“Analysis of potential factors of financial statement disclosure: Evidence from Indonesian local government”

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ANALYSIS OF POTENTIAL FACTORS OF FINANCIAL STATEMENT DISCLOSURE: EVIDENCE FROM INDONESIAN LOCAL GOVERNMENT

Abstract

This study explores the relationship between the number of local parliamentarians, local government budget expenditures, Java/non-Java jurisdiction, liabilities, and Local Own-source revenue and financial statement disclosure. It relies on multiple theoretical frameworks and uses a sample of 180 local government financial reports in Indonesia for 2021 that have been audited by the Indonesian National Audit Board. Using the SPSS Version 25 program, multiple regression analysis was used in this study to assess hypotheses. The results found that Java/non-Java jurisdiction ($\beta = 0.259$; $p < 0.05$) and Local Own-source revenue ($\beta = 0.321$; $p < 0.05$) affect the disclosure of financial statements. In addition, the number of local parliamentarians ($\beta = 0.071$; $p > 0.05$), local government budget expenditure ($\beta = 0.038$; $p > 0.05$), and liability ($\beta = 0.005$; $p > 0.05$) does not affect the disclosure of financial statements. The contribution to local government is to analyze potential aspects related to the government's increased pressure to make financial statement disclosure. The use of information technology to meet social demands more effectively and efficiently is one option for regional governments to disclose their financial statements.

Keywords disclosure, local parliamentarian, budget expenditure, Java/non-Java jurisdiction

JEL Classification G18, H83, M41, M48

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INTRODUCTION

In recent years, research on compulsory financial disclosure has attracted the attention of many researchers and practitioners and is gaining in importance as expressed by local governments. The Indonesian Ministry of Finance recognizes that financial statement compliance in Indonesian cities and districts is low, as documented in Kompas (2010) and mentioned in Law No. 22 of 1999 concerning increased accountability standards for municipal governments. In 2010, the government published a new rule No. 71 of 2010, which dealt with two fundamentals: Government Accounting Standards and Financial Information Systems. All governmental entities must comply with current requirements and prepare accrual accounting financial statements, including local government organizations. Gradually in 2012, the new regulation (PP No. 71 of 2010) was planned by the government to be fully implemented by no later than 2015 (Aswar & Saidin, 2018; Aswar, 2019). The staged rollout recognizes that Indonesia remains to have limited expert Human Resources (HR) to deal with government accounting.

Badan Pemeriksa Keuangan (BPK, 2019), argues that Indonesian local governments have failed to meet financial statement expectations in 2019. They stated that numerous Indonesian regional governments had not entirely prepared their financial reports related to the regulations and standards. In the country, BPK is the highest audit institution. They are in charge of state finance audits, which include central and regional government budget implementations, state-owned enterprises, and regional government-owned corporations. In other words, the wealth of the entire state is under their control (Artjan, 2011). A succession of reports from the National Audit Board have been released. The reports that highlight the local government's compliance issues in Indonesia (see Badan Pemeriksa Keuangan, 2019) show that there is a problem with the level of compliance with financial statement disclosures in regional governments.

In 2018, a financial statement had 99 Laporan Keuangan Pemeritah Daerah (LKPD) accounts that were not prepared in line with Government Accounting Standards (GAS) and were not backed up by any solid data. Fixed assets (31% in 78 LGs), smooth other assets (19% in 48 LGs), other assets (9% in 24 LGs), revenue (3% in 7 LGs), capital expenditures (14% in 34 LGs), operational expenditures (14% in 34 LGs), and other accounts were 10% in 26 LGs. Furthermore, BPK's investigation revealed that there were 12,117 findings with 7,398 findings, indicating that there was a problem with 6,259 non-compliances in the provisions of the statutory regulation totaling Rp. 2,19 trillion, there were 2,642 loss issues, 2,258 administrative issues, 426 potential loss issues, and 933 income issues.

Several international studies have backed the amount of disclosure, including Wallance and Naser (1995) resulting 73% (142 items in Hong Kong); Owusu-Ansah (1998) deriving 75% (214 items in Zimbabwe); Ali, Ahmed and Henry (2004) declaring 80% (131 items in India); Hasan, et al. (2008) presenting 85% (57 items in Bangladesh). The average rating for mandatory disclosure practices was found to be lower than in some earlier studies in various corporate organizations. There are many levels of local financial statement disclosures. In general, Indonesian financial disclosure is still low, with an average of 35.45% (Martani et al., 2012).

1. LITERATURE REVIEW

Institutional theory explains that institutional pressures oppose organizations. Judging by their forms and practices, organization pressures are of the same nature (Perera, 2007). Coercive isomorphism, according to DiMaggio and Powell (1983), stems from formal and informal constraints exerted by other groups. The organization and the cultural expectations on which the organization operates are dependent. It is assumed that if there are more local parliamentarians, the legislative function is also carried out by a larger number of local community representatives. They persuade local government officials to carry out their responsibilities (Sotiropoulos, 2008).

The mimesis of isomorphism belongs to a situation requiring organizations to model and imitate organizational practices and policies that are considered legitimate and successful (DiMaggio & Powell, 1983). It often refers to a response to uncertainty. Furthermore, these organizations may be wary of adopting the structures and techniques used by other comparable organizations to deal with issues (Baker & Rennie, 2006). However, their acts to do something have been noticed as an effort. A mimesis pressure in relation to institutional theory remains arguable by State or local government jurisdiction.

According to Suwardjono (2014), the revelation of information in the form of a comprehensive financial report, also known as disclosure, is the formal culmination of the accounting process. Furthermore, Suwardjono added that theoretically speaking, disclosure is a crucial component of financial statements. According to Evans (2003), "disclosure" refers to the submission of information in a financial report, which includes a report itself, notes to the report, and additional material pertinent to the report. Management statements in the media or disclosures that are made in areas other than financial reporting are not considered to fall under this definition. disclosure.

There are many indicators used to gauge how well financial statements are disclosed in the private sector, such as the study by Al-Akra et al. (2010). In this study, FSD was evaluated using a Price Waterhouse Coopers checklist that included 28 IAS and 4 IFRS statements, totaling 641 financial statement disclosure items. Using a disclosure variable with 50 items based on the government compliance index, Marsella and Aswar (2019), Raditya et al. (2022), and Hariyani et al. (2022) conducted studies in Indonesia (GCI).

A legislative body is an organization that plays a significant role in carrying out regional financial supervision that is beneficial for regulating regional financial decisions in a way that is effective, efficient, open, responsible, and inexpensive. Consequently, the huge size of the legislative body may contribute to the high level of oversight of local governments (Nurlianto & Aswar, 2020). Gilligan and Matsusaka (2001) utilized the size of the legislature as an independent variable in the middle of the 20th century to examine how it affected municipal budgetary policy in the US. According to the researchers' findings, there is a strong and favorable correlation between the size of the legislature and fiscal policy.

Referring to public sector accounting, organizational size has benefitted to deliver a positive effect on FSD (Taylor & Rosair 2000). Therefore, the higher the legislature in an area, the higher the level of disclosure. Laupe et al. (2018) found that the more the level of legislative size, the higher the level of financial statement transparency in local government. According to Gilligan and Matsusaka (2001), a growing number of legislative members will be able to closely monitor local government budgets. In addition, the number of local legislators is affected by the attitude toward financial disclosure (Schick, 2002). Arifin et al. (2013) found that the number of local legislators was affected by the disclosure level of local government. Thus, to promote transparency and create evidence in Indonesia, coercion is still required. This fact is consistent with the arguments stated by Graham and Woods (2006). They claim that using coercion to force countries to develop is effective.

The size of the independent variable local government budget expenditure is examined in this study using the coercive isomorphism theoretical framework. All local government initiatives for the good of the community and government growth are funded by local budgets (Kelly & Riverbark, 2010). Higher local government spending, according to Patrick (2007) and Friedman (2013), can help citizens acquire better information about local government activities. It leads to an increase in citizen requests for full disclosure in the financial statements. Furhermore, there are several related studies on the influence of regional government budget expenditures on financial statement disclosures (Gore, 2004; Nurlianto & Aswar, 2020). These studies reveal that additional costs are required to provide complete financial statements.

Comparing Java and non-Java education, Java has better educational facilities. It is because there are the leading universities located in Java. At a broad economic level, the infrastructure of the Java community is more advanced than that of the non-Java community, social and cultural level. Arifin et al. (2015) found that mandatory disclosures in financial statements affect Java/non-Java jurisdiction. The mimetic variable provides mimic behavior evidence. This results in high-quality human resources and local infrastructure for Indonesian local governments. Java local governments have shown better performances. Thus, those ideas support the statements from Ball (2001) and Taylor (2000) who explain that financial reports and disclosures can be better if an area has better infrastructure and facilities.

According to Bolvar et al. (2014), liability is one indicator of the financial health of the government. Elijido-Ten (2004) argues that the more an organization relies on debt, the more the organization is pressured to make disclosures in an effort to reduce risks. Most debt risk is related to the ability to pay debts (Liu et al., 2014). Due to the fact that financial issues develop when debt loads dramatically increase, there is a larger requirement to provide financial position reports (Bolívar et al., 2014). Araujo and Tejedo-Romero (2016) argue that disclosure is also a way to show creditors that financial risk is low and transparency is increased. Cooke (1993) argues that organizations with a high dependency on debt tend to reveal more excessive information to reduce the cost of debt and to show ability to pay. According to Kanapickiene and Staniuleniene (2019), the level of quality of

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information disclosure is strongly positively correlated with local government debt service capacity. Previous research, specifically Laswad et al. (2005), which found that debt influences information disclosure over the internet, lends support to the study's conclusions. According to Laswad et al. (2005), public managers who are under a lot of debt are aware of financial statements as a tool for easier creditor monitoring.

Revenue from local governments can be used as a tool to increase the amount of welfare they provide. Local revenue is intended to implement regional autonomy without the help from the central government in accordance with each region's capacity as an expression of decentralization (Aswar, 2019). Regional original income represents government revenue for its own performance. Lestari and Utama (2019) argue that good performance gives a positive signal to the management of public organizations. Arifin (2018) believes that a high level of independent income supports the local governments to generate broader disclosures for their performance maintenance. Kanapickiene and Staniuleniene (2019) prove that the regional income generated from regional independent performance has a positive effect on the quality of disclosure. To boost public confidence in the handling of revenues, local governments must also provide information about taxes that have been collected (Aswar, 2019). Therefore, this money will motivate the government to broaden its accountability. This study is to investigate whether there is an influence of NUMPAR, BUDEX, JAVANON jurisdiction, liability and Local Own-source revenue on FSD in Indonesian local government.

2. HYPOTHESES DEVELOPMENT

The hypotheses for this study were formed based on factors that are expected to have an impact on the FSD for local governments, so they can be formulated as follows:

H1: The number of local parliamentarians significantly and positively affects FSD.

H2: Budget expenditures by local government significantly and positively affect FSD.

H3: Java/non-Java jurisdiction significantly and positively affects FSD.

H4: Liability significantly and positively affects FSD.

H5: Local Own-source revenue significantly and positively affects FSD.

3. METHODOLOGY

The sample consists of 180 district and local government agencies in Indonesia in 2021 (Table 1). The reason for taking samples of local governments is to represent the overall problem related to the disclosure of financial statements to local governments. This is because not all local governments have adequate financial responsibility at the district and municipal levels. Utilizing secondary data, this study employs quantitative research. To learn about NUMPAR, BUDEX, JAVANON, Liability, and local sources for FS disclosure, in addition to additional auxiliary websites like www.bpk.go.id and kpu.go.id, secondary data are presented in the form of regional government financial reports that received from the BPK. The local government of Indonesia served as the study's population, and 2021 data were used.

Table 1. Final sample summary

No.	Criteria	Total
1.	Population	514
2.	There are no financial statements available	(220)
3.	There are financial statements accessible	294
4.	Financial statement that is not complete	(114)
Total		180

According to Chavent et al. (2006), "full disclosure in financial statements is very crucial to prevent the misunderstandings of the financial statements". According to PP No. 71 of 2010, the financial statement disclosure used in this study by Marsella and Aswar (2019) uses a disclosure index made up of 50 components based on GCI. Every item needed on the checklist is given the code "1", which means that the item is disclosed, while the "0" item means that it is not admitted. The index is in the form of a percentage ratio of 0%-100%.

Table 2. Variable measurement

Independent variable	Acronyms	Measurements	Source
Number of local parliamentarians	Numpar	Total number of local parliamentarians	Luape et al. (2018)
Budget expenditure	Budex	Total local government expenditures	Nurlianto & Aswar (2020)
Java/non-Java jurisdiction	Java/Non	1 indicates it is located in Java, and 2 indicates that it is not	Arifin et al. (2013)
Liability	Liab	Liabilities to assets ratio	Kanapickiene & Staniuleniene (2019)
Local own-source revenue	LOR	Ratio of total revenue realization to total revenue	Aswar (2019)

Furthermore, the number of local parliamentarians is calculated by dividing the total number of local legislators by the number of local legislators (Luape et al., 2018). Local government budget expenditures are calculated as a percentage of total local government expenditures (Nurlianto & Aswar, 2020). Java/non-Java jurisdiction is measured using dummy variables, with 1 indicating that a local government entity is located in Java, and 2 indicating that it is not. Liability is a condition where the government has a debt, the settlement of which is carried out in the future at the expense of a number of assets. This study uses indicators such as the ratio of liabilities to assets used by Kanapickiene and Staniuleniene (2019). Local own revenue is the revenue generated by the regional government as seen in the performance of regional autonomy in the decentralization context. This study uses local own-source revenue indicators, which is the ratio of total revenue realization to total revenue adopted for the study by Aswar (2019).

4. EMPIRICAL RESULTS AND DISCUSSION

The publication of regional government financial accounts in Indonesia is mandated by government regulation (PP) No. 71 of 2010. However, many of these restrictions were not observed by the Indonesian regional administration, according to this study's findings. This study employs the GCI, which was developed from PP No. 71 of 2010, to determine the amount of mandatory compliance with the key Indonesian GAS. The GCI is a list of items that the Indonesian government is required to report.

This study used a sample of 80 counties and cities in Java and Sumatra Island based on a 2018 study (see Table 3). The aforementioned descriptive data show that the minimum score is 0.70, or around 70%. Prior studies have shown that the mandated disclosure's scope can vary, starting from Suhardjanto and Lesmana (2010), which is around 22%, Hasan et al. (2008), which is around 85%. Government Regulation No. 71 of 2010's implementation had an impact on this study.

The average NUMPAR is 39.3125. Thus, the standard deviation is 10.18014. The lowest number of local parliamentarians is 25.00. While the highest value for the NUMPAR is 50.00, the larger the number of community representatives of a local government over constituents in aspirating the people's voice. BUDEX in Table 4 has an average value of 28.0560, the highest BUDEX is 29.73, the minimum value on BUDEX is 27.05. Local governments' condition and financial capacity in generating their own financial resources and obtaining federal payments have a considerable impact on spending in each municipality.

Java/non-Java Jurisdiction, according to the results of descriptive statistics in Table 2, shows the lowest data of 0.00, which is owned by several local governments on the island of non-Java (Sumatra), while the highest data of 1.00 are owned by several regional governments in Java. The JAVANON jurisdiction is determined by coding 1 for Java and 0 for non-Java jurisdiction. The average value in Java/non-Java jurisdiction is 0.5000, and the standard deviation is 0.50315.

Liability (LIAB), using the ratio of total liabilities to total assets of local governments in this study sample, shows an average of 1.7852 with a standard deviation of 0.0371. The highest ratio is 25.94. The lowest score is 21.84. Lastly, the average score of the local own-source revenue is 0.8742 with a standard deviation of 0.4593. The highest ratio score of 0.462 means a high level of independence. The lowest ratio is 0.193.

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Table 3. Independent variable in descriptive statistics

	N	Mean	Std. Deviation	Minimum	Maximum
GCI	180	0.8640	0.60198	0.70	0.98
NUMPAR	180	39.3125	10.18014	25.00	50.00
BUDEX	180	28.0560	0.61918	27.05	29.73
JAVANON	180	0.5000	0.50315	0.00	1.00
Liability	180	1.7852	0.0371	25.94	21.84
Local Own revenue	180	0.8742	0.4593	0.193	0.462
Valid N (listwise)	180	0.8640	0.6198	0.70	0.98

The regression results are presented in Table 4. The analysis technique is used to analyze the relationship between the independent variable and the dependent variable.

Based on the results of the regression model equation above, several things are seen, namely the resulting constant value of 0.895. It is stated that the NUMPAR, BUDEX, JAVANON, liability, and local own revenue have a constant value. In other words, there has been no change, resulting in an average rating of 0.895 for the FSD. This means that there is an increase in the FSD of 0.895. The value of FSD will decrease if an increase in the number of local parliamentarians is found. The results of this study are not in line with Arifin et al. (2013) who examined the level of disclosure of fiscal policy information in the local governments' financial statements in Indonesia. To increase transparency, the authors considered that coercion was still necessary. Laupe et al. (2018) looked at 190 Indonesian local governments. The report outlines how NUMPAR affects the disclosure of financial statements. The higher the number of parliament members, the higher the supervision of local governments' financial statements. The number of local parliamentarians had an effect on the disclosure of financial statements, based on Gilligan and Matsusaka (2001)'s examination of state and local budgetary policy in the 20th century. The findings of the study show that if the NUMPAR was greater, it was hoped that it would be able to tighten financial oversight of local governments who were responsible for disclosing accounting information contained in GAS. In line with Arifin et al. (2013), this study examined 40 local governments in Java and additional 40 outside of Java. It is stated that the number of local parliamentarians had no relationship with the financial statement disclosures. This study did not support coercive isomorphism for a number of reasons; among other things, there is a lack of central government pressure on regional governments to strengthen financial control of local governments, where local governments are responsible for the accuracy of financial reporting, and the need for GAS requirements to encourage transparency and disclose accounting information.

BUDEX is 0.038. It is assumed that if other variables are fixed, there will be a decrease in financial statement disclosures of 0.038. This illustrates that there is a positive relationship between BUDEX and the FSD. Therefore, the more local government budget expenditure experiences an increase, the lower the financial statement disclosure. The results of this study are not in line with Gore's (2004) study of 451 municipal-level bonds in countries where GAAP disclosure is mandatory. It claims that BUDEX has an impact on the FSD. In this study, the idea was disproved, meaning that local governments are lacking pressure to carry out their duties. The federal government is putting pressure on companies to disclose more

Table 4. Multiple regression results

	Unstandardized Coefficient		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	0.895	0.475		2.045	0.026
NUMPAR	0.071	0.042	0.092	0.521	0.302
BUDEX	0.038	0.028	0.075	0.186	0.577
JAVANON	0.259	0.024	0.458	4.193	0.000
Liability	0.005	0.003	0.052	0.456	0.538
Local own revenue	0.321	0.452	0.078	2.540	0.031

information about the soundness of their financial statements. Thereby, it lowers public demand for financial statement disclosures by reducing fundamental services, education, health, and facilities. creates social security systems and social, public facilities.

Java/non-Java jurisdiction has a coefficient value of 0.259, meaning that if the other variables are fixed, then it will increase the disclosure of financial statements by 0.259. This is a positive relationship between financial statement disclosure and Java/non-Java jurisdiction. If an increase in Java/non-Java jurisdiction occurs, the value of financial statement disclosure will increase. The results are in line with Arifin et al. (2015) examining the correctness of isomorphic institutions to predict mandatory disclosures in Indonesian local governments stating that financial statement disclosures affect Java/non-Java jurisdiction. Ball (2001) studies the infrastructural needs for an efficient and cost-effective public financial reporting and disclosure system. It is mentioned that local governments in Java own higher disclosure practices than the non-Java local government (Sumatra). It can be said that facilities, telecommunications infrastructure, and education are better if they are located in the larger and prosperous island of Java, which can affect the financial statement disclosure.

The fourth hypothesis in this study is about liability. Data processing results prove that liability is not significant for financial statement disclosures. It is not related to Kanapickiene and Staniuleniene (2019). The study discussed that there is a positive significant effect between debt and financial statement disclosure. Regarding the information disclosure on the internet, Laswad et al. (2005) also report the opposite results in this study in which debt affects the disclosure of information on the internet. However, this study is related to Arifin (2018) and Aswar et al. (2022). It states that the FSD is not affected by the obligations. It can be said that the results of this study and agency theory do not correlate. This shows that the government does not feel compelled to make financial statement disclosures as a medium to ensure the security of credit or investments. Another potential reason for this is that the economic resources of local governments in Indonesia are sufficiently supported by funds from the central government and local revenues.

The third hypothesis is the local own-source revenue. The data presents that the LOR significantly affects financial statement disclosures. The results of this study are in line with the data of Kanapickiene and Staniuleniene (2019), which show that the regional income generated from regional independent performance significantly affects FSD. Meanwhile, Arifin (2018) reveals the results of the study in accordance with this study that local own-source revenue does not have a significant effect on FSD. It can be concluded that regional income is in accordance with institutional theory. This is possible due to the high certainty, income derived from regional performance due to the high awareness of community obedience in paying taxes.

CONCLUSION AND RECOMMENDATIONS

This purpose of this study was to investigate the variables that affect the amount of FSD provided to local governments, as evidenced by the Government Accounting Standard Compliance Index 71 of 2010. For this reason, theoretical and empirical studies are carried out. The results indicated that the number of local parliamentarians has no influence on FSD, which shows that the presence of a sizable number of local lawmakers does not ensure FSD. Furthermore, local government budget expenditure has no effect on FSD, due to the lack of ability of the central government to compel the suppression of FSD, the quality of financial reports used to inform the public has declined. Jurisdictions in Java and non-Java are affected by FSD. That is, local government is being actively suppressed, despite the fact that Java Island has stronger governance than other parts of Java (Sumatra). Disclosure is unaffected by liability. Liability does not serve as a major source of funding for local government. Local own source revenue has an effect; this is feasible for public understanding the importance of paying taxes on time. As a result, there is high pressure on local governments.

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This study has limitations. First, the scope of cross-sectional studies for 2018. Second, financial statements are a major source of information since financial reports are easily accessible and can be widely communicated even though there are several other sources used as a source of information such as quarterly reports and internal reports. Potential considerations relating to rising pressure on the Indonesian government to complete financial statement disclosures should be considered by the Indonesian government. As an additional study, a longitudinal analysis is proposed to discover trends in mandated disclosure procedures in Indonesian local governments. This is because this study only focuses on the financial statements to investigate the practice of mandatory disclosures. However, other communication media can be used by local governments to get more information. Therefore, other disclosure channels, such as website data, may be investigated, as well as other jurisdictions in other nations (Asia and global). This can be examined by adjusting GCI measuring items to provide a broad comparative analysis of countries. Also, other variables such as the type of audit findings and internal audit can be used, and control variables can be added.

AUTHOR CONTRIBUTIONS

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Writing – original draft: Azwir Nasir.
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