

Disclosure of Financial Statements on the Website: An Empirical Study in Indonesian Local Governments

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ABSTRACT

Using agency and signaling theories this study aimed to assess a number of potential factors affecting the quality of financial statement disclosure in the website of Indonesia's local governments. The results of regression analysis showed that local government spending and administrative age have a positive and significant effect on the quality of local government disclosure, while leverage has a negative significant effect on the quality of local government disclosure. Based on the results of this study, it is expected that local governments could consider several important factors such as government budget, administrative age, and leverage in making public policies related to public accountability on the website.

Keywords: quality of disclosure, local government budget, age of local government, leverage

1. INTRODUCTION

Lately, there has been an increasing problem related to financial transparency and accountability in the public sector in Indonesia. Some causes of this problem are economic crisis and a declining public trust in government in managing the state finances (Dawood and Anjalia, 2017). Therefore, the government is obliged to improve the transparency and accountability of its financial management both at the central and local levels. At the local government level, transparency-related problem has become public major demand since regional autonomy policy was first implemented in 1999. Seen from the perspective of agency theory, the public as the principal has the right to know about the utilization of cash flow. On the other hand, the government as the agent has the responsibility to manage, present and publish information related to financial statements to the public based on transparency. Regarding the presentation of local government financial statements, Indonesia has Government Regulation (PP) Number 24 of 2005 which has been substituted by Government Regulation (PP) Number 71 of 2010 concerning Governmental Accounting Standards.

A study by Guillamon *et al.* (2016); Wu *et al.* (2015); Jaya and Sisdyani (2014) showed that through information, an organization is able to add to the organizational value by disclosing comprehensive information to those who need it using information technology. In addition, currently information technology is developing very rapidly, especially related to information on the internet. Based on data released by the Central Bureau of Statistics (BPS), the growth rate of internet users in Indonesia by the end of 2017 had reached 143.26 million users (Kompas, 2018).

In relation to the publication of financial information, the internet is currently one of the most efficient information media (Stamati *et al.* 2015). The internet supports the

release of information to the public, even not only to the community in a particular region, but to societies around the world. In line with such situation, the government has developed the use of Internet as media to release information. One of the steps undertaken is to create official websites of the central and local governments. According to Ningrum and Rochmaniah (2016) the government currently has encouraged the use of information technology (internet) to support governmental activities both at the central and local levels in order to realize e-Government, i.e. a concept to realize the formation of new interaction and communication between one local government and the others, between the local and central governments, between the government and public, and between the government and the business sector. One of the objectives of creating local government website is to realize an integrated information network system for local governments with internet information technology-based applications. This is to support local development in carrying out its functions for the advancement and welfare of local communities (Septrisulviani *et al.*, 2017).

A number of previous studies have been conducted related to the quality of financial statement disclosures including; Aniftahudin *et al.* (2016); Chiu and Wang (2015); Ummah and Asyik (2017); Arifin *et al.* (2015); Simamora and Halim (2015); Afryansyah and Haryanto (2013); D'Amico *et al.* (2014); Khasanah and Rahardjo (2014). Some of these studies showed different results and used different proxies, so in this study the researcher tried to conduct a review using several potential predictor variables from the perspective of agency theory and signaling theory including local spending, administrative age, local net worth, per capita income, leverage, and local own-source revenue. Rezaee (2016) stated that it is potential to use these two theories to provide broader insight into financial statement disclosure practices. In addition, this study focused its analysis on the disclosure of local government financial statements on local government websites. This is because Law No. 14 of 2008, article 2, paragraph 3 mentions that any public information shall be obtained by every requester on a low cost, quickly, and accurately. In addition, the law also mentions that one of the objectives of public information disclosure is to achieve a good state administration in terms of its financial management, which is transparent, effective, efficient, and accountable. In this study, public information focused on any activities performed by the local government in terms of release and presentation of financial statements, particularly the financial statement disclosure. By revealing the factors that affect the quality of disclosures in the local government website, local policy makers will receive valuable inputs in formulating public policies or in revising existing regulations related to local government financial statement disclosure on the local government website

2. LITERATURE REVIEW

2.1 Agency Theory

In agency theory, there are two parties making an agreement, i.e. a relationship that exists when one party (principal) gives authority and responsibility to another party (agent) to make decisions (Jensen and Meckling, 1976). The principal-agent theory analyzes the contractual arrangement between two or more individuals, groups and organizations. One of the parties (principal) makes a contract either implicitly or explicitly with another party (agent), expecting that the agent will work as the principal wishes. However, it is further explained that there will potentially be different interests between the principal and agent, causing the agent to not always follow the principal's wishes (Eisenhardt, 1989). Such agency relationship can also be found in government,

namely between citizens as the principal and the government as the agent (Salehyan *et al.*, 2014). However, the government may create policies that only benefit the government and authorities, yet sacrifice the interests and welfare of the citizens. Therefore, Goranova *et al.* (2015) state that reducing conflicts will require monitoring by principals for what agents have done.

According to Bridoux and Stoelhorst (2014), agency theory uses three assumptions, including: (1) Assumption about human characteristics, stating that human has self interests, bounded rationality, and risk aversion. (2) Assumption about organization, conflicts among organizations, efficiency as productivity criteria, and asymmetric information between principal and agent. (3) Assumption about information, in this case information is seen as a commodity which can be purchased. Based on these three assumptions, principal and agent will always experience conflicts and contradictions in practice, but they still need each other; this is called agency problem. One of the causes of agency problem is asymmetric information (Bradley and Roberts, 2015). Asymmetric information is imbalance of information due to unequal distribution of information between principal and agent, thus causing problems for the principal to monitor and control the agent's actions (Brennan *et al.*, 2016). In governmental organizations, financial reporting and public disclosure are one form of monitoring to reduce agency costs. Therefore, public disclosure through the internet can be used as a way to reduce agency problem.

2.2 Signaling Theory

Signaling theory explains that government as the party given authority by citizens wishes to send signal to the public, i.e. by providing quality financial statement, improved internal control system, more complete disclosure, more detailed explanation on the website (Maaloul and Zeghal, 2015; Puspita and Martani, 2012; and Wei *et al.*, 2017). Signaling theory mentions that the urge to provide information is due to the presence of asymmetric information between regional governments and external parties, especially the citizens. Regional governments may also provide more complete information about financial achievement and performance to show that the regional government has well carried out the authority given by the people. Disclosure, in terms of accounting literature, is divided into two, i.e. mandatory and voluntary disclosures (Bertomeu and Magee, 2015). In relation to this, regional government as the party given authority by the people tries to send a good signal to the people by providing financial disclosure through the website of the regional government.

2.3 Hypothesis Development

2.3.1 Regional Expenditures

Law No.58 of 2005 on Management of Regional Finance states that regional expenditure is an obligation of regional government which is recognized as a deduction of net worth. The responsibility of the regional government (agent) to the people (principal) is to provide good public services to the people through the regional budget because the people have given some of their money to the regional government (Pratama *et al.*, 2015). The provision of infrastructure is financed from the budget allocations under the annual Regional Budget (APBD); this is manifested in the form of improved basic services, education, provision of health care facilities, social facilities, public facilities, and development of social security system. In addition, in accordance with the signaling theory, the regional government will always try to disclose all their positive achievements

to the public through complete financial information disclosures on the website of the regional government.

With an increasingly high regional expenditure, the regional government should provide better quality services to the public, especially in terms of its financial information disclosure because this is related to the financial accountability and transparency of the regional government to the community (Ratmono, 2013; Puspita and Martani, 2012; and Setyaningrum and Syafitri, 2012). According the above explanation, the following hypothesis is proposed:

H1: *Regional expenditures have positive effect on the quality of financial information disclosures on the website of regional government.*

2.3.2 Administrative Age

The administrative age of regional government is the year of establishment of regional government based on the Law of establishment of the region. Regional governments which have been established longer will have more administrative experiences and ability to present financial statements that meet the Government Accounting Standards (Arifin *et al.*, 2015); (Maharani and Budiasih, 2016). This is due to the fact that the previous year's financial statements have been audited by the Audit Board of the Republic of Indonesia (BPK) and the audit results are followed up to improve the financial statements of the regional government presented in the following fiscal year (Setyaningrum and Syafitri, 2012).

Signaling theory explains that government as the party given authority by the people wishes to send a good signal to the people (Hilal *et al.*, 2017). With longer administrative age, regional government will have better quality as it has more experiences and better ability in presenting financial statements (Arifin *et al.*, 2015). The administrative age of regional government will influence the quality of disclosures and information presented on the website of the regional government (Setyaningrum and Syafitri, 2012). This indicates that administrative age reflects the experience that regional government has, and such experience will improve the quality of financial information disclosures on the website of regional government. Based on such consideration, the following hypothesis is proposed:

H2: *Administrative age has positive effect of the quality of financial information disclosure through the website of regional government.*

2.3.3 Regional Wealth

Regional wealth is a resource that supports operational activities carried out by regional government. However, huge wealth tends to be prone to abuse of power (Al-Sartawi, 2018) and (Bonito *et al.*, 2017). This is what encourages people as the principal to have more interests in monitoring the performance of regional governments and to demand transparency over financial management in order to prevent any abuse of power (Hudoyo and Mahmud, 2014). The governments of regions with huge wealth are charged with higher monitoring costs and higher demands of transparency from the public. Through the publication of financial statements, regional governments are able to disclose more complete financial information at low cost, thus reducing asymmetric information between regional governments and public (Pratama *et al.*, 2015).

Regional wealth may become one of the things that attract investors who will invest in the regions because these regions are able to bring welfare to their people

independently so they do not have to worry about the continuity of their businesses. This influence is simultaneous with the income of the people in these regions, so it may also drive the economy of the regions. The higher the regional wealth, the higher the level of financial information disclosure (Alberici and Querci, 2015; Ratmono, 2013; Hudoyo and Mahmud, 2012; Setyaningrum and Syafitri, 2012; Afryansyah and Haryanto, 2013). This implies that with huge wealth, regional governments will tend to want to show off their wealth to other parties in order to receive recognition that their governments are successful. Based on these considerations, the following hypothesis is proposed:

H3: *Regional wealth has positive effect of the quality of financial information disclosure through the website of regional government.*

2.3.4 Per-capita income

Per-capita income is the average income earned by each of the people in a given region. The number of residents will affect the amount of per-capita income of a region (Jin and Rafferty, 2017). The economic level of the local community in a region may affect the financial information disclosure performed by its regional government. The economy of the local community may affect per capita income of the community and may also affect the technology adapted by the community (Coccia, 2018). In addition, information technology is developing rapidly, thus encouraging the government to have active participation in the development of technology, for example by financial disclosure on the internet.

Regional governments (agent) shall adapt with the technological developments that take place among the community (principal). With a rapid use of the internet, it is highly likely that regional government will present its financial statements on its website, allowing the public to access the transparency of the financial statements. The higher the per-capita income, the higher the economic level, the higher the demand of public accountability to the government. Eventually, the quality of the regional governments' financial information disclosures is expected to improve as well (Hudoyo and Mahmud, 2014). With a high per-capita income, people could better utilize technology, allowing the regional government to be more transparent in its financial reporting. Based on these considerations, the following hypothesis is proposed:

H4: *Per-capita income has positive effect of the quality of financial information disclosure through the website of regional government.*

2.3.5 Leverage

According to Hudoyo and Mahmud (2014), leverage, in terms of government, is additional funding, which could support the development of a region to realize the dreams of its people. Leverage is related to assets in which to use such assets, the government has to cover fixed costs or fixed charges. In public sector, debt ratio or leverage is very crucial for both creditors and potential creditors in making lending decisions (Coll *et al.*, 2016). This ratio is used by creditors to measure the ability of regional governments to pay their debts and the portion of equity used as collateral for the entire debts.

Agency theory predicts that regional governments with higher leverage ratio will reveal more information. This is because companies shall comply with the debt agreement that they shall repay, making them face greater pressure to disclose important information in their financial statements. In addition, the expectation to realize Good Government Governance has also encouraged regional governments to be more

transparent in terms of their financial reporting (Murphy *et al.*, 2017). In fact, higher leverage is followed by lower level of disclosures and quality of information presented on the website of regional government (Hudoyo and Mahmud, 2014). This means that the government limits information about the capital obtained to make the public more independent. Based on these considerations, the following hypothesis is proposed:

H5: *Leverage has positive effect of the quality of financial information disclosure through the website of regional government.*

2.3.6 Locally-Generated Revenue

Law No. 33 of 2004 Article 1 states that Regional Revenue is the right of the regional government that is recognized as an increase in the net worth in the relevant fiscal year. Locally Generated Revenue (PAD) is regional revenue from regional taxes, regional levies, and the results of the management of separated regional assets. Regional governments with high PAD will try to show to their stakeholders that they have great performance.

Seen in terms of Agency Theory, contractual relationship between agent (regional government) and principal (people) in the context of locally generated revenue can be seen from the ability and responsibility of the government to provide good public services and improve the welfare of the people. The level of productivity of the community in regions with adequate facilities and infrastructure will be affected, thus attracting investors to invest their capital in these regions and increasing the locally generated revenue. In fact, higher locally generated revenue will improve the level of disclosures and quality of information on the website of the regional government (Guillamon *et al.*, 2016; Puspita and Martani, 2012). This implies that higher locally-generated revenue will encourage government to provide such information to the public because high local revenue indicates good government performance. Based on this explanation, the following hypothesis is proposed:

H6: *Locally-generated revenue has positive effect of the quality of financial information disclosure through the website of regional government*

3. METHOD

The targets of this study were local governments in Indonesia, including provincial governments, municipal governments and regency governments. This is in accordance with Law Number 32 of 2004 concerning local governments, where it is stated that what is meant by local governments in Indonesia include provinces, cities and regencies. The sampling was carried out using purposive sampling method with the following criteria: (1) having an unqualified predicate, (2) having a website accessible directly via the internet, (3) having complete data according to the criteria required in this study.

The dependent variable of this study was the quality of financial statement disclosures on the local government websites. In the dependent variable, the quality of disclosures on the local government websites was divided into two: information quality and level of disclosure. In this study, the dependent variable was measured by calculating the voluntary disclosure index scores on the local government websites. Content index is an index measuring information disclosed by local governments on local government websites, which is divided into 10 sub-indices. Eight of these ten sub-indices including development, regional profiles, regional services, regional

figures, social, tourism, population and finance are the most common items found on local government websites; while contact detail and timeliness are sub-indices resulted from a study by Marston and Polei, (2005).

Presentation index is a representation of navigation, internet tools, quality and features of website. This index consists of two sub-indices: website presentation tools and website quality (Cormier *et al.*, 2009). Presentation tools are an overview of various internet devices that can be operated during local government website management so that the website looks more attractive and more accessible. The list of presentation tool sub-index was processed from a study of Xiao *et al.*, (2004) and Marston and Polei (2005). The website quality sub-index describes the quality of the website in terms of the application of technology and users who access the website. The list of website quality sub-index was processed a study of Cormier *et al.* (2009). Total presentation is the average of content disclosure and disclosure presentation on local government websites.

According to Touchton and Wampler, (2014) local spending is used to protect and improve the quality of people's lives. Which is manifested in the form of improving both compulsory and optional services which include basic services in education, provision of health care facilities, social facilities, public facilities, and social security system. In this study, local spending was measured by the amount of the local government budget realization. On the other hand, the administrative age of local government is the year of establishment of local government according to the Law concerning the establishment of the region. Local governments that have a long administrative age have more experiences and better abilities in presenting fair financial statements in accordance with the Governmental Accounting Standards (SAP). This is because the financial statements in the previous fiscal year have been audited by the Audit Board (BPK) and the audit results are used to improve the presentation of the financial statements in the following fiscal year (Setyaningrum and Syafitri, 2012). The variable of administrative age was measured according to how long the local government had been established.

Local net worth is a resource that supports the operations performed by local governments (Hudoyo and Mahmud, 2014). However Soltani (2014) mentioned that huge net worth is vulnerable to misuse. This is what drives the public as the principal to want to monitor the performance of local governments and demand transparency in the management of local government finances in order to prevent misuse. In this study local net worth was measured by the total assets owned by a region. On the other hand, per-capita income is the average income of the residents of a region (Hudoyo and Mahmud, 2014). The number of population members will affect the total per capita income of a region. Per capita income is calculated from the total revenue of a region divided by the total population. Leverage is a proportion that describes the amount of government debt from an external party compared to its own capital. Sseen from the government perspective, leverage is considered as additional funding that may help the development of the region and achieve what is expected by the society (Anggreni, 2014). According to Borisova *et al.* (2015), debt or leverage ratio is very important for creditors and potential future creditors of local governments in making credit decisions. Leverage is measured by Debt to Equity Ratio (DER). Debt to Equity Ratio is obtained from the total debt divided by equity.

Furthermore, Local Own-Source Revenue (OSR) is a regional revenue sourced from local taxes, retribution and the results of local net worth management, and other legitimate local sources of revenue to free the region in seeking funding for the implementation of regional autonomy as a manifestation of decentralization principle

(Mahsun *et al.*, 2007). In this study, local own-source revenue was measured by total local own-source revenue divided by total budget realization. The analysis method used in this study was multiple regression. Descriptive statistics was also used to provide a description of the data in this study. In addition, classical assumption test was performed to find out whether the data already met the requirements for multiple regression analysis.

4. FINDING AND DISCUSSION

This study aimed to analyze a number of potential factors that were believed to affect the quality of financial statement disclosures in the local government websites in Indonesia. The target in this study was local governments in Indonesia according to the criteria described in the research scenario. In fact, after data selection was performed according to the selected data collection method, a sample of 156 local governments was used in this study, followed by data analysis using descriptive statistics, classical assumption tests, and multiple regression.

Table 1. Results of descriptive statistic analysis

<i>Variables</i>	<i>n</i>	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Std. Deviation</i>
Local Spending (BD)	156	11.62	13.32	12.0805	.27790
Administrative Age (UA)	156	1.00	64.00	49.9487	17.61444
Local Net Worth (KD)	156	11.36	13.48	12.4456	.33180
Per-Capita Income (PCI)	156	18.48	368235.24	39999.12	46720.51
Leverage (Lv)	156	.00	.31	.01	.02837
Log Local Own-Source Revenue (Log OSR)	156	.79	.99	.91	.03246
Quality of Disclosure (KP)	156	.15	.73	.41	.14138

Seen from the results of the descriptive analyst, all the variables except per-capita income have an average value greater than the standard deviation. This means that most of the data is homogeneous.

After finding out about the scores in the descriptive statistical test, classical assumption test was then performed, namely normality test to find out whether in the regression model, the nuisance or residual variables had normal distribution. In this study, the normality test was carried out using the Kolmogorov-Smirnov statistical test which resulted in a significance value of 0.391. This result indicates that the residual data in this regression model are normally distributed because the significance value is greater than 0.05. After that, multicollinearity test was done to test whether there was correlation among independent variables in the regression model. The multicollinearity test was done by seeing Variance Inflation Factor (VIF) and tolerance of each of the independent variables, where VIF should be less than 10 (Saunders, Lewis, and Thornhill, 2016). The results of the multicollinearity test on all the independent variables showed: Local Spending: 3.166, Administrative Age: 1.102, Local Net Worth: 3.145, Per-Capita Income: 1.088, Leverage: 1.018, LogOSR: 1.753. In other words, the VIF of each independent variable is less than 10, meaning that there is no multicollinearity problem. In addition, heteroscedasticity test resulted in an absolute value of residuals that did not

show any heteroscedasticity from each factor since it is not greater than 0.05. This means that the regression model does not contain heteroscedasticity.

After all the data were stated to have met the requirements for classical assumption test, multiple regression test was then carried out. Table 2 shows the results of multiple regression analysis in this study.

Table 2. Results of multiple regression analysis

Independent Variables	Model 1		Explanation
	Regression Coefficient	Sig-t (p-value)	
Constant	-2.355	0.000	
Local Spending (BD)	0.277	0.000	Supported
Administrative Age (UA)	0.003	0.000	Supported
Local Net Worth (KD)	-0.044	0.346	Not supported
Per-Capita Income (PCI)	0.000	0.391	Not supported
Leverage (Lv)	-0.659	0.033	Supported
Log Local Own-Source Revenue (OSR)	0.227	0.523	Not supported
F count		19.661	
Sig-F		0.000	
Adjusted R Square		0.419	

Based on the regression test results, the local spending variable had a regression coefficient of 0.277 and a significance of 0.000. This means that local spending has a significant and positive effect on the quality of financial statement disclosures on local government websites. This is due to the responsibility of the agent (local government) to the principal (public) to provide good public services through local budget because the public has given some of their money to local governments (Pratama *et al.*, 2015). The public services provided by the governments to the communities include the procurement of adequate facilities and infrastructure in their regions. This procurement is funded through the allocation of local budget (APBD) in each year. Therefore, higher local spending shall be followed by better services provided by the local government to the community, including the provision of transparent information related to local government financial statements as a form of the local government's public accountability to the community. Referring to this, there shall also be a higher demand for disclosure and quality of information on the local government websites. This result is in line with a study by Puspita and Martani (2012), Gennari and Messina (2014); Ratmono (2013), showing that higher local spending shall be followed by better and more quality services provided by local government to its community.

Based on the statistic testing results, the administrative age variable had a regression coefficient of 0.003 and a significance of 0.000. This means that administrative age has a significant and positive effect on the quality of financial statement disclosures on the local government websites. This result indicates that local governments that have a long (old) administrative age have more experiences and better ability in disclosing financial statements in accordance with Governmental Accounting Standards. This is due to the fact that the financial statements in the previous fiscal year had been audited by the Audit Board (BPK) and the results are used to improve the disclosure of local government financial statements in the following fiscal year. In addition, signaling theory explains that the government as a party given the mandate by the community wants to prove to the

community by disclosing quality financial statements (Hilal *et al.*, 2017). Local governments that have a long (old) administrative age have more experiences and better ability in disclosing information, particularly financial information, to the public. With a long administrative age of local governments, the local government websites will show better quality of financial statement disclosure. This is in accordance with a study of Setyaningrum and Syafitri (2012), Ballesteros (2014) and Sol (2013) showing that the longer the administrative age of a local government, the better the quality of financial statement disclosure on the website. This also implies that administrative age reflects the experience of an entity, by which the quality of financial statement disclosure on the entity's website may improve, in this case the local governments in Indonesia.

The test on the local net worth variable resulted in a regression coefficient of -0.044 and a significance of 0.346. This means that local net worth has no significant effect on the quality of financial statement disclosures on local government websites. This result is probably due to a large number of local governments in Indonesia that spread across various islands in Indonesia, amounting to approximately 17,000 islands, with different geographical conditions. In general, the local governments that have huge local net worth are because they have potential natural resources such as oil, coal, precious metals, and others, and these regions are mostly located far from the capital city of Jakarta. However, this results in less access to information and supervision from the central government, causing the managerial role of these local governments to be very dominant, so that managerial decisions have a greater effect on government management. This situation is likely to be the key factor of why local net worth does not effect the quality of financial statement disclosures on the local government websites in Indonesia. This result supports the results of several previous studies such as Hudoyo and Mahmud (2014); Khasanah and Rahardjo (2014) and Ortas *et al.* (2014) showing that the factor of local net worth cannot be used as a predictor of an organization's desire to disclose financial statements on its website.

Based on the statistical testing results, the per-capita income variable had a regression coefficient of 0.000 and a significance of 0.391. This means that per capita income has no significant effect on the quality of financial statement disclosures on the local government websites. The reason for this is possibly because high income of the community does not necessarily reflect high level of public concern about the importance of transparency in local government financial management. In fact, they tend to be busy taking care of their personal finances, and believe that the financial problems of their regions are not their problems. Therefore, it can be concluded that people with high income do not necessarily have high level of concern and awareness of local financial management transparency. This is in line with the results of a study by Wau and Ratmono, (2015) and Pratama *et al.* (2015) showing that per capita income does not affect the quality of financial statement disclosures on local government websites.

Based on the statistical testing results, the leverage variable had a regression coefficient of -0.659 and a significance of 0.033. This means that leverage has a significant negative effect on the quality of financial statement disclosures on local government websites. The reason for this is likely due to the fact that disclosure will add to the budget incurred by the local government. Regions with a high level of debt will focus more on their financial needs to improve primary needs such as improving the quality of food, clothing, and housing or public facilities rather than using this budget for secondary activities, such as financial statement disclosure even though it is important. In addition, another possible reason is that disclosure of leverage may result in a bad image

of an entity unless it is able to improve its performance. This is in line with a research by Hudoyo and Mahmud (2014) and Artha *et al.* (2015) showing that leverage has negative effect on the quality of financial statement disclosure on local government website.

The local own-source revenue (OSR) variable, based on the results of statistical testing, had a regression coefficient of 0.227 and a significance of 0.523. This means that OSR does not have a significant effect on the quality of financial statement disclosures on the local government website. Local governments that have a high financial performance do not necessarily disclose high level of content and website presentations, and do not necessarily disclose high level of content and presentations on local government websites. The reason for this is probably because, when local governments have high financial performance, they are not required to disclose any matters that interfere with information about their successful financial performance. On the other hand, when in case of a low level of financial performance, local governments expect that stakeholders will read 'good news' regarding their financial performance, instead of only knowing about negative things resulted from their low financial performances. This result implies that the disclosure of financial performance in terms of local own-source revenue seems to be no longer important on the local government websites. This is in line with a research by Puspita and Martani, (2012) showing that OSR does not have any significant effect on the quality of financial statement disclosures on the local government website.

5. CONCLUSIONS

Utilizing the perspective of agency and signaling theories, this study successfully proved that local spending and administrative age of a region serve as predictors that have a significant positive effect on the quality of financial statement disclosures on local government websites in Indonesia. This implies that the higher the local spending, the higher the quality of financial statement disclosure on local government websites. A higher local spending is followed by better quality services provided by local governments to the communities, leading to a higher level of local government's willingness to disclose financial information through the local government websites as a manifestation of good service to the community. In addition, the longer (older) the administrative age of a local government, the higher the quality of financial statement disclosure on local government websites because long-standing local governments tend to disclose more information compared to newly-established local governments. In addition, the long-standing ones have more experience that can be seen from the results of audit on the Local Government Financial Statements (LKPD) by BPK.

In addition to these two predictors, this study also proved that leverage has significant negative effect on the quality of financial statement disclosure on the local government websites. This means that the higher the leverage of local governments, the lower the level of financial statement disclosure on the local government website. Local governments in Indonesia should use these findings as a consideration in formulating new regulations or revising existing regulations related to local government financial reporting mechanisms, especially related to financial statement disclosure on local government websites.

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