The Effects of Government Characteristics, Complexity, Audit Findings, and Audit Opinions on the Level of Provincial Government Financial Statement Disclosures in Indonesia

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Abstract — This research aims to analyze the effect of government characteristics, complexity, audit findings, and audit opinions on financial statement disclosures on the level of the provincial government in Indonesia. The government institutions were selected based on the following characteristics: the government age (how long it has been established), regional wealth, intergovernmental revenue, and leverage. The research employed functional differentiation. The total samples were 198 consisting of 33 provincial financial reports in Indonesia for six years. The samples were obtained using a purposive sampling method and processed using Eviews 7. The results showed that the government age, regional wealth, intergovernmental revenue, leverage, and the audit opinions had a significant positive effect on the level of government financial statement disclosures; while functional differentiation and audit findings did not affect the level of government financial statement disclosures. The average level of provincial government financial statement disclosures in Indonesia from 2012-2017 was 47%.

Keywords: Level of disclosures, government characteristics, complexity, audit findings, the audit opinions

I. INTRODUCTION

The Indonesian government sector has experienced rapid development since 2000, with the issuance of Law No. 22 of 1999 concerning Regional Government which was later revised to Law No. 32 of 2004. As a result, Indonesia entered the era of regional autonomy and fiscal decentralization.

The Government Accounting Standards (in Indonesia, it is called Standar Akuntansi Pemerintah or abbreviated as ‘SAP’) is the principle for presenting government financial reports. In Indonesia, it was first published in 2005 and regulated in Government Regulation No. 24 of 2005 concerning the cash toward accrual basis SAP; it is updated to PP No. 71 of 2010 which is fully accrual basis. According to Siregar (2017), the reason for SAPs renewal is to provide deeper information regarding the accountability assessment for resource management, performance assessment, financial position, cash flow, and decision making. The cash toward accrual basis Government accounting cannot produce the expected information. First, financial statements do not describe actual expenditures since they only record expenditure on the budget realization report; besides, expenses or costs in government accounting are unrecognized. Second, financial statements do not provide a track record of changes in equity. Third, they do not provide reports showing the government's operational performance.

In fact, the government financial statement disclosures in Indonesia proves to be very low as shown by the results of previous studies measuring the level of government financial statement disclosures; for instance, Lesmana (2010) found that the level was 22%, Suhardjanto and Yulianingtyas (2011) revealed that the level was 30.85%, also Hilmi and Martani (2012) concluded that the level was 44.56%. This indicates that local governments have not fully implemented government regulations and have not fulfilled the mandatory disclosures items in GAS.


In this study, we will examine the level of government financial statement disclosures in Indonesia using data obtained within six years, from 2012 to 2017. In addition, researchers also examine the effect of regional wealth, intergovernmental revenue, leverage, and audit opinions on the level of provincial government financial statement disclosures; while the variables of government age, functional differentiation, and audit findings do not affect the level of disclosures.
II. LITERATURE REVIEW

A. Signaling Theory in Government

Signaling theory is one of the theories behind information asymmetry. Evans III and Patton (1987) explained that the people had given a mandate to the government to show them a signal by providing quality financial reports, improving the internal control system as well as providing a complete and more detailed explanation in disclosures. The goal is that the people can continue to support the current government ensuring that it can perform well.

B. Stewardship Theory

This theory describes the situation in which managers are more motivated on their main outcome goals than on their individual goals for the benefit of an organization. Stewardship theory is based on psychology and sociology designed in which the steward (mandate receiver) is motivated to act according to the wishes of the principal (mandate giver); moreover, the steward will not leave the organization he has been running as he tries to achieve the organization goals.

C. The Regional Government Age

Setyaningrum and Syafitri (2012) explain that an organization age can be interpreted as how long the organization has been established. The Regional Government age can be identified by viewing the year when a Regional Government was established based on the region's Law on the establishment. The results of studies conducted by Naopal et al (2017), Wulandari (2016), Setyaningrum and Syafitri (2012), and Waliyyani and Mahmud (2015) presented that the local government age had a significant positive effect on the level of local government financial statement disclosures; it is because older local governments have better experience and capabilities in disclosing financial statements according to SAP and they hold more information to be disclosed than younger local governments.

H1: Regional Government age has a positive effect on the Level of Provincial government financial statement disclosures.

D. Regional Wealth

Regional wealth is a performance's description in the government as indicated by the region prosperity or the amount of the Region own-source revenue (in Indonesian it is called ‘Pendapatan Asli Daerah’ or abbreviated as ‘PAD’). According to Pratolo and Jatmiko (2017), PAD is an income in the form of a monetary unit received by the regional government from various sources sought by the regional government itself. Susbiana et al (2014), Hilmi and Martani (2012), Rahmayanti (2018), Setyaningrum and Syafitri (2012), and Nurtari et al (2016) examined the wealth of local governments in disclosing financial statements; the results of their research are in line with the theories that have been previously described, presenting that there is a significant positive effect. This is due to the encouragement to make disclosures, in which one of the region's wealth sources is from the community's contribution to paying taxes and levies.

H2: The Regional Government wealth has a positive effect on the level of local government financial statement disclosures.

Setyaningrum and Syafitri (2012) explain that intergovernmental revenue is regional balance fund or funds sourced from the state budget allocated to regions for implementing decentralization. This research is in line with Suhardjanto et al (2014) revealing that intergovernmental revenue has a positive effect on financial statement disclosures. The greater the intergovernmental transfer from the center to the regions, the higher the financial statements disclosed because it is a form of government accountability for financial management in spending the balance funds.

H3: The Intergovernmental Revenue has a positive effect on the level of local government financial statement disclosures Leverage

Organizations with high debt financing will be requested to issue financial disclosures and reporting, according to the applicable standards. In the private sector, as stated by Setyaningrum and Syafitri (2012), financial statements are used by creditors as a tool to assess an organization's ability to pay predetermined obligations. Therefore, creditors and the government sector often want to complete financial statement disclosures. This research aligns with Patrick (2007) and Perez et al (2014) finding that there is an influence of leverage or debt financing. Therefore, the higher the proportion of assets funded with debt, the higher the leverage ratio; thus, the disclosures of funding activities is higher (Waliyyani and Mahmud, 2015).

H4: Leverage has a positive effect on the Level of Disclosures of Provincial government financial statement disclosures.

E. Functional Differentiation

Suhardjanto and Yulianingsytas (2011) asserted that functional differentiation in Indonesia is represented by the Regional Government Agency (in Indonesian it is called ‘Satuan Kerja Perangkat Daerah’ or abbreviated as ‘SKPD’). It consists of agencies, bureaus or departments. The number of SKPDs in a government illustrates the local government's priorities in regional development. Research conducted by Suparno and Nanda (2016) and Nurtari et al. And (2016) are in accordance with Patrick (2007); they pointed out that functional differentiation has a positive effect. If the number of SKPD is increasing, more information will need to be disclosed to reduce information asymmetry, as stated in the Signaling theory.

H5: Functional Differentiation has a positive effect on the Level of Provincial Government Financial Reports.
F. Audit Findings

Audit findings are findings of irregularity cases in the financial statements found by the Finance Auditor Body (in Indonesian it is called ‘Badan Pemeriksa Keuangan’ or abbreviated as ‘BPK’) for non-conformance of financial statement disclosures with applicable standards (Rahmayanti, 2018). With these findings, the BPK will require to increase the financial statement disclosures. So, the greater the number of audit findings, the greater the number of additional disclosures requested by the BPK. The research agrees with Martani and Liestiani (2012) revealing that the number of audit findings has a significant positive effect on financial statement disclosures.

H6: Audit Findings have a positive effect on the Level of Provincial Government Report Disclosures.

G. Audit Opinions

An audit opinion is an opinion expressed by the auditor on what he has examined as well as the financial statements. The audit opinion is divided into five: Unqualified Opinion (in Indonesian, it is called ‘Wajar Tanpa Pengecualian’ or abbreviated as ‘WTP’), Unqualified With Explanatory Paragraph (in Indonesian, it is called ‘Wajar Tanpa Pengecualian Dengan Paragraf Penjelasan’ or abbreviated as ‘WTP DPP’), Qualified Opinion (in Indonesian, it is called ‘Wajar Dengan Pengecualian’ or abbreviated as WDP), Adverse Opinion (in Indonesian, it is called ‘Tidak Wajar’ or abbreviated as ‘TW’), and Disclaimer Opinion (in Indonesian, it is called ‘Tidak Memberikan Pendapat’ or abbreviated as ‘TMP’). Priharjanto and Wardani (2016) and Naopal et.al (2017) examined audit opinions and concluded that there is a positive effect on disclosures. According to the Signaling theory, the government shows a signal to the people by providing quality financial reports such as obtaining the Unqualified or Qualified opinions from the auditor.

H7: Audit Opinions have a positive effect on the Level of Provincial Government Report Disclosures.

III. RESEARCH METHODS

The object of this study is the Provincial Government Financial Report in Indonesia on the website of Finance Auditor Body of the Republic of Indonesia (www.bpk.go.id), and the web of each province in Indonesia for 6 years.

The Variable of Provincial Government Financial Statement Disclosures level is measured by dividing the number of disclosure items with total disclosure items. Regional wealth is the total regional income. The Intergovernmental Revenue is a division between government balance funds divided by income, while Leverage is an obligation divided by assets. The number of SKPD (Regional Government Agency) is a proxy of Functional Differentiation. Audit findings are measured by the number of audits; audit opinions are qualified or unqualified opinions regarding information in a financial report.

According to Basuki (2014), before conducting descriptive statistical tests, classical assumptions, and hypothesis testing, the panel data regression model in the estimation method can be done through three approaches: Common Effect Model, Fixed Effect Model, and Random Effect Model. To select the most appropriate model used in managing panel data, several tests can be conducted, such as the Likelihood Ratio Test and Hausman Test. If the most appropriate data have been obtained, we can proceed with the descriptive statistical test, classic assumption, and hypothesis testing.

IV. RESULTS AND DISCUSSION

There are 198 criteria; 6 financial statements do not meet the criteria set. There is 1 province that does not meet the criteria because it does not disclose financial statements, which is North Kalimantan.

A. Descriptive Statistical Test

These test results show that the data is quite varied.

Table 1. Descriptive Statistics Test Results

1. Classical Assumptions Test

The results of the normality test indicate the probability value of Jarque Bera is 0.226 in which the value is 0.224 > 0.05; it can be concluded that the data is normally distributed. The results of multicollinearity test indicate that the values of regional wealth, government age, intergovernmental revenue, leverage, Regional Government Agency, audit findings, and audit opinions are smaller than 0.8; therefore, it can be concluded that there is no multicollinearity in the research data. Based on table 1, the value of variable probability of the government age, regional wealth, intergovernmental revenue, leverage, Regional Government Agency, audit findings, and audit opinions are 0.720, 0.867, 0.380, 0.608, 0.622, 0.293, and 0.442 > 0.05; thereby, it can be concluded that data is free from heteroscedasticity.

1. Hypothesis Test and Discussion

Table 2. Hypothesis Test Results

Adjusted R-squared: 0.349

The first hypothesis test shows that the government age has a significant positive effect on the level of provincial government financial statement disclosures. The results of the study are in accordance with the first hypothesis, which means accepting the assumption that older local governments have better experience and capabilities in disclosing financial statements in accordance with SAP. This research agrees with Wulandari’s (2015) and Lesmana's (2010).

Thus, older regional governments will have better experience and capabilities than the local governments that have not been long-established; this is because the longer the government stands, the more experiences are obtained,
especially in financial statement disclosures. It can be seen from the revision of the government's financial statements in the previous year and thus it has a better administrative record from year to year.

The second hypothesis test shows that regional wealth has a significant positive effect on the level of provincial government financial statement disclosures. The results are in accordance with the second hypothesis. In addition, the results of the study are in line with the research conducted by Setyaningrum and Syafitri (2012) and Hilmi and Martani (2012).

Regional wealth can have a positive effect on the level of disclosures because high regional income will encourage the government to disclose financial reports as a form of government accountability to the public. This is because one of the sources of the region's wealth is from the community's contribution to paying taxes and levies. Thus, the higher the wealth of the region, the more the financial statement disclosures carried out by the government.

The third hypothesis test shows that intergovernmental revenue has a significant positive effect on the level of provincial government financial statement disclosures. The results of the research are in accordance with this. In addition, this study agrees with Suhardjanto et al (2010) asserting that intergovernmental revenue has a positive effect on financial statement disclosures.

According to Government Regulation No. 104 of 2000, regional balance funds are defined as regional income sourced from the state budget to support the implementation of regional government authority in achieving the goal of autonomy granting to the regions, to improve services and people's welfare. Thereby, the greater the intergovernmental transfer from the center to the regions, the higher the financial statements disclosed since it is a form of government accountability for financial management to external parties.

The fourth hypothesis test shows that leverage has a significant positive effect on the level of provincial government financial statement disclosures. The results of the research are in accordance with the fourth hypothesis. Thus, the hypothesis stating that the higher the proportion of assets funded with debt, the higher the leverage ratio; consequently, financial statement disclosures are also higher, as stated by Patrick (2007) and Perez et al. (2014) in their research.

Organizations with high debt financing will be required to issue financial disclosures and reporting in accordance with applicable standards because financial statements are used by creditors as a tool to assess the organization's ability to pay predetermined obligations. This often makes creditors want to complete disclosures of financial statements. Therefore, the government is compelled to fully disclose financial statements so that creditors trust the government in terms of debt financing. So, the higher the proportion of assets funded with debt, the higher the leverage ratio; consequently, financial statement disclosures will be higher.

The fifth hypothesis test shows that functional differentiation does not affect the level of provincial government financial statement disclosures. The results of this study are not in accordance with the fifth hypothesis; it rejects the assumption that the higher the number of Regional Government Agency in the area, the more information that must be disclosed. The research is in line with Hilmi and Martani (2012). Thus, regional governments that have a large number of Regional Government Agencies may not be able to fully disclose financial statements because it is difficult to control the level of compliance in disclosing financial reports at each Regional Government Agency; moreover, if there are many of them, they need to cooperate. However, this has not been optimally conducted and it can result in low financial statement disclosures.

The sixth hypotheses test shows that audit findings do not affect the level of provincial government financial statement disclosures. This result is not in accordance with the sixth hypothesis, and thus it rejects the assumption that the greater the number of audit findings, the greater the number of additional disclosures requested by the Finance Auditor Body (BPK). The research agrees with Khasanah and Rahardjo (2014) and Hendriyani and Tahar (2015). Accordingly, if there are many violations (audit findings) of government financial statements, it will not affect financial statements disclosures. This is because the BPK will provide recommendations for improvements to the government to improve the audit findings; subsequently, by implementing the improvements of the financial statements, they will receive a qualified opinion.

The seventh hypothesis shows that audit opinions have a significant positive effect on the level of provincial government financial statement disclosures. The research results are in accordance with the seventh hypothesis. This research agrees with Naopal et al (2017) stating that audit opinion has a significant positive effect.

Audit opinion can have a positive effect on the level of disclosures because if the financial report receives a good opinion such as the unqualified opinion (WTP) or unqualified with explanatory paragraph (WTP DPP), it can be said that the financial statements are good and in accordance with the applicable rules. This suggests that if the government receives the opinion, its financial statement disclosures are complete and in accordance with SAP (government accounting standards). Thus, the better the audit opinions (for instance, WTP or WTP DPP), the better the level of financial statement disclosures.

V. CONCLUSION

Based on the research, it can be concluded that the average level of disclosures of the financial statements of the provincial government in Indonesia from 2012-2017 was 47%. If it is viewed from the average level of annual disclosures, the level of financial statement disclosures in 2012 was 34%; in 2013 was 41%; in 2014 was 42%; in 2015 was 46%; in 2016 was 55%, and in 2017 was 64%. As a result, the level of financial statement disclosures before the implementation of Government Regulation No. 71 of 2010 (2012-2014) or after the government regulation has been implemented (2015-2017) are arguably good; it is because the financial statement disclosures in Indonesia are increasing every year.
Furthermore, it is concluded that from the 7 independent variables, there are only 4 positively significant variables on the dependent variable, which are regional wealth, intergovernmental revenue, leverage, and audit opinions; while the other 3 independent variables do not have an effect on the dependent variable, which are the government age, functional differentiation, and audit findings.

This study has several limitations; financial statements used were only for 6 periods, the variables used were only a part of many factors that can affect the level of financial statement disclosures, and it utilized parts of the financial report index focusing on the balance sheet, from PSAP (statements of government accounting standards) 05 to PSAP 09 with 46 checklist items.

The researchers suggest further studies to extend the financial reporting period or to add financial reports to the local/city governments. Moreover, the research can consider other variables such as population, legislative size, local government size, capital expenditure or it can use control variables. In addition, further research is expected to use a more complete index of financial statement disclosures; for instance, a disclosure index based on SAP (government accounting standards) regulated in Government Regulation No. 71 of 2010 from PSAP 01 concerning the presentation of financial statements until PSAP 11 concerning consolidated financial statements; or the researcher can use the disclosure index in a study conducted by Rahmayanti (2018).

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UPP STIM YKPN.
