

Accounting As A Tool Of Legitimation Of Power: A Critical Study Of Financial Management In Indonesian Local Government

Mirna Amirya*

Accounting Department, Faculty of Economics and Business, Universitas Brawijaya, Indonesia

E-mail corresponding: mirna.amirya@ub.ac.id*

Abstract

This study examines the role of accounting as a tool of legitimacy of power in financial management in local governments in Indonesia through a critical study approach. The purpose of the study is to analyze how accounting is used by local governments as a tool to legitimize power and identify strategies used in presenting financial reports as a tool of legitimacy. By using literature studies and critical discourse analysis, this study understands the role of accounting as a tool of legitimacy of power in financial management of local governments in Indonesia. Data were obtained from academic literature, local government financial reports, audit reports of the Audit Board of Indonesia, and media analysis. The results of the study indicate that accounting in financial management in local governments in Indonesia not only functions as a financial administration tool, but also as a mechanism of legitimacy of power through the presentation of financial reports, audit results, accounting standards, and budgets. The strategies used in presenting financial reports as a tool of legitimacy include (1) highlighting audit opinions as an indicator of success, (2) using positive narratives in the notes to the financial statements, (3) justifying budget use through priority programs, (4) compliance with accounting standards as a tool of legitimacy, and (5) controlling public information through the mass media. This study also revealed that the transparency and accountability displayed were more symbolic than substantive.

Keywords: Critical Accounting, Accountability, Critical Discourse Analysis, Legitimacy of Power, Regional Financial Management, Regional Government.

INTRODUCTION

Public sector accounting, especially in regional financial management, is often considered an objective tool used to improve government transparency and accountability. With a good accounting system, it is expected that regional governments can prepare financial reports that are more accurate, relevant, and accountable to the public. In Indonesia, this policy is strengthened by the issuance of Government Regulation Number 71 of 2010 concerning Government Accounting Standards which requires the use of an accrual basis in preparing regional financial reports. However, in practice, accounting does not always function as a tool to improve transparency and accountability. Burchell et al. (1980) argue that accounting can also be used as a political tool to legitimize power and maintain the dominance of certain groups. This means that accounting is not just a technical tool in financial recording, but has political and ideological dimensions that can influence decision-making in government. Many studies show that the presentation of regional government financial reports is often more symbolic than substantive (Mardiasmo, 2018). The preparation of accrual-based financial reports, although in theory aimed at increasing transparency, in reality is often used as a tool to create the impression of good governance without real changes in regional financial management practices. This phenomenon shows a gap between regulation and implementation in the field. Cases of regional financial report manipulation uncovered by the Audit Board and the Corruption Eradication Commission show that the accounting system can be used to cover up inefficiencies, disguise corrupt practices, and strengthen the legitimacy of those in power. Audit findings indicating budget misuse are often not accompanied by adequate corrective actions, so that this practice continues to repeat itself. This study offers novelty in several aspects: 1) a critical approach, different from previous studies that used more positivist

approaches, this study uses a critical perspective to examine the role of accounting in maintaining power structures; 2) deconstruction of the meaning of accountability, to criticize whether regional financial reports truly reflect transparency or are merely symbolic tools to meet regulatory demands; 3) critical discourse analysis, using discourse analysis methods to reveal how accounting narratives in regional financial management are formed and utilized by powerful actors. In this context, research on the role of accounting in the government sector becomes increasingly relevant. It is important to critically examine how accounting systems are used in local financial management, both as a tool for transparency and as a tool for political legitimacy. Based on this background, the purpose of this study is to analyze how accounting is used by local governments as a tool to legitimize power and identify the strategies used in presenting financial reports as a tool for legitimacy. This study contributes in several ways. The theoretical contribution is to increase understanding in the field of critical accounting by exploring how accounting is used in the discourse of power in local governments, especially in Indonesia. The practical contribution is to provide insight for auditors, academics, and regulators on how accounting is used by local governments as a tool to legitimize power and the strategies used in presenting financial reports as a tool for legitimacy. The policy contribution is to provide recommendations to improve supervision of accounting practices in local governments so that they do not become merely symbolic tools.

LITERATURE REVIEW

Accounting as a Political Instrument

Public sector accounting is far from a neutral technical practice; it serves as a strategic political instrument that can shape, defend, or challenge power structures. Cooper and Hopper (2006) argue that accounting frameworks are socially constructed tools that stakeholders deploy to legitimize their interests, while Power (1997) highlights the concept of the 'audit society,' where the proliferation of accounting and auditing generates an illusion of transparency but often reinforces existing hierarchies. Both perspectives underline the inherently political nature of accounting, yet Cooper and Hopper focus on the discursive strategies of different actors, whereas Power emphasizes how institutional audit mechanisms serve systemic legitimation. However, neither study examines how these dynamics play out specifically within Indonesian local governments—a gap this research aims to fill by exploring the local bureaucratic context and its power relations.

Accrual Reform in Indonesia

Accounting reform in Indonesian local governments has pivoted around the introduction of accrual-based Public Sector Accounting Standards (SAP). Mardiasmo (2018) presents a normative view: the shift aims to enhance transparency and accountability through modernized accounting practices. In contrast, Fair and Kamase (2012) offer an empirical critique, finding that accrual implementation is often ceremonial—limited to surface-level adjustments without genuine improvements in financial disclosure. While Mardiasmo highlights policy intent and regulatory progress, Fair and Kamase uncover practical shortcomings on the ground. This section synthesizes these opposing viewpoints to reveal a critical gap: the lack of attention to how political interests and power structures mediate the success or failure of accrual reforms in local settings.

Legitimation of Power through Local Financial Management

Combining the political-instrument and accrual-reform lenses, this study investigates how Indonesian local governments use accounting reforms to legitimize authority. Whereas international scholars delineate the general mechanics of power in accounting, and national researchers report on policy rollouts, few have linked the two: how accrual-based standards become a vehicle for reinforcing local elites' legitimacy. By analyzing regulation (e.g., Law No. 17/2003; Law No. 1/2004; PP No. 71/2010) alongside case studies of financial report practices, this research exposes the interplay of policy intent, bureaucratic maneuvering, and audit rhetoric. Ultimately, it fills the identified gap by demonstrating

that accrual reforms serve both as a tool for modernizing public finance and as a mechanism for sustaining existing power structures in Indonesian municipalities.

METHODOLOGY

Research Design

This study employs a combined literature review and critical discourse analysis (CDA) to investigate how accounting functions as a tool of legitimacy and power within local government financial management in Indonesia. The literature review establishes the theoretical foundation by critically engaging with key works on critical accounting theory and public sector financial practices. Building on this foundation, CDA is applied to uncover how language and presentation in financial reporting construct narratives that serve institutional interests and shape public perceptions of legitimacy.

Data Source

The data for this study are drawn from multiple sources to ensure a comprehensive and triangulated understanding. First, official financial documents—namely local government annual financial statements and budget execution reports—are examined alongside audit reports issued by the Audit Board of Indonesia. Second, academic literature, including books and peer-reviewed articles on critical accounting theory and local government finance, provides theoretical context and comparative insights. Third, media outputs such as newspaper articles, opinion pieces, and social media commentary on transparency and corruption offer a social-contextual backdrop, revealing how public discourse aligns with or challenges official narratives. Finally, prior case studies and meta-analyses on accounting and political legitimacy serve as secondary sources that enrich the analytical depth.

Data Analytical Procedures

Analytically, all collected texts were catalogued and imported into qualitative analysis software for systematic coding. The CDA proceeded in three steps: (1) identifying recurring narrative structures and rhetorical motifs in financial reports; (2) examining terminology—such as “compliance,” “efficiency,” and “transparency”—to assess how these terms reinforce or soften perceptions of governmental performance; and (3) scrutinizing the presentation of numerical data, noting which figures are emphasized, downplayed, or omitted. Throughout, findings from the CDA of official documents were continuously triangulated against insights gleaned from academic literature and media discourse. This iterative process not only reveals the hidden power relations embedded in financial reporting but also demonstrates how accounting information actively participates in legitimizing local-government authority.

RESULTS AND DISCUSSION

1. Accounting as a Tool of Legitimacy of Power in Regional Financial Management in Indonesia

This study reveals that accounting in the public sector, especially in regional financial management in Indonesia, is often used as a tool to legitimize power. Based on the results of critical discourse analysis of regional government financial reports and audit reports of the Supreme Audit Agency, several patterns were found that show how accounting is used to build an image of legitimacy, maintain the status quo, and in some cases, cover up the ineffectiveness of regional financial management.

1.1. Accounting as a Tool to Maintain Power

This study found that in some cases, accounting is used as a political instrument to maintain power. Local governments not only use financial reports to build a positive image, but also to control access to public information and direct public perception (Tinker, 1985). There are several findings, including, first, selective disclosure, namely published financial information is often carefully selected to avoid criticism and only displays aspects that benefit the local government (Power, 1997). Second, budget politics, the preparation of local budgets often reflects political interests rather than community needs, with funds allocated to projects that increase the popularity of the regional head (Cooper & Hopper, 07). Third, the use of financial reports in political campaigns, some regional heads use financial reports as a tool to show "good" performance as part of an image strategy in re-election (Neu et al., 2013).

1.2. Presentation of Financial Reports as a Tool of Legitimacy

Local government financial reports are prepared in accordance with accrual-based government accounting standards, which theoretically aim to increase transparency and accountability. However, analysis of the structure of financial reports shows that the information presented is often symbolic rather than substantive (Neu et al., 2013). Accrual accounting should provide a more comprehensive picture of local government assets, liabilities, and expenses. However, in practice, the implementation of accrual still faces technical, administrative, and political obstacles (Anessi-Pessina et al., 2016). There are several findings, including, first, the use of positive narratives in financial reports where local governments tend to highlight financial achievements and budget efficiency without explicitly disclosing managerial problems that occur (Rahaman et al., 2004). Second, many regions prepare financial reports in accordance with the Government Accounting Standards format, but without a deep understanding of the implications of the information produced. The presentation of reports is often more oriented towards fulfilling formal compliance than increasing transparency and better financial management (Christensen & Parker, 2010). Third, protection of the government's reputation in the sense that even though the audit of the Supreme Audit Agency finds various financial irregularities, local governments often use audit recommendations as evidence that they have implemented improvements, without transparency regarding the implementation of these recommendations (Anessi-Pessina et al., 2016). Fourth, the limitations of budget accounting, namely that budget allocation and realization do not always reflect the effectiveness of public spending, but rather as a justification for the use of funds to maintain the image of regional leadership (Power, 1997).

1.3. Legitimacy Through Audit and Accounting Standardization

One of the main mechanisms used by local governments to build legitimacy is through audit results from the Audit Board of Indonesia. Analysis of audit reports from the Audit Board of Indonesia shows that although there is an unqualified opinion, this does not always reflect good financial management quality. There are several findings, including, first, an unqualified opinion as symbolic legitimacy, where many local governments use this opinion as an indicator of administrative success, even though in reality there are still problems in the management of regional finances and spending (Lapsley et al., 2009). Second, the role of accounting standardization in maintaining power, applicable accounting standards tend to be more oriented towards technical compliance than substantive transparency, thus opening up space for local governments to maintain their legitimacy without having to show actual performance (Tinker, 1985).

1.4. Budget Control to Build an Image of Success

Financial reports often contain data that is formally correct but does not reflect the reality of actual budget use. Indicators of success are often measured based on the fulfillment of administrative targets rather than the real impact on society. The Audit Board often finds inefficiencies in regional budget management, but its recommendations are not always implemented effectively (Rahaman et al., 2004). In this case, the regional government uses creative accounting techniques to display profitable information (Neu, et al., 2013). There are several findings, including, first, the presentation of controlled surpluses or deficits, where several regional governments were found to present budget surpluses as indicators of success, whereas in reality there was underspending or failure in budget absorption (Guthrie & Parker, 1989). Second, the use of the budget for political interests, namely in political years, there is a tendency for increased regional spending in the form of populist programs (easily seen and felt directly by the community, such as cash assistance, free school uniforms, or certain subsidies) aimed at gaining electoral support, without any evaluation of the effectiveness of the program (Cooper et al., 2003). Third, the use of audit opinions as a tool of legitimacy, local governments that receive an unqualified opinion from the Audit Board of Indonesia often use this achievement to build an image of success, even though the audit report itself often contains notes on recommendations for significant improvements (Guthrie & Parker, 1989).

2. Regional Government Strategy in Presenting Financial Reports as a Tool of Legitimizing Power

The results of this study indicate that local governments in Indonesia use various strategies in preparing and presenting financial reports as a tool to achieve legitimacy of power. Based on the analysis of official documents, academic literature, and media coverage, it was found that financial reports not only function as administrative tools to record financial transactions, but also as legitimacy instruments used to strengthen the position of local governments in the eyes of the public and supervisory institutions.

2.1. Presentation of Audit Opinion as an Indicator of Success

One of the main strategies used is to highlight the audit opinion from the Audit Board of Indonesia as an indicator of the success of regional financial management. Regional governments often associate achieving an unqualified opinion with increased transparency and accountability, although this opinion does not always reflect the effectiveness of budget use (Anessi-Pessina et al., 2016). Regional governments that receive an unqualified opinion widely publish this achievement in the mass media and annual reports as evidence that their financial management has met the established accounting standards. Financial reports with an unqualified opinion are also often used in political campaigns to increase public trust in the incumbent regional head (Guthrie & Parker, 1989). In this case, an unqualified opinion does not always reflect the absence of budget misuse, because in many cases, this opinion is given even though there are recommendations for improvement from the Audit Board of Indonesia regarding the less than optimal use of funds (Rahaman et al., 2004).

2.2. Positive Narrative in Notes to Financial Statements

Another strategy found is the use of positive narratives in the notes to the financial statements to present an image of success. The notes to the financial statements are often designed to highlight achievements and improvements in financial policies without providing a comprehensive picture of existing challenges or weaknesses (Neu et al., 2013). The notes to the financial statements emphasize compliance with regulations and accounting standards, without explaining in detail how regional financial policies actually contribute to public welfare. Regional governments use technical terms and accounting slogans to create an impression of professionalism and compliance, even though the substance of the information provided is less in-depth (Power, 1997). In addition, some regions also use a selective disclosure strategy, where information about financial weaknesses or problems is presented minimally or obscured with normative statements that are difficult to verify (Cooper et al., 2003).

2.3. Justification of Budget Use through Priority Programs

Financial reports are also often used as a justification tool for budget use, by presenting priority programs as indicators of accountability. Local governments use budget realization reports to show that funds have been used according to plan, although the effectiveness of the program is not always clearly measurable (Lapsley et al., 2009). Budget allocations are often associated with infrastructure-oriented projects and public services that are easily politically capitalized. Not all programs presented in financial reports have clear indicators of success, so the accountability shown is more of a formality than a substantive evaluation. Local governments use budget realization figures as evidence that the program has been running, but do not include an analysis of the impact or effectiveness of the program on community welfare (Tinker, 1985).

2.4. Use of Accounting Standards as a Legitimation Tool

Government Accounting Standards are used as a mechanism to build an image of accountability by showing that financial statements have been prepared in accordance with applicable accounting principles. However, this study found that compliance with standards does not always reflect true transparency, but rather as a symbolic strategy to gain legitimacy from stakeholders (Guthrie & Parker, 1989). Local governments display the conformity of financial statements with Government Accounting Standards as evidence that they have complied with regulations, without disclosing obstacles in their implementation. Accounting standardization makes financial statements more uniform, but also opens up opportunities for creative accounting practices that can be used to present financial figures in a way that is more beneficial to the image of local governments (Rahaman et al., 2004). The use of international standards, such as accrual-based accounting, is often claimed as an effort to increase

transparency, whereas in practice, the implementation of this system still faces various technical and administrative challenges (Anessi-Pessina et al., 2016).

2.5. Control of Public Information through Mass Media

In addition to formal financial reports, local governments also use mass media to build an image of accountability. Findings from news analysis show that many local governments actively control the narrative of their financial reports by collaborating with the media or through official publications on local government websites (Cooper et al., 2003). Local governments often publish financial report successes and unqualified opinions in local media to strengthen positive perceptions in the community. Information on audit findings that indicate ineffective budget management rarely gets the same attention as achievements in financial reports. Some regional heads use financial reports as a political campaign tool by claiming that their leadership has increased transparency and accountability, even though there are still fundamental problems in budget management.

CONCLUSION AND SUGGESTIONS

The results of the study show that accounting in financial management in Indonesian local governments not only functions as a financial administration tool, but also as a mechanism for legitimizing power. The presentation of financial reports, audit results, accounting standards, and budgets is often used to build an image of accountability, although in practice it does not fully reflect the transparency and effectiveness of regional financial management. The strategies used in presenting financial reports as a means of legitimacy include (1) highlighting audit opinions as an indicator of success, (2) using positive narratives in the notes to the financial statements, (3) justifying budget use through priority programs, (4) compliance with accounting standards as a means of legitimacy, and (5) controlling public information through the mass media. Although these strategies can increase public trust in regional financial management, this study also reveals that the transparency and accountability displayed are more symbolic than substantive. This study has limitations in the literature study approach that does not involve direct empirical data from actors or stakeholders in local governments. In addition, the use of critical discourse analysis is only based on secondary documents and media, so that the resulting interpretation depends on the availability and completeness of the data. For further research, it is recommended to complement the critical discourse approach with in-depth interviews or direct observation of the financial reporting process in local governments. This can provide a more comprehensive understanding of the dynamics of power and legitimacy practices that are not always apparent in written documents. A data triangulation approach is also recommended to strengthen the validity of the findings.

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