Local Government Financial Statements Disclosure: 
A Reflection on Governmental Performance in Central Java, Indonesia

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ABSTRACT

In Indonesia, local government accountability is a reflection of its performance that can be seen from the disclosure of local government financial statements in accordance with Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards. Based on the reference and the previous study, the level of adequacy of financial statement disclosure is influenced by several factors: audit findings, legislative size, local government budget expenditure, intergovernmental revenue, and the number of local governments' agencies. This study analyzes the effect of those factors on the disclosure of local government financial statements in Central Java Province, Indonesia from 2017 to 2019. This is a quantitative study with secondary data types obtained from Local Government Financial Report Examination Results (LHP LKPD) districts/cities in Central Java Province in 2017 – 2019. The sample consists of 75 local government financial statement disclosure from 34 districts or cities obtained through purposive sampling methods. The analysis method uses multiple linear regression. The result shows audit findings and local government budget expenditure affect the disclosure of local government financial statements. Meanwhile, the legislative size, intergovernmental revenue and number of local governments agencies do not affect the local government financial statements disclosure. This research can be used as an evaluation for local governments in increasing transparency and accountability in their financial management by applicable laws and regulations. This study has limitations that do not describe the overall level of disclosure of local government financial statements, in future research, it is expected to use a longer period and expand the research area.

INTRODUCTION

All rights and obligations that can be valued in money, as well as everything in the form of money or goods that can be used as regional assets, are considered local government finances as long as they are not owned or controlled by the state, higher regions, or other parties following applicable laws and regulations (Simbolon & Kurniawan, 2018). Local governments must conduct regional financial management starting from planning, management, implementation, reporting, accountability (Bawole & Ibrahim, 2017; Ferry & Murphy, 2018; Modlin, 2019; Sandford, 2017), and regional financial supervision. Implementation of good regional financial management is a form of regional autonomy in realizing good governance (Pramesti & Misran, 2021). According to Satria & Sari (2018), the performance of local government and finances is recorded and reported as accountable in the Regional Government Financial Report (LKPD). This financial report, prepared and presented following Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards, provides relevant and timely information to the public for use as an assessment of the government’s work and to assist in decision-making (Sari et al., 2021).

The level of Local Government Financial Report (LKPD) disclosure affects quality decision-making by users of financial statements. According to Suwardjono (2005), the purpose of disclosure is to provide information considered important in achieving financial reporting objectives and serve various parties who have different interests. The Local Government Financial Report (LKPD) disclosure is critical because it may explain and describe financial statement accounts, local government situations, and variables affecting the reporting period. As a result, to maintain government financial responsibility, the level of appropriateness of Local Government Financial Report (LKPD) disclosure must be considered. Local Government Financial Report (LKPD) has obligations to provide information about the matters of the financial statements to parties who need the information (Nur & Murwaningsari, 2020).

Agency theory states that the relationship between two parties is bound in an agreement and consists of an agent and a principal (Banks et al., 2018; Dion, 2016; Evans & Tourish, 2017; Lopes, 2016; Mio et al., 2020; Jensen & Meckling, 1976). The agent is the party given responsibility, while the principal is the party who gives the responsibility. The are many problems in the relationship between principal and agent, mainly because each side is assumed to maximize their respective interests; therefore, agents do not always prioritize the principal’s interests. This theory can be used to describe the interaction between citizens and government and the role of local governments as principals and agents. In this regard, the regional head (executive) is the agent, and the Regional House of Representatives (DPRD-legislative) is the principal, whose duties and authorities include selecting, appointing, and dismissing regional heads, as stated in the Law of the Republic of Indonesia Number 23 of 2014 concerning Regional Government (Amaliah & Haryanto, 2019).

The achievement of public accountability is demonstrated by the relationship between the legislative and the executive. Accountability is defined as the agent’s obligation to offer accountability, present, report, and reveal all acts under their control to the party that established the trust (principal), who has the right and authority to demand such accountability (Nemec & Špaček, 2020; Dhillon, 2022; Berrios &
In order to satisfy the public’s rights, the government (central and local) as an agency must be able to position itself as the topic of delivering information (Hadfield & Cook, 2019; Grant & Drew, 2017; Meesook et al., 2020). According to, public accountability is divided into vertical and horizontal. Vertical accountability is accountability for managing funds to higher authorities; for example, the accountability of work units to local governments, local government accountability to the central government, and central accountability to the House of Representatives (DPR). Horizontal accountability is accountability to the broader society. The primary purpose of public sector reform is accountability. This demand for public accountability requires a greater emphasis on horizontal accountability than just vertical accountability for public sector institutions. The demand to provide external financial statements that can describe public sector institutions’ performance then arises.

According to Government Regulation of the Republic Of Indonesia Number 71 of 2010 Standards Concerning Government Accounting (Indonesia, 2010), government financial reports are a form of accountability for state financial managers. The components of the reports presented must at least comprise the types of reports and parts of information needed by laws and regulations. The role financial statements are prepared to present pertinent information about a reporting entity’s financial situation and all transactions made during a reporting period. Based on Law of the Republic of Indonesia Number 23 Of 2014 Concerning Local Government (Indonesia, 2014), which states that regional heads submit a Regional Regulation regarding accountability for the implementation of the Local Government Budget (APBD) to the DPRD with a financial report that Financial Audit Board has audited (BPK) not more than six months after the end of the fiscal year. The financial report must at least contain the Budget Realization (LRA), unspent funds at the end of the budget year, Balance Sheet, Operational Report (LO), Cash Flow Statement (LAK), Statement of Changes in Equity (LPE), and Notes to the Financial Statements. According to that law, from an accounting point of view, the presentation in Government Regulation of the Republic of Indonesia Number 71 of 2010 Concerning Government Accounting Standards (Indonesia, 2010).

Each reporting entity must report the efforts that have been made and the results achieved in the implementation of activities in a systematic and structured manner in a reporting period for accountability, management, transparency, a balance between generations, and performance evaluation. Financial statement disclosure should offer users valuable information for assessing accountability and making decisions. The complete disclosure of financial statements is based on Government Regulation of the Republic of Indonesia Number 71 of 2010 requires the broadest disclosure of all the terms, including the posts presented on each financial statement or in the Notes on financial statements. The nature of the activities and policies must be disclosed in each reporting entity’s Notes to the Financial Statements. Many factors determine Local Government Financial Report (LKPD) disclosure in Indonesia.

Audit findings, local government budget expenditure, legislative size, and local government budget expenditure are some of the aspects that have connected risks in the disclosure of financial statements, according to (Kusuma et al. (2021)). Its analysis has flaws that point to another factor, one of which is intergovernmental revenue. According to Ridwan & Yahya (2020), the number of local governmental agencies is one
of the elements that affects the level of presentation of Local Government Financial Report (LKPD) or Local Government Work Units (SKPD).

Considered the results of previous studies require further research to re-examine the factors that influence the level of Local Government Financial Report (LKPD) disclosure, especially in district/city governments in Central Java. The selection of Central Java Province as the research subject is because Central Java province is the area where the most corruption cases are increasing. According to the Indonesian Corruption Watch (ICW) results, most corruption cases still occur on the island of Java, particularly in the province of Central Java. The province of Central Java was ranked 5th in 2017 and 2nd the following year (Amaliah & Haryanto, 2019). Therefore, these factors are determined as evaluation material regarding the importance of local government financial reports and optimizing the application of local government financial statement disclosures as a form of accountability to the public. In addition, the government as an agent has also carried out its responsibilities in implementing transparency to create public trust.

The national financial examination is a process of problem identification, analysis, and evaluation conducted independently, objectively, and professionally based on the reliability of information regarding the management and financial responsibility of the nation. BPK's examination includes financial examination, performance check, and examination with specific objectives (PDTT) carried out by inspection standards. The purpose of the financial examination is to provide an opinion on the fairness of financial statements. Performance checks aim to conclude the economic aspects, efficiency, and effectiveness of the financial management, and recommendations about improving those aspects. The purpose of PDTT is to provide conclusions based on the examination set’s objectives. The PDTT examination is compliance and investigative check. Planning, implementing, reporting, and monitoring follow-up examination results are part of the examination process. One element of financial examination is the Audit Report (LHP). The examination findings are disclosed with elements adjusted to the examination purpose (Regulation of the Financial Audit Agency (BPK) of the Republic of Indonesia Number 1 of 2017, 2017).

A breach detected by the auditor during the investigation of the applicable provisions regarding internal control and compliance with laws and regulations (BPK Regulation No. 1/2017) is referred to as an audit finding. This non-compliance may impact the financial statement preparation process (Budiarto & Indarti, 2019). The existence of the Indonesian Audit Board’s (BPK) audit results will necessitate adjustments and corrections. As a result, the level of transparency will be higher than the audit results. According to the findings of Rahim et al. (2020) and Amaliah & Haryanto (2019), audit findings are positively and significantly related to the level of disclosure of district/city financial statements. BPK’s critiques and suggestions, and revisions are considered duties in perfecting the disclosures made. Based on Badruddin et al. (2019), audit findings significantly influence the level of local government financial statements disclosure, which shows that the fewer audit findings, the better the level of disclosure.

The Regional House of Representatives (DPRD) is a legislative entity established by Law No. 23 of the Republic of Indonesia in 2014 to serve as the regional people's representative institution. The DPRD has a supervisory function that aims to make local government transparent and accountable. The DPRD is expected to improve government monitoring publicly as a regional representation (Gusnaini et al., 2020).
regional representative council (legislature) in each large Region varies according to the number of residents in the Region. According to the Law of the Republic of Indonesia Number 7 of 2012 concerning General Elections, the number of members of the provincial DPRD is at least 35 people and at most 120 people. In the district/city, DPRD set the number of seats at least 20 people and at most 55 people. According to Laupe et al. (2018) and Ridwan & Yahya (2020), the size of the legislation impacts the publication of financial information by local governments. As a result, it is reasonable to conclude that the larger the legislative body, the higher the regional financial statement disclosure level.

Local government budget expenditure is the financial work plan contained in the maximum amount of expenditure for financing the interests of the state in the future and an estimate of income (receipts) in a certain period for the other party, which is stated on the one hand. Based on Regulation of the Minister of Affairs of the Republic of Indonesia Number 77 of 2020 (Pemendagri 77/2020) Concerning Technical Guidelines for Regional Financial Management (Kemendagri, 2020), local expenditure includes all expenditures from the Regional General Cash Account that do not need to be received back by the Region and other expenditures by the provisions of legislation recognized as equity deductions that are regional liabilities within one budget year. Then, regional financing includes all receipts that need to be refunded and expenses to be refunded, both in the next budget and in the next budget year. Local governments have the freedom to use financial resources and determine resource allocation with regional expenditures that adhere to the principles of compliance, regional needs, capabilities, and community aspirations stated in the budget (Kusuma et al., 2021). The higher the local government expenditure, the better the quality of service to the community, mainly when releasing financial information, which is linked to local government fiscal responsibility and transparency. Therefore, it may lead to increased public demand for better information on local government activities (Kusuma et al., 2021).

Intergovernmental revenue is a transfer of funds from the central government deliberately made to finance programs in the regions (Simbolon & Kurniawan, 2018). According to Law No. 33 of the Republic of Indonesia in 2004 concerning Financial Balance between the Central Government and Regional Governments, intergovernmental revenue or balancing funds are funds sourced from the State Budget (APBN) allocated to regions to fund regional needs in the context of implementing decentralization. The balancing fund consists of the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund. Based on this, local governments must account for all budgets from the central government and activities carried out by disclosing complete financial reports (Marsella & Aswar, 2019).

Based on that statement, the local government is responsible for all the budget from the central government and the activities carried out by providing available information about the presentation of financial statements (Nur & Murwaningsari, 2020). The intergovernmental revenue aims to observe the performance of local governments to the central government. Consequently, the central government has requested more presentations to monitor local governments’ performance in using these funds in order for local governments to increase their financial transparency (Fuadi & Asmara, 2020). According Gusnaini et al., (2020) and Anggara & Cheisviyanny (2020) intergovernmental income substantially impacts the publication of local government financial accounts. As a
result, the higher the level of financial statement disclosure, the higher the level of dependence.

Local government agencies are the institutions within local governments that are responsible for managing regional finances. Regional financial managers are regional financial management officials who carry out all tasks such as planning, budgeting, execution, administration, accountability reporting, and regional financial supervision, according to Permendagri No. 77/2020. Information, data flow, usage, and presentation of documents are mostly done electronically to execute the duties and authorities of regional financial managers. The magnitude of the affairs of a government priority area in the developing Region illustrates the number of SKPD. The more business becomes the priority of the local government, the more complex the government. (Rahim et al., 2020) find that the number of SKPD has a beneficial effect on Regency or City Local Government Financial Report (LKPD) disclosure. This beneficial conclusion demonstrates that the greater the number of SKPD, the better the level of disclosure, indicating that the number of SKPD is a government extension in ensuring public service compliance. According to agency theory, the relationship between the community and local government is governed by the people’s mandate, which is carried out through work plans adopted in each Local Government Work Unit (SKPD).

METHOD

It is a quantitative study conducted between 2017 and 2019 with 35 local governments in districts or cities in Central Java Province, Indonesia. The sample for this study is 78 levels of LKPD disclosure; after outliers to 75 levels of Local Government Financial Report (LKPD) disclosure are selected using the purposive sampling method from 34 districts/cities. The following criteria are being used to select samples: 1) District/City Regional Governments in Central Java Province that have LKPD Examination Results Reports (LHP) from 2017 to 2019; 2) LHP LKPD Regency/City local government in Central Java Province that has information/data related to the variables in this study.

The Central Java Audit Board (BPJK) website, https://jateng.bpk.go.id, the website of each district/city government in Central Java, the Central Java Central Bureau of the Statistics Republic of Indonesia (BPS), which can be accessed online at https://jateng.bps.go.id, and the Central Java provincial government website are being used to collect secondary data from LHP LKPD districts/cities in Central Java Province from 2017 to 2019.

This research utilizes several variables, each assessed using a measuring proxy. The following is an explanation of how each variable is measured:

1. Local Government Financial Report (LKPD) disclosure is the dependent variable in this study measured by the disclosure index ratio, namely disclosure in Local Government Financial Report (LKPD) compared to the disclosures required by Government Accounting Standards. This measurement uses a scoring index that uses the Governance Compliance Index (Arifin, 2014). A score of 1 indicates the presence of disclosure, and a score of 0 indicates the absence of disclosure.

2. Audit findings are measured by adding up the violations against internal violations and the applicable laws and regulations (Amaliah & Haryanto, 2019).

3. Legislative size is measured by the number of regional houses of representatives (Laupe et al., 2018).
4. Local government budget expenditure is measured by total local government budget expenditure (Kusuma et al., 2021).
5. Intergovernmental revenue is measured by comparing the total central government regional balancing funds with total revenues (Simbolon & Kurniawan, 2018).
6. The number of SKPDs is measured using the total number of Local Government Work Units (SKPDs) in one district or city (Rahim et al., 2020).

Data analysis used multiple linear regression analysis to support the hypothesis. The steps used in this analysis are classical assumptions test, descriptive analysis, the feasibility of the regression model, coefficient of determination, and hypotheses test. The classical assumptions include normality, multicollinearity, autocorrelation, and heteroscedasticity to explain the goodness of fit data. It is to ensure the regression results will be meaningful and reliable. The normality problem is tested with the central limit theory. Multicollinearity is tested based on tolerance and variance inflation factor (VIF). Autocorrelation is tested based on the Durbin-Watson probability.

Meanwhile, heteroscedasticity is checked based on the spearmen rho value. The feasibility of the model in this study uses the F test, which aims to measure the goodness of fit of the regression equation model used in measuring the determination of the sample regression function in estimating the actual value. Then, the calculation of the coefficient of determination is carried out using the adjusted R square value. Hypothesis testing using t statistical test which aims to determine the effect of each independent variable on the dependent variable. The following regression model is used in this study, with a significance of 0.05:

\[ TP = AF + LZ + BE + IR + SKPD \]

TP: Level of LKPD disclosure  
AF: Audit finding  
LZ: Legislative Size  
BE: Local Government Budget Expenditure  
IR: Intergovernmental Revenue  
SKPD: Number of Local Governments Agencies

RESULTS AND DISCUSSION

The results of the classical assumption test with multiple linear regression analysis are shown in table 1. The normality test in this study uses the Central Limit Theorem (CLT); if the number of studies is large enough (more than 30 samples), then the assumption of normality can be ignored. The number of samples in this study was 75, so the data can be normally distributed. Based on the results from table 2, the multicollinearity test shows a tolerance value in the range of 0.516 – 0.908, which does not exceed 1, then the VIF value is in the range of 1.090 – 1.939, which is above one and does not exceed 10, so there is no multicollinearity between observations in this study. The results of the autocorrelation test with the Durbin Watson Test of 1.948 are between du and 4-du, namely 1.7698 < 1.948 < 2.2302, so that there is no autocorrelation. The results of the heteroscedasticity test with Spearman Rho showed that the significant value of all observed variables for absolute residuals from the data was in the range of 0.051 - 0.992, the significance value of which was above 0.05 that there was no heteroscedasticity in this study.
Table 1. Classical Assumptions Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Multicollinearity Test Results</th>
<th>Heteroscedasticity Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>Audit Finding</td>
<td>0.908</td>
<td>1.101</td>
</tr>
<tr>
<td>Legislative Size</td>
<td>0.542</td>
<td>1.846</td>
</tr>
<tr>
<td>Local Government Budget Expenditure</td>
<td>0.516</td>
<td>1.939</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>0.917</td>
<td>1.090</td>
</tr>
<tr>
<td>Number of Local Government Agencies</td>
<td>0.902</td>
<td>1.108</td>
</tr>
<tr>
<td>Durbin-Watson</td>
<td></td>
<td>1.948</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2021

The descriptive analysis test is shown in table 2, that the average level of disclosure of local government financial statements in Central Java is 74.97 percent, ranging from 57.89 to 84.21 percent, according to descriptive statistical tests. It indicates that whereas Local Government Financial Report (LKPD) disclosure is high, there is no 100 percent disclosure in the Central Java Regency/City government. Previous research found that LKPD disclosure ranged from 50.77 percent in Sunarti et al. (2021) to 64.96 percent in Amaliah & Haryanto (2019). From 3 to 21, the number of audit findings indicates an average value of 11.36. It demonstrates that BPK continues to uncover numerous breaches in local governments’ disclosure of Local Government Financial Report (LKPD), prompting Audit Board of the Republic of Indonesia (BPK) to request changes and corrections. From a group of 20 to 50 DPRD members, the average size of the legislature is 45.17. Based on the average level of financial statement disclosure, the accountability of financial reporting in Central Java in 2017 – 2019 is quite good, but some districts/cities had poor accountability because the lowest financial statement disclosure was at 57.89%.

According to descriptive statistical tests, the average amount of local government budget spending is 1,896,863 million rupiahs, ranging from 893,015 million to 4,694,529 million rupiahs. It indicates that local governments have absolute authority over their financial resources. The average value of descriptive statistical tests on intergovernmental revenue is 0.6173, with a range of 0.3808 to 0.8430. It indicates that because the amount of reliance on the local government is high enough, the local government must give attention to the level of financial statement disclosure to the central government. The average number of SKPD is 61.21, with 32 to 160 units. It indicates that the Central Java district or city government has many SKPD, which contributes to ensuring compliance with public services.
Table 2. Descriptive Analysis Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Finding</td>
<td>75</td>
<td>3,000</td>
<td>21,000</td>
<td>11,360</td>
<td>4,314</td>
</tr>
<tr>
<td>Legislative Size</td>
<td>75</td>
<td>20,000</td>
<td>50,000</td>
<td>45,170</td>
<td>7,219</td>
</tr>
<tr>
<td>Local Government Budget Expenditure</td>
<td>75</td>
<td>893015,136</td>
<td>4694529,951</td>
<td>1896863,000</td>
<td>591756,586</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>75</td>
<td>0,380</td>
<td>0,843</td>
<td>0,617</td>
<td>0,064</td>
</tr>
<tr>
<td>Number of Local Government Agencies</td>
<td>75</td>
<td>32,000</td>
<td>160,000</td>
<td>61,210</td>
<td>29,891</td>
</tr>
<tr>
<td>Local Financial Statements disclosure</td>
<td>75</td>
<td>0,578</td>
<td>0,842</td>
<td>0,749</td>
<td>0,608</td>
</tr>
</tbody>
</table>

Source: Processed Data, 2021

The F test is shown in table 3, the F value is 2.450, and the significance is 0.042. It indicates that the significance value is less than 0.05. It indicates that the regression model can estimate the level of disclosure in Local Government Financial Statements. Furthermore, the adjusted R square value is 0.089 or 8.9%. It indicates that the disclosure of the local government financial statements is determined by the variables of audit finding, legislative size, local government budget expenditure, intergovernmental revenue, and the number of regional work units.

Table 3. Stimultan Test and Hypothesis Testing Results with Multiple Linear Regression Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression Coefficient</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Finding</td>
<td>0.004</td>
<td>0.012*</td>
</tr>
<tr>
<td>Legislative Size</td>
<td>0.001</td>
<td>0.491</td>
</tr>
<tr>
<td>Local Government Budget Expenditure</td>
<td>-2.946</td>
<td>0.068</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>-0.222</td>
<td>0.047*</td>
</tr>
<tr>
<td>Number of Local Government Agencies</td>
<td>0.000</td>
<td>0.483</td>
</tr>
<tr>
<td>Constant</td>
<td>0.845</td>
<td></td>
</tr>
<tr>
<td>Adjusted R2</td>
<td>0.089</td>
<td></td>
</tr>
<tr>
<td>F value</td>
<td>2.450</td>
<td>0.042</td>
</tr>
</tbody>
</table>

*Significance at 0.05

Source: Processed data, 2021

A regression coefficient of 0.004 is found with a significance level of 0.012 based on the audit finding statistical test results. If the significance value is less than 0.05, H1 is
accepted, indicating that the audit finding impacts the local government financial statements disclosure. This study supports Rahim et al. (2020), which shows that audit findings are related to the level of disclosure in district or city financial statements to a positive and significant degree. This research is also supported by Amaliah & Haryanto (2019), and Aswar et al. (2021), which states that the greater the number of audit findings found by BPK, the more information disclosure made by local governments on LKPD will be with the existence of these findings, Audit Board of the Republic of Indonesia (BPK) will request improvements to the local government to increase disclosure. Based on this result, the local government as an agent has fulfilled its obligations, namely providing a quality accountability report on the implementation of the APBD (audited and corrected by SAP due to audit findings) to the DPRD.

The regression coefficient value for the legislative size test is 0.001, with a significance level of 0.491. H2 is rejected if the significance value is more prominent than 0.05. It indicates that the legislature’s size does not affect the local government financial statements disclosure. The result of this study is confirmed study by Simbolon & Kurniawan (2018) and Gusnaini et al., (2020). A large number of legislatures will cause cooperation and coordination to be more complicated. A large number of legislatures will cause cooperation and coordination to be more complicated. It leads the difficulties for local governments to control disclosure compliance in financial statements. The number of DPRD members does not ensure greater transparency in local government financial reports because supervision of financial reports relies on the number of legislative members and the quality of the DPRD.

The local government budget expenditure statistical test results show the regression coefficient value of -2.946 with a significance level of 0.068. The significance value is more significant than 0.05, then H3 is rejected. It indicates that local government budget expenditure does not affect the local government financial statements disclosure. The research supports research from Kusuma et al. (2021), which states that in carrying out their obligations, local governments are not pressured by the central government in disclosing better information related to the quality of financial reports. It caused a decrease in public demand for disclosure of financial statements in the form of essential services, education, health, social facilities, public facilities, and developing social security. Expenditures in each local government are strongly influenced by their conditions and capacities and transfers from the central government.

The regression coefficient is -0.222 with a significance level of 0.047, according to the statistical test results of intergovernmental revenue. Whenever the significance value is less than 0.05, H4 is accepted, indicating that intergovernmental revenue affects the local government financial statements disclosure. This research supports Gusnaini et al. (2020) and Handayani et al. (2020), which states that the greater the intergovernmental income, the greater the local government financial statements disclosure because local governments receive transfer funds from the central government to carry out their operational activities. As a result, the central government will be more accountable, including disclosing more information about the allocation of funding and monitoring the performance of local governments. Transparency and accountability in government financial management are developed to enhance public trust by ensuring that funds provided by the central government are not misappropriated.
The SKPD has a regression coefficient of 0.000 with a significance level of 0.483 in statistical testing; hence H5 is rejected. It indicates that SKPD affects the local government financial statements disclosure. This study confirms Lutfia et al., (2018) and Arifin (2020) that states in local governments with a small number of SKPD, the complexity decreases, which leads to better disclosure. The principle of quantity takes precedence over quantity, explaining that the smaller number of SKPD, the government’s affairs will be better able to be regulated effectively, affecting the quality of information. Thus the consequences of the disclosure will be better.

CONCLUSION

Audit findings and intergovernmental revenue affect the disclosure of local government financial statements. Meanwhile, the legislative size, local government budget expenditure, and the number of local government agencies do not affect the disclosure of local government financial statements. The object of this study focuses on audit findings and intergovernmental revenue in the financial statements of district or city governments at Central Java Province, as explained from the Audit Board of the Republic of Indonesia (BPK) Examination Results Report. This study uses the short period to describe the level of local government financial statements disclosure in districts or cities that can be expanded in future research with a more extended period. Moreover, this study can be applied to other districts or cities with similar characteristics to establish government accountability.

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