DISCLOSURE OF LOCAL GOVERNMENT FINANCIAL STATEMENT IN INDONESIA

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Since 2000, the Government of Indonesia has adopted new policies and regulations on local government financial statement. The purpose of these policies were improving accountability and transparency of public resources management that was conducted by local governments. Since 2005, Government Accounting Standard was issued and used as a guideline to prepare the local government financial statement.

This study examined impact of audit quality, management incentives and local government characteristic to local government financial statement disclosure. It argued that audit quality, complexity of local government and management incentive have positive relation to financial statement disclosure.

This study used mandatory disclosure based on Indonesian Government Accounting Standard (IGAS) as disclosure index. Multiple regression is used for testing the model. Revenue transfer from central government and classification of local government did not influence to disclosure level. But, wealth, government complexity number of audit finding influence the disclosure level.

Keywords: disclosure, local government, government accounting standard, government accounting standard.

1. Background

Disclosure of financial reporting have been investigated in private sectors, but studies examining voluntary practices in the public sector are limited. The literature examining disclosure in the government sector is largely based on the application of agency theory. Manager and voter can be described as an agency relationship whereby the voter is the principal and the political is the agent. Voters to be self interested and to

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1 Dwi Martani is academic staff from Accounting Department, Faculty of Economic, University of Indonesia, Lestiani was student in Undergraduate Program. This paper is part of her thesis.
act in such a way as to increase their wealth. Each voter has an incentive to monitor the behaviour of politicians (Zimmerman, 1977).

The other studies of government financial statement focused on the impact of financial disclosure to the municipal bonds. Financial statement is one of the local government information that can be used by creditor to evaluate the ability to pay the municipal bonds. Feraz and Wilson, (1992) provide the evidence that market segmentation affect the strength of the association between financial disclosure and net interest cost for new issues of municipal bonds.

Copley (2002) investigated the influence of audit quality to the financial disclosure of local government. The result provided evidence there is positive relationship between audit quality and disclosure. The research similar in the private sector that audit quality can induce the financial statement quality by improving the disclosure to reduce asymmetry information.

This study investigated the influence of local government characteristics and the audit findings to the disclosure of financial statements. There are two things that introduced in this study. First the studies used of audit findings and value of audit findings as variables that explain the level of disclosure. Second, the research conducted in Indonesia, a developing country that had just conducted state financial reform. Since 2000, the Government of Indonesia has adopted a number of new policies and regulation on local government financial management that aim to promote improving systems and greater accountability over public resources managed by local government. Indonesia continuing financial reformation by issued state finance law, state treasury law and the state audit law. In 2005 the state government issued accounting standards that are used
to prepare financial reports of government agencies, local government and central government.

This paper has four sections, Section 2 describes previous study, section 3 describes financial reform in Indonesia, section 4 describes research methodology. A discussion of the result and conclusion is offered in section 5 and 6.

2. Previous Studies

Previous study about local governance financial statement was conducted by Zimmerman (1977), Ingram (1984), Robert Austin (1986) Copley (2002) and Goore (2004). The studies were conducted by investigation the financial disclosure, audit quality and financial accounting in local government.

Zimmerman (1977) assumed that all economic actors are rational, to evaluate, and maximize the welfare of the individual or the so-called REMMs (Resourceful, Evaluative, Maximizing Model). His analysis provides a description of the importance in understanding the supply and demand of information. According to Zimmerman agency problems arise in the context of the whole organization, in the company between shareholders and management, at the club between management and members, and within the government between elected officials and voters or parliament. When we compare between the agency problem in local government and in companies, the demand of government information was less than the demand of commercial information. In essence, Zimmerman argued that the characteristics of government accounting practices
influenced the presence or absence of incentives from voters to monitor politicians directly.

Ingram (1984) divided four factors that influenced to the incentive to disclosure government financial statement in the United States. Various factors have been identified from previous studies that potentially alter these incentives. Primary factors are: (1) coalitions of voters that might induce increased monitoring and demand for information, (2) administrative selection process that consist of appointive power of governor, selection of accounting system administrator, selection of auditor; (3) alternative information sources, consist of strength of press; and (4) management incentives consist of reliance on debt, reliance of federal funds, state wealth, professionalism and complexity of government. His study found that the coalition of voters, the administrative powers, and management incentive significantly explain variations in the quality of disclosure level on the state financial statement (Ingram, 1984).

Robin and Austin (1986) develop their study to assess the factors that affecting the quality of disclosure in annual local government financial statements by using unidimensional measure. He used independent variables that follow the study of Ingram (1984). The results have shown that the administrative power and management incentive associated with the disclosure quality by using a simple index or compound index. In regression models, City Government Form, Reliance on Debt and Reliance on Federal Funds is the most significant variable that influence of disclosure quality by using a simple index or compound index.
Cheng (1992) develops a politico-economic model based on the theoretical and empirical work in public choice and political science to explain state government accounting disclosure choice. The evidence supports that state government accounting disclosure choice was influenced by political environment and on institutional forces. The model is robust over time and for different measures of accounting disclosure choice.

Ingram and De Jong (1987) examine the relationship between financial disclosures of local governments and the economic incentives of the local political manager to disclose the financial statement. These economic incentives include the regulatory structure of the local government's financial reporting. Local governments face different state government regulations. Some states require GAAP compliance, some states require compliance with state designated (non-GAAP) disclosure practices, and some do not regulate local government financial disclosures. Disclosure practices of cities in states that did not regulate by local government, do not differ significantly from the disclosure practices of cities in GAAP that regulated by states. Further, when considered in conjunction with other political and socioeconomic variables, GAAP regulation appears to have a negligible effect on the financial reporting practices of local governments that regulated by states.

Giroux (2002) developed disclosure indexes of municipalities based on the anticipated needs of political groups. He develop a model that correlate between disclosure level with political and economic incentives of the groups actively involved in governmental
processes of municipalities. The results suggest that each group of political power has only limited influence on disclosure quality.

Gore (2004) examined the incentive of municipalities’ manager to disclose financial report information to the bond market. He compare disclosure levels of municipal governments in Michigan, which requires GAAP, with those in Pennsylvania, which has unregulated disclosure. In the absence of disclosure regulation he find that managers have bond market-induced incentives to disclose information. Controlling for other incentives to disclose, the evidence implies that regulation induces additional disclosures for low-debt governments, and is not binding for high-debt governments.

Copley (2002) examines the impact of two proxies for audit quality on a model of public sector disclosure for a sample of municipal governments. He argue that more complete disclosures enhance the reputation of an independent auditing firm and that independent auditors, seeking to maintain a reputation of higher quality, positively influence the level of financial disclosures appearing in their clients' financial statements. Specifically, a variable indicating the presence of Big Eight auditor and audit fees were used as surrogates of audit quality. These were included in a model designed to explain variation in an index representing financial disclosures required under generally accepted accounting principles for local governments. The results provide evidence in support of the hypothesized relationship between audit quality and disclosure.

3. **Indonesian context**

In order to understand the complexity of Indonesia financial and fiscal landscape, It may be useful to discuss national governance and control by looking initially on the size of Indonesia
as a country, governments, and relevant conditions. Indonesia has thousands of islands, more than two hundred million of people with variety of quality of life, education and other human development index, hundred of tribes. In terms of governments, Indonesian have three levels of governments, which are central, provincial, and municipal or district governments. The Indonesian central government has more than 80 ministries and governmental agencies. The local or regional governments consist of 33 provinces and 447 district governments.

Efforts to improve governance and control were started in the period of 2003 – 2004 when the Constitution was revised and the Law 17/2003 on state finance, Law 1/2004 on the State Treasury, and Law of Audit and their following regulations were passed (Law No. 15/2004 on Auditing Management and Accountability of State Finance). It provides clear definition and scopes of the state finance, the obligation for government to design and implement internal control and to provide financial accountability in a basic financial statement based on a governmental accounting standards. Moreover, the revised Constitution and Law of Audit gives a better role and authority for the Audit.

The state finance reform start in 1999. Reform movement following crisis, caused significant changes in economic and political system in Indonesia. Poor quality of information, especially in finance, was considered as one root of crisis (Nasution, 2007 in Rai 2008). The poor financial information was resulted from deficiencies in accounting and legal system, and weak governance and internal control. To address those weaknesses, the government, parliament and BPK (Supreme Audit Institution) introduced major fiscal reforms in the basic of legal framework of state finance, treasury and auditing of management and accountability of state finance.
There are at least seven important changes in those areas (Rai, 2008). First, the definition and scopes of the state finance are much clearer and more comprehensive. There were doubts in defining and understanding the scope of the state finance before the law of state finance is passed. Second, the more appropriate structure of budget was introduced. There are two issues, classification of external sources and classification of expenditures. First, foreign loans are not classified as development revenues, but they are parts of financing. No separation between routine and development expenditures. The later, however, does not only cover capital expenditures as it also includes routine or operational expenditures such as travel expenses and honorarium received by those directly involved in development activities. In addition, the performance-based budgeting was introduced. Third, the government shall apply a treasury single account system. This is intended to address poor cash management. The government has had thousand accounts, which were easily managed and controlled by the Ministry of Finance.

Fourth, basic financial statements consisting of budget realisation report, balance sheet, cash flow statement, and notes to financial statements was introduced as the government financial accountability. The previous accountability was only the budget realisation report. The central government issued first financial statements in 2004. Five, the financial statements should be prepared based on a governmental accounting standards. The governmental accounting standards were issued in 2005 by the committee appointed by the President. As a complimentary of the accounting standard, the government launched a double-entry, decentralised, and computerised accounting system to replace the old single-entry, centralised, and manual accounting system.
Sixth, the time frame for submitting the financial statements and the audit report is fasten and tighter. The government shall submit their financial statements to BPK no later than three months after the end of fiscal year, and BPK shall send their report to parliament and government no later than two months after the financial statements are received.

Finally, the government shall design and implement a governmental internal control system. The government issued a draft of the internal control system, which was designed according to international best practices on internal control. Another reform is civil services or public administration reform. The societies have demanded cheaper, faster and better public service. They have asked for more effective, efficient and clean government. In order to meet this demands the nation has to change its public management into more democratic, efficient and more citizen oriented. Good governance has become the new paradigm in the administration of the public services. Good governance refers to how civil society, government, the business sector and all other institutions and bodies interrelated to manage their affairs.

4. Research Methodology

This research uses the level of disclosure of local government financial statement that represent in the Notes to Financial Statements based on Indonesia Government Accounting Standard as the dependent variable. Researcher divide these factors that influence the disclosure into three parts: (1) government incentives (management incentives) that consists of local government wealth, the level of dependence, and complexity of government; (2) the results of audit findings and the value of finding; (3) characteristics of the local government covered by the type of local government which is divided into two groups, namely the district or city.
Chart 1

Research Framework

Model that are used in the research was:

\[ DISC = \alpha + \beta_1 \text{WEALTH} + \beta_2 \text{DEPEND} + \beta_3 \text{POP} + \beta_4 \text{FIND} - \beta_5 \text{NOM} + \beta_6 \text{TYPE} + \epsilon \]

Table 1

<table>
<thead>
<tr>
<th>Simbol</th>
<th>Coefficient</th>
<th>Variable</th>
<th>Variable Measurement</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \beta_1 )</td>
<td>WEALTH</td>
<td>Wealth of Local Government</td>
<td>Total Genuine Local Government Revenue devide by total population</td>
<td>Positif</td>
</tr>
<tr>
<td>( \beta_2 )</td>
<td>DEPEND</td>
<td>Dependency of Local Government</td>
<td>Number of general allocation fund that transfer from central government to local government devide by total actual budget</td>
<td>Positif</td>
</tr>
<tr>
<td>( \beta_3 )</td>
<td>POP</td>
<td>Complexity of government</td>
<td>Number of population</td>
<td>Positif</td>
</tr>
<tr>
<td>( \beta_4 )</td>
<td>FIND</td>
<td>Audit Finding</td>
<td>Value of audit finding</td>
<td>Negatif</td>
</tr>
<tr>
<td>( \beta_5 )</td>
<td>NOM</td>
<td>Value of Audit Finding</td>
<td>Value of audit finding devide with total actual budget</td>
<td>Negatif</td>
</tr>
<tr>
<td>( \beta_6 )</td>
<td>TYPE</td>
<td>Type of local Government</td>
<td>Dummy variable 1 if city and 0 if distict</td>
<td>Positif</td>
</tr>
</tbody>
</table>
The hypothesis will be tested in a multiple regression equation model.

In this study, the level of disclosure in the Local Government Financial Statement (LGFS) compare to disclosure checklist that are developed based on Indonesian Government Accounting Standard (IGAS). So the disclosure represent the level of compliance to the IGAS. Method of measuring the level of disclosure of researchers used similar to that used Botosan (1997). But Botosan (1997) used voluntary disclosure but in this research used mandatory disclosure. The reason because the IGAS effective implemented on Januari 2006, so the research will test the compliance of the local government to the new accounting standard.

The following stages of the measurement mechanism used:

a. Providing value for each disclosure of the IGAS checklist. For a given disclosure item is weighted 1 (one) and 0 if the disclosure not appear in the local government financial statement.

b. Summing these values for each reporting entity.

c. Calculating the level of disclosure by dividing the number of values obtained with the value that should be acquired by the reporting entity if fully compliance with IGAS.

The results of research by Ingram (1984) states there is a positive and significant relationship between regional wealth level and state level of disclosure. In addition, Robbins and Austin (1986) obtain similar results to local city. The level of local wealth is measured by dividing the genuine revenue and the population or in the context of local
government in Indonesia is the genuine revenue per capita. According to Ingram (1984), the use of population as the denominator to reflect the income available to the public service needs in each region.

**Hypothesis 1**: The level of local wealth has a positive relationship to the disclosure.

According to Ingram (1984) Intergovernmental Revenue / Total Revenue is a proxy of the level of dependence on the federal government. High levels of dependence tend to increase disclosure. Since there are external constraints set forth in federal regulations. To see if it adhered to regulations, the federal government will monitor the state government to see the disclosures in the financial reports. In the context of Indonesia, the proxy used is the General Allocation Fund that transfer from Central Government to Local Government) / Total Actual Budget. Robbins and Austin (1986) proved that there is a significant relationship between reliance on Federal Fund with the quality of disclosure.

**Hypothesis 2**: The level of local dependence on central government has a positive relationship to the level of disclosure.

According to Ingram (1984), the complexity of governance as measured by the number of people will encourage state governments to improve disclosure in financial reports. More population mean that government must serve more public services to the society. Thus the larger population will increase the complexity of government in carrying out their functions as public servants.

**Hypothesis 3**: The complexity of government has a positive relationship to the level of disclosure.
Cooleyly (2002) state that audit quality will increase the disclosure. In Indonesia, all local government audit by Supreme Audit Institution. So there is no audit differences. So in this research use result of an audit as a audit quality measurement. The audit finding during audit process can inform important things related to a problem in the auditee. Auditor will communicate to the auditee about the finding for further improvement. Auditor at the end of assignment issued recommendations to further improvement.

The study used five audit finding classification of Supreme Audit Institution: (1) have indication of state losses, (2) lack of acceptance, (3) administration, (4) inefficiency and (5) ineffectiveness. The number of findings must have been communicated to the management for further improvement. Beside the number, the research use value of finding that have state loss indication as the value finding variable.

Hypothesis 4: The number audit findings has a negative relationship to the level of disclosure

Hypothesis 5: The level of finding/distortion has a negative relationship to the level of disclosure

Characteristics of the local government that consist of economic development level and infrastructure, number of media press, number of high education, will make the city more often interact with the community. City government have more of them, so the city government should be motivated to be more transparent in revealing their financial reports. The study used dummy variable for this variable.
Hypothesis 6: The type of local government has a positive relation to the disclosure.

Sample

This research uses purposive sampling design. Type of sampling design can ensure that certain groups fairly represented in the study. Sampling criterion can be explained as follows.

a. LGFS local government selected to represent each province in Indonesia to set its quota based on the number of audited LGFS.

b. Audited LGFS must provide four components of report namely, the Budget Realization Report, Balance Sheet, Cash Flow, and Notes to the Financial Statements.

Object in this research is LGFS which has been audited by the SAI for the 2006 fiscal year in which SAP has been implemented. Total LGFS audited by the SAI for the 2006 budget year is 333 LGFS. The research select 92 LGFS that represent 33 province in Indonesia. LGFS used in this study was retrieved from the website of SAI; www.bpk.go.id.

5. Result

Based on the sample selection criteria in chapter 3, the selected sample includes 92 LGFS throughout Indonesia with the following explanation.

a. For each province the proportion of researchers took samples around of 30% of the total population.
b. Many local government that do not serve the four report namely budget realization reports, balance sheets, cash flow statements and notes to the financial statements.

<table>
<thead>
<tr>
<th></th>
<th>DISC</th>
<th>WEALTH</th>
<th>DEPEND</th>
<th>POP</th>
<th>TYPE</th>
<th>FIND</th>
<th>NOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>35,4533</td>
<td>89230,87</td>
<td>66,21047</td>
<td>622739,8</td>
<td>0,33696</td>
<td>12,5326</td>
<td>7,38955</td>
</tr>
<tr>
<td>Median</td>
<td>34,175</td>
<td>67848,26</td>
<td>70,97638</td>
<td>295117,5</td>
<td>0</td>
<td>11</td>
<td>1,99845</td>
</tr>
<tr>
<td>Maximum</td>
<td>64,49</td>
<td>382940,5</td>
<td>83,3852</td>
<td>3835563</td>
<td>1</td>
<td>32</td>
<td>81,3748</td>
</tr>
<tr>
<td>Minimum</td>
<td>10,39</td>
<td>14300,85</td>
<td>14,36199</td>
<td>37132</td>
<td>0</td>
<td>1</td>
<td>0,0178</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>12,0299</td>
<td>69923,1</td>
<td>15,77693</td>
<td>715152,5</td>
<td>0,47526</td>
<td>6,78306</td>
<td>14,2346</td>
</tr>
<tr>
<td>Skewness</td>
<td>0,20176</td>
<td>1,845602</td>
<td>-1,67951</td>
<td>2,209495</td>
<td>0,68988</td>
<td>0,69163</td>
<td>3,19712</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2,54962</td>
<td>6,441259</td>
<td>5,165986</td>
<td>8,456399</td>
<td>1,47594</td>
<td>3,0269</td>
<td>13,6523</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>1,40173</td>
<td>97,62448</td>
<td>61,23583</td>
<td>188,9824</td>
<td>16,2017</td>
<td>7,33743</td>
<td>591,703</td>
</tr>
<tr>
<td>Probability</td>
<td>0,49616</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0,0003</td>
<td>0,02551</td>
<td>0</td>
</tr>
<tr>
<td>Sum</td>
<td>3261,7</td>
<td>8209240</td>
<td>6091,363</td>
<td>57292066</td>
<td>31</td>
<td>1153</td>
<td>679,839</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>13169,5</td>
<td>4,45E+11</td>
<td>22650,96</td>
<td>4,65E+13</td>
<td>20,5544</td>
<td>4186,9</td>
<td>18438,7</td>
</tr>
<tr>
<td>Observations</td>
<td>92</td>
<td>92</td>
<td>92</td>
<td>92</td>
<td>92</td>
<td>92</td>
<td>92</td>
</tr>
</tbody>
</table>

Based on statistics descriptive in table 2, can be seen that the level of disclosure have average 35.45%. This means that the level of disclosure LGFS still small (compared with the maximum value that can be obtained 100%). Genuine Income per capita still low, have an average Rp89.230, 87/person. The average level of local dependence on central government (General Allocation Fund / Total Actual Budget) is 66.21%. It means that more than 66% local budget funded by central government. Because beside General Allocation Fund the local government received special allocation fund, profit sharing fund, transfer of fund through the tecnical ministry. The average populatoin is 622,740 and 715.153 standard deviation. It means that the pattern of population distribution does not equal among the local government. Average type of city is 0.337, it means that the
The proportion of the City in the sample is less than 50%. Whereas the average number of audit finding is 13. Average value of finding 7.29%.

The following table used Pearson correlation to look at the relationship between the dependent variable with independent variables. Pearson correlation helps us to understand the correlation between independent variables with one variable also significance level between the two variables. We can see from tables 3, there is a positive relationship but not significant for all independent variables except the degree of dependence and the type of local government that have negative relationship and the relationship is significant for type of government variable.

Table 3

<table>
<thead>
<tr>
<th>Variabel Bebas</th>
<th>Tingkat Pengungkapan</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pearson Cor. Coef.</td>
<td>P-Value</td>
</tr>
<tr>
<td>Wealth of Local Government</td>
<td>0,119</td>
<td>0,238</td>
</tr>
<tr>
<td>Dependency of Local Government</td>
<td>-0,068</td>
<td>0,503</td>
</tr>
<tr>
<td>Complexcity of government</td>
<td>0,121</td>
<td>0,231</td>
</tr>
<tr>
<td>Audit Finding</td>
<td>0,111</td>
<td>0,272</td>
</tr>
<tr>
<td>Value of Audit Finding</td>
<td>0,002</td>
<td>0,982</td>
</tr>
<tr>
<td>Type of local Government</td>
<td>-0,256</td>
<td>0,014**</td>
</tr>
</tbody>
</table>

**Signifikan at $\alpha = 0.05$ with 92 observation.

Before running regression, I conducted the classical assumptions test. Regression model has fulfilled the classical assumptions and avoid mulikolinieritas, autocorrelation and heteroscedasticity.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.519</td>
<td>1.667</td>
<td>-0.312</td>
<td>0.756</td>
</tr>
<tr>
<td>WEALTH</td>
<td>0.184</td>
<td>0.083</td>
<td>2.216</td>
<td>0.029**</td>
</tr>
<tr>
<td>DEPEND</td>
<td>0.083</td>
<td>0.132</td>
<td>0.625</td>
<td>0.534</td>
</tr>
<tr>
<td>POP</td>
<td>0.103</td>
<td>0.044</td>
<td>2.316</td>
<td>0.023**</td>
</tr>
<tr>
<td>FIND</td>
<td>0.146</td>
<td>0.086</td>
<td>1.699</td>
<td>0.093*</td>
</tr>
<tr>
<td>NOM</td>
<td>-0.040</td>
<td>0.024</td>
<td>-1.696</td>
<td>0.094*</td>
</tr>
<tr>
<td>TYPE</td>
<td>-0.028</td>
<td>0.109</td>
<td>-0.261</td>
<td>0.795</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.150</td>
<td>Mean dependent var</td>
<td>3.504</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.090</td>
<td>S.D. dependent var</td>
<td>0.374</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.357</td>
<td>Akaike info criterion</td>
<td>0.851</td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>10,840</td>
<td>Schwarz criterion</td>
<td>1.043</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-32,171</td>
<td>F-statistic</td>
<td>2.502</td>
<td></td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>1,620</td>
<td>Prob(F-statistic)</td>
<td>0.028</td>
<td></td>
</tr>
</tbody>
</table>

*signifikan pada $\alpha = 0.1$

**signifikan pada $\alpha = 0.05$

From the table 4, it can be seen that the adjusted R-squared of the model is 9.01%. These results indicate that the 9.01% disclosure level variation can be explained by all the independent variables. As for the rest of 90.99% were explained by other variables. This may be because there are many other factors that have not been calculated into the model.
such as the coalition of voters and administratives selection, as practiced by Ingram (1984).

F-stat = 0.028 <α = 0.05, then the null hypothesis is rejected. Means the model can explain the dependent variable, and at least there is one independent variable that has a relationship to the variable level of disclosure.

The wealth of local government have a positive significantly relationship with the level of disclosure at 95% confidence level. Therefore it can be said that the higher the level of wealth of a region, the greater intention governments to increase their level of disclosure. In other words, if the level of regional wealth increases 1% the level of disclosure is increased by 0.184%. These results support the research Ingram (1984), univariate correlation with the level of wealth is significantly positively associated with the level of disclosure.

The level of dependency on the central government has a positive relationship but not significant to the level of disclosure. In other words, large or small degree of dependency to the central government does not provide incentive for the government to increase the level of disclosure LGFS. This may be due because the central government at the otonomy era have lack of control over local government. The Fund transferred by central government to the local government not based on the reporting compliance but the transfer is automatically. So that local government is less motivated to improve their disclosures. In 2009, Central Government give the incentive to local government to
improve the quality of financial statement. Ministry of Finance will increase the general allocation fund if the financial statement have unqualified opinion from SAI. These result was similar to Ingram (1984) with univariate correlation, the degree of dependence has a positive relationship but no significant on the level of disclosure. While the research was different from Austin (1986), that have negative relationship.

Hypothesis complexity of government that has positive relationship to the disclosure levels is accepted. It can be concluded that complexity of local government will increase disclosure. These results differ from studies Ingram (1984) and Robbins and Austin (1986). In their research, the complexity of the government does have a positive relationship, but not significant using univariate correlation and multiple regressions in Robbins and Austin (1986).

The audit finding have positive and significant relationship to the level of disclosure. So that it can be said that if there is an increasing number of findings by 1% the level of disclosure will increase by 0.145876%. These results prove the theory that local governments meet the recommendations of SAI to correct and improve disclosure. More finding will improve the disclosure quality. But in term of audit quality, more finding indicate the worse quality of financial statement.

The value of finding have a negative and significant relationship to the disclosure level. These results prove the hypothesis that the higher the level of distortion, local governments tend to cover the disclosure of information so that the level is low. This
result consistent with the Cooley (2002), that state audit quality have positive relation to the disclosure level.

Variabel type of local government is not significant but still have positive relationship to the disclosure levels. It can be concluded that both types of city and districts have no significant relationship to the level of disclosure. Its means there is no difference between the level of disclosure among the type of local government From the perspective of investors, the city economy are better than the district so the level of disclosure is a better city than the district. But the actually, the district have the higher disclosure level compare to city.

5. Conclusion

This study investigate the relationship of the local government incentives, audit finding, and the types of local government to the level of disclosure. Government incentives include local genuine income per capita, level of dependence on central government and the complexity of government. Audit Finding used the number of audit findings and the value of finding/distortion. Then, type of local government includes city or district. This study found evidence that the three variables together could explain the level of disclosure. The following description of the individual test results for each variable.

1. In local government incentives, this study proves that there are positive and significant relationship of the variable wealth and complexity of government to the level of disclosure. While variable degree of dependence has no significant relationship to the level of disclosure.
2. Variable number of findings of the examination has a positive relationship while the level of distortion has a significant negative relationship.

3. Types of local government have no significant relationship to the level of disclosure.

The results obtained are consistent with information asymmetry between issuers and lenders in municipal bond markets being a possible reason for the inclusion of call provisions in municipal debt. Also, political factors appear to influence the call decision. The results imply that financial decision making in the public sector is influenced both by economic and political considerations, and suggest that the effectiveness of existing monitoring mechanisms in the public sector needs further examination.

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