, net cash outflows, surplus/deficit, changes in income from government services, accrual rates, and changes in debitors' accounts.

According to Jones (1991), the total accruals account is the difference between the net cash flow from local government operational activities in a certain

period of the year and the surplus/deficit. In the measurement of local government financial statements, the total assets account uses historical cost so that assets are recorded at the number of cash disbursements and cash equivalents or at the fair value of the consideration given to acquire the asset. According to Subramanyam & Wild (2010), Net cash outflow is the net cash value of cash flows from operating activities of certain local governments and in certain years. The surplus/deficit is between income and expenses on local governments, Perrin & Whiteoak (1993). Income items are income reported in the operating report and the sum of the eight accounts that produce a surplus/deficit in the operating report. The accrual level is the level of application of accruals in a local government financial report. And as for the last post used by researchers is accounts receivable for local governments, where this post is contained in the budget realization report. These posts are expected to contribute as a measurement in the calculation of the independent variable (X).

3.5.2 Dependent Variable

A dependent variable is an attribute or characteristic that is dependent on or affectd by the independent variable, Creswell (2012:115).

3.5.2.1 SILPA/SIKPA

SILPA/SIKPA is the difference between SILPA/SIKPA realized income and expenditure, as well as revenue and expenditure financing in the state budget (APBN) during one reporting period. Excess Budget Balance is an accumulated balance originating from the accumulated SILPA/SIKPA of the previous and current fiscal years as well as other allowable adjustments (PSAP 01 paragraph 08). SILPA/SIKPA will have 0 (zero) balances at the end of the fiscal year. If there is

an budget surplus (silpa), the government can budget silpa on the receipt of financing at the beginning of the next fiscal year (Permendagri number 52 of 2015).

In this research, the SILPA/SIKPA variable is the dependent variable (Y), where this variable will be tested using Hribar and Jones Modificationn Model. This variable is also found in Report on local government finances such as budget realization reports, changes in excess budget balance reports, operational reports.

3.6 Data Analysis Methods

In this study, discretionary accruals were used as the error term variable. And using four research models, namely the Hribar and Modified Jones Model.

3.6.1 Hribar Model

According to Hribar & Collins (2002), the frequency and magnitude of errors caused by using accrual-based balance sheet data to calculate the value of accruals, thereby suggesting the use of accrual taken or use the data in other financial statements are statements of cash. The equation used as a Hribar model equation is as follows:

$$ACCRjt = COFOjt - DYjt$$

Information

ACCRjt   : Total accrual for local goverment j in year t

Dyjt   : Surplus (Deficit) for the local goverment j in year t

COFOjt   : Net cash outflow from operating activities of local j goverment in

            year t

3.6.2 Modified Jones Model

This model is a control model for earnings management due to an abnormal increase in revenue, assuming that all credit or owed changes in local government services (resulting in receivables from local governments) are due to earnings management (accounting figures). Estimate expected accruals using the modification Jones model (Dechow & Sweeney, 1995). This model is a control model for earnings management due to an abnormal increase in the Budget Calculation Surplus (deficit), assuming that all changes in local government services that are credit or payable (thus creating receivables for local governments) are due to earnings management (accounting numbers). The equation used as a modification form of the Jones equation is as follows:

$$B_{jt} = \frac{ACCR_{jt}}{TA_{jt-1}} - \left[\alpha \frac{1}{TA_{jt-1}} + \beta 1 \left(\frac{REV_{jt}}{TA_{jt-1}} - \frac{AR_{jt}}{TA_{jt-1}} \right) + \beta 2 \left(\frac{PPE_{jt}}{TA_{jt-1}} \right) \right]$$

Information

B_{jt} : Discretionary Accrual level at goverment j year t

$ACCR_{jt}$: Total accrual for local goverment j in year t

TA_{jt-1} : Total assets for local goverment j in year t

REV_{jt} : Change in revenue from local goverment services j in year t

AR_{jt} : Change in receivables (debtors) for local government j on year t

PPE_{jt} : Gross tangible fixed assets for local goverment j on year t

3.6.3 Descriptive Statistical

Descriptive statistical is the activity of collecting, grouping, processing, analyzing and presenting research data in one group of research samples which includes testing standard deviation, variance, data range, lowest value, highest value, amount of data and average research data. Descriptive statistics are used to obtain a statistical picture of the research object used during the research. In this test calculates the Mean, Standard Deviation, and number of samples. The use of the Hribar model and Modified Jones model is expected to give the desired result, that discretionary accruals affect SILPA/SIKPA in Report on local government finances (LKPD). In this test, the data will be tabulated into excel and then test through SPSS 26 with a simple and multi linear regression test.

3.6.4 Classic Assumption Test

3.6.4.1 Normality Test

The normality test is data in the research is considered to be normally distributed. In some cases, the sample used in the study is not normally distributed, but the test will be applicable to the fact that researchers mostly deal with sample and the sampling distributions closely to normal distributions (Kothari, 2004). There are two ways to detect data that is normally distributed or not, namely by graph analysis and statistical analysis. In this study, Kolmogorov-Smirnov (KS) statistical analysis will conduct to detect data and residual normality. This study uses a significance level of 5%, where if the significance value of the KS value is > 5%, then the data used in the study is normally distributed, whereas if the

significance value of the KS value is < 5%, then the data used in the study is not normally distributed.

3.6.4.2 Heteroskedasticity Test

According Gujarati & Porter (2013), this test aims to test whether there is an inequality of variance from one observation's residuals to another in the regression model. Heteroscedasticity is characterized by the presence of specific patterns on scatteIDRlot charts. If there is no clear pattern, the points spread above and below zero on the Y-axis, the heteroscedasticity does not occur. Heteroscedasticity testing is performed using the spearman test. If the significance value between the independent variables and total residuals is more than 0.05, then there is no heteroscedasticity problem.

3.6.4.3 Autocorrelation Test

According Huitema & Laraway (2016), The autocorrelation test aims to test whether the linear regression model correlates with confounding error in period t with confounding error in period t-1 (previous). Autocorrelation is valuable because it can affect the validity of inferential statements associated with hypothesis tests and confidence intervals; it helps researchers use appropriate statistical analysis, and the prediction from the regression equation model used will be more precise autocorrelation information. In this study, to know whether there is autocorrelation or no, the author is using Durbin-Watson test. The regression model is free if have the criteria, namely :

- If d > dU, it means that there is no positive autocorrelation

- If 4-d > dU, it means that there is no negative autocorrelation

- If dU < d < 4-dU, it means that there is no positive or negative correlation

3.6.4.4 Multicollinearity Test

According to Daoud (2018) multicollinearity is one of the assumptions about the regression model analysis. Multicollinearity appears when two or more independent variables in the regression are correlated. Sometimes multicollinearity causes a big problem. To detect multicollinearity, the author uses Variance Inflation Factors (VIF). The cut-off value that is often used is tolerance value ≤ 0.10 or equal to VIF ≥ 10. It means if the VIF < 10, then there is no multicollinearity. If the VIF > 10, it implies multicollinearity occurs (Gujarati and Porter, 2013).

3.6.4.5 Correlation Test

According Faenkel and Wallen (2008: 328) correlation is a study to determine the relationship and level of relationship between two or more variables without any attempt to influence these variables so that there is no variable manipulation. Simple correlation is a statistical technique that is used to measure the strength of the relationship between two or more variables and also to be able to determine the form of the relationship between these independent variables and dependent variable with quantitative results. The strength of the relationship between the variables referred to here is whether the relationship is strong, weak, or not strong, while the form of the relationship is whether the correlation is Linear

Positive or Linear Negative. correlation criteria, namely:

- If the value of Sig. <0.05 then there is a significant relationship

- If the value of Sig. > 0.05 then there is no significant relationship

And for the size of the relationship between two variables expressed in a number called the correlation coefficient, namely:

0	No Correlation
0 – 0.5	Weak Correlation
0.5 – 0.8	Medium correlation
0.8 – 1	Strong correlation
1	Perfect Correlation

3.6.5 Hypothesis Test

A hypothesis is a short statement which has a low level of truth; thus, the hypothesis needs to be tested using a particular technique. Generally, a hypothesis can be tested by reconciling the facts or learn logic consistency. The hypothesis method in this study consists of R^2 Test (Determination Coefficient), F Test (Research Modelling Test) and T Test (partially).

3.6.5.1 R^2 Test (Determination Coefficient)

The puIDRose of the determination coefficient is to find the independent model's ability to describe the dependent variable's variation. The determination coefficient value is between (0) and one (1). If the R2 value is low, it means an independent variable's ability to explain the variation of a dependent variable is limited. If the determination coefficient is close to one (1), it means independent

variables provide almost all information required to predict a dependent variable's variation. Generally, the determination coefficient for the cross-data relatively low due to a considerable variation between each observation, whereas time series data usually has a high determination coefficient value (Gujarati and Porter, 2013).

3.6.5.2 F-Test (Research Modelling Test)

The feasibility regression test (f-test) aims to see the influence of independent variables (more than one variable) on the dependent variable simultaneously. With an assumption, if the significance value is < 0.05, means the dependent variable is affected by the independent variables, and the model used in this research fits, and it can continue to the following research (Gujarati and Porter, 2013). Here are the decision rules of F-test:

- If F-count $<$ F-table, then H_0 is accepted
- If F-count $>$ F-table, then H_0 is rejected

In the using of p-value as the decision making criteria with significance level 5%, here are the decision rules of F-test

- If p-value > 0.05, then H_0 is accepted. It means, there is no a significant affect simultaneously
- If p-value < 0.05, then H_0 is rejected. It means, there is a significant affect simultaneously

3.6.5.3 T-Test (Partial)

The t-test (partial) is aimed to know partially X variable significantly affect Dependent Variable. It is influential if Sig < 0.05. This test is carried out with a 95% confidence level with the following provision:

- If t-count > t-table 0.05 then hypothesis is accepted

- If t-count > t-table 0.05 then hypothesis is rejected

Formulation:

$$\text{t-count} = \frac{b}{\sigma b}$$

Information

b   : Dependent variable regression coefficient.

σb   : The standard deviation of the regression coefficient on the independent

variable.

The result of the t-test is based on the output coefficient from the result of regression analysis using SPSS. The t-test also is done by seeing the t significant level by each Variable on the regression output using SPSS with a significance level of 0.05. If the significance level is more than the α level, the hypothesis is rejected (regression coefficient is not significant), which means that the partially independent Variable does not affect the Dependent Variable. If the significance level is lower than 5%, the hypothesis is accepted (regression coefficient is significant), which means the partially independent Variable affects Dependent Variable.

3.6.6 Simple Linear Regression Test

Simple linear regression is used to measure the effect of one independent variable on the dependent variable. This test is also used to see whether the model specifications used are correct or not. Whether the function used in an empirical study should be linear, quadratic, or cubic. With the linearity test, information will

be obtained on whether the empirical model should be linear, quadratic, or cubic. The model of simple linear regression test can be seen through the equation model below:

$$Y = \alpha + \beta_1 B_{jt} + e$$

Information :

Y   : SILPA/SIKPA

α : Conscant

B_{jt} : Discretionary accrual

e : Error

In this study, the regression analysis above aims to test the relationship between two variables or more and show the relationship between the dependent and independent variables. In this study, multiple correlation regression tests aim to measure the effect of total accrual, total asset, change in revenue, change in receivables, and gross tangible fixed assets to SILPA/SIKPA. If the significant value is less than 0.05, then independent variables affect the dependent variable. If the significant value is more than 0.05, then independent variables don't affect the dependent variable. Meanwhile, the coefficient value represents the direction of influence independent variable. If the coefficient is (+), it means the higher the X value, the greater its effect on the dependent variable. Vise versa, if the coefficient is (–), the higher the X value, the lower its influence on the dependent variable.

3.6.7 Multiple Linear Regression Test

Multiple correlation regression test is the test for the research which has two or more independent variables. The analysis which concern to the relationship of independent variables to a dependent variable is known as multiple correlation (Kothari, 2004). The model of multiple correlation regression test can be seen through equation model below:

$$Y = \alpha + \beta_1 ACCR_{jt} + \beta_2 TA_{jt-1} + \beta_3 REV_{jt} + \beta_4 AR_{jt} + \beta_5 PPE_{jt} + e$$

Information

Y	: SILPA/SIKPA
α	: Constant
$ACCR_{jt}$	: Total Accrual
TA_{jt-1}	: Total Assets
REV_{jt}	: Change in Revenue
AR_{jt}	: Change in Receivables
PPE_{jt}	: Gross Tangible Fixed Assets
e	: Error

The regression analysis above aims to test the relationship between two variables or more and show the relationship between the dependent and independent variables. In this study, multiple correlation regression tests aim to measure the effect of total accrual, total asset, change in revenue, change in receivables, and gross tangible fixed assets to SILPA/SIKPA . If the significant value is less than 0.05, then independent variables affect the dependent variable. If the significant value is more than 0.05, then independent variables don't affect the dependent

variable. Meanwhile, the coefficient value represents the direction of influence independent variable. If the coefficient is (+), it means the higher the X value, the greater its effect on the dependent variable. Vise versa, if the coefficient is (–), the higher the X value, the lower its influence on the dependent variable.

V. CONCLUSION AND SUGGESTION

5.1 Conclusion

The purpose of this study is to see if there are Discretionary accruals that affect SILPA/SIKPA in Report on Local Government Finance (LKPD). The hypothesis analysis tool used in this research is simple and multiple linear regression analysis. From the results of hypothesis testing that has been carried out, the following conclusions are obtained:

1. The results of data processing show that the Hribar model accepts the H1, which means that discretionary accruals affect SILPA/SIKPA in the financial statements of 34 provinces in Indonesia. This result also shows that the factors that influence SILPA/SIKPA in Report on Local Government Finances (LKPD) statements are net cash outflow and surplus (deficit).

2. The test results using the Modified Jones model show results that reject H2, where discretionary accrual does not affect SILPA/SIKPA in the financial statements of 34 provinces in Indonesia. This is because there are several accounts in the calculation of discretionary accruals using the modification Jones model, which are accounts for non-discretionary accrual calculations or accounts whose changes are related to the condition of the entity's. And from additional test using each account to calculate discretionary accruals

using the Modified Jones model, namely total accruals, changes in income, and changes in revenue have an effect to SILPA/SIKPA meanwhile total assets and gross tangible fixed assets there is no effect to SILPA/SIKPA because total assets and gross tangible fixed assets are accounts whose changes are related to the entity's condition so that they are included in non-discretionary accruals.

5.2 Research Limitations

There are several limitations in this study, such as:

1. This study has limitations on the scope of the population, where the population used is only 34 provincial financial reports in Indonesia for four years. This is also due to the new application of accrual-based accounting.

2. In this study, only one independent variable is used, namely Discretionary Accrual. As well as previous studies related to discretionary accruals in local governments are still very few, so there is a lack of understanding that researchers master.

5.3 Suggestion

Based on the results of this study, suggestions that the author can give for further research are as follows:

1. In future research, finance will be better if using reports from provinces, districts and cities in Indonesia as a scope.

2. Further research is better to add other independent variables such as financial statements and discretionary accrual rates in local governments.

3. Further research is expected to deepen knowledge about discretionary accruals in local governments and the reasons why the calculation of discretionary accruals using the Modified Jones model does not affect SILPA/SIKPA in local government financial statements.

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