


**CREATIVE ACCOUNTING IN LOCAL GOVERNMENTS TO OBTAIN FUNDS FOR COVID-19 MANAGEMENT**

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ARTICLE INFO	ABSTRACT
<p><b>Article history:</b></p> <p><b>Received</b> 20 January 2023</p> <p><b>Accepted</b> 16 March 2023</p>	<p><b>Purpose:</b> This study aims to test whether local governments in Indonesia carry out creative accounting to obtain a national economic response loan in dealing with the COVID-19 pandemic with 0% interest.</p>
<p><b>Keywords:</b></p> <p>Creative Accounting; Local Government; Local Loan; COVID-19; Geographic Location.</p> <div data-bbox="172 965 475 1205" style="text-align: center;">  </div>	<p><b>Theoretical framework:</b> According to public choice theory, it can be predicted that local government will take advantage the National Economic Recovery (PEN) loan program with 0% interest from central government for their covid-19 prevention. Local government will fix the financial information which adjusted to the central government regulation in order to obtain the loan.</p> <p><b>Design/methodology/approach:</b> The research population in the first year was all local governments in Indonesia. The sample obtained in this study was 51 local governments according to the criteria in the purposive method. The data analysis technique used in the study was the STATA analysis tool version 15.</p> <p><b>Findings:</b> The result analysis regression has proven that the local government loan positively affects creative accounting. This study can also prove that geographic location and local government independence positively affects creative accounting.</p> <p><b>Research, Practical &amp; Social implications:</b> The low level of local government financial statement accessibility in Indonesia has resulted in a minimum amount of data being obtained. This can be a motivation for further research to examine the level of financial statements transparency in Indonesia.</p> <p><b>Originality/value:</b> This study is the first to examine creative accounting by government accountants. Secondly, this study can improve scientific studies, especially financial accounting through empirical evidence about creative accounting carried out by Indonesian local governments in developing countries that have different characteristics from other countries in the world.</p> <p>Doi: <a href="https://doi.org/10.26668/businessreview/2023.v8i3.726">https://doi.org/10.26668/businessreview/2023.v8i3.726</a></p>

**CONTABILIDADE CRIATIVA NOS GOVERNOS LOCAIS PARA OBTER FUNDOS PARA A GESTÃO DA COVID-19**

**RESUMO**

**Objetivo:** Este estudo visa testar se os governos locais na Indonésia realizam uma contabilidade criativa para obter um empréstimo de resposta econômica nacional ao lidar com a pandemia da COVID-19 com 0% de juros .

**Estrutura teórica:** De acordo com a teoria da escolha pública, pode-se prever que o governo local aproveitará o programa de empréstimos da Recuperação Econômica Nacional (PEN) com 0% de juros do governo central para sua prevenção da covid-19. O governo local fixará as informações financeiras que se ajustam à regulamentação do governo central para obter o empréstimo.

**Projeto/método/abordagem:** A população pesquisada no primeiro ano era de todos os governos locais da Indonésia. A amostra obtida neste estudo foi de 51 governos locais de acordo com os critérios do método proposital. A técnica de análise de dados utilizada no estudo foi a ferramenta de análise STATA versão 15.

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**Conclusões:** A regressão da análise de resultados provou que o empréstimo do governo local afeta positivamente a contabilidade criativa. Este estudo também pode provar que a localização geográfica e a independência do governo local afetam positivamente a contabilidade criativa.

**Pesquisa, implicações práticas e sociais:** O baixo nível de acessibilidade das demonstrações financeiras do governo local na Indonésia resultou na obtenção de uma quantidade mínima de dados. Isto pode ser uma motivação para pesquisas adicionais para examinar o nível de transparência das demonstrações financeiras na Indonésia.

**Originalidade/valor:** Este estudo é o primeiro a examinar a contabilidade criativa pelos contadores do governo. Em segundo lugar, este estudo pode melhorar os estudos científicos, especialmente a contabilidade financeira através de evidências empíricas sobre contabilidade criativa realizadas por governos locais indonésios em países em desenvolvimento que têm características diferentes de outros países do mundo.

**Palavras-chave:** Contabilidade Criativa, Governo Local, Empréstimo Local, COVID-19, Localização Geográfica.

## CONTABILIDAD CREATIVA EN LAS ADMINISTRACIONES LOCALES PARA OBTENER FONDOS PARA LA GESTIÓN DE COVID-19

### RESUMEN

**Propósito:** Este estudio pretende comprobar si los gobiernos locales de Indonesia llevan a cabo una contabilidad creativa para obtener un préstamo nacional de respuesta económica para hacer frente a la pandemia de COVID-19 con un interés del 0%.

**Marco teórico:** De acuerdo con la teoría de la elección pública, se puede predecir que el gobierno local aprovechará el programa de préstamos de Recuperación Económica Nacional (PEN) con 0% de interés del gobierno central para su prevención del COVID-19. El gobierno local fijará la información financiera que se ajusta a la regulación del gobierno central para obtener el préstamo.

**Diseño/metodología/enfoque:** La población de la investigación en el primer año fueron todos los gobiernos locales de Indonesia. La muestra obtenida en este estudio fue de 51 gobiernos locales según los criterios del método intencional. La técnica de análisis de datos utilizada en el estudio fue la herramienta de análisis STATA versión 15.

**Resultados:** El análisis de regresión de los resultados ha demostrado que el préstamo del gobierno local afecta positivamente a la contabilidad creativa. Este estudio también puede probar que la localización geográfica y la independencia del gobierno local afectan positivamente a la contabilidad creativa.

**Investigación, implicaciones prácticas y sociales:** El bajo nivel de accesibilidad a los estados financieros de los gobiernos locales en Indonesia ha dado lugar a la obtención de una cantidad mínima de datos. Esto puede motivar la realización de nuevas investigaciones para examinar el nivel de transparencia de los estados financieros en Indonesia.

**Originalidad/valor:** Este estudio es el primero que examina la contabilidad creativa de los contables públicos. En segundo lugar, este estudio puede mejorar los estudios científicos, especialmente la contabilidad financiera, mediante pruebas empíricas sobre la contabilidad creativa llevada a cabo por las administraciones locales indonesias en países en desarrollo que tienen características diferentes de las de otros países del mundo.

**Palabras clave:** Contabilidad Creativa, Gobierno Local, Préstamo Local, COVID-19, Localización Geográfica.

### INTRODUCTION

Several researchers, such as Harun, (2007); Harun et al. (2013), Emad et al. (2023) stated that accrual accounting could enhance the transparency and accountability of government financial statements. Ahnaf and Alsmady (2023) also state that the quality of financial reports can also improve performance. Therefore, some empirical evidence in other countries showed a certain indication that the government is utilizing accrual accounting to avoid fiscal policy constraints and target a position or specific data. For instance, Milesi-Ferretti (2004) found that some European governments utilize accrual accounting to disguise the fiscal policy in a less

transparent budget. The local government attempt to fulfill the goals by using accounting tricks (Alt et al., 2012; dan De Castro et al., 2013), namely creative accounting in the government sector. Buti et al. (2007) stated that one motivation to perform the trick is to conceal the government debt from the public.

The accrual accounting implementation in government entities in Indonesia since 2010 (Harun et al., 2012). Although some local government has received an unqualified opinion from the Audit Board of the Republic of Indonesia. However, Audit Board has also found some issues regarding the system's weakness, disobedience, ineffectiveness, and an inefficient budget which affects the country's loss. The Audit Board of the Republic of Indonesia examination found 2.170 findings containing 2.843 issues worth 2,94 trillion rupiahs related to the Covid-19 handling program and the national economic recovery. There are indications that local governments are performing creative accounting to obtain loans from the central government for economic recovery due to the Covid-19 pandemic.

Data from the Ministry of Finance of the Republic of Indonesia explains that there has been an increase in loans by local governments. In 2020, the government has budgeted funds for the National Economic Recovery Program (Pemulihan Ekonomi Nasional or PEN) of 695.2 trillion rupiahs, while in 2021 this budget will be increased to 744.7 trillion rupiahs. The Minister of Finance Regulation No. 105/PMK.07/2020 states that this loan is subject to 0% interest. However, this loan application must meet several conditions including areas affected by the pandemic, the aim is to restore the regional economy that supports the National Economic Recovery (PEN) program, the regional loan balance is less than 75% of last year's regional revenue, and meet the financial capability ratio level. the good one. Some of the conditions above are interesting to study, is there any fabricated financial statements of government accountants to obtain the PEN loan.

This research is interesting to do because first, there have been no previous researchers who have tested creative accounting conducted by the local government in Indonesia. This is because creative accounting carried out by government accountants can reduce the quality of local government financial reports which can reduce public trust in the transparency and accountability of local government financial management. Second, it is possible that loans made by the government for handling economic recovery will be diverted to other budgets that are not in favor of the public. This will increase scientific studies, especially financial accounting through empirical evidence on creative accounting carried out in Indonesian local governments in the context of developing countries that have different characteristics from other countries in the world. Indonesia has many islands with different cultures and

characteristics from one another. Each island has a local government which is divided into provincial government, city government, and district government.

## **THEORETICAL REFERENCE FRAMWEORK**

### **Accrual Accounting Developments in Indonesia**

Harun et al. (2015) the development of accounting in Indonesia began with cash-based accounting for recording budgeting and trading reporting. This accounting base was influenced by the Dutch-Roman government which played an important role in regulating the local administration where the Dutch colonial government ruled. The Japanese occupation in the period 1941-1945 ended Dutch rule, thus appointing Sukarno as the first president of Indonesia (Wahid, 2001). The accounting system still followed the old system at that time. However, military action replaced Sukarno with General Suharto in 1966 (Wanadi, 2002). Changes began to be felt in 1999 due to pressure from the World Bank and the Asian Development Bank (ADB) to carry out public sector reforms (Wanadi, 2002). At that time, the accounting base has started towards accrual-based accounting which is expected to be more transparent and accountable (Harun et al.,2013)

Pradana et al. (2018), the emergence of government accounting standards which were still cash-based in 2004 had a major impact on the development of the presentation of Regional Financial Statements or Local Government Financial Reports (Laporan Keuangan Pemerintah Daerah or LKPD). This government accounting standard was later changed again with government regulation No. 71 year 2010 concerning accrual-based government accounting standards. This change was followed by the issuance of Minister of Home Affairs Regulation No. 64 year 2013 concerning the Implementation of Standard Accrual-Based Government Accounting for Local Governments. According to these rule instructions, the adoption of accrual-based government accounting standards in local governments is no later than the 2015 fiscal year. So currently the government's accounting standards have been applied based on the full accrual basis.

### **National Economic Recovery Loan**

National economic recovery loans are based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 105/ Minister of Finance Regulation 07/2020 concerning the management of national economic recovery loans for local governments. This regulation was amended by Minister of Finance Regulation Number 43/pmk.07/2021. Regional National Economic Recovery (PEN) loans are financial support provided by the central

government to regional governments in the form of loans to be used in order to accelerate economic recovery in the regions during the COVID-19 pandemic. The interest rate for Regional National Economic Recovery (PEN) Loans is provided with the following conditions: first, for loan funds sourced from the 2020 Fiscal Year of the state budget and the Loan Agreement signed in 2020, the interest rate is 0% (zero per cent). Second, for loan funds sourced from the state budget for the Fiscal Year 2021 and the following years and the Lending Agreement signed in 2021 and following years, the interest rate is determined by a Decree of the Minister of Finance.

The World Bank noted that Indonesia is the seventh country with the highest foreign debt. Data from the Ministry of Finance shows that the government's debt until the end of June 2021 is IDR 6,554.56 trillion. This increase was due to the Indonesian government trying to recover. Data from the Ministry of Finance also explains that there has been an increase in loans by regional governments. However, there are several requirements for applying for a loan, including areas affected by the pandemic, the goal is for regional economic recovery that supports the National Economic Recovery (PEN) program, regional loan balances plus a loan amount of less than 75% of last year's regional revenues, and meet the level of good financial capability ratio.

### **Creative accounting in government**

Pradana et al. (2018) in institutional theory explains government accounting. To gain legitimacy from the community, a government must improve services to the community. Therefore, the government must adapt to its environment in order to fulfill all the interests of the community. The implementation of regulations that apply in the regions will have consequences for the regions of government work programs that have an impact on the welfare of the community. If problems arise in the implementation of government programs, causing information asymmetry, it will have a negative impact on public services. This is what causes agency problems. Zimmerman (1977) stated that to reduce this problem, local governments should make efforts to present financial statements in a transparent and accountable manner.

Cohen (2019) also found evidence of financial statement manipulation practices in Greece and Italy using public choice theory. The public choice theory provides an explanation of a person's motivation for certain actions. Boyne (1997) makes an analogy that government is considered an industry consisting of "buyers" and "sellers". The two sides have different interests. The seller will offer the best products and services to the buyer. Buyers will choose the best products/services so that they will continue to be loyal to the seller. Therefore, the seller

will maintain the product/service so that the buyer can be satisfied. Politicians in order to gain sympathy from the public will try to fulfill the interests of the community. García-Sánchez et al. (2014) stated that the motivation of politicians is the basis for governments to behave opportunistically to satisfy their own interests and be re-elected in the next election. Guarini (2016), Pilcher (2011), Ferreira et al. (2013) found that there were attempts to manipulate financial accounting information during the regional head election period.

The public expects an improvement in the disclosure of financial conditions and financial performance of public sector entities that are more transparent and accountable with the implementation of accrual accounting (Hyndman and Connolly, 2011). According to Pinnuck and Potter (2009) accrual accounting can predict cash flows better than cash accounting. Nonetheless, accrual accounting can allow managers and politicians to exercise discretion in reporting assets and liabilities and recognizing revenues and expenses. As a result, the application of accrual accounting paved the way for government accountants to manipulate accounting and earnings management in the public sector (Cohen, 2012; Stalebrink, 2007; Vinnari and Näsi, 2008; Pilcher and Dean, 2009). Several researchers have examined the opportunities for public sector organizations and incentive to manipulate accounting number according to their importance (Leone and Van Horn, 2005; Stalebrink, 2007; Pilcher and Van Der Zahn, 2010).

### **Hypothesis Development**

The public choice theory explains that a person who performs an action has a certain motivation (Cohen, 2019). Boyne (1997) makes an analogy that government is considered an industry consisting of "buyers" and "sellers". The two sides have different interests. The seller will offer the best products and services to the buyer. Buyers will choose the best products or services thus; they will continue to be loyal to the seller. Therefore, the seller will maintain the product or service so that the buyer can be satisfied. Politicians in order to gain sympathy from the public will try to fulfill the interests of the community. García-Sánchez et al. (2014) stated that the motivation of the government is to behave opportunistically to satisfy their own interests and be re-elected in the next election.

According to public choice theory, it can be predicted that local government will take advantage the National Economic Recovery (PEN) loan program with 0% interest from central government for their covid-19 prevention. Local government will fix the financial information which adjusted to the central government regulation in order to obtain the loan. They attempt to provide the best services amid this covid pandemic. It is an evidence that government take

care of their people for attracting public sympathy. The author predicted that the higher loan that local government have, the higher DA values (proksi from creative accounting). Therefore, based on the explanation above, the hypothesis is ;

H1: local government loans will positively affect creative accounting. (DA)

The geographic location of local government determines the creative accounting practice of government accountants. Keeler (1987) stated that social status and amount of power determine cultural identity. The local government that is situated in the maximum natural and human resources is able to apply creative accounting. They have more experience and supports from faster technology; Thus, it will be more creative than inexperienced and less technological local government.

The author predicted that DA will increase the local governments located on Java island rather than outside of java island. It's due to local government on java island has human and technology resources better than outside of java island. In this study, the author is implementing variable dummy 1 for local government in java island and 0 for local government outside of java island. Based on the explanation, the hypothesis can be formulated as follows;

H2: The geographic location positively affects creative accounting

## METHOD

This study aims to develop a method for detecting creative accounting practices in the government sector. The research population in the first year was all local governments in Indonesia. The sample in this study was obtained using the purposive sampling method with the following criteria: First, local governments that apply for loans to the central government for the purpose of handling economic recovery during the covid-19 pandemic. Second, local governments issue financial reports for 2020. The data is obtained from BPK (audit board of Indonesia) audit reports published on the BPK website and the websites of each local government. The data analysis technique used in this research is STATA version 15 analysis tool. The research model is as follows:

$$DAC = a + b1Debt + b2Geo + b3NE + b4Status + b5Size + e$$

Where DAC is a creative accounting variable measured by discretionary accruals estimated. To gain DAC value, the model from Cohen (2019) which adopted Jones model. Debt is loan local government variable measured by the amount of local loan divided by local government total assets. Geo is geographical location variable that measured by using variable

dummy 1 for local government in java island and 0 for local government outside java island. NE is local independent variable measured by surplus balance of the operational report divided by the total assets of the local government. Status is local government status variable measured by variable dummy 1 for provincial government, 2 for district government, and 3 for the city government. Size is local government range variable measured by Ln total assets of the local government.

DAC value measured by residual of following Jones model equation:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_i \left[ \frac{1}{A_{it-1}} \right] + \beta_{1i} \left[ \frac{\Delta REV_{it}}{A_{it-1}} \right] + \beta_{2i} \left[ \frac{PPE_{it}}{A_{it-1}} \right] + \varepsilon_{it}$$

Information:

TA	= Total Accrual in year t for firm i
TA	= $NI_{it} - CFO_{it}$
$NI_{it}$	= net incomes in year t for firm I
$CFO_{it}$	= cash flows in year t for firm i
$PPE_{it}$	= gross property, plat, and equipment in year t for firm i
$A_{it-1}$	= total assets in year t-1 for firm i

The model or method above assumes that the company is a unit that wants as much profit as is predicted in agency theory. However, it will be different if this agency theory is applied to the government sector whose goal is not to make a profit, but for the welfare of society. Thus, the method or formula above to calculate creative accounting in the government sector is less relevant. Some of the weaknesses, if we use equation 1 to measure creative accounting practices in the government sector, include first, TA in equation 1 is calculated by net income minus cash flows from operating activities. It is not suitable for a government that is not looking for profit so it has to be changed into a surplus operational statement due to accrual-based, while the surplus realization statement is cash-based.

The accrual level is the level of accrual application carried out by local government management for discretionary accrual implementation. The higher the accrual level, the more doubtful the recognition of assets and liabilities will be, the more estimation and judgment in nature, less reliable, and have the possibility of being less relevant to monetary measures and less meaningful in terms of disclosure. The level of accruals varies from one local government to another because of the discretionary accruals owned by local government management. For this reason, TA (Total Assets) in equation 1 above is no longer relevant. The size of the government is not measured by the size of the total assets but by the number of residents in the



area. The larger the population, the greater the responsibilities that must be borne by the local government related to the welfare of the community.

Local government revenue is divided into two, namely LRA income and LO income. LRA income is all receipts from the state/regional general treasury account which add to the balance of the budget in the relevant fiscal year period which is the right of the government and does not need to be repaid by the government. This income is cash-based. Revenue is recognized when cash is received. Meanwhile, expenditures are recognized when cash is paid or out. LO income is the right of the local government which is recognized as an addition to equity in the period of the relevant fiscal year and does not need to be repaid. However, this income is pre-determined by law. In fact, it is rare for local governments to exceed the target, it is already in accordance with the target, which is a good achievement. Therefore, REV in equation 1 above is irrelevant, so it needs to be replaced with REC (Receivables) or income receivables which are still likely to be utilized by government accountants on an accrual basis.

PPE in equation 1 is a government fixed asset that is still relevant to be used by government accountants to utilize the depreciation method in doing creative accounting. Therefore, PPE is still used in this new method. However, there are still many potential manipulations that can be done by government accountants. For example, in the process of recognizing the procurement of goods and services to the maintenance process.

## RESULTS

The population in this study was 548 local governments consisting of 34 provincial governments and 416 district governments and 98 city governments. Based on the criteria, a sample of 178 local governments took PEN loans from local governments. In addition, 119 financial reports for 2020 and 2019 cannot be accessed either through the websites of each local government or on the BPK website as the government auditor. So the number of samples obtained is 51 local governments that report financial statements on the official website. The lack of accessible financial reports indicates a lack of transparency in government financial management through information technology. The 51 samples consisted of 24 provincial governments, 11 district governments and 16 city governments. This proves that the provincial government has better financial reporting transparency than the district and city governments.

Table 1. Research Sample, Panel A. Sampling Procedure

No	Sample	Total
1	Total Local Government	548
2	Local government that does not take PEN loan in 2020	(370)
3	Financial Statement that cannot be accessed	(119)
	<b>Total Samples</b>	<b>51</b>

Panel B. Sample distribution to each local government			
No	Industry	Total	%
1	Provinces	24	47
2	Regencies	11	22
3	Cities	16	31
	<b>Total</b>	<b>51</b>	<b>100</b>

Source: Prepared by the authors (2022)

Table 2. Descriptive Statistics of the aggregate Jones (1991) model

Name of Variable	N	Mean	Min	Max	Standard Deviation
TACC <sub>i,t</sub> /TA <sub>i,t-1</sub>	51	-0.032	-0.415	1.179	0.185
ΔREV <sub>i,t</sub> /TA <sub>i,t-1</sub>	51	-0.654	-31.493	0.101	4.405
PPE <sub>i,t</sub> /TA <sub>i,t-1</sub>	51	0.871	0.592	1.419	0.148

Source: Prepared by the authors (2022)

Note: TACC<sub>i,t</sub> are the total accruals for the period t and municipality i; ΔREV<sub>i,t</sub> is the difference between the revenues of the previous period and the revenues of current period; PPE<sub>i,t</sub> is the gross, property and equipment of municipality i and period t. TA<sub>i,t-1</sub> is total assets for the period t-1 and municipality i

Table 3. Descriptive Statistics of Accounting Creative model

Name of Variable	N	Mean	Min	Max	Standard Deviation
EBDA	51	-0.031	-0.465	0.186	0.097
DAC	51	-0.000	-0.421	1.085	0.176
NE	51	0.031	-0.180	1.196	0.173

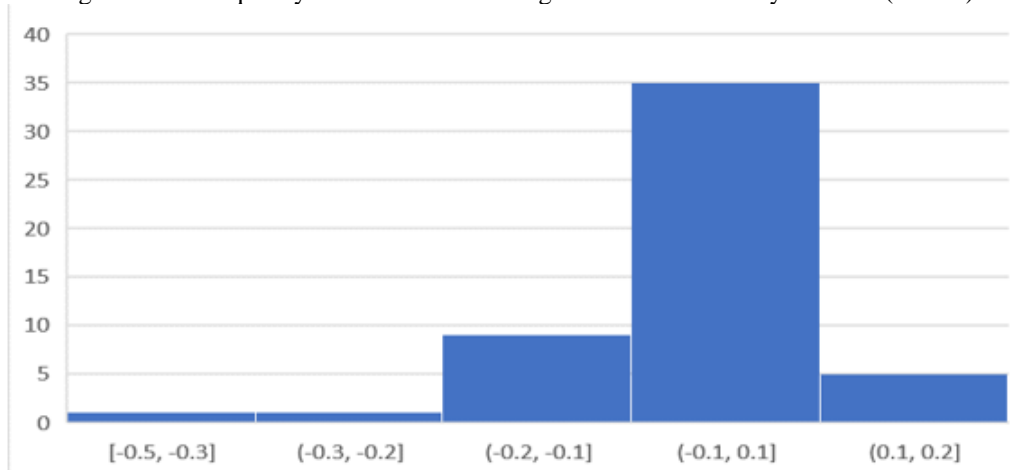
Source: Prepared by the authors (2022)

Note: Note: NE is the surplus/deficit in the operational report, DAC is the creative accounting variable, and EBDA is the surplus/deficit variable before creative accounting is done as measured by NE minus DA.

Figure 1 illustrates the distribution of earnings before discretionary accruals (EBDA) for the period 2020. Figure 2 illustrates the distribution of net surpluses or deficits for the period 2020. According to Ferreira et al. (2013), the frequency distribution image can be used to see the existence of creative accounting. In figure 1, it can be seen that the reported surplus/deficit values before being engineered tend to be spread out. However, in figure 2, it can be seen that

the surplus or deficit value after being engineered tends to approach the zero point. It can be concluded that there are efforts by local governments to manipulate financial reports.

Figure 1 The frequency distribution of earnings before discretionary accruals (EBDA)



Source: Prepared by the authors (2022)

Figure 2 The frequency distribution of net surpluses or profits (Net Earnings)

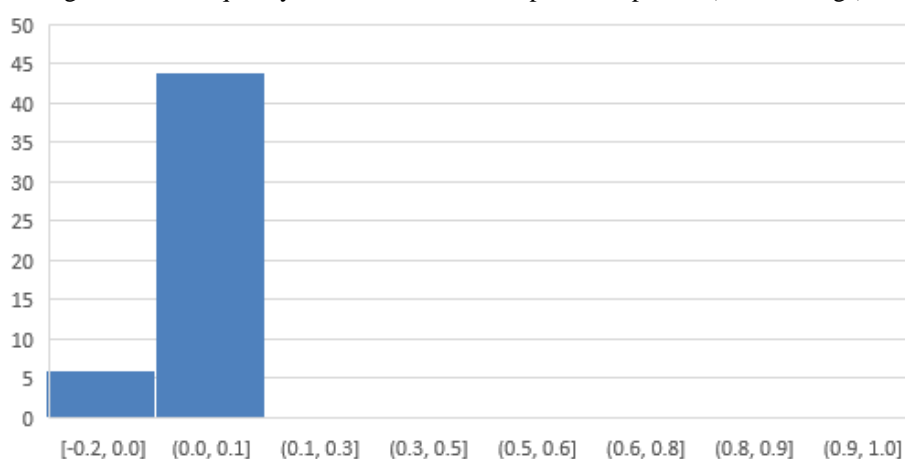


Table 4. Descriptive Statistics

Name of Variable	N	Mean	Min	Max	Standard Deviation
<b>Dependent Variable</b>					
DAC	51	-0.000	-0.421	1.085	0.176
<b>Independent Variable</b>					
Debt <sub>i,t</sub>	51	0.059	0.0003	0.385	0.085
Size <sub>i,t</sub>	51	29.415	25.527	33.885	1.225
Geo <sub>i,t</sub>	51	0.411	0	1	0.497
Status <sub>i,t</sub>	51	2.019	1	3	0.882
NE <sub>i,t</sub>	51	0.031	-0.180	1.196	0.173

Source: Prepared by the authors (2022)

Note: DAC is a Accounting creative variable, Debt is a debt variable, Size is a government size variable, Geo is a Geografis variable, Status is a local government status, and NE is a local government independence variable.

Table 4 shows the descriptive statistics of this research variable. The mean DAC value is -0.000, meaning that, there are local government efforts to reduce the surplus or deficit value in the operational report. The average Debt value is 0.059, meaning that local government loans are on average 0.059 of total assets. Meanwhile, the level of local government independence in 2020 is an average of 0.031 of total assets. The Geo value of 0.411 indicates that 41% of the research sample is located on Java island, while 59% is outside Java island. The status value of 2.019 shows that the sample in this study is dominated by the city/district government. As in the sample distribution, 53% are city/district governments.

### Empirical Test Result

Table 5 shows the results of the correlation test between the variables in this research model. The correlation value between the Debt variable (regional loans) and the creative accounting variable (DA) shows a value of 0.045, meaning that there is a significant correlation between loans and creative accounting. Positive correlation values also occur in the variables NE, Size, and Gea, respectively 0.844, 0.045, and 0.238. However, the correlation results for the Status variable actually get the opposite value, which is -0.052. If you look at the results of the correlation between the independent variables, none of them has a value greater than +/- 0.8. Therefore, it can be concluded that this model is free from multicollinearity.

Table 5. Spearman's and Pearson's correlation

	DA	Debt	NE	Size	Geo	Status
DA	1	0.045**	0.844**	0.045	0.238**	-0.052
Debt	0.045**	1	-0.1	-0.026	-0.349	-0.196
NE	0.844**	-0.1	1	-0.028	0.135	0.002
Size	0.045	-0.026	-0.028	1	0.209	-0.529
Geo	0.238**	-0.349	0.135	0.209	1	0.118
Status	-0.052	-0.196	0.002	-0.529	0.118	1

Table 6 Regression Test Result Model 1

Independent Variable	Predict Sign	DAC	
		( $\beta$ ) /t-statistics	(Prob)
Constant	?	0.35	0.731
			0.020**
Debt	+	0.392/2.42	0.023**
Geo	+	0.067/2.35	0.848
Size	+	0.002/0.19	0.737
Status	+	-0.006/-0.34	
NE	+	0.850/11.40	0.000**
Cross-sections			Yes

Total Obs	51
Adjusted R2	0.737
Probability	0.000

Source: Prepared by the authors (2022)

Note: \*\* Significant at level 5%

The regression test results in the table above show that the debt variable has a beta value of 0.392 with a probability of 0.002. Therefore, it can be concluded that the debt variable has a significant positive effect on creative accounting carried out by local governments, thus hypothesis 1 is accepted. The table above also shows that the Geo variable (as a proxy for the geographic location of the local government) also shows a value of 0.067 with a significance level of 0.023. Therefore, the second hypothesis which states that the geographical location of the local government has a positive effect on creative accounting in the local government is accepted.

For the results of testing other variables, only the local government independence variable has a significant positive effect on government creative accounting. The size and status variables have no significant effect on creative accounting. This proves that the level of independence of local governments in financing regional expenditures plays an important role in the process of managing financial transparency.

## DISCUSSION

The results of this study provide evidence that local governments in Indonesia also carry out creative accounting. This evidence can be seen in the surplus or deficit values reported before manipulation tends to spread, but after implementation, the surplus/deficit values approach zero. These results are supported by the results of hypothesis testing which states that local government loans have a significant positive effect on creative accounting. The results of this study support research conducted by Buti et al., 2007, Milesi-Ferretti and Moriyama, 2006; von Hagen and, 2006 Alt et al. (2012), De Castro et al. (2013) and Cohen (2019).

The results of this study support the theory of public choice theory, local governments in Indonesia will try to obtain National Economic Recovery (PEN) loans from the central government with 0% interest. This loan can be useful for the community in dealing with the economy due to the COVID-19 pandemic. The government tries to fulfill the interests of the community in order to maintain the good name of the government so that it is seen that the government is concerned with the interests of its people. For example, Cohen (2019) stated that governments in Italy and Greece tend to use accrual accounting to provide good profit information to the public and their political opponents during the election period.

These results provide evidence that the application of accrual accounting can provide opportunities for government accountants to do creative accounting. They seek to utilize accounting methods to achieve certain goals. In the case of this research, the government is trying to fulfil the requirements to obtain a National Economic Recovery (PEN) loan, which meets the level of a good financial capability ratio. The descriptive statistical data in table 3 regarding the average surplus in regional government operational reports changes from -0.031 (before creative accounting) to 0.031 (before creative accounting). This proves that there are efforts by accountants to increase the surplus of local government revenues.

The geographic location of the local government in this study also determines creative accounting practices by government accountants. The test results show that geographic location has a significant positive effect on creative accounting practice. Therefore, the local government in Java (which is denoted by number 1) is more aggressive in doing creative accounting to obtain this interest-free loan. This is because local governments located on the island of Java have maximum natural and human resources and faster technology so they will be more creative than local governments that have no experience and lack technology.

In addition, what is interesting in this study is that local governments that have good independence are also increasingly aggressive in doing creative accounting. This is because regional governments that have large financial surpluses have large numbers of Covid cases, so they try to take advantage of this central government loan as a source to add to the response to the COVID-19 pandemic in their respective regions. This is evidenced by the mean value of DA of -0.000 which means that local governments tend to reduce their surplus value in an effort to qualify for the loan. The central government must try to implement public management so that funds are distributed on target (Álex et al. 2023)

## CONCLUSION

Accrual accounting in Indonesia has proven to be a tool that local governments can use to do creative accounting. This is evidenced by the results that local government loans have a positive effect on creative accounting by local government accountants. In addition, it also proves that the geographical location and level of independence of local governments can influence the behavior of government accountants to be able to manage financial reports so that they can obtain loans from the central government. These results can be useful for the central government authorities in providing funds to the regions that must pay attention to the quality of local government financial reports. In addition, to increase transparency and accountability of public finances.

The results of this study are still far from perfect, there are several limitations of this study, namely, first, the lack of government transparency in disclosing financial statements is the limitation of this research data. This can be a motivation for further research to evaluate the transparency of financial reports in regional governments. Second, this study does not analyze whether the purpose of this creative accounting is something good or bad because it is related to this covid-19 response fund. Further research can analyze this matter more deeply.

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