

Analysis of Factors Affecting Level of Disclosure in Regional Sector's Financial Statements

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— *Review of* —
**Integrative
Business &
Economics**
— *Research* —

ABSTRACT

Our research subject is about accounting for public sector area. These research objectives were to know factors affecting disclosure level of regional sector's financial statement in Indonesia. The factors tested in this research are Civil Servant Expenditure, Total Revenue, Total Asset and Regional Sector Total Deviation as independent variable, while Disclosure Level is dependent variable. The sample of this research includes 33 provinces in Indonesia with observations over 2009 - 2011.

Prior research found that coalition of voters, administrative selection process, and management incentives (Ingram, 1984; Robin and Austin, 1986) have positive effect on disclosure level and disclosure quality.

This research uses the secondary data and the technique for method of sample selection is purposive sampling. The tool of analyzing data is multiple linear regressions at 5% significance. As a result of partial hypothesis testing, Total Revenue has a significant effect on Disclosure Level, but Civil Servant Expenditure, Total Asset, and Regional Sector's Total Deviation do not have any significant effect on Disclosure Level.

This finding can be sources for standard setting for governmental accounting standard about the width and level of disclosure requirement for regional sector's financial statement. Also, the study shows how a potentially higher disclosure level can increase financial statement quality. This research perhaps can be a reference for further research and can contribute to other public sectors discipline literature.

Keywords: disclosure level, regional sector's total revenue, civil servant expenditure, regional sector's total asset, regional sector's total deviation.

INTRODUCTION

Indonesia entered the era of regional autonomy and fiscal of decentralization after the issue of Law No. 22 of 1999 about regional autonomy. Part of

government affairs diverted from central government to local governments. Government affairs which was at the time mostly handled by the central government before the reform, then after the reform, most of the part of government affairs was delegated to the regions. These transfers also have an impact on the transfer budget for the fulfillment of the affairs of the center to the regions. Regional autonomy and fiscal decentralization was followed by financial reform. Financial reform was carried out at all stages of the process started from state financial planning and budgeting, budget execution, until the financial accountability and audit.

In the public sector (government), the accounting standards used are SAP (Government Accounting Standards), which was established in accordance with Government Regulation No. 71 In 2010. The Government Accounting Standards are very important for the transparency and accountability of a public organization (Patton and Bean, 2001). Some of the disclosures contained in the SAP (Government Accounting Standards) is a mandatory disclosure (mandatory disclosure) should be made by the government. The suitability format preparation and submission of financial reports which is consistent with the accounting standards, will reflect the quality, benefits, and the ability of the financial reports itself. (Suhardjanto, Rusmin, Mandasari, and Brown, 2010). By following established standards which has been set, the local government had complied the SAP. Furthermore, the financial reports have met the criteria of transparency for users of financial reports (Bapepam, 2003).

LITERATURE

Disclosure

Disclosures related to the justification or explanation normative matters that are considered important and beneficial to the user other than what can be expressed in the primary financial statements (Suripto; 1999). Generally, the purpose of the disclosure is presenting an information which is seen to be necessary to achieve the objectives of financial reporting and to serve a variety of parties who have different interests. The definition of mandatory disclosure in relation to the requirements set by the standard is the minimum disclosures required by the applicable accounting standards (Naim and Rakhman, 2000).

To fulfill the transparency and accountability, the government is expected to present and disclose elements LKPD accounting in accordance with the applicable standard, namely SAP. SAP is a requirement that has the force of law (Bastian, 2005), so that conformance to standards of accounting disclosure represents compliance to of SAP.

The Agency Theory and Signalling in Government

According to Zimmerman (1977) agency problems also exist in the context of government organizations. Society as principles gives the mandate to government as an agent, to perform the task of government in order to improve people's welfare. In other contexts, politicians can also be called principles because it replaces the role of the people, but it can also be viewed as an agent for

supervisory duties given by the people. The implication of this theory is that principles of the people need to monitor the agent directly, both the government and the politicians. Politicians as the principles need the information to evaluate the course of government.

Moe (1984) suggested that the principal and agent relationship can be seen in democratic politics. The society is the principal and the politicians (legislators) are their agents. The politicians (legislators) are principals and bureaucrats / government is their agent. Government officials are the principal and government employees are their agents. Politics groove overall is composed of the principal-agent relationship, from the public to the lowest level of government. Fadzil and Nyoto (2011) also state that there is a principal-agent relationship between the central government and local governments. The central government and the local government is the principal to act as agent. This is because Indonesia as a unitary state, local governments responsible to the people as voters and also to the central government.

In context about theory of signaling, the government is trying to provide a good signal to the people (Evans and Patton; 1987). The goal is for the society to be able to continue to support the government that is currently running so that the government can run well. The financial reports can be used as a means to provide a signal to the people. The performance of good governance should be informed to the people both as a form of responsibility and as a form of promotion for political purpose.

APBD are set according to the State Finance Act as local regulations (regulations). This Regional Regulation is a form of contract that becomes a tool for the legislature to oversee the implementation of the budget by the executive (Halim and Abdullah, 2006). According to Fadzil and Harry (2011), the lead agency relationship of information caused asymmetry information which raises some behavior such as opportunistic, moral hazard, and adverse selection. Opportunistic behavior in the budgeting process for example, (1) the budget to enter a public-oriented program but actually contains the interests of governments to finance their short-term needs and (2) the budget allocated to the program that made the government more powerful in political positions, especially ahead of the election process, which is an interesting programs for the voters and the public can participate in.

The Factors that Affect the Level of Disclosure (*Disclosure*)

2.1. Personnel Expenditures

Personnel expenditures are all expenditures used to fund state compensation in the form of money or goods given to the central government employees, pensioners, members of National Army Indonesia / Indonesian National Police, and state officials, who served both in the country and outside the country, as a reward for work which has already done, except for work related to capital formation

H1: The Expenditure affect the level of disclosure of the financial statements.

2.2. Total Revenue

Local Revenue is all money receipts through the area general cash account that adds smooth equity of funds that local government is entitled to 1 (one) year budget which does not have to be paid back by the area (Act No. 33 of 2004). In relation with this, the area revenue budgeted in APBD is an estimate measured rationally that can be achieved for each source of income. Local Revenue is the right of local government recognized as an increase to net worth in the related period.

H2: Total Revenues effect on the level of disclosure.

2.3. Total Assets

According to the Government Accounting Standards (of SAP) assets are economic resources controlled and / or owned by the government as a result of past events and from which the economic benefits and / or social future is expected to be obtained, either by the government or the public, and could be measured in terms of money, including non-financial resources required for the provision of services to the general public and the resources that are maintained for historical and cultural reasons.

H3: Total assets affect the level of disclosure.

2.4. Deviation

In accounting or finance, there are also rules that have made together and should be followed and respected. Through the PSAK rules such as in private sectors and the PSAP in the government sectors, which would be a benchmark in the assessment of whether the actions taken in the implementation of accounting standards has already been appropriate or not appropriate. Thus, irregularities in accounting or finance are every behavior, action or activity undertaken by the agent or employee who is in the company or the representatives or public servants who are in the scope of government accounting are declared as a violation of the rules, such as SFAS in the private sectors or PSAP accounting in government accounting.

H4: Total deviation effect on the level of disclosure.

RESEARCH METHOD

Population and Sample

This research uses the object that is the financial reports of local governments in Indonesia 2009-2011. The data used of this research are BPK Audit Reports. The further use of samples depends on the fulfillment of requirements, such as :

1. All the provinces in Indonesia, which has submitted a financial statement data on BPK 2009-2011.
2. All the provinces in Indonesia, which submit its financial statements ongoing basis to the BPK.

Of the 33 provinces, the population contained 27 samples were researched because there are six province sample is not used as that is Province of West Nusa Tenggara province of Maluku, North Maluku, West Sulawesi, Papua and West Papua because of the unavailability of data.

Variable and Measurement

Dependent Variable

Disclosures related to the justification or explanation normative matters that are considered important and beneficial to the user other than what can be expressed in the primary financial statements (Suripto; 1999). In general, the purpose of disclosure is to present information that is seen to be necessary to achieve the purpose of financial report. Disclosure of this research is measured using indicators that the grain is taken from Regulation no. 24 of 2005 regarding the Government Accounting Standards.

Independent Variable

3.1. Personnel Expenditure

Personnel expenditures are all expenditures used to fund the state compensation in the form of money or goods given to the central or local government employees, pensioners, members of National Army Indonesia / Indonesian National Police, and state officials, who served both in the country and outside country. Personnel expenditure is defined by the number or amount of the expenditures will be issued by the concerned the area and listed on financial statements of the relevant region.

Independent Variable

3.2. Total Revenues

Local revenues are all receiving money through the area general cash account that adds current equity of funds that local government is entitled to 1 (one) year budget which does not have to be paid back by the area (Act No. 33 of 2004). Total Revenues areas can be determined through nominal of Total Local Revenue provinces contained in the area financial report which are concerned.

3.3. Total Assets

According to the Government Accounting Standards (SAP) assets are economic resources controlled and / or owned by the government as a result of past events and from which economic benefits and / or social future is expected to be obtained, either by the government or the public, and can be measured in terms of money, including non-financial resources required for the provision of services to the general public and the resources that are maintained for historical and cultural reasons. Assets total area can be determined through summation current assets, fixed assets and other assets that can be seen in the number of local financial reports.

3.4. Total Deviation

The level of deviation in local financial reports seen from the results of BPK. The results of this examination contain nominal deviation or number of irregularities found by the BPK. The level of deviation that occurred in the area can be seen through the nominal deviations found by the BPK in the investigation or audit of a region.

Data Quality Test

The validity of the study is determined by the accurate measurement. Therefore, this test focuses on the accuracy of the data with the Pearson Product Moment formula and reliability test of the instrument is intended to analyze the consistency and stability of a grain score (scale of measurement) that exist on the instrument.

Assumptions Classic Test

Before conducting regression testing, data first tested with classical assumptions. The testing of classical assumptions concerns four issues of normality, heteroskedastisitas, multicollinearity, and autocorrelation. Testing needs to be done to check the violation of the assumption. For the cross section data, according to Nachrowi and Hardius (2006) include Multicollinearity, Heteroskeditas and error term of Normality Test

The research model :

$$DISC_{it} = \alpha_{it} + \beta_1 BP_{it} + \beta_2 REVD_{it} + \beta_3 ASSET_{it} + \beta_4 DEV_{it} + \epsilon$$

DISC _{it}	(Y)	=	The Level of Disclosure
BP _{it}	(X ₁)	=	Personnel Expenditure
REVD _{it}	(X ₂)	=	Local Revenue
ASSET _{it}	(X ₃)	=	Total Assets
DEV _{it}	(X ₄)	=	Total Deviation
€		=	Error

RESULTS AND DISCUSSION

The first hypothesis testing (H1)

The first hypothesis proposed (H1) in this study stated that personnel expenditures affect the level of disclosure of the financial statements in the year 2009-2011. Based on t-test results presented in Table 4.9 has the personnel expenditure variable t-test= -0639 with a significance level of 0.483. This indicated that t table > t-test (1.990 > -0639 and variable significance value 0.582 > 0.05. So the hypothesis (H1) is rejected and it can be concluded that the personnel expenditure has no effect on *disclosure*.

The second hypothesis testing (H2)

The proposed hypothesis (H2) is the total income effect on the level of disclosure. Based on t-test results presented in Table 4.9 Total income variables have t-test = 2.168 with a significance level of 0.003. This indicated that t table

<1.990 t-test <2.168 and 0.033 significance value variable <0.05. It can be concluded that the hypothesis (H2) is accepted.

The third hypothesis testing (H3)

The proposed hypothesis (H3) is total assets affect the Level disclosure. Based on t-test results presented in Table 4.9 Total Assets variable has t-test = 1.697 with a significance level of 0.054. This indicated that $t_{table} > t_{test}$ (1.990 > 1.697) and the value of variable significance $0.054 > 0.05$. It can be concluded that the hypothesis (H3) is rejected.

The fourth hypothesis testing (H4)

The proposed hypothesis (H4) is a total deviation affects the level of disclosure. Based on the results of t-test are presented in Table 4.9 Total deviation variables have t-test = -1.441 with a significance level of 0.834. This indicated that $t_{table} > t_{test}$ (1.990 > -1.441) and a significance value variable $0.154 > 0.05$. It can be concluded that the hypothesis (H4) is rejected.

CONCLUSIONS

1. Total income of a region proven to affect the level of disclosure of the local financial reports. This indicates that the disclosures made in the relevant region of the notes to the financial reports of income accounts of the area is quite reasonable.
2. Personnel expenditures proven to have no effect on the level of disclosure of the financial statements. This indicates that the total expenditure for any one area does not have an influence on the level of disclosure of the financial statements.
3. Variable total assets proven to have no effect on the level of disclosure of the financial statements. Areas that have a large asset management tend not to have poor asset management which resulted in the area to get a record of the BPK.
4. Variable total deviation proven to have no effect on the level of disclosure of the financial statements. This indicates that government officials seem to cover irregularities that occur in the relevant agencies so that the level of disclosure to the aberration impressed not disclosed as widely as possible.

LIMITATION OF THE RESEARCH

- 1 This research only uses the sample during the 3-year study period, it is from 2009 to 2011 and does not use the data of all provinces in Indonesia because of limited data availability.
- 2 The coefficient of determination is still relatively low in this study reflecting the weak ability of the four independent variables in explaining variation in the dependent variable.
- 3 The difficulty of determining an index measuring the level of disclosure in the absence of basic standard issued by the government.

- 4 This research uses only the Government Regulation No. 24 of 2005 to develop indicators of financial statement disclosure level assessment area.

SUGGESTION

- 1 Adding observation time that can reduce the bias that further research will be carried out and add to the sample so that all provinces in Indonesia can be measured and tested the related disclosure of its financial statements.
- 2 For further research are expected to develop indicators of the level of disclosure of financial statements using the Regulation of the Minister of Home Affairs No. 13 of 2006 on Regional Financial Management Guidelines.

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