"Influence factors on financial statements disclosure of Indonesian local governments"

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INFLUENCE FACTORS ON FINANCIAL STATEMENTS DISCLOSURE OF INDONESIAN LOCAL GOVERNMENTS

Abstract

This study aims to examine the factors that affect the level of disclosure of local government financial reports. This paper uses such independent variables as budget expenditure of the local government, government size, and capital expenditure. The financial records of Indonesian local governments that have undergone audit by the supreme agency are analyzed in this study. For the 2020 timeframe, 485 local/city governments in Indonesia served as the research samples, and purposive sampling was employed as the sampling method. SPSS is utilized to support multiple linear regression, which is the data analysis method used in this study. The test findings revealed that budget expenditure ($\beta = 0.274$; $p < 0.05$), government size ($\beta = 0.216$; $p < 0.05$), and capital expenditure ($\beta = 0.178$; $p < 0.05$) have a significant effect on the level of local government financial statements disclosure. It is envisaged that the findings of this study would enable local governments, particularly districts or cities, to better maximize the disclosure of local government financial statements in compliance with government regulation. Local governments will be able to open up information that is easily accessible with the aid of ever-improving technology.

Keywords	disclosure, budget expenditure, government size, capital expenditure, regulation
JEL Classification	G18, H83, M41, M48

INTRODUCTION

Indonesia's democratic governing system must create excellent governance in controlling social issues. Establishing regional autonomy can result in this kind of good governance. A strong government can be encouraged to evaluate its performance on the governance index by monitoring, criticizing, evaluating, and making proposals in response to information (Hariyani et al., 2022). In Indonesia, Government Accounting Standards are governed by PP No. 71 of 2010 in place of PP No. 24 of 2005. The government accounting standards (SAP) for cash to accruals were governed by PP No. 24 of 2005, published at the start of 2005. To increase the bar for governance standards and accountability, the Indonesian government later passed PP No. 71 of 2010 (Aswar & Saidin, 2018).

There are several reasons why the degree of local government financial statements (LGFS) disclosure is cause for concern. This is evident from the overview of examination results (IHP) for semester I of 2021, which reports that 541 out of the 542 LGFSs in total were examined by the BPK (2021), or 99% of the total. Out of the 541 LGFSs, 486 (90%) had unqualified opinions, 49 (9%) had qualified opinions, 4 (0.7%) had adverse opinions, and 2 (0.3%) had disclaimer opinions.

The topic of LGFS disclosure has been the focus of numerous earlier studies. For example, Aswar et al. (2021) found that the Indonesian government's LGFS disclosure level is around 82.4%. However, Sumatera Island in Indonesia scores around 84.2% (Hariyani et al., 2022). In Central Java, the average district/city's LGFS disclosure rate is slightly over 52% (Budiarto & Indarti, 2019). According to Aswar et al. (2022), Indonesia only discloses an average of 80.31% of the LGFS on a national level. Hardiningsih et al. (2019) discovered that only about 53.9% of Indonesian provinces reported having LGFS on average. It may be deduced from the previous description that Government Regulation No. 71 of 2010's requirements for LGFS disclosure have not been fully implemented by local governments in Indonesia. A few local governments continue to omit certain information from their financial statements. As a result, there might be more information asymmetry, making it harder for stakeholders to make decisions.

1. LITERATURE REVIEW AND HYPOTHESES

Disclosure is a presentation that provides the public, who utilize financial statements, with complete information that can be accounted for Permendagri No. 64 (Database Peraturan BPK, 2013). Stakeholders and the general public can assess how government resources are allocated, watch how government action is taken, and comprehend dynamic government macro policies and guidelines. Chen et al. (2016) claim that access to government financial information disclosure is necessary. By making financial information openly and fairly available to the public, disclosure aims to address the needs of various users with differing interests and give information used to achieve transparency. According to Handoko et al. (2019), LGFS disclosures fall into two categories: mandatory and voluntary. Law Number 17 of 2003 mandates that every government agency must compile financial statements.

Hardiningsih et al. (2019) conducted a second analysis on LGFS disclosures, using a total of 53 disclosure items. Ryan et al. (2002) used text analysis and the LGA Index to measure disclosure, two essential techniques. The study findings demonstrate that Queensland's financial statement disclosure still has issues in each area, particularly the "overview" category, which receives an index of 1.93 out of a possible 5, and the "performance" category, which receives an index of 2.78 out of a possible 5. The financial information category is at the top, scoring 4.14 out of a possible 5.

LGFS disclosure is evaluated using the compliance index, which is the compliance index of local governments by awarding a score to the checklist following the SAP regulated in PP Number 71 of 2010 (Database Peraturan BPK, 2010; Aswar et al., 2022; Marsella & Aswar, 2019). 50 items were provided in this study's comparison of LGFS disclosures. If a disclosure is made, the checklist is given the number 1; if it is not, it is given the number 0.

Institutional theory is the most popular theoretical framework utilized in research on government accounting. This theory focuses on acquiring a sociological perspective on organizations, interactions, and how to influence others (Scott, 1987). According to institutional theory, organizations' actions or decisions can be influenced by external institutions. Thus, organizations that prioritize legitimacy will frequently try to meet external standards or cultural norms. Isomorphism is one of the fundamental tenets of institutional theory, according to DiMaggio and Powell (1983). There are two basic types of isomorphism: competitive isomorphism, which makes use of the assumption of system rationality in relation to market competition, and institutional isomorphism, which focuses on the struggle for authority and power by an organization.

Capital expenditure employs signaling theory to explain its relation to government size. In order to assess information asymmetries within a corporation with the present market in concrete terms, signaling theory was first created (Connelly et al., 2011). The publication of entity information, whether in the public or private sector, is more thoroughly explained by signaling theory. According to Marston (2003), a strong correlation exists between profitable information for businesses (profitability) and firm disclosures on websites. Since 2001, knowledge dissemination has improved significantly (Marston, 2003). According

to this study, executives of entities with favorable information employ disclosure (one of which uses a website) to send positive signals to outside users (including investors).

The first component promoting the level of financial reporting disclosure for local governments is the local budget management. According to Permendagri No. 13 (Database Peraturan BPK, 2006), published in 2006, the regional budget is divided into four categories: operating, capital, unanticipated, and transfer spending. The regional budget management helps preserve and raise environmental living standards so that residents can benefit from the development of social services, public amenities, educational opportunities, healthcare, and basic services.

According to Arifin (2020), local budget management significantly improves the integrity of financial report disclosure on Indonesian local government websites. Kiswanto et al. (2020) found the capital expenditure variable to have a positive effect on LGFS disclosure. At the same time, Aswar et al. (2021) found that local budget management has a detrimental impact on the disclosure of LGFS. More local government budget expenses could obstruct the provision of competent public services and discourage the government from disclosing information in LGFS.

Government size is proxied by total assets, which are the resources used in carrying out its operational activities. Regional governments with a larger size tend to have a more complicated bureaucratic system. Thus, local government asset management oversight will be more complicated than for smaller regional governments (Purnama & Alfina, 2019). The scale of local government is consistent with the more thorough reporting of financial data, according to Hardiningsih et al. (2019). Additionally, because local government is big and generally more well-known by the public, complex financial management will affect it. As a result, the government may be watched more closely, which relates to openness and accountability. According to Purnama and Alfina (2019), the size of the government had a favorable effect on the publication of LGFS information. Aswar et al. (2021) mentioned that the size of the government has a significant and favorable link with the disclosure of financial information.

The findings of this study, however, go against the conclusion made by Baimukhamedova et al. (2017) that the size of the government does not significantly affect these disclosures.

According to Purnama and Alfina (2019), Hardiningsih et al. (2019), and Sutaryo et al. (2020), the size of the government significantly affects the disclosure of LGFS. Local government financial reporting is significantly influenced by the size of the government or size of the region's government. Furthermore, it is well recognized that a government agency is prompted to create a thorough LGFS presentation by the size of the local government. The more a local government grows, the greater the scrutiny will be because a large local government tends to be more well-known to the public due to its size and consequently requires complex financial management. Additionally, the presentation of financial information will be more thorough the larger the local government is.

According to Nwanne (2015), capital expenditure is any money spent on purchasing assets that will last and be utilized repeatedly in producing commodities or services. Examples of government projects include constructing a new hospital, purchasing computer hardware, hiring cleaners, constructing a new road, etc. Capital expenditures are defined as budget expenses made for purchasing fixed assets and other assets with a useful life of more than one accounting period (Database Peraturan BPK, 2010). According to Rochmatullah et al. (2016), capital expenditures are regional government expenses reported in the APBD. To boost productivity in a particular sector, a good capital investment must be implemented following the rules outlined in the relevant laws and regulations.

Capital spending is what local governments do to fund their own public services. The people's desire to provide public service facilities is indicated through capital expenditure (Raditya et al., 2022). The local government is managing the regional budget well, as seen by capital expenditures on larger regional governments (Hadi et al., 2018). According to the signaling theory, local governments must send a clear signal about the usage of capital expenditures that are appropriate or on target in order for good service facilities to be implemented.

Hendriyani and Afrizal (2015) and Sari and Novitasari (2022) have shown that capital spending positively affects LGFS disclosure. Public services can be improved by using the budget for capital expenditures more frequently. In light of this, the government will acquire community accountability and take greater initiative to provide information about LGFS.

This study aims to look into the connections between the components of the financial statement disclosure to create regulations that will aid Indonesian regional administrations. The following hypotheses are put out when taken into account collectively:

H1: *Budget expenditure has a favorable impact on financial statement disclosure.*

H2: *Government size has a favorable impact on financial statement disclosure.*

H3: *Capital expenditure has a favorable impact on financial statement disclosure.*

2. METHODOLOGY

The LGFS in districts or cities across Indonesia that BPK-RI has audited for Fiscal Year 2020 make up the sample for the amount of LGFS disclosure in this study. The purposive sampling method was employed. According to Table 1, the sample was 507 LGFSs from 541 LGFSs across Indonesia after subtracting 34 LGFSs for each province. In addition, it was discovered that 22 LGFS contained severe data outliers. This makes the data more evenly distributed by deleting data with excessive values. So, after eliminating the outliers, the total sample data used in this study were 485.

Table 1. Final sample summary

Description	Total
LGFS that BPK RI has audited throughout Indonesia	541
LGFS for the province	34
Number of LGFS as research samples (before outliers)	507
Outliers	22
The number of LGFS that became the research sample after eliminating outliers	485

In this study, the GCI is used to measure the disclosure of LGFS using a scoring methodology based on PP no. 71 of 2010, namely 50 components. This measurement is based on research by Aswar et al. (2022), which noted that LGFS elements that are disclosed receive 1, while those that are not disclosed receive 0. Financial statement line items will be verified, with a code of 1 being assigned if the answer is yes and 0 otherwise.

Budget spending, government size, and capital budget are the three independent variables, with measures in Table 2. A budget expenditure includes the maximum amount that can be used to finance future public interests and estimate income (Kusuma et al., 2021). This study makes use of measuring indicators from Arifin (2020), namely the total budget of the local government, which is calculated as follows:

$$Budeget\ expenditure =$$
$$= Total\ of\ local\ government\ budget, \quad (1)$$

Government size is a scale or measurement in calculating value; it will directly show the size of an object according to a certain capacity, one of which is measurement in the economic field. In this case, if regional governments have big assets, they will face a lot of pressure (Lubis & Ningsi, 2022). This study, which adopts Aswar et al.'s (2021) findings, combines total assets owned by a region with measurements of government size to generate the following conclusion:

$$Government\ size = Total\ Asset. \quad (2)$$

As defined by PP No. 71 of 2010 (Database Peraturan BPK, 2010), capital expenditures are budgets set aside for purchasing fixed assets and other assets with a useful life of more than one accounting period. The budgeted amount for capital expenditures is intended to buy land, buildings, machinery, and intangible assets. Capital expenditures in regional government are reported in APBD. This study assesses capital spending by comparing capital expenditure and total regional expenditure carried out by the local regional government, adopting findings by Qoriiba et al. (2021). After that, it might be stated as follows:

$$Capital\ Expenditure = \frac{Capital\ budget}{Total\ local\ budget}. \quad (3)$$

The two components of the data analysis technique used in this study are descriptive statistical tests and hypothesis testing. The data analysis for this study used multiple linear regression in SPSS.

Table 2. Variables measurement

Variable	Measurement	Source
Budget expenditure (BE)	Total local government budget	Arifin (2020)
Government size (GS)	Total asset	Aswar et al. (2021)
Capital expenditure (CE)	Capital budget/Local budget	Qoriiba et al. (2021)

3. RESULTS AND DISCUSSION

The district or municipal administration in Indonesia in 2020 is the research object employed in this study. The Republic of Indonesia BPK provided the information that served as the study's research object. The descriptive statistics for the data are shown in Table 3. The data were then assessed using the SPPS method.

Table 3. Descriptive statistic summary

Variables	N	Max	Min	Mean	SD
Financial statement disclosure (FSD)	485	0.82	0.76	0.79	0.01
Budget expenditure (BE)	485	29.330	26.919	27.904	0.473
Government size (GS)	485	30.60	27.45	28.61	0.54
Capital expenditure (CE)	485	1.53	0.05	0.20	0.11

Table 3 reveals the average degree of financial statement disclosure for the districts and cities of East Aceh, Tanah Datar, Batam City, Klungkung, Siau Islands, Tagulandang Biaro, and Minahasa Tenggara, which indicates whether the district has made disclosures. According to PP number 71 for 2010 (Database Peraturan BPK, 2010), it is 0.82, or 82%. The descriptive statistics for budget expenditure, government size, and capital expenditure indicate that the data are homogeneous because the mean value is higher than the standard deviation value. Multiple regression is used to ascertain how the independent variable affects the dependent variable. The regression analysis produces the coefficients for each of the independent variables. This coefficient is obtained by using an equation to predict the dependent variable's value. Following data processing, the Statistical Product and Service Solution for Windows version 23 generated the following results, shown in Table 4.

Table 4. Analysis of multiple regression

Variable	B	t	Sig
(Constant)	0.893	28.842	0.000
Budget expenditure (BE)	0.274	3.345	0.000
Government size (GS)	0.216	3.350	0.000
Capital expenditure (CE)	0.178	2.980	0.002

According to Table 4, the value produced is 3.345 > 1.965 with a significance number of 0.000 < 0.050 and a path coefficient value of –0.164. According to these findings, *H1* is accepted; LGFS disclosure has a major influence and is negatively connected with the management budget of the regional government. Therefore, the amount of disclosure of LGFS will rise if the government management budget is high. The more the regional government can demonstrate that the local government generates high income for the community when it comes to disclosing LGFS data, the higher its management budget must be (Arifin, 2020). The study's conclusions are in line with the institutional theory. A greater regional government management budget must, therefore, be matched by improved local government community services and increased government support for information disclosure in the LGFS. However, as the local government management budget rises, there is a negative association, and less LGFS disclosure occurs.

The findings of this study do not agree with those of Nurlianto and Aswar (2020), who studied 80 local governments in Java and Sumatra in 2018, or Aswar et al. (2021), who examined 240 LGFS in Indonesia in 2018. These two studies demonstrate no substantial relationship between the level of LGFS transparency and local government management budgets. However, these results are consistent with Arifin's (2020) study of 156 Indonesian local governments, which found that the government may continue to offer a growing number of public services thanks to increasing local government management budgets well enough to impact how much the LGFS is disclosed.

Total assets, whose resources are required to carry out a region's operational tasks, are used to gauge the size of a government (Purnama & Alfina, 2019). With a score of 3.350 > 1.965 and a significance level of 0.000 < 0.050, this hypothesis – according to which the size of the government affects the financial statement disclosure – is ap-

proved. Furthermore, the coefficient value of 0.216 indicates that if the size of the government is larger, so will the amount of disclosure of LGFS. Total assets in a region are used to calculate the size of a government's operational operations. The theory is plausible since it is generally known that local governments with significant assets reflect both the size of the regional government and a significant portion of its wealth. A regional agency will be encouraged to give a thorough LGFS declaration because of the size of the regional government. Additionally, this study supports the signaling hypothesis, which holds that the government must provide a strong signal to eliminate information asymmetry while managing and maintaining regional assets.

According to Purnama and Alfina (2019), Hardiningsih et al. (2019), Sutaryo et al. (2020), and Aswar et al. (2021), the size of government has a considerable impact on financial statement disclosure. The study's findings are consistent with these findings. Because local governments with significant assets will be subject to more community scrutiny to carry out a better or higher level of LGFS disclosure, this study confirms the research findings on the number of government sizes that influence the degree of LGFS disclosure.

Budgetary spending on acquiring fixed assets and other assets that have benefits over more than one accounting period is known as capital expenditure (Database Peraturan BPK, 2010). The investigation for this hypothesis yielded data of 2.980 > 1.965 and a significant level of 0.002 < 0.050; therefore, *H3* – capital expenditure influences the degree of LGFS disclosure – is accepted. The degree of disclosure of LGFS will be more significant if the capital expenditure or capital expenditure is bigger, according to the path coefficient value of 0.178 in this hypothesis. The idea is accepted since it is well known that local governments' budget capital expenditures are part of infrastructure finance to raise the caliber of local government services provided to the community as a public good. The local government's ability to provide better public services depends on how much of a budget it issues for capital investments. This study backs up the signaling theory, which claims that the local government has sent a clear signal regarding the usage of capital expenditures that aligns with the intended goal or is appropriate to implement the high-quality service facilities provided in the LGFS.

The outcomes of this investigation support those of Hendriyani and Afrizal (2015) and Sari and Novitasari (2022), who examined whether capital spending impacted LGFS disclosure. But, this study differs from that by Raditya et al. (2022), showing what would happen if capital spending had no bearing on LGFS disclosure. Since an increase in public services in the use of the budget for capital expenditure will encourage higher government initiatives to disclose this information in LGFS, the core of this paper is consistent with other studies that were conducted with the capital expenditure variable influencing the level of LGFS disclosure.

CONCLUSION

This study seeks to ascertain whether budgetary spending, the size of the government, and capital expenditures impact the degree of LGFS transparency. The study's conclusions indicate that budgetary expenditure considerably impacts the amount of information concerning LGFS that is disclosed. This illustrates that the higher the regional government management budget must be, the better the local government's capacity to serve the community and the greater its incentive to disclose LGFS. Second, the total assets in a region are used in this analysis as a proxy for government size. The findings demonstrate that the size of the government influences LGFS disclosure levels. This suggests that the amount of LGFS disclosure will depend on the magnitude of an area's total assets. Finally, total capital expenditure is compared to total capital in an area to determine capital expenditure in this study. As can be seen, the results of this study on capital expenditures indicate that capital expenditures of any size will impact the degree of LGFS disclosure.

This analysis has some limitations, including that it only uses data up to 2020. There are several recommendations for local governments in Indonesia, and they are likely to enhance disclosure even further going forward in compliance with Government Regulation Number 71 of 2010 (Database Peraturan BPK, 2010). This is based on the tests and discussions that have been previously described. Local governments employ information technology to fulfill social expectations more effectively and efficiently when it comes to financial statement disclosures. The local population can easily obtain information, using technology as a factor for transparency.

These results would offer fresh perspectives for future research, particularly in relation to the disclosure of LGFS. Since this paper only employs a one-year timeframe, namely 2020, it is advised that future studies prolong the research term to better understand significant changes in local government. After that, additional research is anticipated to incorporate factors like regional riches, the quantity of regional apparatus working units, and legislative size.

AUTHOR CONTRIBUTIONS

Conceptualization: Supriono Supriono, Eka Hariyani.
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Formal analysis: Supriono Supriono, Khoirul Aswar.
Investigation: Sem Paulus Silalahi, Rheny Afriana Hanif, Khoirul Aswar.
Methodology: Supriono Supriono, Eka Hariyani, Sem Paulus Silalahi, Rheny Afriana Hanif, Khoirul Aswar.
Resources: Supriono Supriono.
Software: Supriono Supriono, Eka Hariyani.
Supervision: Supriono Supriono.
Validation: Supriono Supriono, Eka Hariyani, Rheny Afriana Hanif, Khoirul Aswar.
Visualization: Eka Hariyani, Sem Paulus Silalahi, Rheny Afriana Hanif.
Writing – original draft: Supriono Supriono.
Writing – review & editing: Eka Hariyani, Sem Paulus Silalahi, Rheny Afriana Hanif, Khoirul Aswar.

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