

Determinants of Mandatory Disclosure for Local Government Financial Statements

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Abstract: This study sought to objectively investigate the impact of local government financial disclosure levels on the amount of income in the municipality, general allocation fund, number of local parliaments, and human development index (LKPD). All financial accounts from local governments in Indonesia make up the study's population. 455 district/city administrations across the island of Sumatra were used as the purposive selection sample for this study from 2017 to 2019. In this work, multiple linear regression analysis with STATA version 16 is used for hypothesis testing. The level of disclosure of LKPD is unaffected by the income level of the municipality or general allocation funds, according to the examination of the data. While having an impact on the level of disclosure of local government financial statements (LKPD) are the number of local parliaments and the human development index. This study offers data on variables that will impact the amount of disclosure in financial statements for local governments. A higher level of disclosure will signify that local governments are managing their finances with a high degree of accountability and openness.

Keywords: *Income Level in Municipality, General Allocation Fund, Number of Local Parliaments, Human Development Index, Disclosure.*

1. Introduction

The decentralized management of public finances has been impacted by Indonesia's reform process. The regional autonomy strategy has been successful since 2002 by shifting the pattern from centralization to decentralization, which has resulted in a change in the concept of balance from finances handled by the central government to decentralization in each region (Karianga, 2016). Every level of the bureaucracy in Indonesia is promoting a good governance agenda (Sinaga, 2013). Regulations governing state finances as stated in Law Number 17 of 2003, rules governing the state treasury based on Law Number 1 of 2004, and regulations pertaining to audits of management and responsibility for state finances as stated in Law Number 15 of 2004 all served as markers for this period. This law was created as a financial management guideline for both national and local governments. The five stages of management and responsibility of state finances are represented by five government indicators.

According to Law Number 17 of 2003, the state's financial management comprises planning, controlling, using, supervising, and holding accountable actions. Government Accounting Standards are used to provide information on Local Government Financial Reports (LKPD) in compliance with the appropriate accounting standards (SAP). The former regulation, Government Regulation (PP) Number 24 of 2005, was replaced by Government Regulation (PP) Number 71 of 2010, which mandates SAP as the foundation for accrual accounting to enhance the quality and accountability of government performance (Aswar & Saidin, 2018). The full implementation of this SAP accrual-based implementation plan will begin in 2015 for local governments and ministries or agencies (State, 2015). By indicating the delivery of pertinent and trustworthy information, SAP is utilized as a guide for the production and presentation of a financial statement that is completely disclosed. In various LKPDs in 2019, the Supreme Audit Agency (BPK) came across a number of non-compliance issues and internal control deficiencies (BPK, 2020).

Therefore, to assess LKPD's compliance with SAP and local government regulations, BPK expresses issues about the fairness of the presentation of the financial statements in the form of an opinion. Only 541 (99 percent) of the 542 LKPDs in the 2020 Summary of Provisional Examination Results (IHPS) of the 2019 LKPDs have been submitted to the BPK. From 58 percent in 2015 to 90 percent in 2019, WTP opinion increased by 32%. Additionally, TMP opinion dropped by 4% from 5% in 2015 to 1% in 2019, a loss of 4%. In accordance with the Development National Medium Term for 2015–2019, this opinion's achievement has surpassed the performance goal. Additionally, BPK communicated the issue of presenting accounts that did not adhere to SAP in IHPS I 2020 and/or the lack of adequate evidence was not noted in the 2019 LKPD, namely 19 local governments linked to current assets (14 percent) and 39 local governments connected to

fixed assets. (30%), 21 local governments related to other assets (16%), 3 local governments related to long-term obligations (2%), 6 local governments related to short-term obligations (5%) and 2 local governments related to revenue (2%).

15 local governments related to operating expenses (11%) and 19 local governments related to capital expenditure (14%) as well as another account (1%). A presentation of complete financial statements that can be included in the financial statements and Notes to Financial Statements is disclosure based on PP No. 71 of 2010 (CaLK). According to Wulandari and Atmini (2012), there are two types of disclosure for financial statements: mandated disclosure and optional disclosure (Wlandari & Atmini, 2012). Several earlier academics have looked at the research on financial statement transparency. In a related study on disclosure, Serrano-Cinca et al. (2009) looked at the elements that could influence the Spanish local public administration's decision to post financial information online. Local public administration in Spain has a 49 percent disclosure rate. Additionally, 82.7 percent of reports are disclosed on the island of Sumatra, according to Marsella and Aswar (2019). The average disclosure for Arifin (2018) in Indonesia is 64.6 percent and for Hariyani et al. (2022) in Sumatera Island, the average is 84 percent. The average amount of financial statement disclosure according to more research by Gusnaini et al. (2020) is 80.42 percent. According to Handayani et al. (2020), 29.9% of LKPD disclosure occurs. This demonstrates that the LKPD has not fully disclosed the disclosure items that must be provided in the LKPD and that it is still low. The degree of income in a municipality may influence whether financial accounts for local governments are disclosed.

Residents need public services and more information to make sure that resources are managed responsibly when local communities' incomes rise (Baldissera et al., 2020). The General Allocation Fund Factor also has an impact on the LKPD disclosure level. Fund for broad purposes or Fund for general purposes. The results of research on general allocation funds conducted by Arifin (2018) indicate that there is a beneficial impact on LKPD disclosure because local governments are under more pressure to make more disclosures in financial statements the higher the level of general allocation funds. Another element that influences the degree of LKPD disclosure is the number of local parliaments. The Regional People's Representative Council (DPRD) is a part of the council that serves as the Indonesian government's legislative body (Gusnaini et al., 2020). DPRD has the necessary expertise in financial reporting to fulfill the oversight role of local governments and make them more compliant in disclosing regional financial statements in accordance with accepted standards (Hardiningsih et al., 2019). The human Development Index is yet another determining factor. The human development index gauges a person's level of development using the primary elements of their quality of life (Setyowati, 2016). A high human development index will increase public knowledge of government performance, making the government more responsible for disclosing financial statement outcomes with full disclosures (Arifin, 2018).

2. Literature Review and Hypothesis Development

Agency Theory: Leads to an agency relationship based on an agreement between one or more (principals) offering a mandate by involving other individuals (agents) to deliver specific services based on an agreement with the delegation of authority in making the best decision to the agent (Jensen & Meckling, 1976). The regional autonomy strategy has changed the fundamental relationship between the executive and the legislative in public sector organizations (Latifah, 2010). The People's Representative Council (DPR), the Regional People's Representative Council (DPRD), and the Regional Representative Council (DPD) are the principal and the local government (executive) is the agent in this situation, respectively, in representing the community. Because they have access to more data, executives act as agents who want to maximize utility (self-interest) in relation to the creation of the APBD budget (information asymmetry).

Institutional Theory: Explains that organizations change their structural makeup in response to institutional influences (DiMaggio & Powell, 1983). Three isomorphism processes—coercive, mimetic, and normative—are distinguished as types of isomorphism. When one institution depends on another that has more clout and presses for changes, this is known as coercive isomorphism, which can be formal or informal (DiMaggio & Powell, 1983). Political influence and concerns with legitimacy are the root causes of coercive isomorphism. Mimetic isomorphism is a strategy used by organizations to copy the success and legitimacy of rival organizations. Pressure from professional groups looking for adoption practices that should be followed

is known as normative isomorphism. According to a prior study, which is based on research by Marsella and Aswar (2019), the income level in a municipality has a considerable beneficial impact on the amount of disclosure of LKPD.

Because residents of high-income areas put more pressure on local governments to disclose information. Iszardani and Hardiningsih (2021) demonstrate that general allocation funds have a favorable impact on the level of LKPD disclosure through the website. Because local governments are required to adequately disclose LKPD information in accordance with applicable standards more dependent they are on transfers from the central government. According to Handayani et al. (2020), there is a strong correlation between the size of the legislature and the disclosure of LKPD since legislatures with a lot of members can exert more influence over local governments. Furthermore, Setyowati (2016) demonstrates that HDI has a positive and significant impact on LKPD disclosure because rising public expectations for comprehensive and precise LKPD disclosures are a result of the increased community progress demonstrated by the degree of human development.

Hypothesis and Conceptual Framework: The following is how the study's hypothesis, which may have an impact on how much information is disclosed in local government financial accounts, is formulated.

Income Level in Municipality and The Level of Disclosure in Local Government Financial Statement: The average level of community income in a municipality serves as a measure of the improvement in the well-being of its residents. According to institutional theory, the central government can exert stringent oversight over local governments and the higher the level of income per capita, the more coercive pressure the central government applies to local governments to release public and accountable financial reports. The public monitors politics more intensely in high-income cities, and the demand for information on the city's performance indicators is rising (Styles & Tennyson, 2007). The income level in a municipality has a strong beneficial impact on the amount of disclosure of local government financial accounts, according to research from (Marsella & Aswar, 2019) and (Marian & Utami, 2019).

H1: The level of disclosure in the financial statements of local governments is significantly positively correlated with the income level in the municipality.

General Allocation Funds and The Level of Disclosure in Local Government Financial Statement: The general allocation fund (DAU) is a method of putting decentralization into practice by allocating funds for a fair distribution of fiscal capacity among regions. According to agency theory, there is a connection between the local government, which serves as the agent, the principal (the central government) and the community. In accordance with allocations established by the federal government, local administrations are tasked with handling regional funds obtained from the general populace. As a result, local governments must be held accountable for the use of funds by providing information in financial reports sent to the federal government and the general public. General allocation funds are said to have a considerable favorable impact on the level of disclosure of local government financial accounts in studies by Arifin (2018) and Iszardani and Hardiningsih (2021).

H2: The level of disclosure in local government financial statements is significantly positively correlated with general allocation funds.

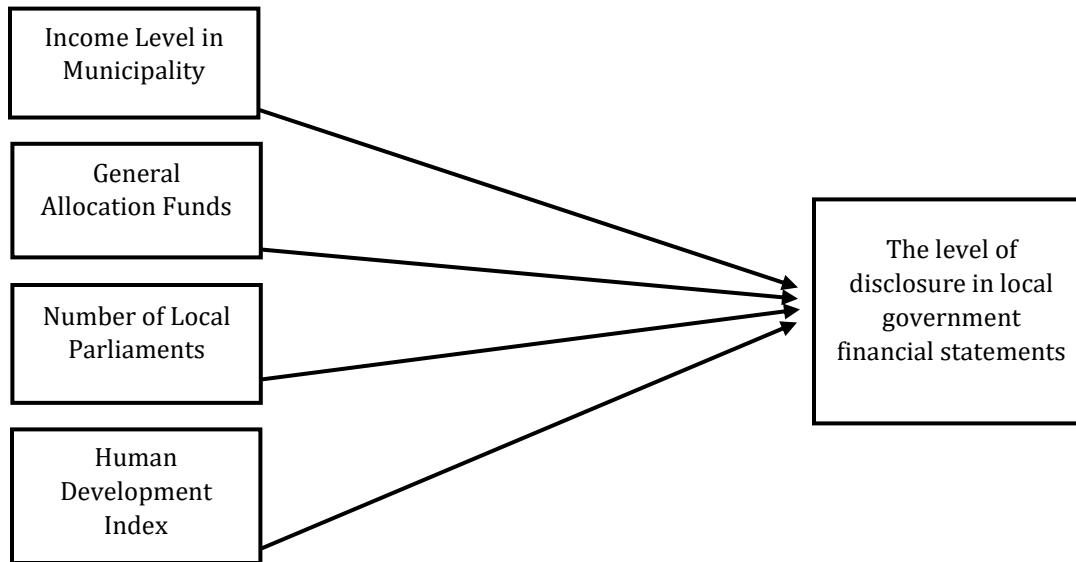
Number of Local Parliaments and the Level of Disclosure in Local Government Financial Statement: The DPRD is the legislative body in charge of monitoring the administration of regional budgets by local governments (Nurlianto & Aswar, 2020; Gusnaini et al., 2020; Aswar et al., 2022). Council members are thought to be knowledgeable enough to direct local governments to be more compliant with revealing financial information about them (Hardiningsih et al., 2019). According to institutional theory, DPRD members can keep an eye on budgetary allocations and put pressure on local governments to disclose in great detail how the budget was actually used. The number of local parliaments has a considerable favorable impact on the amount of disclosure of local government financial accounts, according to research by Handayani et al. (2020) and Aswar et al. (2021).

H3: The level of disclosure in local government financial statements is significantly influenced favorably by the number of local parliaments.

Human Development Index and the Level of Disclosure in Local Government Financial Statement: A high human development index indicates that local governments have been successful in advancing the community, particularly in terms of the community's quality of life (Utami & Sulardi, 2019). According to the agency hypothesis, there is a connection between the community acting as the principal and the local government functioning as an agent. Local governments must be accountable for the outcomes of financial reports with full disclosure because communities with proper education and welfare will actively participate in assessing the viability of local government operations. The human development index has a considerable favorable impact on the level of disclosure of local government financial accounts, according to Arifin (2018), Setyowati (2016) and Utami & Sulardi (2019).

H4: The level of disclosure in local government financial statements is significantly influenced positively by the human development index.

Figure 1: Research Framework



3. Research Methodology

This study focuses on LKPD, the district and municipal governments of Indonesia that have undergone BPK audits. The district and city administrations on the island of Sumatra in the 2017–2019 budget years make up the research population and are the source of the study's object. BPK has audited 154 LKPDs across the island of Sumatra, collecting a total of 462 samples in the process. Additionally, using the purposive sampling technique, the population is filtered to create the study's final sample according to the following standards:

- a) BPK audited the LKPD (district/city) on the island of Sumatra from 2017 to 2019.
- b) Deliver LKPD components, including cash flow reports, CaLK, operational reports, budget realization reports, balance sheets, reports of changes in equity, and reports on changes in excess budget balances.

The data used in this study were the LKPD for both the Regency and the City on the island of Sumatra in the years 2017 through 2019. They were gathered from the central BPK's official website, www.e-ppid.bpk.go.id, as well as the official websites of the relevant agencies and the central statistics agency.

Table 1: Measurement of Variables

Variable	Measurement	Source
The level of disclosure in local government financial statements	Measured using a scoring system based on 50 disclosure items based on the government compliance index.	Marsella and Aswar (2019)
Level Income in Municipality	Measured by comparing the amount of gross regional domestic product with the total population of the area.	Marsella dan Aswar (2019)
General Allocation Fund	Measuring based on general allocation funds compared to total revenue in an area.	Iszardani and Hardiningsih (2021)
Number of Local Parliaments	Measured using the number of DPRD members in an area.	Hardiningsih et al. (2019)
Human Development Index	Measured based on the total human development index score in the area.	Arifin (2018)

4. Results and Discussion

The participants in the study are from Sumatera Island's Regency/City. Utilizing purposive sampling methods, samples were chosen. Table 2 displays the study's final sample.

Table 2: Final Sample of the Study

Criteria	Total
Local Government Financial Reports (LKPD) from the Sumatran Island that BPK has audited	154
Research Period	3
Number of Sample	462
The regional government financial reports, which have been examined by the BPK in Sumatra, are given insufficiently.	(7)
Total Sample	455

The study population data were filtered as shown in table 2 before the researcher conducted data analysis using the Multiple Linear Regression Analysis with STATA Version 16 software. Descriptive statistics are displayed in Table 3.

Table 3: Statistical Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
The Level of disclosure in Local Government Financial Statement (DISC)	455	0,66	0,9	0,7973187	0,0459345
Income Level in Municipality (ILM)	455	1,78e+07	2,80e+08	4,75e+07	3,05e+07
General Allocation Fund (GAF)	455	0,0527514	0,7035539	0,4918792	0,1049177
Number of Local Parliaments (Numpar)	455	18	50	32,92967	8,881718
Human Development Index (HDI)	455	59,25	85,07	69,9889	4,617255

According to table 3, the LKPD disclosure level has an average value (mean) of 0.7973187, which is higher than the standard deviation's value of 0.0459345. North Aceh Regency 2017 has a minimum value of 0.66. The maximum value, which is 0.90, is found in the Pelalawan Regency during 2017–2019. The mean value of the variable describing the income level in a municipality is 47,467,510,10421, which is higher than the standard deviation of 30,498,186.42283. The variable's maximum value is 280,252,287,99938, while its minimum value is 17,796,369,3960. The general allocation fund variable has a mean value of 0.4918792 and a maximum value of 0.7035539 and a minimum value of 0.0527514, both of which are lower than the standard deviation value of 0.1049177. With a maximum value of 50 and a minimum value of 18, the number of local parliaments has a mean value of 32.92967, which is less than the standard deviation of 8.881718. The average value of the human development index is 69.9889, with a standard deviation of 4.617255 and a minimum value of 59.25, a maximum value of 85.07.

Table 4: Partial Regression Results

Variable	Coefficient	Regression Model		Hypothesis Prediction	Conclusion
		Fix Effect Model			
		t	Probability		
(Constant)	0,7936648	50,82	0,000		
ILM	0,0000000000786	0,23	0,815	H ₃ : +	H ₁ reject
GAF	0,0370763	1,32	0,187	H ₄ : +	H ₂ reject
Numpar	0,001887	3.10	0,002	H ₃ : +	H ₃ accept
HDI	0,0082957	3,49	0,001	H ₄ : +	H ₄ accept

Based on Table 4, which indicates that the test results in a positive value with a t-count of 0.23 and a t-table of 1.645 (0.231.645) and has a T probability value of 0.815 (0.815 > 0.05), it can be concluded that the income level in the municipality does not significantly affect the level of LKPD disclosure. Reject H₁ and accept H₀ in the municipality's variable income level. This study contradicts Marsella and Aswar (2019), who claimed that a municipality's revenue level has a favorable impact on the degree of LKPD disclosure. However, this is consistent with Marian and Utami (2019) finding that the amount of LKPD disclosure in 34 Indonesian provinces is not significantly influenced by the revenue level of the municipality. This indicates that the municipality's high-income level does not subject local governments to more pressure from the federal government, which would affect how the federal government receives the LKPD disclosure items. The general allocation fund variable has a coefficient of 0.0370763, indicating that the test results in a positive value with a t-count of 1.32, a t-table of 1.645 (1.321.645), and a T probability value of 0.187 (0.187 > 0.05), indicating that general allocation funds do not significantly affect the level of LKPD disclosure. Reject H₂ and accept H₀ in the variable for the general allocation fund.

This study disagrees with Arifin (2018), who claimed that general allocation funds have a favorable impact on the degree of LKPD disclosure. However, the findings of this study are consistent with those of Nur and Murwaningsari (2020), who found no relationship between LKPD disclosure and the degree of reliance as measured by general allocation funds. Additionally, according to research by Hardiningsih et al. (2019), the degree of reliance shown by the general allocation fund has no appreciable impact on the level of disclosure of LKPD. This study confirms the findings of other studies since local governments' high levels of LKPD disclosure are unaffected by their high general allocation fund levels. This is because local governments are less inclined to take steps to boost LKPD disclosure because the general allocation funds provided by the central government are not dependent on information disclosed in LKPD. The number of local parliaments has a coefficient of 0.001887, indicating that the test results in a positive value with a t-count of 3.10, a t-table of 1.645 (3.10 > 1.645), and a T probability value of 0.001 (0.002 < 0.05). H₃ and H₀ are accepted in the Number of local parliaments variable. The findings of this study are corroborated by studies by Aswar et al. (2021) and Handayani et al. (2020), which demonstrate the number of DPRD.

A proxy for the size of the legislature has a considerable favorable impact on the disclosure of LKPD. This study validates the findings of earlier studies since more DPRD members will have strong control of all moves local governments take to manage regional finances, improving the district/city governments' ability to communicate financial information clearly and understandably, raising the amount of transparency in the financial statements that district/city local governments present. The human development index variable has a coefficient value of 0.0082957, indicating a positive test with a t-count of 3.49 and a t-table of 1.645 (3.49 > 1.645), and it has a probability value of T. of 0.001 (0.001 < 0.05), indicating that it significantly influences the amount of LKPD disclosure. H₀ is rejected by the human development index variable while H₄ is accepted. According to Arifin (2018), Setyowati (2016), Utami and Sulardi (2019), and others, the amount of LKPD disclosure is significantly influenced positively by the human development index. In other words, this suggests that a higher human development index will reflect the high level of community quality and the level of community participation in enticing local governments to enhance regional financial management, which will affect improving LKPD transparency.

5. Conclusion and Recommendations

This study investigates the impact of municipal revenue levels, general allocation funds, the number of local parliaments, and the human development index on the degree of district/city LKPD disclosure. The amount of LKPD disclosure is not significantly impacted by the income level in the municipality variable, according to the findings of the study provided in the preceding chapter. This demonstrates that just because a municipality has a high amount of money does not necessarily mean that the central government has a high level of control over local governments, putting local governments under less pressure to reveal LKPD. The amount of disclosure of LKPD is not significantly impacted by general allocation funds. This demonstrates that the central government's high general allocation transfers are not dependent on the accuracy of the information provided in LKPD, which deters local governments from taking steps to boost LKPD disclosure. The quantity of local parliaments significantly and favorably affects the degree of LKPD disclosure. For local governments to improve the delivery of financial information transparently and increase the level of disclosure of LKPD presented to the government, a growing number of local parliaments, which are proxied by an increasing number of DPRD members, will have high supervision of every action taken by local governments in managing finances.

The level of LKPD disclosure is significantly and favorably influenced by the human development index. This demonstrates that a greater human development index will reflect the high level of community quality and level of community involvement in enticing local governments to enhance regional financial management, affecting improving LKPD disclosure. The analysis of data from some local government financial reports, which are presented by local governments but have displays with low-resolution levels that make it difficult, is one of the constraints of this study. Furthermore, there are financial reports from the district and city governments that lack the necessary information. As a result, the research sample does not include certain districts or cities, which reduces the amount of data in the study. To understand the variability in the degree of disclosure of LKPD in Indonesia, additional research is anticipated to examine the level of disclosure in Indonesia using a longer time frame. Future researchers should also employ a wider sample of local governments to provide more thorough and reliable data. Other factors, such as those used by Baldissera et al. (2020), are related to socioeconomic factors in the form of population, educational attainment, and region related to finances.

Budgetary factors in the form of capital investment, and related political-electoral factors in the form of political competition, can be used in further research. Local governments can optimize the level of disclosure offered in accordance with the relevant SAP, particularly in regencies/cities on the island of Sumatra. One way that local governments can use information technology to promote transparency in LKPD disclosure is by making information available to the general public on the local government's official website. Additionally, the central government should be able to maximize the execution of monitoring by, for example, designating a certain period for monitoring and evaluating local government financial management and the transfer of monies from the central government to them in Sumatra Island.

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