

Exploring The Role Political Culter and Government Finance on The Readness of The Adoption of IPSAS

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Abstract

We examine the relationship between political culture and government finance on the readiness of the adoption of international public sector accounting standards (IPSAS). The data in this study is all provincial governments in Indonesia in 2016 – 2022 which are used as evidence to analyze the level of readiness for IPSAS adoption. The sample selected for use in this study included 44 provincial governments. The research data were analyzed using multiple regression analysis. The results of research on political culture variables affect the readiness of IPSAS adoption in the Indonesian public sector, while government finance does not affect the readiness of IPSAS adoption. To implement IPSAS Adoption in full. This research is expected to provide consideration for policy-makers regarding standard improvements leading to full IPSAS and the possibility of successful implementation. The research on the readiness of IPSAS adoption in Indonesia is an interesting thing to be studied further.

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1. Introduction

International standard or called IPSAS regulate financial accounting processes in the government sector (Ingrams et al., 2020). International standard or IPSAS arise because of problems between countries regarding financial information that cannot provide credible information between one country and another, resulting in the emergence of alignment through International Standards. Traditional accounting in the public sector needs to change because of the quality and comparability of inappropriate financial information (Zhang et al., 2021), so many countries have initiated structural changes in the accounting system, including Indonesia. So that some countries implement reforms to accounting systems at the government level (Gómez-Villegas et al., 2020).

The innovation of standard developments in public sector accounting that leads to improved accounting practices in this case more transparent and credible financial management from a cash

basis to an accrual basis is an innovation in New Public Financial Management (NPFM). Cuadrado-Ballesteros & Bisogno, (2021) note that accrual base innovations can provide better information about government solvency and are more widely used to determine the cost of public services. Financial management using an accrual basis in terms of information disclosure in current developments is considered to be an application have an impact on improving the quality of financial information presentation or financial presentation to improve organizational performance, in this case provincial local government organizations. This provides a level of quality in providing relevant information to increase transparency (Abdulkarim et al., 2020).

In Indonesia, the development of IPSAS adoption is still in the harmonization stage and there has been no complete adoption, due to internal factors that have not been supported. But in line with the trend of globalization around the world, Indonesia plans to approve the adoption of the Plenary IPSAS in 2025. The readiness of IPSAS adop-

tion in plenary will trigger the level of government readiness (Abdulkarim et al., 2020). The transformation period of public sector accounting practices towards full adoption of IPSAS can have a significant impact and there may be problems is a measurement for the government sector for readiness for IPSAS adoption.

Changes towards Plenary Adoption of IPSAS organizations to improve transparency, credibility, quality of information disclosure in public sector organizations (Bergmann et al., 2019). The quality of the performance of financial information presentation in the public sector is illustrated from the auditor's opinion (Lisa & Halim, 2023; Judijanto et al., 2024). The results of the audit examination from the Audit Board become a factor in measuring the quality of government sector financial reporting from the increase in opinions given. Thus encouraging the provincial government to continue to provide quality presentation of financial reporting by complying with applicable public accounting standards (SAP). SAP stipulated by DSAK has not fully adopted IPSAS in full, so there is no provision regarding the minimum requirements for reporting reports that comply with IPSAS elements.

In addition to the case of one of the Agencies State-Owned Enterprises (SOEs) in Indonesia, namely PT Asuransi Jiwasraya (Persero) conditions in the financial reporting of PT Asuransi Jiwasraya (Persero) with astonishing numbers. As a result of errors in investment management that there is within the company, not paying attention to the principle of prudence, the existence of pseudo-profit bookkeeping since 2006. This triggers the government to be more assertive about reporting financial information that can provide an overview of the quality of reporting with a high level of accountability (Mackey & Cuomo, 2020).

State laws in 2003 and 2004 on the principles of accountability and transparency to improve good financial management (Makki & Lodhi, 2009). The law has not been effective enough because there is no clear plan to fully adopt IPSAS and now Indonesia is still in the harmonization stage. This requires developments that require public sector organizations to continue to improve the accountability performance of provincial local governments as a form of accountability to stakeholders, both the community and other parties regarding the presentation of information (Biduri, 2018; and Arifin, 2020).

There are many factors that are indicators in the readiness of IPSAS adoption, including political

culture and government finance. Political culture according to Ball, (1988) can be categorized as a series of attitudes and values related to the political system. Political culture in this study as government openness (Lüder, 1992; Furqan et al., 2020; Schmidhuber et al., 2022; and Polzer et al., 2023). According to Luder, (1992), the more open the government's political culture, the higher the level of public information disclosure and the wider the disclosure of financial statements. In this case, local governments with a high level of government openness are expected to be better prepared for the adoption of IPSAS.

IPSAS adoption readiness can be influenced by the financial condition of the government sector. According to Inman, (1995) and Inata et al. (2022) government finance is government conditions leading to the ability to provide good services and fulfill its obligations. Financial constraints and increases in debt levels are it is an encouragement to the government sector provides improved financial quality to the public with more informative financial management (Luder, 1992).

Research conducted by Amiri & Hamza, (2020) related to the transition to IPSAS standards and their effect on institutional factors, contingencies, and economic networks, shows that coercive and mimetic institutional pressures positively influence IPSAS adoption. Good economic governance has a significant impact on the adoption of IPSAS whereas the closeness of economic relations with international partners encourages countries to adopt a modified accrual basis IPSAS. Research related to the readiness of IPSAS adoption in Indonesia is still very minimal. Several researchers conducted by Abolhalaje et al., (2012), Babatunde, (2017), Mnif & Gafsi, (2020), Boolaky et al., (2020) gives the same result. Regarding IPSAS, there has been no empirical research analyzing the readiness of IPSAS adoption for local government entities in Indonesia. In addition, the increasing need for the government sector is required to be able to provide transparent presentation of financial reporting in order to prevent misappropriation.

2. Hypotesis Development

Signal theory

Signal theory was first introduced by Spence, (1973) provide an overview of two interrelated parties, namely the manager and stakeholders. The managing party as the managing party and

the stakeholder as the signal receiver. Signal theory gives importance to providing information from the manager because it can influence decisions. The information provided must be accountable, trusted, and relevant as a decision-making tool (Guthrie et al., 2004). International standards or IPSAS which is an innovation towards more accountable financial information and as a process of innovation reform can be influenced by political culture and financial conditions. The implementation of IPSAS has a positive impact and gives a positive signal to stakeholders.

Basically signal theory is used in companies, but signal theory can be applied in the public sector or government. In this case, the provision of information made by the government can provide positive signals to stakeholders for decision making from the parties concerned (Rosati & Faria, 2019). These interested parties include investors, employees, creditors and other parties. Signal theory provides an understanding that the government sector that tends to comply with standards then the quality of financial reporting presentation will also be high and can signal as a government advantage in accordance with Indonesian circumstances. These signals can attract and provide positive value for stakeholders and increase trust (Whiting & Miller, 2008). Meanwhile, the government sector, which tends to have low reporting quality, only presents mandatory disclosures.

Political Culture on the Readiness of The Adoption of International Public Sector Accounting Standards (IPSAS)

Political culture is an environmental factor that in its implementation can influence the adoption of IPSAS (Lopes & Rodrigues, 2007; Ibrahim et al., 2022). The government sector uses contingency theory as needed to analyze the development of the transition of international standards in the public sector from traditional accounting to accounting that provides a more informative presentation of information (Hasan & Bakar, 2015). The model used in this study is the contingency model developed by (Luder, 1992). Political culture can drive user beliefs or attitudes of information regarding government information disclosure and affects the organization's more accountable and informative financial information needed and encourages countries to adopt IPSAS in full.

In this study, political culture is expressed in the openness of the government (Luder, 1992). Openness or transparency comes from the word open, a state that no one is covered or kept secret so

that everyone has the right to know. With the transparency of public information about the government's performance in carrying out state implementation, the public actively participates in controlling every step and policy taken by the government. In this case, local governments the level of political culture of a more open or high level of government sector is expected to give a positive signal, namely providing more quality information by complying with applicable standards because these high-quality standards allow for greater transparency and accountability. Local governments with a high level of openness are considered better equipped to implement IPSAS adoption in full compared to organizations with low levels of openness.

According to Luder, (1992), governments that have a high level of political culture openness can increase participation so that the government is more open to public information and accountability. Research by Mnif & Gafsi, (2020), from his research shows that government openness has a role to play in driving IPSAS disclosure. Openness gives impetus to governments and freedom to the public to supervise the actions of public sector organizations to comply with applicable standards to increase public trust (Grossi & Soverchia, 2011). Government sectors that have a high openness impact can present broader financial information according to standards. Based on the description above, the hypotheses in this study are as follows:

H₁: Political Culture has a positive effect on the Readiness to Adopt International Public Sector Accounting Standards (IPSAS).

Government Financial on the Readiness of The Adoption of International Public Sector Accounting Standards (IPSAS)

Ritonga & Syahrir, (2016) defines the financial condition of the Regional Government as "the financial ability of the Regional Government to fulfill its obligations, anticipate unexpected events and execute its financial rights effectively and efficiently". Meanwhile, Inman, (1995) defines financial condition in poor condition, which is a condition in which the local government has considerable difficulty in increasing income to cover the necessary expenses. Financial constraints and increases in debt levels encouragement for the government sector to demonstrate a more accountable and informative information delivery system on financial performance carried out (Luder, 1992). Cheng, (1992) argues that if there are outstanding obligations, the government will have pressure in order

to provide better quality in the field of financial management and maintain trust for the purpose of maintaining credit. In improving the quality of financial reporting presentation, the government sector needs to comply with applicable standards in a country (Brusca et al., 2013). Thus, if the public sector is in poor financial condition will be under pressure to implement applicable standards.

Mnif & Gafsi, (2020) revealed that IPSAS adoption is influenced by the financial condition of the government sector. The government has pressure from stakeholders to present informative and accountable financial information due to obligations circulating in the public. This is because it can maintain confidence for future credit facilities. Based on the description above, the hypotheses in this study are as follows:

H₂: Government Financial has a positive effect on the Readiness of Adoption of International Public Sector Accounting Standards (IPSAS).

3. Data and Methods

This study aims to provide an overview of the role of political culture and financial conditions in readiness to adopt international standards or IPSAS using secondary data methods using the population of all provincial governments in Indonesia in 2016–2022. The government sector was selected in this research data sample to provide evidence of readiness for IPSAS adoption in full as shown from the results of audit examinations that have increased from year to year. However, there are still financial statement presentations that have not received an unqualified opinion because they have not implemented the elements of IPSAS. The selection of samples is carried out by purposive sampling in accordance with the purpose of this study, which meets the criteria of a number of 217 provincial governments.

The dependent variable in this study is the readiness to adopt IPSAS. Readiness in this study is measured by developing the elements used by (Ernst & Young, 2012) based on IPSAS 1 and 2. In this study, 71 checklists were used in this study. If the government presents information, it is given a value of 1, but if otherwise the government does not present, it is given a value of 0. After that it is averaged with the following formula:

$$\text{IPSAS Adoption Readiness} = \frac{\text{Amount of Reported Elements}}{\text{Amount Of IPSAS Elements}}$$

The measurement illustrates that if the government sector reveals more based on the checklist that has been made in this study, the government sector will be better prepared to adopt IPSAS in the future based on the plans that have been made. But if on the contrary, the government is not ready to adopt IPSAS in full, so adjustments to the policies that have been made are needed.

Political culture in this study is revealed that government openness. Financial management openness measurement instruments use measurements from (Huwae, 2016). The procedure in this study is to measure government openness, first if the reporting item is accessible and available, it is given a value of 1, if it is not available and inaccessible, it is given a value of 0. After that each score will be multiplied by 0.25.

Government Financial in this study uses six dimensions developed to measure the second independent variable, namely: short-term solvency, budget solvency, long-term solvency, financial flexibility, financial independence, and service solvency by Ritonga et al., (2017).

$$\text{Financial Condition Index} = \frac{\text{Total Dimension Index}}{\text{Amount of dimensions}}$$

Data analysis in this study using multiple linear regression analysis data, as follows:

$$AI_{it} = \alpha + \beta_1 PC_{it} + \beta_2 GF_{it} + \varepsilon_{it}$$

Where: AI_{it} = Adoption Readiness IPSAS; α = Constant; β = Regression Coefficient; PC_{it} = Political Culture; and GF_{it} = Government Financial.

4. Result

Descriptive Analysis

This study used 2 independent variables, namely political culture and government financial. Descriptive variables on the data amounted to 217 samples obtained the following calculation results (table 1).

Table 1. Descriptive Analysis

	IPSAS	Political Culture
Mean	0.529	0.099
Maximum	0.746	0.198
Minimum	0.051	0.017
Std. Dev.	0.178	0.041

Based on the results of descriptive statistics showing political culture expressed by government openness, government sector data has an average value of 0.099 or 9.9%, which means that the level

of political culture in the government sector is still considered quite low. While the government's financial condition has an average value of 0.089. The average financial condition in the government sector is quite low and financial performance will be better.

Table 2. Summary of Hypotheses Testing Results

Hypotheses	Sig.	Coef.	description
H1 : Political Culture has a positive effect on the Readiness of Adoption of International Public Sector Accounting Standards (IPSAS)	0.000	2.618	Supported
H2 : Government Financial affects the Readiness of The Adoption of International Public Sector Accounting Standards (IPSAS)	0.258	-0.021	Not Supported

Based on the results of the regression analysis presented in Table 2, it shows that Political Culture has a positive effect on the Readiness to Adopt International Public Sector Accounting Standards (IPSAS). Meanwhile, Government Finance has no effect on the Readiness to Implement International Public Sector Accounting Standards (IPSAS).

5. Discussion

The Influence of Political Culture on IPSAS Adoption Readiness

Based on the results of research obtained that political culture significant on the readiness of IPSAS adoption, so the first hypothesis that states that political culture affects the readiness of IPSAS adoption is supported. That is, the higher the level of political culture in local government, local governments will produce financial reporting that complies with SAP standards guided by IPSAS. This is encouraging in order to improve the quality of presentation of financial reporting with the aim of presenting credible financial information. The wider the information disclosed indicates that it is ready to implement IPSAS. Research supports that political culture in the government sector can have a positive impact or positive signal to recipients of information about the level of government openness and the government sector is better prepared for IPSAS adoption.

This research supports the signal theory that became the foundation in this study. Government sectors that have a good and high quality of finan-

cial information presentation are more likely to give signals to stakeholders that encourage stakeholders to trust more. Positive signals will provide more or added value so that the level of stakeholder trust will also be high. This is shown by the breadth of information disclosed by the government and the factor of compliance with applicable standards (Whiting & Miller, 2008).

This study supports research by Ademola et al., (2020) that explains the role of IPSAS adoption and implementation of the standard in the Nigerian Public Sector. The quality of reporting disclosed demonstrates the level of credibility and accountability affected by IPSAS adoption and can increase trust. In addition, the adoption of IPSAS can increase trust in stakeholders for decision making.

The Influence of Government Financial on IPSAS Adoption Readiness

Based on the results of research obtained that government financial has no effect on the negative direction of IPSAS adoption preparedness, so the second hypothesis that states that government financial affects the readiness of IPSAS adoption is not supported. That is, the level of government financial condition does not affect the government's readiness to adopt IPSAS plenary either in good or bad financial condition. The disclosure of information or the adoption of IPSAS in plenary does not take into account the financial condition of the government sector.

Based on data from local government reports in 2016-2019 that have varying and uncertain debt levels. This shows that the level of debt owned by local governments has no influence for local governments to disclose wider reports so that the Level of Readiness for IPSAS Adoption cannot be seen from existing debt. The results of this study are also supported from research data that the average government financial condition varies which causes the government's weakness to disclose information based on international standards and weak readiness to adopt IPSAS. In addition, it is the lack of encouragement from the central government that causes the government to be unmotivated to present financial information based on IPSAS. The results of this study are not in line with the research conducted by Sellami & Gafsi (2019), indicates that countries that have dependents on external funding or dependents encourage countries to follow applicable international standards.

6. Conclusion and Suggestion

Conclusion

This research aims to test the influence of political culture and government finance on the readiness of IPSAS adoption. Based on the results of the study that political culture has a positive effect on the readiness of IPSAS adoption. The role of political culture factors or openness in the government sector with high openness can provide a more accountable and informative presentation of financial information and the government sector will be better prepared to adopt IPSAS. The wider the information disclosed by the local government, the local government indicates that it is ready to implement IPSAS. Financial conditions do not play a role in the readiness to adopt IPSAS. The financing conditions experienced by the government sector are not a benchmark for the government sector to be better prepared to adopt IPSAS in full. Government sectors that are in good financial standing are more likely not to provide broader financial information, which means that they are not ready for full IPSAS adoption.

Suggestions

Research is potentially relevant to provide consideration for policymakers regarding standard improvements leading to full IPSAS and the possibility of successful implementation. This study has some limitations. First, the amount of literature discussing the factors that influence the widespread disclosure of IPSAS adoption is still very small, especially in Indonesia. Second, not all local provincial governments disclose up-to-date information about financial accountability. So based on the limitations of this study, the next research suggestion is expected to include other variables that are closely related to and can add a period of data retrieval, so that maximum and accurate results are obtained in the research conducted.

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