

Financial Statements

by Wahyudin Nor

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Financial statements disclosure on Indonesian local government websites

A quest of its determinant(s)

Wahyudin Nor, Muhammad Hudaya and Rifqi Novriyandana
University of Lambung Mangkurat, Banjarmasin, Indonesia

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Abstract

Purpose – The purpose of this paper is to examine the extent to which audit opinion, audit findings, follow-up audit recommendations, level of education, level of welfare and heads of local governments' commitment influence the disclosure of financial statements on the official website of local government.

Design/methodology/approach – The data of this research comprise 68 financial statements during the period 2015–2016 collected from 34 local governments across Indonesia by employing the census method. The data then are analyzed using logistic regression.

Findings – The results of this study show that audit opinion has a positive significant influence on the disclosure of financial statements on local government websites in Indonesia, while the audit findings, follow-up audit recommendations, level of education, level of welfare and heads of local governments' commitment have no significant influences on the disclosure of financial statements local governments' websites across Indonesia.

Originality/value – The study contributes to the public sector accounting research by enhancing our understanding to the disclosure of financial statements on local government websites.

Keywords Local government, Disclosure, Financial statements, Website, Indonesia

Paper type Research paper

1. Background

Information technology development has remarkably changed our day-to-day lives, including the way local citizens obtain information from their local governments. This change also drives local governments across Indonesia to be more transparent than ever before by providing their financial statements on their websites.

Indonesia has commenced to develop e-government since the release of Presidential Instruction No. 3 of 2003. The purpose of e-government is to ease public access to information provided by local governments. The instruction requires local governments to develop their official websites.

In addition, Government Regulation (PP) No. 65 of 2010, Article 13 states that the local government is obliged to utilize and develop the advancement of information technology to transmit financial information through the official website. However, the regulation of local government's financial disclosure on the website is still voluntary.

Preliminary study conducted by the researchers shows there were 16 local governments disclosed their financial statements on their respective websites, while 18 counterparts did not. This number slightly increased in 2016, in which there were 17 local government disclosed their financial statements, while the rest (17 local governments) still did not make it available to the public (Figure 1).



Verawaty (2014) suggests that there is a gap in the practice of the disclosure of financial information through e-government and the majority of local governments have not optimized the use of Internet technology. However, the government has an obligation to make financial statements as a form of accountability to the public.

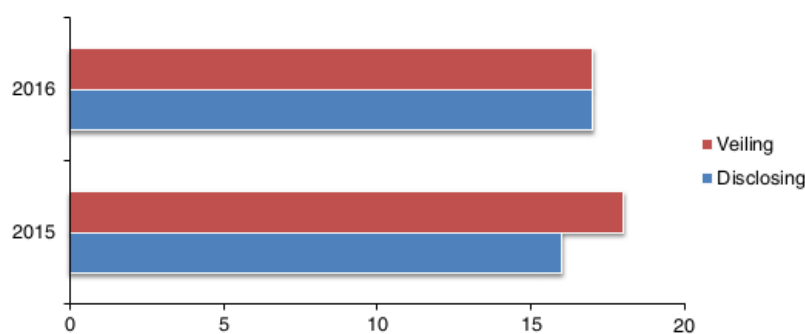
There are several factors that are conceived to affect the local governments to make the disclosure of its financial statements on the local website, one of which is related to the audit conducted by BPK (Supreme Audit Agency). In Indonesia, the BPK is an external auditor who performs the audit process against the Government's financial statements. The final result of the BPK audit on the financial statements is the audit opinion, and the audit opinion is given to the financial statements compiled by the local governments. Opinions become one of the indicators of the quality of financial statements compiled by the local governments. According to Handayani (2010), the audit opinion affects the publication of government financial reporting online. Increasing irregularities found by BPK through its audit, it will possibly impact on the disclosure of their financial statements. Local governments that have poor audit result having tendency to make their financial statements not available to the public (on their websites).

The audit findings conducted by the BPK need to be followed-up by the auditees. According to BPK Regulation No. 2 year 2017 about follow-up monitoring on implementation recommendations BPK examination results, the follow-up study results are classified into four categories: follow-up has been in accordance with the recommendations, the follow-up has not been in accordance with recommendations, the recommendations are ignored and (4) recommendations cannot be followed up by auditee.

According to the prevailing regulations, local governments has to be responsible for managing state financial and are obliged to follow up the findings of inspection conducted by BPK. Hartono (2006) suggests that the follow-up audit recommendations are an important element in the performance assessment of the management. The speed of the local governments in conducting the follow-up audit recommendations will impact the desire to reveal its financial report on the government website as a form of improvement and of local governments' adherence to the prevailing regulations.

Pe'rez *et al.* (2008) stated the level of public education, affect local governments to disclose their financial statements. The level of public education in a country will have an impact on the development of e-government of that country (Evans and Yen, 2005). Some previous studies have also found a significant positive effect on the level of education on information disclosure (Chaudhuri *et al.*, 2005).

Financial information disclosure also depends on the per capita income of the region. The higher per capita income results in higher political monitoring and draws the community attention. So, there is a great tendency to provide information to the public.



Source: Data processed (2018)

Figure 1.
Number of local governments disclosing and veiling their financial statements

Rahim and Martani (2015) expressed that the region where its society is relatively more prosperous has tendency to be more demanded in terms of financial statements disclosure and even non-financial information to their local government. It might be because they have contributed to the region through local taxes and retributions.

The local head commitment to accountability and transparency is then essential to contribute to organizational accountability. The more committed heads of local governments to their financial statements, the better audit opinion they obtain that subsequently drive them more to publish their financial statements to the public to be looked good in the public eyes.

This study also then wishes to seek the determinant(s) of Indonesian local governments' financial statements disclosure and the extent of its influence. Based on the description above, the title of this study is "Financial Statements Disclosure of Indonesian Local Governments' Websites: A Quest of Its Determinant(s)". The purpose of this study is to test and analyze the influence of audit opinions, audit findings, follow-up audit recommendations, education level, welfare level and local head commitment to the disclosure of financial statements on the websites of local governments across Indonesia.

2. Literature review and hypothesis development

2.1 Agency theory on local government

Generally, the relationship between society and state organizations is similar to the relationship between the principal and the agent. The principal authorizes and trusts power to its agent; the agent then is responsible to its principal. The third party required to test the feasibility of a government accountability report. In this context, government auditors are expected to act as the eligibility examiner to convince the public.

Lupia and McCubbins (2000) explained that the principal and agent relationships are rooted in economic theory, decision theory, sociology and organizational theory. The agency theory analyzes the contractual arrangement between two or more individuals, groups or organizations. One of the principal makes a contract, either implicitly or explicitly, with the other party (agent) in hopes that the agent will act/perform the work as intended by the principal (in which case the delegation authority). Delegation occurs when a person or one group (principal) chooses an agent to act in accordance with the interests of the principal.

2.2 Learning organization theory

Learning organization theory is "a concept where the organization is able to continuously perform the self-learning process so that the organization has a speed of thinking and action in responding to various changes that appear" (Senge, 1990). However, the learning organization is "an organization where members continually develop their capacity to create the results they really want, new thinking patterns are cultivated, group aspirations are given freedom and its members continuously do learning to learn something together. So in an organization that has the performance and objectives, therein must have a relationship and process that is sustainable (system thinking) between members with members, members with the team (Senge, 1990)."

It can generally be described that as an organization, governments need to follow technological developments. Therefore, the local government as an organization needs to continue to respond various changes that arise, one of which is the need for fast, affordable and easy access to information.

2.3 Financial statements disclosure on government websites

The development of technology and information system also affected the government system in Indonesia. Nowadays, various financial management activities in both central and

local governments have been supported by adequate technological systems. The goal is for government financial statements to be reported in a timely manner. Besides being able to present timely financial statements, technology and information are a way for the government to improve the transparency and accountability of local financial statements. Internet-like technologies can be used to report financial statements. In line with Law No. 14 of 2008 on public Information disclosure states that “the public agency must be open and responsible for any public information.”

2.4 Influence of audit opinion on the financial statements disclosure on local government websites

The opinion is a professional statements of the auditor regarding the fairness of financial information presented in the financial statements. This is described in the Law No. 15 of 2004 that opinion made BPK is a professional statement of the examiner regarding the fairness of financial information presented in financial statements based on four criteria of Standar Akuntansi Pemerintah/Government Accounting Standard compliance, adequacy of disclosure, regulatory compliance and effectiveness of internal control systems.

An accountable presentation of financial statements is one indicator of the good performance of local governments. According to BPK (2017) there are five type of audit opinions: unqualified, unqualified with explaining paragraph, qualified, adverse, disclaimer. Local governments obtaining less credible audit opinions like unqualified with explaining paragraph, qualified, adverse, disclaimer, tend to cover up their financial statements, while local government granted unqualified opinion (the best one) behaves conversely, by making the financial statements available to the public.

Handayani (2010) found that the level of irregularities occurring in an entity will negatively impact the level of disclosure. An entity will likely not disclose the information if the irregularities level is getting higher. However, Nosihana and Yaya (2016), found that opinion has no effect on internet financial reporting through e-government. Based on the explanation above, the hypotheses that are proposed are:

H1. Audit opinion influence financial statements disclosure on local government websites in Indonesia.

2.5 The influence of audit findings on the financial statements disclosure on local government websites

The results of the BPK audit are outlined in the audit report (LHP) containing a number of audit findings. Each of the findings may consist of one or more issues relating to internal control system weaknesses and non-compliance with the provisions or relevant regulations. The details of the audit findings usually relate to state-loss findings, potential loss findings and administrative findings. Audit report conducted by BPK found weaknesses on local governments' financial statements in the area of the internal control system and compliance to applicable regulations.

The findings of the audit are a violation of the prevailing provisions on both internal control and compliance with the legislation found by the auditor at the time of inspection. In other words, the finding of the audit is a condition that does not conform to the prevailing criteria. At the end of each examination, auditors will provide recommendations on the improvement of audit findings. The findings and recommendations will be communicated with the inspection object for repairs and corrections (Liestiani, 2008).

Liestiani's (2008) research found that the number of audit findings relates significantly positive to the level of LKPD disclosure. Hilmi and Martani (2012) state that more findings will cause the BPK to ask for increased disclosure and correction. More disclosure is done

as an effort to deal and correction act on the findings of the audit found in BPK and showed publicly the quality improvement carried out by the local governments on the advice of the BPK. It can be concluded that the more findings from the BPK inspection results will have an impact on the express by the entity. Based on the description, it can be developed hypotheses:

H2. Audit findings influence the disclosure of the financial statements on the local government website of Indonesia.

2.6 The influence of follow-up audit recommendations on the financial statements disclosure on local government websites

Akmal and Tugiman (2006) wrote that the follow-up audit recommendations is defined as a process to determine the adequacy, effectiveness and timeliness of corrective actions performed by management against the recommendations of the findings reported checks. Including the related findings obtained by the examiner both internal and external.

Akmal and Tugiman (2006) state that the follow-up of audit results is defined as a process to determine the adequacy, effectiveness and timeliness of corrective actions performed by management against the recommendations of the findings reported checks. This includes the related findings obtained by the examiner both internal and external. Determination of corrective action to be taken in carrying out recommendations from the findings of the reported inspection is the responsibility of management of the inspected units. The internal examiner is responsible for providing a way out for management to take the corrective action so that its implementation can be timely. In deciding on the extension of follow-up, the internal examiner should consider implementing the procedure with the same follow-up properties of the other party in the organization (Hartono, 2006).

Setyaningrum (2015) stated that follow-up audit results were measured with more recommendations done by the government and expected to improve the quality of financial statements represented at the disclosure level increasingly higher. The more follow-up checks are made, the better the financial management of the local governments. Based on the above exposure, the hypotheses that can be developed are:

H3. Follow-up audit recommendations influence the disclosure of financial statements on the websites of Indonesian local government.

2.7 The influence of the education level on the disclosure of the financial statements on local government websites

Mangkunegara (2003) states the level of education is a long-term process that uses systematic and organized procedures, which the management learns conceptual and theoretical knowledge for general purposes. Education and culture are important factors that have an impact on the use of internet in a country (Chaudhuri *et al.*, 2005; Gong *et al.*, 2007). According to Losh (2004), increased access to technology in an area encourage the community to increasingly access the government website. So, the government will provide information regarding policies and services to improve the knowledge of the community. Gandia and Archidona (2008) expressed an increase in the level of access to technology and the better the level of public education, the higher the desire to consult related services through the government website. Previous research found a positive influence on the level of education on information disclosure (Chaudhuri *et al.*, 2005; Pe'rez *et al.*, 2008). Based on the explanation above, the hypotheses that are proposed are:

H4. Education level influence on financial statements disclosure on local government websites in Indonesia.

2.8 *The influence of the welfare level on the financial statements disclosure on local government websites*

Styles and Tennyson (2007) said that the higher per capita income will result in the higher political monitoring and also monitoring by the community so that the pressure to provide information to the public is increasingly greater. Styles and Tennyson (2007) and Serrano *et al.* (2009) found a positive correlation between the per capita income level and the level of information disclosure on the website.

Martani *et al.* (2018) found a significant positive relationship between the welfare level of the population with the level of disclosure of financial information on the local government website. Usually, the pressure of information requests is mainly from the areas that have a population with high welfare level and this populace is generally not only limited to financial information but also want non-financial information. Non-financial information, especially public services conducted by the government, will be asked by many people with high welfare so that the pressure to disclose this information is greater. One of the indicators that can be used to measure the population welfare level is regional per capita income. The high level of welfare encourages people to be more concerned with the governance of the government, encouraging local governments to conduct greater disclosure of information. The description derived from the following hypotheses:

H5. Society welfare level influence on financial statements disclosure on local government websites in Indonesia.

2.9 *Heads of local government commitment on the financial statements disclosure on local government websites*

Commitment requires a positive response of members' organization to do more beyond their obligations (Mowday *et al.*, 1979). It means that their commitment should surpass organization's expectation.

In relation to the quality of local government's financial statements, it is apparent that it is determined, one of them, by the head of local governments' commitment (Silviana, 2012). The commitment of heads of local governments in realizing transparent financial statement is vital. One form of transparency over financial statements is to what extent heads of local governments can disclose the statements, including through the local government websites.

The initiative to publish and disclose their financial statements through their websites will give more access to the stakeholders to know vision, mission, program and financial accountability of their local government.

According to Law No. 14 of 2008 on Public Information Openness, public officials must be more transparent, accountable and more oriented to community service. Therefore, it is important that the role of local heads' commitment to disclose their governments' financial statements through their websites as a form of accountability to their respective stakeholders. Based on the explanation above, the proposed hypothesis is:

H6. The commitment of heads of local governments influences the financial statements disclosure on local government websites in Indonesia.

2.10 *Conceptual framework*

The conceptual framework is shown in Figure 2.

3. Research model

3.1 *Research approach*

The scope of this research is only on the local governments in Indonesia. The variables examined were the disclosure of financial statements on local government websites, audit

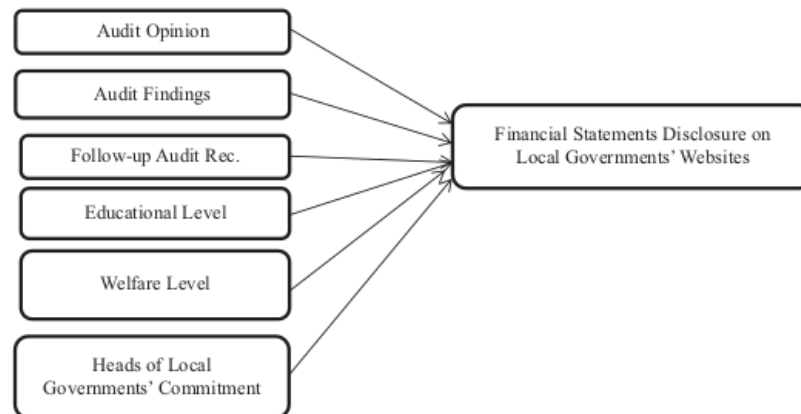


Figure 2.
Conceptual framework

opinions, audit findings, follow-up audit recommendations, education levels, welfare levels and heads of local governments' commitment. However, the focus of this research on the report information disclosed in the local government websites in 2015–2016.

An associative quantitative study is a type of research because it examines the influence of one variable on another, while this research approach uses quantitative analysis. According to Arikunto (2006, p. 118), "Variables are objects of research or what concern in a research topic." The object of this research is the disclosure of financial statements on local governments' websites, audit opinions, audit findings, follow-ups audit recommendations, education levels, welfare levels and heads of local governments' commitment.

3.2 Analysis unit

According to Sekaran and Bougie (2013, pp. 175-176), "The analysis unit relates to the level of data aggregation collected before being analyzed. The analysis Unit itself is very dependent on the research focus of researchers which can be individuals, spouses, groups, organizations, territories, countries, times, divisions, industries, and objects." The analysis unit in this research is the local government in Indonesia.

3.3 Population and sample

The population and samples in this research are the local governments in Indonesia. According to Arikunto (2006, p. 130) "Research that examines the whole or all elements of the research area or population is population research or population study or census research." This research is a census study that will examine 34 provinces in Indonesia. However, this research has established criteria of data related to the research available on the government web.

3.4 . Definition of operational variables

3.4.1 *Financial statements disclosure on the local government website.* The disclosure of the local governments' financial statements on the website is the government's responsibility for the finances that have been managed online (Perez *et al.*, 2014). In addition to the business sectors, public sectors such as local governments can use advances in technology and Internet networking to convey financial information to various stakeholders. Law No. 14 of 2008 on public Information disclosure states that "every public entity must utilize and develop information technology to publicly convey information to the public." In addition, Article 13 of the Government Regulation No. 65 of 2010 on the local financial Information system states that "local governments must submit financial

information through the official website.” This variable is measured as Verawaty (2015) research using binary or dichotomic variables that are 0 “not reported” or 1 “reported” LKPD online.

3.4.2 Audit opinion. The audit opinion is the reasonableness of information on the audited financial statements (BPK, 2017). Variable measurements are viewed from a scale of 1 to 5 by looking at the audit opinion that uses the “Disclaimer (1), Adverse (2), Qualified with the exception (3), Unqualified with the exclusion language (4) and Unqualified (5)” (Nosihana and Yaya, 2016).

3.4.3 Audit findings. Audit findings found by BPK auditors range from administrative to substantive and prevailing violations (Liestiani, 2008). The findings of the audit are a violation of the prevailing provisions on both internal control and compliance with the legislation found by the auditor at the time of examination (Liestiani, 2008). This research employs a proxy of audit finding developed by Prasetyaningsih (2015) with the formula as a follows:

$$\text{Audit findings} = \frac{\text{Audit findings (in million rupiahs)}}{\text{Total local expenditure budget realization (in million rupiahs)}}$$

3.4.4 Follow-up audit recommendations. According to Kristiawan (2014), the follow-up of the audit result is the activity or decision made by the principal of the inspected entity or another competent party to carry out the examination results. Follow-up audit results of BPK inspection must be done by the principal of the inspected entity, by calculating the percentage of the number of recommendations minus the number of recommendations that have not been followed up, unfinished follow-up not in accordance and recommendation cannot be in follow-up divided by the total number of recommendations:

$$\text{PPTLHP} = \frac{\sum \text{rkm} - (\sum \text{btl} + \sum \text{bstl} + \sum \text{tdtl})}{\sum \text{rkm}} \times 100\%$$

where PPTLHP is the percentage of follow-up completion; Btl is the not yet follow-up; Bstl is the not completed followed up/follow up not according to the recommendation; Tdtl is the cannot be followed up; and Rkm is the recommendation.

3.4.5 Educational level. The education level is a long-term process that uses systematic and organized procedures, which the managerial workforce uses to learn conceptual and theoretical knowledge for general purposes (Mangkunegara, 2003). Variable level education uses the indicators used by Perez *et al.* (2014), with the formula:

$$\text{Higher educational} = \frac{\text{Total students in higher education institution}}{\text{Total local population}} \times 100\%$$

3.4.6 Welfare level. Rahim and Martani (2015) said the welfare level can be seen from the income per capita of each region. In this research information on the gross regional domestic product per capita, each local area obtained from the Indonesian Central Statistical Agency:

$$\text{Welfare level} = \frac{\text{Gross regional domestic product}}{\text{Total local population}}$$

3.4.7 Heads of local governments' commitment. According Law No. 23 of 2014 on local government, regional finance management must be managed in an orderly, efficient, economic, effective, transparent and accountable manner. The local head commitment variable refers to the local head committed to transparency in the organizing of his administration, particularly the management of the local budget or finances. This variable

can be seen through the vision and mission of Rencana Pembangunan Jangka Menengah Daerah/Local Government Medium Term Plan (RPJMD) or Rencana Pembangunan Jangka Panjang Daerah/Local Government Long Term Plan if not found RPJMD over the province. In addition, the vision of the heads of local governments can be found at some reports prepared by respective local government namely: LPPD (local-government accountability report submitted to the central government), LKPj (local-government accountability report submitted to the local parliament) and ILLPD (local-government accountability report made available to the public). Heads of local governments' commitment variable are measured using a binary: 0 for "not committed" and 1 for "committed."

3.5 Data collection method

Data are obtained by accessing various websites related to the data desired by researchers according to research purposes. Variables of the local governments' financial report disclosure on government websites and the commitment of heads of local governments were obtained by accessing the official website of the local governments in Indonesia. Data were related to audit opinions, audit findings and follow-up audit recommendations from audit report (LHP) on the website of BPK. However, the level of education and population welfare data is obtained from the website of the Indonesian Bureau of Statistics (BPS).

3.6 Data analysis technique

Logistic regression is a statistical method where the dependent variable is binary (Sarwono, 2014, p. 206). According to Sarwono (2014), a binary variable is a categorical variable having two possibilities expressed 1 for existing or yes and 0 for non-existing or no. In general, the equation of logistic regression is as follows:

$$\ln \frac{p}{1-p} = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + e,$$

where $\ln(p)/(1-p)$ is the disclosure of local government financial statements on the website (Y); b_0 is the constant; X_1 is the audit opinion; X_2 is the audit findings; X_3 is the follow-up audit recommendations; X_4 is the education level; X_5 is the welfare level; X_6 is the Heads of Local Governments' Commitment; b_1 – b_6 is the regression coefficient; and e , error.

4. Result and discussion

4.1 Descriptive statistic

In general, the official website or website is owned by every province in Indonesia, but not all official websites of the local governments present complete information related to its financial statements. The data of this research comprise 68 financial statements during the period 2015–2016 collected from 34 local governments across Indonesia by employing census method.

Descriptive statistics describe the frequency, maximum value (highest), minimum value (lowest), average (mean) and standard deviation from the data (Table I).

4.2 Test of quality data

This test is conducted to confirm hypotheses in this study, using logistic regression analysis the logistic with a significance level at 95 percent. The first step is assessing the feasibility of the study's regression model. To assess the feasibility of a regression model (goodness of fit), this study employs Hosmer and Lemeshow Test. The results of the Hosmer and Lemeshow Test are illustrated in the Table II.

Table II shows that the value of significance is 0.324. A decent regression model will show significant value on Hosmer and Lemeshow Test more than 5 percent (Ghozali, 2005). The significance values shown in those tables are above 5 percent or more than 0.05 so that

	n	Descriptive statistics			
		Minimum	Maximum	Mean	SD
Financial statements disclosure on website	68	0	1	0.49	0.503
Audit opinion	68	3	5	4.74	0.683
Audit findings	68	0.0014	10.3641	0.380913	1.2610270
Follow-up audit recomm.	68	1.5165	71.0045	25.992085	18.0549185
Education level	68	0.00	0.22	0.0297	0.02933
Welfare level (in thousand rupiahs)	68	6,637	17,468	9,934.93	2,069.325
Heads of LG commitment	68	0	1	0.72	0.452
Valid n (listwise)	68				

Source: SPSS output

Table I.
Descriptive statistic

Hosmer and Lemeshow Test			
Step	χ^2	df	Sig.
1	9.227	8	0.324

Source: SPSS output

Table II.
Goodness of fit regresi logistik

the goodness of fit model is good and the regression model is acceptable. The next stage in logistic regression analysis is to assess the overall model of regression (overall model fit). To assess the overall regression model namely by observing the value-2 log likelihood (LL) Block number = 0 and block number = 1. As for the value-2 LL block number = 0 and block number = 1 is presented in Table III.

If the value-2 LL on block number = 2 and 3 is smaller or there is a decrease compared to block number = 1. Then, it can be concluded that the overall regression model is feasible (Ghozali, 2005). Referring to Table III value-2 LL on block number = q is 89.449, whereas the value-2 LL on block number = 2 and 3 is 89.446. Thus, the overall regression model is feasible because of a decrease in the value-of-2 LL on block number 1. The Omnibus Tests of Model Coefficients in logistic regression analysis aims to know whether all variables are free or one of the free variables affects the dependent variables. The results of the Omnibus Tests of Model Coefficients are indicated by Table IV.

Table IV indicates that the model significance value is 0.002. A good regression model will show the significance value of less than 5 percent (Ghozali, 2005). Based on the results of the SPSS, the level of significance is below 5 percent or 0.002. It indicates that independent variables affect the disclosure of financial statements on the local government websites simultaneously or at least one of the independent variables used in the study affected the disclosure of financial statements on the local government websites.

Iteration	Iteration history ^{a,b,c}		Coefficients
	-2 log likelihood		
	Constant		
Step 0			
1	89.449		0.529
2	89.446		0.542
3	89.446		0.542

Notes: ^aConstant is included in the model; ^binitial -2 Log likelihood: 89.446; ^cEstimation terminated at iteration number 3 because parameter estimates changed by less than 0.001

Source: SPSS output

Table III.
Overall model fit

As for the value of Cox and Snell R^2 as well as Nagelkerke R^2 , based on the output of the SPSS, the value of Cox and Snell R is 0.160 and the value of Nagelkerke R^2 is 0.213 which means 21.3 percent variable disclosure of financial statements on the local government websites, influenced by independent variables: audit opinion, audit findings, follow-up audit recommendations, education level, welfare level and heads of local governments' commitment (Table V).

4.3 Hypothesis testing

In logistics regression tests, the regression equation can be known through the variables in the equation table. Based on Table VI of logistics regression test results below. Then can be compiled equation of logistic regression as follows:

$$Ln \frac{p}{1-p} = -7,710 + 1,029X1 + 0.375X2 + 0.025X3 - 14,065X4 - 0.000X5 - 0.577X6 + e,$$

$Ln((p)/(1-p))$ is the disclosure of local government financial statements on the website (Y); X1 is the audit opinion; X2 is the audit findings; X3 is the follow-up audit recommendations; X4 is the education level; X5 is the welfare level; X6 is the Heads of Local Governments' Commitment; and e is the error.

Table IV.
Omnibus tests of model

	Omnibus Tests of Model Coefficients χ^2	df	Sig.
Step 1			
Step	20.449	6	0.002
Block	20.449	6	0.002
Model	20.449	6	0.002

Source: SPSS output

Table V.
Cox dan Snell R^2
dan Nagelkerke R^2
Regresi Logistik

Step	2 log likelihood	Model summary Cox and Snell R^2	Nagelkerke R^2
1	82.386 ^a	0.160	0.213

Note: ^aEstimation terminated at iteration number 5 because parameter estimates changed by less than 0.001
Source: SPSS output

Table VI.
Logistic regression
test result

	B	SE	Variables in the equation		Sig.	Exp(B)
			Wald	df		
Step 1 ^a						
X1	1.029	0.509	4.093	1	0.043	2.798
X2	0.375	0.517	0.526	1	0.468	1.455
X3	0.025	0.016	2.452	1	0.117	1.025
X4	-14.065	15.612	0.812	1	0.368	0.000
X5	0.000	0.000	3.020	1	0.082	1.000
X6	-0.577	0.616	0.875	1	0.350	0.562
Constant	-7.710	3.386	5.184	1	0.023	0.000

Note: ^aVariable(s) entered on Step 1: X1, X2, X3, X4, X5 and X6
Source: SPSS output

4.4 Discussion

4.4.1 *Influence of audit opinion on the financial statements disclosure therein local governments' websites.* The first hypothesis (H1) in this study, the audit opinion affects the disclosure of financial statements on the local government website. Based on the results of the logistics regression test on Table VI, the coefficient regression variable of audit opinion is 1029 and the significance rate is 0.043, smaller than 5 percent or 0.05. This indicates that the better the local governments audit opinion the better it will encourage the local governments to conduct financial statements disclosure on the website.

According to Mulgan (1997), in the context of the public sector, the relationship between principal and agents such as the relationship between society and the government can be analogous. Society is the principal and the government is an agent. The principal authorizes the arrangement to the agent and provides resources to the agent (in the form of taxes and others). As a form of accountability for the authority given, the agent provides a report of accountability to the principal. The disclosure of financial statements online is a form of government responsibility as an agent to provide information related to the financial report to the society as the principal for easy access to information.

Disclosure of audit results of financial statements in the form of opinion is a form of transparency to the public as a form of accountability to society as a principal. Disclosure of online financial statements can be a medium for the local governments to provide information on the finances it manages. On the other hand, people can assess the performance of the government, in addition to participating in the progress and development of the region, through the supervision of financial management by local governments. In addition, the disclosure of financial statements online can provide convenience for local governments to realize accountable and transparent governance and convey information to the entire population economically, effectively and efficiently.

4.4.2 *The influence of audit findings on the financial statements disclosure therein local governments' websites.* The second hypothesis (H2) in this study, the audit findings affect the disclosure of financial statements on the local government website. Based on the results of a logistic regression test on Table VI, the coefficient of regression variable audit findings is 0.375 and the level significance of 0.468, greater than 5 percent or 0.05. This means that the audit findings variables have no effect on the disclosure of financial statements on local government websites.

Liestiani's (2008) research found that the number of audit findings relates positively and significantly to the level of LKPD disclosure. Handayani (2010) states the higher level of irregularities; according to them, the local governments tend to cover the information, so the level of disclosure is lower and vice versa. However, this research is in accordance with the research of Hilmi and Martani (2012), which finds that the number of findings has no effect on the level of disclosure of LKPD.

Lupia and McCubbins (2000) explain that relationships between the principal and agent are rooted in economic theory, decision theory, sociology and organizational theory. The principal theory of the agent analyzes the contractual arrangement between two or more individuals, groups or organizations. One of the principal makes a contract, either implicitly or explicitly, with the other party (agent) in hopes that the agent will act/perform the work as intended by the principal (in which case the delegation authority). Delegation occurs when a person or one group (principal) chooses an agent to act in accordance with the interests of the principal.

The number of audit findings based on the BPK report requires local governments to immediately follow the findings. More findings indicate that there are still many mistakes in the preparation of financial statements, whether the fraud or misrepresentation is done so that it will impact the performance of local governments.

4.4.3 *The influence of follow-up audit recommendation on the financial statements disclosure therein local government websites.* The third hypothesis (H3) in this study, the follow-up audit recommendations affects the disclosure of financial statements on the local government website. Based on the results of the logistics regression test on Table VI, the coefficient of variable regression follow-up audit result is 0.025 and the significance value of 0.117 is greater than 5 percent or 0.05. This means that follow-up audit recommendations variables have no effect on the disclosure of financial statements on the local government websites. This suggests that follow-up audit recommendation conducted by the local governments does not encourage local governments to conduct financial statements disclosure on the local government websites.

Setyaningrum (2015) stated that the follow-up of the examination result period was measured by the number of recommendations by the government so that the quality of financial statements represented at the level of disclosure becomes increasingly higher. This suggests that there needs to be a strong commitment from the local governments to promptly correct the mistakes made. The response to the fix is a manifestation of the local governments' responsibility in the effort to realize the transparency of financial information to the community.

According to Gilardi (2001), the relationship of agency is a delegation of chains of delegation, a delegation of people to his deputy in Parliament, from Parliament to the government. Therefore, it has become the obligation of the local government to account for what it manages to the public. This is because the revenue of the area is also obtained from the tax paid by the community.

The disclosure of financial statements on local government websites conducted by governments can increase the trust of external parties especially communities against governments. The disclosure of financial statements on the local government website provides convenience for external parties to acknowledge the local governments' commitment to correct errors in the preparation of its financial statements.

4.4.4 *The influence of the education level on the financial statements disclosure therein local government websites.* The fourth hypothesis (H4) in this study, the level of education affects the disclosure of financial statements on local government websites. Based on the results of the logistics regression test on Table VI, the variable regression coefficient of the education level is -14.065 and the significance value of 0.368, greater than 5 percent or 0.05. This means that a variable level of education does not affect the disclosure of financial statements on local government websites or the growing number of people studying in colleges in an area increasingly do not encourage the disclosure of financial statements on local governments' websites.

The results of the study were not in accordance with the research results of Evans and Yen (2005), Chaudhuri *et al.* (2005) and Pe'rez *et al.* (2008), who found an education level influence on e-government advances, as more wanted information provided by the government online.

Based on the results of the survey conducted by the Asosiasi Penyelenggara Jasa Internet Indonesia/Association of Internet Service Providers Indonesia (APJII) year 2016, composition of internet users in Indonesia is worker/self-employed (62 percent), housewives (16.6 percent), university students (7.8 percent), students (6.3 percent) and others (0.6 percent).

Concerning reason for accessing internet, the users access it for: update information (25.3 percent), work (20.87 percent), leisure time (13.5 percent) socialization (10.33 percent), related education (9.2 percent), entertainment (8.8 percent) and business, trade and search for goods (8.5 percent).

The above data reflect that there are significant number of people using internet for supporting their work and updating their information. It means that local governments should be more transparent to the public, including public access to their financial statements because it is part of their accountability to the citizens that have elected their leaders in managing public offices.

The role of information technology and education is crucial in today's world. So if a country wants to progress then it should support science and information technology. The growing technology will certainly affect easy access to science and also develop it. According to Garry and Lamont (2003), the aspect of knowledge has an important role in contributing valuable contributions to organizational capabilities. The role of the knowledge management system is very important in facilitating innovation by the organization and the learning process in the organization. The condition explains how important knowledge is to improve organizational capacity, especially in innovation and transformation.

In the theory of learning organizations, the transformation of an organization refers to how the organization changes. Each organization will be in a continuously changing situation. To be able to survive and thrive, the organization must grow and make adjustments. To anticipate organizational changes, an organization needs to learn so as to survive or even be able to demonstrate better performance.

4.4.5 The influence of welfare level on the financial statements disclosure on local governments' websites. The fifth hypothesis (*H5*) in this study, the level of welfare has a significant effect on the disclosure of financial statements on local government websites. Based on the results of the logistics regression test on Table VI, the variable regression coefficient of the welfare level is 0.000 and the significance value is 0.082, greater than 5 percent or 0.05. That is, the variable level of welfare has no significant effect on the disclosure of financial statements on local government websites or the higher the welfare level in an area does not encourage the government's desire to disclose financial statements on local government websites.

The results of this study were not in accordance with the research results of Styles and Tennyson (2007) that found that the welfare of the population has a significant positive relationship to the disclosure of financial information on the website. The results of the descriptive statistical analysis show that the average value of the welfare variable is 9,934.93 and the standard deviation is 2,069.325. This means the standard deviation of the welfare level of each region in Indonesia is quite varied.

The needs of a society that increasingly will be public information require that local governments should continue to improve the information needed by the community. When associated with the theory of learning organization, the transformation of an organization refers to how the organization changes. Basically, the change is something that remains constant in the organization. Each organization will be in a continuously changing situation. To be able to survive and thrive, the organization must grow and make adjustments, one of them through its human wellbeing inhabitants. Through a good level of welfare, the government can maximize information technology for its community needs. Information technology has become an integral part and is an infrastructure that is essential for organizations or adding value or competitive advantage. Dalt (2010) states that innovative concepts have always emerged to face a difficult management challenge. Organizations are experimenting with new ways of managing that can better answer the demands of today's environment and customers. Two of the latest management innovations are shifting to learning organizations and managing technology-based workplaces.

Areas that have high local income means having a higher level of well-being, a society with higher welfare should pay more attention to the implementation of the government than have lower welfare. Increasing demands on accountability and transparency of government implementation as a form of monitoring. Expression of transparency can be done through the disclosure of financial statements on government websites.

4.4.6 The heads of local governments' commitment on the financial statements disclosure on local governments' websites. The sixth hypothesis (*H6*), the heads of local governments' commitment has an effect on the disclosure of financial statements on local government

websites. Based on the results of the logistics regression test on Table VI, the regression coefficient of variable the heads of local governments' commitment is -0,577 and significance value of 0.350, greater than 5 percent or 0.05. The heads of local governments' commitment variables have no significant effect on the disclosure of financial statements on the local government website.

Public officials are required to be more transparent, accountable and more oriented to community service. That is, it is important for local heads to commit to disclose financial statements on the internet as a form of accountability for managed funding sources. However, this study was different from Azhar *et al.* (2014) who expressed the commitment of local head to influence the transparency of financial reporting of local governments.

Bergman and Lane (1990) stated that the average agent–principal relationship is a very important approach to analyzing public policy commitments. The creation and application of public policy relating to the contractual issues, i.e., information that is not asymmetric information, moral hazard and adverse selection.

Internet financial reporting conducted by local governments can build community trust and other stakeholders to the government. This is a concrete form of organizing local government activities, especially in the management of regional budgets, which has been in accordance with the prevailing rules. In addition, it can support the efforts to create regional financial management in an orderly, efficient, economic, effective, transparent and accountable manner. Thus, with the financial reporting on the Internet, backed by a strong commitment by the local head in doing transparency will realize good governance of a government.

5. Conclusion, limitation and research implication

Results of this study show that the audit opinion has a significant positive influence on the financial statements disclosure of Indonesian local government websites. However, the findings of audits, follow-up audit recommendations, education level, welfare level and heads of local governments' commitment have no significant influence on the disclosure of financial statements of local government websites nationwide.

The study has limitation in terms of data availability because data are partly unavailable on the web of the local governments, so that the researchers need to go extra miles to find the data in work units (SPOD) under respective local governments being studied.

Implication of this research provides an overview that the disclosure of financial statements of the local government websites is one of the ways to be more transparent to the stakeholders. It is can be achieved by imposing stricter sanctions for local governments that have not made their financial statements disclosure available to the public electronically (via website).

The loose regulation merely imposing voluntary disclosure has driven local governments to feel "enough" with the current level of transparency. So, we need an imperative regulation that can drive local governments to be more transparent and accountable by scaling up the regulation from voluntary to mandatory disclosure.

Further research can be explored more by adding and investigating others variables such as size of local parliaments, spending of the local budgets, debts and number of population.

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Corresponding author

Wahyudin Nor can be contacted at: wahyudinnor@ulm.ac.id

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