

# Public-Sector Regulation of Accounting Standards Case in Pharmaceutical Industry

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## Abstract

The problem of accounting standards is that they do not indicate the ownership of the transaction and the conformity of the transaction to the existing rules, laws and regulations. This article tries to answer the issue of regulation of public sector accounting standards. In this study using a pure literature survey and conclusions were drawn from theoretical analysis and discussion results. This research will add deeper insight into the theory of public sector accounting standards. Our research survey presents some of the thoughts of previous researchers regarding the regulatory theory of public sector accounting standards in pharmaceutical institutions. The results of our study show that the regulation of public sector accounting standards in pharmaceutical institutions has no relationship with non-profit organizations and government agencies. Regulation of public sector accounting standards in pharmaceutical agencies is very necessary for the Indonesian Institute of Accountants through the Public Sector Accountant Compartment together with the government and pharmaceutical industry associations as accountant organizations in Indonesia to draft Accounting Standards in the Pharmaceutical Industry considering that pharmaceuticals are very much needed by the public and there is a regulation of the Highest Retail Price issued by the Government.

**Keywords:** Accounting Standards, Regulation of Public Accounting Standards, Non-Profit Organizations, Government Agencies.

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## INTRODUCTION

Accounting as we know it is a process of identifying, measuring, and reporting. Financial statements can be said to be a reflection of the company's self at the time of publication, so management wants to show that the condition of the company is in good condition. Accounting standards are made for uniformity of financial statements within a company, and can facilitate the preparation of financial statements and make it easier for auditors to read financial statements in understanding or comparing financial statements of different companies.

In Indonesian, the development of public sector accounting continues to develop due to the era of reform in the implementation of company or organizational policies, especially in the quality of financial statements. Financial statements are made to present relevant, reliable and reliable information regarding the financial position and all transaction data recorded by a reporting company during one reporting period which annually receives an assessment from the auditors used from the company itself. In the era of reform in many countries, especially Indonesia, it also has a significant impact on the development of public sector accounting.

Public sector accounting has slightly different standards from ordinary accounting because ordinary accounting does not include accountability to the public in the public sector. Regulations in the public sector can be divided into 2 parts,

namely the development of regulations related to non-profit organizations and government agencies. These two types of development need to be distinguished considering the nature of regulation in the public sector is specific to each type of organization.

## LITERATURE REVIEW

### Development of Indonesian Accounting Standards

The development of Financial Accounting Standards in Indonesia began in 1973 with the establishment of a committee to collect materials and structures of GAAP (Generally Accepted Accounting Principles) and GAAS (Generally Accepted Auditing Standards). On the eve of the activation of the capital market in Indonesia in 1974, as a forum for the accountant profession that always turns challenges into opportunities for the advancement of accountants in the business world, the Indonesian Accounting Association then formed the Indonesian Accounting Principles Committee and codified the accounting principles applicable in Indonesia in a book "Indonesian Accounting Principles" which refers to the US GAAP (Indonesian Institute of Accountants, 2022).

Along with the rapid development of the capital market, the Indonesian Accounting Principles Committee also issues special accounting standards for certain industries and legal entities, including accounting standards for pension funds, cooperatives, loss insurance, oil and gas, leases (business

use), banking (SKAPI), forestry, and so on (Indonesian Institute of Accountants, 2022).

In 1994, the Indonesian Accounting Association made a complete revision of the Indonesian Accounting Principles and codified it in the Financial Accounting Standards book which began to harmonize with the standards of international financial accountants (Imawan *et al.*, 2020). The name change from Indonesian Accounting Principles to Indonesian Accounting Standards is carried out with the consideration that principles are more standard and provide the basic concept of standard preparation while standards are more flexible and can change according to business dynamics. Because of the name change, the Indonesian Accounting Principles committee then also collaborated with the Indonesian Accounting Standards committee (Indonesian Institute of Accountants, 2022).

As a continuation of one of the points of the G-20 Member agreement in 2009, the Indonesian Accounting Association has launched the implementation of the convergence program of Financial Accounting Standards to International Financial Reporting Standards (IFRS Standards) in stages with the support of regulators such as the Financial Services Authority (formerly Bapepam-LK) Bank Indonesian, the Ministry of State-Owned Enterprises, the Directorate General of Taxes, and other regulators. The impact of this convergence program has caused SAK to be principle-based, widely using the basis of fair value measurement, requiring professional judgement and disclosure in financial statements (Indonesian Institute of Accountants, 2022).

The first phase of convergence was carried out in 2012 where in general SAK as of June 1, 2012 has referred to IFRS Standards as of January 1, 2009. SAK as of June 1, 2012 consists of Statements of Financial Accounting Standards, Interpretation of Financial Accounting Standards (ISAK), and Statements on the Revocation of Financial Accounting Standards (PPSAK) that have been ratified include those that have been effective as of 2012 and those that have not been effective as of 2012. SAK as of June 1, 2012 is also equipped with a Technical Bulletin (Bultek) which is one of the products issued by DSAK IAI however is not part of the standard (Indonesian Institute of Accountants, 2022).

In order to keep up with the very progressive development of global accounting standards, the second phase of convergence continued in 2013 and 2014. Effective as of January 1, 2015, Indonesian SAK have generally converged with IFRS Standards which were effective as of January 1, 2014 (Indonesian Institute of Accountants, 2022).

SAK effective as of January 1, 2015 consists of products based on IFRS Standards such as new PSAK and ISAK, revisions, amendments and those that have gone through the adjustment process. SAK effective as of January 1, 2017 added a new PSAK/ISAK consisting of PSAK 70: Accounting for Assets and Liabilities for Tax Amnesty, ISAK 30: Fees, and ISAK 31: Interpretation of the Scope of PSAK 13: Investment Properties. SAK effective as of January 1 2018 added a new PSAK/ISAK, namely PSAK 69:

Agriculture. In addition, SAK effective as of January 1, 2018 also added several PSAKs that have been amended, namely PSAK 2: Statements of Cash Flows, PSAK 13: Investment Properties, PSAK 16: Fixed Assets, PSAK 46: Income Tax and PSAK 53: Share-Based Payments. Meanwhile, several PSAKs are subject to annual adjustments, namely PSAK 15: Investments in Associates and Joint Ventures and PSAK 67: Disclosure of Interests in Other Entities (Indonesian Institute of Accountants, 2022).

SAK effective as of January 1, 2022 adds the Conceptual Framework for Financial Reporting (ratified by DSAK IAI as of December 11, 2019) as well as a new ISAK consisting of ISAK 35: Presentation of Financial Statements of Non-Profit-Oriented Entities and ISAK 36: Interpretation of Interactions Between Provisions Regarding Land Rights in PSAK 16: Fixed Assets and PSAK 73: Leases (Indonesian Institute of Accountants, 2022).

### Regulation of Public Sector Accounting Standards

The Indonesian government initiated public sector reforms after the Asian currency crisis in 1998. These reforms aimed to develop a legal framework, which prior to the currency crisis was not effective in regulating the financial administration system in the public sector in Indonesia. The system is a legacy of the Dutch colonial regulations: (1) Indische Comptabiliteitswet Stbl. 1925 Number 448; (2) Indische Bedrijvenwet (IBW) Stbl. 1927 No. 419 jo. Stbl. 1936 Number 445; (3) Reglement voor het Administratief Beheer (RAB) Stbl. 1933 No. 381. Although Indonesia became independent from the Netherlands in 1945, some of the Dutch regulations adopted by the Indonesian Government at the turn of the century remained. The administration of the Indonesian government is based on statutory regulations. The regulations (in descending order) are: (1) Constitution; (2) law; (3) government regulations; (4) presidential regulations; (5) local government regulations (GOI, 2004a). The constitution can only be changed with the approval of the DPR and the Regional Representatives Council (high house). Laws, which are usually initiated by the Government of Indonesia, can only be passed after receiving ratification from the DPR. Government regulations and presidential regulations are drawn up by the central government, and do not require a consensus from the DPR. Finally, local government regulations are prepared by the local government, and need to be approved by the DPRD (Prabowo, Leung, & Guthrie, 2017).

Public sector accounting is a process of collecting, recording, classifying, analyzing, and preparing financial reports for a public organization that provides financial information to those who need it. Public sector accounting is used as a tool for accountability of public institutions to the public, so that financial management becomes more transparent. Examples of public organizations such as mosques, hospitals, health centers, universities/schools, political parties, non-governmental organizations to the central government. The public sector financial accounting standard is a guideline or

framework that forms the basis for the functioning of the public sector accounting cycle stages, namely planning, budgeting, budget realization, procurement of goods and services, reporting, auditing, and public accountability. In Indonesia, the accounting standards that have been used are Financial Accounting Standards, Government Accounting Standards, Public Accountants Professional Standards, and State Financial Auditing Standards. These standards are references that have been agreed upon and set by competent and authorized organizations in related fields (Yuesti, Dewi, & Pramesti, 2020).

The public sector is currently facing pressure to be more efficient, taking into account the economic and social costs, as well as the negative impact of the activities carried out. Public sector accounting has a close relationship with the application and treatment of accounting in the public domain. The public domain itself has a wider and more complex area than the private sector. The breadth of the public area is not only due to the wide types and forms of organizations that are in it, but also to the complex environment that affects these public institutions. This is a consequence of the vastness of the public sphere, so that each discipline has a different perspective and definition. From the point of view of economics, the public sector can be understood as an entity whose activities are related to efforts to produce public goods and services in order to fulfill public needs and rights (Yuesti, Dewi, & Pramesti, 2020).

Some of the tasks and functions of the public sector can actually also be carried out by the private sector, for example the task of producing several types of public services, such as communication services, tax collection, education, public transportation, and so on. However, for certain tasks the existence of the public sector cannot be replaced by the private sector, for example the function of the government bureaucracy. As a consequence, public sector accounting differs several times from accounting in the private sector. An accounting system that is designed and used properly will ensure that the principles of stewardship and accountability are carried out properly. The government or government work units need to have an accounting system that not only functions as a means of controlling financial transactions, but the accounting system should support the achievement of organizational goals. The following is about public sector accounting theory and techniques (Yuesti, Dewi, & Pramesti, 2020):

#### 1. Budget Accounting

Budget accounting technique is an accounting technique that presents the budgeted amount with the actual amount and is recorded in pairs (double entry). Budget accounting is an accounting practice widely used by public sector organizations, especially governments, which record and present operating accounts in the same format as their budgets. The budgeted expenditure amount is credited to the appropriate account then when the account is realized, the account is debited again. The existing balance thus

shows the amount of the budget that has not been spent. Budget accounting techniques can compare systematically and continuously the amount of the budget with the realization of the budget. The main purpose of this technique is to emphasize the role of the budget in the cycle of planning, control and accountability.

#### 2. Commitment Accounting

Commitment accounting is an accounting system that recognizes transactions and records them when an order is issued. The accrual accounting system recognizes expenses when an invoice is received and recognizes revenue when an invoice is issued. Commitment accounting can be used in conjunction with cash accounting or accrual accounting. Commitment accounting is sometimes only a subsystem of the main accounting system used by the organization. Commitment accounting recognizes transactions when the organization makes those transactions. This means that transactions are not recognized when cash has been paid or received, nor when invoices are received or issued, but at an earlier time, i.e. when the order is issued or received. The main purpose of commitment accounting is to control the budget. In order for the manager to control the budget, he needs to know how much the budget has been implemented or used if it is calculated based on the orders that have been issued.

#### 3. Fund Accounting

In public sector organizations, the main problem faced is finding sources of funds and allocation of funds. The use of funds and the role of the budget are very important in public sector organizations. In the early stages of the development of fund accounting, the notion of "fund" is defined as cash funds.

#### 4. Cash Accounting

In the application of cash accounting, income is recorded when cash is received, and expenses are recorded when cash is issued. The advantage of cash basis is that it reflects actual, real and objective spending.

#### 5. Accrual Accounting

Accrual accounting is considered better than cash accounting. Accrual-based accounting techniques are believed to be able to produce financial statements that are more reliable, more accurate, comprehensive, and relevant for economic, social, and political decision making. The accrual basis is applied somewhat differently between proprietary funds (full accruals) and governmental funds (modified accruals) because expenses are measured in proprietary funds while expenditures are focused on general funds.

The focus of public sector accounting is the provision of financial reports to external parties of the organization. The dimensions of the quality of public sector financial reports are very important for those who make financial statements the

basis for making economic, social and political decisions. Each of these accounting techniques has advantages and disadvantages, and actually the five techniques are not mutually exclusive. A financial accounting technique that is quite easy and simple and widely used is cash accounting. However, along with public sector reforms, there has also been a shift from the cash accounting system to an accrual accounting system or modified accruals (Yuesti, Dewi, & Pramesti, 2020).

The purpose of the regulation of Public Sector Accounting in the reform era is to manage state/regional finances towards good governance. The existing forms of reform include (Nurfadhilahyani, 2022):

1. Arrangement of laws and regulations
2. Institutional arrangement
3. Structuring the regional state financial management system
4. Human resource development in finance

Currently, public sector accounting in Indonesia is experiencing significant developments, one of which is marked by the birth of laws and regulations governing the application of public sector accounting specifically in government. The development of public sector accounting includes areas of concentration (Majid, 2019):

1. Financial accounting
2. Management accounting
3. Inspection

### Non-Profit Organization

Non-profit organizations have a significant difference with profit-oriented organizations. In carrying out its activities, not-for-profit organizations are not solely driven by the goal of seeking profit. However, not-for-profit must also be interpreted as not-for-loss. Therefore, non-profit organizations should not experience a deficit. Meanwhile, if a non-profit organization obtains a surplus, the surplus will be re-contributed to the fulfillment of the public interest, and not to enrich the owner of the not-for-profit organization. Ownership in a not-for-profit organization cannot be sold, transferred, or redeemed as in a business organization. Non-profit organizations generally derive their resources from the contributions of members and other donors, who ideally do not expect any return for their donations (Majid, 2019).

Accountability is very necessary in order to be able to provide relevant and reliable information to donors, regulators, beneficiaries and the general public. According to PSAK 45, non-profit organizations need to prepare at least 4 types of financial statements as follows (Majid, 2019):

1. Statement of financial position (balance sheet) at the end of the reporting period
2. Activity reports for a reporting period
3. Statement of cash flows for a reporting period
4. Notes to financial statements

Although financial accounting standards 45 is dedicated to

non-profit organizations, this standard can also be applied by government agencies, and other similar units. In terms of ownership, it is unclear who the real 'owners' of the nonprofit organization are, whether members, clients or donors. In profit organizations, the owner clearly gains from the results of the organization's business (Majid, 2019).

### Government Agencies

The definition of Government Accounting according to Revisond Baswir is: "Government Accounting (including accounting for other non-profit organizations), is the field of accounting related to government institutions and non-profit organizations". Public Sector Accounting can also be defined as an accounting technique and analysis mechanism that is applied to the management of public funds in high state institutions and departments under them, local governments, BUMN, BUMD, NGOs and social foundations. The general characteristics of entities that carry out government accounting are (Nordiawan and Hartanti 2010): a. Non-Profit Motive b. Sources of funding from taxes, levies, debt, government bonds, BUMN/BUMD profits, sales of state assets, etc. c. Financial and operational accountability to the public (public) and parliament (DPR/DPRD). d. Organizational structure is bureaucratic, rigid, and hierarchical. e. Characteristics of an open budget to the public.

Government regulation Number 71 as a regulation in Law 17 of 2003 concerning State Finances article 1 numbers 13, 14, 15, and 16, it can be seen that the definition of state/regional income and expenditure is accrual based because it states that: State/regional income is the right of the government central/regional government recognized as an addition to the value of net assets and state/regional expenditures are the obligations of the central/regional government which are recognized as a reduction in the value of net assets. However, we were allowed to transition because at that time the existing practice was to use a cash basis, where income and expenditure were recognized when money came in/out to/from the state/regional general treasury (IKAPI 2009).

### METHODS

A descriptive approach is applied in this study through a collection of previous literature on the origins of public sector accounting standards. This research will provide a theoretical description of the relationship between the regulations of Public Sector Accounting Standards in the Pharmaceutical Industry, how to control the problems of public sector accounting standards that occur in company owners, creditors, and the government. This study aims to review various techniques of public sector accounting standards in the pharmaceutical industry. These concepts are combined to draw conclusions for consideration in controlling the issue of public sector accounting standards in the pharmaceutical industry. Therefore, the methodology used is a pure literature survey and conclusions are drawn from theoretical analysis

and discussion results. This research will add deeper insight into Public Sector Accounting Standards.

## RESULT AND DISCUSSION

### 1. Result

Based on this research, there are two between managers and creditors, and the government raises problems in the regulation of public sector accounting standards. The problems of regulation of public sector accounting standards that have been described previously can be controlled with several alternatives, namely:

#### 1. For Creditors

From the results of this study, public sector financial statements must be relevant for creditor users and can be relied on, there are creditor constraints faced by public sector accounting. Problems from the creditor are objectivity, consistency, comparability, timely, economical in the presentation of reports, and materialistic.

#### 2. For the Government

From the results of this study, the Indonesian government has actually recorded state finances following the procedures introduced by the Dutch East Indies government. However, the technique used still refers to a camera system oriented to periodic cash control.

### 2. Discussion

In the literature review, we discuss the following issues regarding the regulation of public sector accounting standards:

Public Sector Accounting Standards for the Pharmaceutical industry in Indonesia do not yet exist. Therefore, each entity makes accounting policies according to the conceptual framework, namely the concepts that underlie the preparation and development of the Standards used as follows:

1. Objectives of the conceptual framework
2. Accounting environment
3. Users and users' information needs
4. Accounting entities and reporting entities
5. The role and objectives of financial reporting
6. Components of financial statements
7. Legal basis of financial reporting
8. Basic assumptions of financial reporting
9. Qualitative characteristics of financial statements
10. Principles of accounting and financial reporting
11. Constraints on accounting information and financial reports
12. Recognition and measurement of elements of financial statements

## CONCLUSION

In this study, we can see that public sector accounting is usually used as a means of accountability of public

institutions to the community, so that financial management becomes more transparent. For example, the pharmaceutical industry is held by the central and local government agencies as well as non-government institutions. If that happens, it can fulfill the role of accounting in public sector organizations where the role can provide the information needed to manage an operation appropriately, efficiently, and economically and the allocation of resources entrusted to the company and other public sector accounting roles can provide information that allows managers to report on performance.

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