

# Domination of Regional Wealth as a Determining Factor of Financial Statement Disclosure

**Johan Arifin**

Accounting Department, Universitas Islam Indonesia

Email: johan.arifin@uui.ac.id

## ABSTRACT

Using Stewardship theory, this study examines the factors that influence the level of mandatory disclosure within financial statements of provincial governments in Indonesia, including size of government, regional wealth, number of Regional Working Units (SKPD), administrative age of government and audit findings. By applying the purposive sampling method, this study uses a sample of financial statements from 27 provinces in Indonesia during 2016 to 2018, therefore the total sample is 81 financial statements. The findings reveal that there is a moderate level of compliance with key mandatory disclosures (61,33%). In addition, the regression analysis shows that from the five potential predictor variables, regional wealth is the only predictor that is significantly positive towards the level of mandatory disclosure within financial statements of Indonesian provincial governments. Given overall non-compliance rate of over 38% there is a clear need for the Indonesian government especially the Supreme Audit Board (BPK) to better enforce provincial government's compliance combined with important financial reforms and regulations.

**Keywords:** Stewardship theory; level of disclosure; regional wealth; provincial government.

## INTRODUCTION

Indonesia is one of the developing countries in Asia that has performed various reforms in various fields. Since the issuance of Law No. 22 of 1999 on Regional Government [47], Indonesia started to enter the era of regional autonomy and fiscal decentralization in which some of the government's responsibilities are shifted from the central government to regional governments. The regional autonomy policy was adopted to allow regional governments to manage their own regions without any interference from the central government [22]. Therefore, regional governments are expected to be able to manage their own resources and implement good governance.

Regional autonomy requires each regional government to maintain transparency and accountability in their financial management in order to create a clean governance [14]. To achieve this, both the central government and regional governments are obliged to submit accountability reports in the form of financial statements. As stated in Law No. 17 of 2003 on State Finance [48], the president, governors, regents and mayors are obliged to submit accountability reports based on the results of the utilization of government budgets at the central and regional levels. The accountability report is written based on Government Accounting Standards namely Government Regulation No. 71 of 2010.

Any financial statements that have been written according to the Government Accounting Standards are then audited by the BPK to be submitted to the People's Representative Council (DPR)/Regional Representative Council (DPRD) and to the public. The financial statements that have been audited and have been given disclosures based on the BPK audit findings can serve as useful information for the users of financial statements for decision making, which is in line with the objective of the financial statements. The audits performed by BPK to financial statements will result in audit opinions. There are five types of audit opinions that can be given by BPK, namely Unqualified Opinions (WTP), Unqualified Opinions with Explanatory Paragraphs (WTP PP), Qualified Opinions (WDP), Adverse Opinions (TW), and Disclaimer Opinions (TMP) [42].

Unqualified Opinion is an opinion expected by each government institution for it shows that the disclosures made by these government institutions are completely qualified and accountable. Unqualified Opinion can be obtained by meeting several criteria such as conformity of financial statements with the applicable Government Accounting Standards, adequate disclosure, compliance with regulations, and effectiveness of the internal control system [36]. By meeting these four criteria, transparency and accountability in the disclosure of government financial statements can be met.

Transparency in providing financial statement-related information can provide open and honest information to the public and other users of financial statements [23]. In addition, disclosures in financial statements can be categorized into two parts, namely mandatory disclosure and voluntary disclosure [19]. The minimum disclosures required by the applicable accounting standards are mandatory disclosures.

Based on data from BPK, there are 34 Financial Statements of Provincial Governments in Indonesia. The results of the audit in 2017 showed that 33 financial statements (97%) of the provincial government were given WTP, while the remaining (3%) was given WDP. Based on the data, it can be seen that there was one provincial government financial statement which had not been given WTP based on the audit findings by BPK. This is possibly because of lackness in the presentation of financial statements, where some accounts are not presented in accordance with the applicable Governmental Accounting Standards.

Some previous studies showed that the disclosures made by Indonesian districts and municipalities have not been optimal, with an average disclosure of 69.01% [9], 59.99% [41] and 30.85% [44]. In fact, based on the results of some previous studies, the disclosure of the provincial government financial statements in Indonesia has increased over years. This way, the regional governments are increasingly showing their existence and integrity, especially with regard to financial accountability. Nevertheless, it is necessary to conduct a study which examines various factors that potentially affect the level of disclosure in the provincial government financial statements in Indonesia, so as to allow for effective formulation of public policies in relation to the obligation to disclose financial statements.

Further, this study used a different theoretical basis compared to previous studies. Several previous studies used agency theory to predict the level of mandatory disclosure in regional government financial statements. According to the agency theory, it is basically difficult to create the relationship between owners and managers due to some conflicting interests, where each of these parties has different personal interests [28]. Based on this study, the researcher believed that the perspective of the agency theory is not suitable to be applied in government institutions, especially in regional governments, because the interests of the upper level management in government institutions are generally in line with those of the lower level management [32]. In government institutions, all employees in general are loyal and committed to obeying regulations and committed to carrying out

any tasks that become their full responsibility so as to achieve organizational goals properly. Based on this reason, this research adopted another alternative theory, namely the Stewardship Theory. This theory explains the relationship between principal with steward, where the steward will always make efforts to achieve organizational goals in accordance with what the principal wants to achieve [26]. The government, as a steward, has lots of information, is responsible for the trust given by the people as the principal, and must always be aware of maintaining transparency and accountability of financial statements. Based on these reasons, this study used the stewardship theory as a theoretical basis for analyzing various existing phenomena related to the mandatory disclosure of provincial government financial statements in Indonesia.

Some potential variables used in this study include the size of government, regional wealth, the number of SKPD, government age, and audit findings. Size of government in this study can be proxied by the total assets of the government where the extent of the local government wealth shows the size of the government. The greater the size of a government, the greater the demand for transparency in the government financial management. Meanwhile, regional wealth represents the prosperity of the region, where regional wealth can be proxied by own-source revenue (PAD), namely revenue originating from community contributions. The greater the own-source revenue of a region, the greater the government's obligation to make disclosures in the financial statements of the region [8].

The number of SKPD represents the number of functions that become the priority of the regional government in developing the region. The more the functions of a region, the higher the level of disclosure to be done [2]. Similarly, the age of government can be interpreted as how long the government has lasted. The administrative age of government will affect the quality of the disclosure in the government financial statements in accordance with the experience of the government [11]. An audit is an overall financial statement examination carried out by an audit board. The findings of BPK have caused the government to face demand to improve its disclosure, where the more the audit findings, the more the additional disclosures in the financial statements demanded by BPK [9]. This is because a greater number of audit findings by BPK shows a low level of disclosure in government financial statements. This study was conducted to prove the correctness of these statements.

This study is also to reassure the results of several previous studies regarding which predictor variables are suitable for predicting the level of

financial statement disclosure in Indonesian provincial governments. The variable most frequently used in similar studies is regional wealth. A study conducted by [41] to analyze the factors that influence the level of disclosure in provincial government financial statements showed that regional wealth has a positive effect on the mandatory disclosure in financial statements. This finding was also supported by a study conducted by [3]. However, a different finding was shown by [50] who conducted a study to examine the level of disclosure in regional government financial statements. The results showed that regional wealth does not have a significant effect on the mandatory disclosure in regional government financial statements.

Another variable which is usually used yet debatable is the number of Regional Working Units. A research conducted by [24] showed that the number of SKPD has a significant effect on the level of disclosure in the Regency/Municipal Government Financial Statements in Central Java Province for the period 2010-2012. In contrast, a research conducted by [44] revealed that the number of SKPD does not significantly influence the level of disclosure in local government financial statements. In addition, a research conducted by [11] showed that the administration age of regional government has a significant effect on the level of mandatory disclosure in Regional Government Financial Statements. In contrast, a study conducted by [7] showed that the age of regional government does not have a significant effect on the level of disclosure in Local Government Financial Statements.

In fact, there are differences found among some of the results of previous studies regarding the factors that affect the level of disclosure in financial statements. This is one of the motivations for conducting this research to ascertain the factors that affect the mandatory disclosure of local government financial reports in Indonesia, particularly at the provincial level.

### **Stewardship Theory in Government**

Stewardship theory is a theory that describes a situation where a steward is motivated not by individual goals such as material possessions and money, but by organizational interests as the main target [18]. Based on a philosophical assumption, stewardship theory is a theory that is developed based on human characteristics such as being trustworthy, being able to act responsibly, having integrity, and being honest with others [38]. This theory also describes a strong relationship between organizational satisfaction and success, in which organizational success can be achieved by optimizing the utility of principal and management.

The relationship described in the stewardship theory is the relationship between principal and steward. The basis of this theory is psychology and sociology, in which the motivation of a steward in behaving is in accordance with what the principal wishes. A steward will not leave his/her organization because she/he strives to achieve organizational goals [39].

In relation to government, the government serves as a steward, has lots of information, is responsible for the trust given by the people, and must always be aware of maintaining transparency and accountability. The government should give maximum efforts in implementing its governance to achieve the government's goal, namely to improve the welfare of the people. Once the goal is achieved, the people who have elected them in the general election will feel satisfied with the government's performance.

Stewardship theory is more suitable to be used as the underlying theory of this research because this theory has an important assumption that the steward (provincial government) will always side with the public as the owner or principle. Thus, the government will always fulfill what is the goal of its society. This is in line with the main objective of public sector organizations which is to provide maximum service to society.

### **Disclosure of Information in Financial Statements**

Based on Government Regulation No. 71 of 2010 on Government Accounting Standards [33], financial statements are written to provide relevant information about financial positions and all transactions carried out by an entity during one reporting period. Financial statements are used to determine the value of economic resources which are utilized to carry out the operational activities of a government, assess financial conditions, evaluate the effectiveness and efficiency of a reporting entity, and assist in determining its compliance with laws and regulations [37] and [46].

Financial statements are presented to serve as a means of communicating financial information to any interested parties to account for the performance and activities that have been carried out. Financial statements provide information about the use of the economic resources, transfers, financing, budget execution, budget surplus, Operational Reports, assets, liabilities, equity, and cash flow of a reporting entity [1]. A disclosure should be able to provide material and relevant information to be used in decision making. A good disclosure should also be prepared in accordance with any predetermined standards which serve as guidelines.

Disclosure should add value to the information provided, instead of reducing it by presenting information that is too detailed and difficult to analyze.

Disclosure in financial statements should provide adequate information and explanations about the results of the activities carried out by a business entity, in order to accurately describe any economic events that affect the results of the operational activities of the business entity. Three disclosure concepts which are commonly proposed are adequate, fair and full disclosures [43]. The most common disclosure among these three concepts is adequate disclosure. Adequate disclosure can include minimal disclosures that should be made in order for the financial statements to not be misleading [10].

There are two categories of disclosures in financial statements, namely mandatory disclosure and voluntary disclosure [15]. Mandatory disclosure is the minimum disclosure required by an applicable accounting standard. This disclosure is a full disclosure that presents relevant information needed by the users of financial statements. On the other hand, voluntary disclosure is additional disclosure that is not required by an accounting standard. In addition, it is considered relevant and useful for the users of financial statements.

### **Size of Government**

The greater the assets owned by a region, the greater the size of the local government. The higher the sales, the more the capital to be invested. In addition, the greater the market capitalization, the more popular the entity to the public. These three variables can be used to measure the size of an entity because these three variables represent the extent of an entity.

A variable that can be used to describe the size of government is total assets. Total assets are selected because they have a more stable value compared to sales and market capitalization [16]. A government with larger size or total assets will tend to have more complex asset management. Consequently, the government needs to disclose more about their assets and pay more attention to mandatory disclosures in accordance with applicable accounting standards.

### **Regional Wealth**

Regional wealth describes the level of prosperity of a region. Regional wealth is proxied by PAD, which is one of the regional revenues sourced from its own region, reflecting the level of independence of the region [24]. According to Law No. 28 of 2009 on Regional Tax and Regional Retribution [49], regional own-source revenue consists of local

taxes and levies, the results of local asset management and other legitimate regional own-source revenues. This means that regional own-source revenues are the contributions of the community in each region.

High regional own-source revenues are able to stimulate community participation in paying regional taxes and levies. An increase in own-source revenue is always carried out to motivate local governments to be able to finance their own needs, so as to be independent and no longer depend on the central government. Based on the stewardship theory, local governments can show their responsibility for good performance through a large amount of regional wealth and resources, making them try to write better financial statements [17].

### **Number of Regional Working Units (SKPD)**

Regional government is one of the reporting entities, namely a government unit consisting of one or more accounting entities that are required to submit accountability reports in the form of financial statements. The accounting entity is a regional working unit. Regional Working Unit is also a regional government apparatus as the user of the budgets/goods.

The number of SKPD represents the number of functions that become the priority of the local government in developing the region [44]. The more the functions that become the priority of a region, the more complex the government is in carrying out its duties [1]. The increasingly complex duties of government will encourage the government to make greater disclosures. This is because the government receives more demand from the people, as the principal, to make more disclosures in accordance with the increasingly complex duties of the government to prove its accountability.

### **Administrative Age of Government**

The age of an organization can be seen in terms of how long the organization has lasted since it was founded. The administrative age of government is the year when a regional government is established based on the laws of the establishment of the region [11]. The age of government is correlated with the completeness of annual reports. Regional governments with a longer administrative age will have a higher level of disclosure of their financial statements [41], because the older the age of a region, the better the experience in writing financial statements.

### **Audit Findings**

Audit is a systematic process to collect and evaluate evidence regarding economic statements to determine the level of conformity of the statements

with the specified criteria and convey the results to any interested parties [40]. State audits are performed by the BPK. Financial statements are audited to improve the quality of the transparency and accountability of government financial statements. The results of audit can be in the form of opinions, findings, conclusions, or recommendations.

Audit findings by BPK are any cases found in government financial statements that violate the provisions of any applicable laws. The extent of the audit findings by BPK will affect the extent of disclosure as a correction [3]. The more the audit findings, the more the additional disclosure in the financial statements requested by BPK. This is because a high number of audit findings by BPK represents a low level of disclosure in government financial statements.

### Previous Studies

Studies on the level of disclosure by provincial governments are still relatively few in number compared to studies on the level of disclosure by regency/municipal governments. A study on the effect of the characteristics of regional government on the level of disclosure was once carried out by [6]. The study showed that the age of regional governments and the ratio of local independence affect the level of mandatory disclosure. Other variables, namely the size of regional government, liabilities, transfer, and the number of SKPD do not affect the level of mandatory disclosure. A study on the effect of government characteristics on compliance with mandatory disclosures in regional government financial reports has been conducted by [2]. The results of this study revealed that the three characteristics of local government, namely the size of the region, the number of SKPD, and the status of the local government, do not affect the level of mandatory disclosure in local financial statements.

A research by [3] on the effect of regional government characteristics on the level of financial statement disclosure used nine variables. Four of these variables were found to have a significant effect on the level of financial statement disclosure. These variables are the size of legislative council, the administrative age of the regional government, regional wealth, and intergovernmental revenue. Meanwhile, other variables were found to cause an opposite result, i.e. not affecting the level of financial statement disclosure. These variables are the size of regional government, functional differentiation, occupational specialization, debt financing, and the ratio of regional independence.

[50] conducted a study on the determinants that affect the disclosure of local government financial statements. The result of this study showed that regional wealth and human development

index have a positive and significant effect on the disclosure of regional government financial statements. On the other hand, the asset variable has a negative and significant effect, while functional differentiation, debt, and intergovernmental revenue do not affect the disclosure of regional government financial statements.

Unfortunately, there have only been few studies on the level of mandatory disclosure of provincial government financial statements. [11] conducted a study on the factors that influence the level of disclosure of provincial government financial statements using three groups, namely government characteristics, government complexity, and audit findings. In terms of government characteristics, regional wealth has a positive effect because when provincial governments have a greater amount of wealth, they can utilize it to write more disclosures. On the other hand, the variable of the level of dependence and total assets do not have a significant effect on the level of disclosure of provincial government financial statements. In terms of government complexity, the result showed that population has a positive effect. The greater the number of the population, the greater the demand from the community to ask for more disclosures. The number of SKPD does not affect the level of disclosure of provincial government financial statements. In terms of audit findings, it is shown that the level of deviation has a positive effect because the level of deviations found by BPK will affect the level of disclosure of the financial statements written. In fact, the number of audit findings does not have a significant effect on the level of disclosure of provincial government financial statements.

A study by [29] on the factors which affect the level of disclosure of provincial government financial statements showed that general budget allocation, the level of dependence, own-source revenue, and audit findings do not have a significant effect. Other variables, i.e. capital expenditure and the number of population, were shown to have significant effect on the level of disclosure of provincial government financial statements.

### Research Hypothesis

#### *Effect of Government Size on Level of Disclosure in Provincial Government Financial Statements*

Larger-sized governments tend to have a larger amount of resources compared with smaller-sized ones [27]. The size of government is proxied using total assets. Assets are one of the resources used by an entity to perform its operational

activities. Adequate resources and facilities are needed in order to provide good services to the public. Governments with more complex and increasing total assets require good asset management, thus requiring more disclosures in relation to the management and maintenance of assets.

From the perspective of stewardship theory, it is stated that the government will try to show its existence by disclosing all its resources in the financial statements. This is to show that the government is responsible for the mandate given by the community, especially in terms of managing regional assets. The higher the asset value obtained from the success of the business that has been carried out by the government, the more it will encourage the government to disclose it in the financial statements.

In this regard, larger-sized companies tend to receive greater demand from the public to make full disclosure as an effort to maintain transparency and accountability. This opinion is supported by a study conducted by [5], showing that the size of government proxied by total assets has a significant effect on the level of disclosure in government financial statements.

The size of government affects the demand from the public, in which larger size will lead to greater demand in relation to mandatory disclosures. This demand will have a major impact on government performance. A research supporting this statement was carried out by [45] showing that government size has a positive effect on financial performance. Based on the explanation, the first hypothesis of this study is:

H<sub>1</sub>: Government size has a positive effect on the level of disclosure in provincial government financial statements.

#### ***Effect of Regional Wealth on Level of Disclosure in Provincial Government Financial Statements***

Regional wealth is proxied by Own-Source Revenue (PAD). The PAD is one of the regional revenues sourced from the region and this revenue reflects the level of regional independence [3]. Most of the sources of regional wealth come from the community in the form of local taxes and levies. This way, the higher the PAD or regional wealth, the higher the community participation in paying regional taxes and levies.

A high level of public participation will have an effect on the amount of regional wealth and the higher the regional wealth, the higher the level of disclosure made by the local government [30]. When a region has a greater amount of regional wealth,

this region has a greater amount of resources to make disclosures, encouraging an increase in the level of disclosure in government financial statements. Governments with large PAD will try to make good disclosures in their financial statements.

Thus, based on the theory of stewardship, local governments will always try to show their responsibility for the resulting all good performance. For this reason, with regard to high PAD results, local governments will try to disclose it in their financial statements as a medium of accountability to the public for all mandates given to the provincial government as a steward.

A study conducted by [3] found that regional wealth has a positive effect on the level of disclosure in provincial government financial statements. The same opinion was mentioned in a research conducted by [24] who also found that regional wealth has a positive and significant effect on the level of disclosure in regional government financial statements. Based on these explanations, the second hypothesis of this study is:

H<sub>2</sub>: Regional wealth has a positive effect on the level of disclosure in provincial government financial statements.

#### ***Effect of Number of Regional Working Units (SKPD) on Level of Disclosure in Provincial Government Financial Statements***

Regional government consists SKPD which are obliged to submit accountability reports in the form of financial statements. Regional development can be seen in terms of the number of functions which become the priority for local governments. When a government has a higher number of function priorities, the government's duties will become increasingly complex [31].

From the perspective of stewardship theory, the greater the number of SKPDs, the more information that must be disclosed in an effort to reduce information asymmetry and show better steward performance to the public as the principle. In addition, the increasing number of SKPDs in a government will result in a higher need for disclosure of local government financial statements.

More complex duties of a government indicate that the number of Regional Working Units increases. An increasing number of SKPD along with more complex duties results in an increased demand to disclose information as an effort to meet the disclosure of government financial statements in accordance with the established standards. The results of a study conducted by [25] supported such explanation. The study mentioned that the number of SKPD has a significant effect on the level of disclosure in regional government financial

statements. Based on this explanation, the third hypothesis of this study is:

H<sub>3</sub>: The number of Regional Working Units has a positive effect on the level of disclosure in provincial government financial statements.

### ***Effect of Provincial Government Age on Level of Disclosure in Provincial Government Financial Statements***

The age of a government can be defined as how long an organization has lasted since its establishment. Governments with a longer age will have more experiences and ability compared to new governments. This definition can also be applied to administration systems. Governments with a longer administrative age are more familiar with regulations and standards related to financial statement disclosures. This is because the government can examine the financial statements written in the previous years, then evaluate and follow up the results of the analysis in order to improve the preparation for the financial statement disclosures in the following fiscal years.

Meanwhile, in the perspective of stewardship theory, it is explained that through age, an entity should be able to demonstrate the goals and awareness of steward by being able to convince the public that the local government is well-established and experienced, so that the community will respond through the expectation of better disclosure.

Several previous studies have supported that the administrative age of governments affects the level of disclosure of financial statements [11] and [41]. The longer the existence of a local government, the more the experiences of the government compared to new ones. In addition, the administration system of a government with a longer administrative age contains better processes and records. Based on this explanation, the fourth hypothesis of this study is:

H<sub>4</sub>: The administrative age of provincial government has a positive effect on the level of disclosure in provincial government financial statements.

### ***Effect of Audit Findings on Level of Disclosure in Provincial Government Financial Statements***

Audit findings are the findings of deviations found in the financial statement disclosures by BPK by referring to the applicable accounting standards. Audit findings found by BPK show there are deviations committed by a provincial government, meaning that the provincial government has a low level of disclosure in financial statements. In other

words, the higher the number of audit findings, the lower the level of disclosure in provincial government financial statements, and vice versa, the lower the number of audit findings, the higher the level of disclosure in provincial government financial statements.

Stewardship theory assumes a strong relationship between organizational success and owner satisfaction. If the organization is well managed by a steward, the principle will always provide support for the development of the organization to maintain the quality of organizational governance. If a local government is well managed, the audit results will be good, which is reflected in the low audit findings. Thus, the community as a principle will feel satisfied and always support all activities carried out by the government.

A study by [20] proved that audit findings have a significant negative effect on the performance of regional governments, one of which is the disclosure of regional government financial statements. This means that the higher the number of audit findings, the lower the level of regional government performance, including the disclosure in regional government financial statements. This is possibly due to the fact that the higher the number of deviations by the government, the lower the level of transparency in financial statement disclosure. Based on this description, the fifth hypothesis in this study is:

H<sub>5</sub>: Audit findings have a positive effect on the level of disclosure in provincial government financial statements.

## **RESEARCH METHOD**

The population in this study consisted of the Financial Statements of the Provincial Governments in Indonesia in fiscal years 2016 to 2018. The Regional Government Financial Statements (LKPD) used were the financial reports already audited by the Audit Board of Indonesia.

The sample in this study was the financial statements of the provincial governments in fiscal years 2016-2018 based on a consideration that the data used could present up-to-date information so as to provide an overview of the current condition of the provincial governments in Indonesia. The sample was selected using a purposive sampling technique, namely a sampling technique based on certain considerations determined by the researcher so as to obtain a sample which represents the population under study [35]. The considerations or criteria used in selecting the sample of this research are (1) Financial Reports of Provincial Governments in Indonesia in fiscal years 2016-2018 which had been audited by the Audit Board of Indonesia, (2) The financial statements were given either WTP or

WDP based on the results of the audit by the BPK, (3) The financial statements provided comprehensive data for the period 2016-2018 that were needed for the research process, for examples non-financial data such as the number of regional working units.

### Dependent Variable

The dependent variable in this study was the level of disclosure in the Financial Statements of the Provincial Governments in Indonesia. The level of disclosure in the Financial Statements of Provincial Governments was in the form of a comparison between the disclosures that were presented in the Financial Statements of the Provincial Governments and the disclosures that should be presented in Notes to Financial Statements (CALK) according to the applicable Government Accounting Standards (SAP). The results of the comparison provided an overview of the level of disclosures performed by the Provincial Governments compared to the mandatory disclosures that should be presented in CALK in accordance with the applicable SAP. The level of disclosure in this study was measured using a scoring system, i.e. giving a score on the disclosure checklist. The disclosure checklist was created based on the disclosures obliged by the applicable Government Accounting Standards. The disclosure index used in this study covered 185 items of disclosure which were considered to represent the mandatory items that should be disclosed in the Regional Government Financial Report.

### Independent Variables

The independent variables used in this study were the size of government, regional wealth, the number of regional working units, the administrative age of local government and audit findings. The measurements of each independent variable can be explained in the following sections.

The size of an entity can indicate the size of a company/organization. The size can be measured by a number of variables including total assets, sales, and market capitalization [23]. Studies conducted by [12] and [21] used total assets to measure the size of government. Similarly, this study also used total assets as a proxy for the size of government. Total assets were selected because they have a quite stable value. In addition, assets can also indicate or describe the economic resources that are under the control or owned by the government as a result of past events and that are expected to be the source of future economic benefits. The measurement of the size of government referred to a research conducted by [24] where the calculation of total asset data is transformed into natural logarithms because the

unit of total assets can reach billions or trillions of rupiah, while other variables only have relatively small units. Thus, total assets are transformed into natural logarithms so as to avoid problematic econometric data processing results which can be interpreted.

In this research, regional wealth was proxied by PAD. The PAD was used because it plays a role in measuring regional wealth. Although its contribution is not too significant to the total wealth of the regional government, PAD is one source of revenue that comes from the regional government itself and it is a regional wealth potential. The measurement of regional wealth referred to a study by [3] where the calculation of PAD data is transformed into natural logarithms because the unit of PAD value can reach billions, so PAD values are transformed into natural logarithms so as to avoid problematic data processing results which can be interpreted.

Based on Government Regulation No. 71 of 2010 on Government Accounting Standards, the SKPDs are accounting entities in a government unit that manages budgets, assets, and goods, so they are obliged to write financial statements based on the applicable accounting standards. This study used all the SKPD in a region to measure the number of Regional Working Units. This measurement is in line with a research conducted by [44].

Furthermore, the administrative age of an organization can be defined in terms of how long the organization has lasted since it was founded [4]. In this study, the administrative age of the government was the year when a regional government was established based on the laws of the establishment of the region. The variable of the administrative age of the provincial governments was measured based on the issuance of laws and regulations on the establishment of the relevant provincial government.

The final independent variable is audit findings. Audit findings are any deviation cases discovered by BPK from the provincial government financial statements against the provisions of the applicable law or standards. The audit findings in this study were measured using the number of audit findings by BPK in terms of deviations and non-compliance committed by a regional government with the applicable laws and regulations.

## RESULTS AND DISCUSSION

The sample in this study consisted of 27 Financial Statements of the Provincial Governments in Indonesia from 2016-2018, so there were a total of 81 samples. From the sample, descriptive statistics were obtained, including the number of

data (n), minimum value, maximum value, mean, and standard deviation of the research variables which covered total assets, regional wealth proxied by PAD, number of SKPD, administrative age of provincial governments, and audit findings. The results of the descriptive statistics are presented in Table 1 below.

Based on Table 1, it can be seen that the mean of the level of disclosure in the provincial government financial statements in Indonesia in the period of 2016-2018 was 61.33%. This means that the provincial governments in Indonesia have not had full compliance with the mandatory disclosure regulation in their financial statements. In other words, the provincial governments in Indonesia have not been optimal in applying the transparency aspects in writing their financial statements.

### Multiple Regression Analysis

This study used multiple regression analysis to determine the effect of the predictor variables on the level of the mandatory disclosure of the provincial government financial statements in Indonesia. Prior to regression analysis, a series of classic assumption tests has been carried out as a prerequisite for regression testing. The results show that all the assumptions and regression requirements in this study have been fulfilled well. Therefore, the following table shows the results of the multiple regression analysis of this study.

Based on the regression analysis, it can be seen that the coefficient of the government size variable was 0.000, while the significance t obtained was 0.970. This way, it can be concluded that the government size variable did not affect the level of disclosure of the provincial government financial statements in Indonesia. This is in line with the results of a research conducted by [13] and [34], revealing that the size of government does not affect the level of disclosure of regional government financial statements. Ownership of a large amount of assets without sufficient ability to record these assets can be a challenge in writing reports in the form of financial statements. It is probably because the records made are not properly done according to the accounting rules, accounting standards, and regulations. In addition, another possible reason is that management and contributions have not been optimal, such as lack of management of assets and poor record keeping. This supports the statement of [14], stating that local government assets are large in number yet not accompanied by sufficient ability to record assets, so there are obstacles in reporting because the record keeping of these assets is not properly done. Based on these statements, it can be concluded that an increasing number of assets owned by a province may not necessarily guarantee an increase in the disclosure in provincial government financial statements. With lots of total assets, it is possible that local governments have poor quality of asset management due to lack of control.

**Table 1.** Descriptive Statistics

Variables	n	Min	Max	Mean	Std. Dev
DISC (Level of Disclosure)	81	0.45	0.76	0.6133	0.05129
SIZE (Size of Government)	81	28.02	33.73	29.7308	1.07113
WEALTH (Regional Wealth)	81	23.19	31.24	27.9777	1.32817
SKPD (Number of Regional Working Units)	81	21	740	76.94	133.350
AGE (Age of Provincial Government)	81	2	66	47.12	19.101
FIND (Audit Findings)	81	1	20	6.57	3.581

Source: Processed SPSS Data Output 2020.

**Table 2.** Multiple Regression Analysis

Variables	Regression Coefficient	Standard Error	t-statistics	Sig. t
(constant)	0.043	0.259	0.168	0.867
SIZE (Size of Government)	0.000	0.012	0.037	0.970
WEALTH (Regional Wealth)	0.019	0.008	2.215	0.030*
SKPD (Number of Regional Working Units)	0.0025	0.000	0.337	0.736
AGE (Age of Provincial Government)	0.000	0.000	1.105	0.272
FIND (Audit Findings)	0.002	0.001	0.687	0.494
R <sup>2</sup> = 0.352				
Adj. R <sup>2</sup> = 0.307				
n = 81				
*Significant at 5% level				

Source: Processed SPSS Data Output 2020.

This can be seen from the findings of BPK related to the asset management at regional government level, particularly fixed assets, which were in turn given a note by BPK, affecting the audit quality and the level of disclosure of regional government financial statements in Indonesia.

The regression results showed that the p-value of the regional wealth variable was 0.030, lower than the alpha value of 0.05. This means that the regional wealth variable significantly influenced the level of disclosure of the provincial government financial statements in Indonesia. These results are in line with a study conducted by [3] as well as [41] revealing that regional wealth positively influences the level of mandatory disclosure of regional government financial reports. This is because the greater the amount of wealth owned by each regional government, particularly the provincial governments, the greater the demand faced by regional governments to make disclosures in their financial statements because the PAD of each regional government is mostly sourced from the contributions of the community in the form of tax and levy payment, as well as the utilization of natural resources owned by each regional government. This has become one of the main factors that drives local governments in making financial statement disclosure. In addition, the demand from the community to the government to make accountability reports for the use of regional assets is also increasing. Therefore it can be concluded that the greater the amount of wealth of a region, the greater the demand faced by regional government to make disclosures in its financial statements.

The results of the data processing using regression analysis also showed that the SKPD variable had a p-value of 0.736. Therefore, it can be concluded that there was no significant effect of the number of SKPD on the level of disclosure of the provincial government financial statements in Indonesia. The results of this study are in line with a research conducted by [24] who also mentioned that the number of regional working units does not influence the level of disclosure of regional government financial statements. This is likely because some of the financial management and administration in the SKPDs are still not fully in accordance with the applicable regulations. This is because there is a lack of supervision from authorized boards, for example the Finance and Development Supervisory Agency (BPKP), to the regional government financial reports. Moreover, although there are a high number of regional government accounting entities or SKPDs, the activities carried out by these SKPDs tend to be general, thus not requiring more disclosure activities. In fact, the higher the number of SKPDs, the

more complex the collaboration and coordination activities between SKPDs. This then makes it difficult for regional governments to monitor the compliance of each SKPD with the disclosure of financial statements. Based on these reasons, the number of SKPDs cannot always determine the level of disclosure of regional government financial statements.

The regression analysis also showed that the variable of the provincial government age had a p-value of 0.272, meaning that the administrative age of the provincial government did not significantly affect the level of disclosure of the provincial government financial statements in Indonesia. This result is in line with a study conducted by [9] that the administrative age of regional government does not have an effect on the level of disclosure of regional government financial statements. The fact that the administrative age of government does not affect the level of disclosure of the provincial government financial statements is possibly because the annual recruitment of civil servants especially at the provincial government level results in even distribution of new civil servants throughout the provinces in Indonesia. This has caused an even distribution of the quality of human resources in the financial sectors throughout all the provinces of Indonesia. Eventually, the administrative age of the government does not significantly affect the level of disclosure of the Provincial Government Financial Statements in Indonesia. In addition, another possible reason for this finding is that most provincial governments are likely to make the same financial statement disclosures as ones written in the previous years after BPK has audited these financial statements. Such similar way of writing financial statements is also likely to be one of the factors which cause the variable of government age to not have significant effect on the level of disclosure of the provincial government financial statements.

In addition, the results of the data processing on the audit finding variable showed a significance of 0.494, meaning that the audit findings did not significantly influence the level of disclosure of the provincial government financial statements in Indonesia. The results of this study are in line with studies conducted by [11] and [50] revealing that audit findings do not affect the disclosure of regional government financial statements. This implies that a high number of audit findings does not affect the level of disclosure of provincial government financial statements. This is possibly due to the fact that the internal audit of regional government, namely the BPKP, has conducted an audit of the provincial government financial statements, providing suggestions and recommendations to the auditee, namely the provincial governments, to make corrections on

the audit findings. The corrected reports based on the recommendations from BPKP have improved the quality of the financial statements, allowing the regional government to receive Qualified Opinions or even Unqualified Opinions from the government's external auditor, BPK. This is likely to be the reason why the number of audit findings do not affect the level of disclosure of the provincial government financial statements in Indonesia.

Furthermore, it can be underlined from the results of this study that provincial governments in Indonesia have not fully carried out mandatory disclosure in accordance with the mandate of government regulations (PP No. 71/2010).

As explained in the previous section, prior to regression analysis, a series of data quality tests has been conducted as a prerequisite for regression testing including normality, multicollinearity and heteroscedasticity. The results of those tests show that all the assumptions and regression requirements in this study have been fulfilled well. However, the regression test results reveal that only regional wealth which proxied by the PAD has a significant effect on the level of disclosure within financial statements of Indonesian provincial governments.

This means that regional wealth is the dominant factor in supporting the transparency of the financial statements of the Indonesian provincial government. In this regard, the government needs to encourage each province to increase its PAD. In the perspective of stewardship theory, this implies that the provincial government tries to show its responsibility for good performance through high PAD in various ways, including by disclosing it in financial statements as a medium of accountability to the public.

## CONCLUSION

This study presented an important overview related to the issues of accounting practice compliance with government regulations in Indonesia. This research is classified as rarely conducted by previous researchers, because this research analyzes various issues related to the practice of mandatory disclosure in financial reports using stewardship theory as a theoretical framework. The empirical findings of this study are important for various entities related to increased mandatory disclosures in financial statements such as regional government, central government and government accounting professionals.

In addition, it can be seen that the average level of disclosure in the provincial government financial statements in Indonesia in 2016-2018 was 61.33%. This means that there is approximately

38,67% of opportunities to improve the quality of disclosures in provincial government financial statements using various ways by utilizing all the potentials resources of the provincial governments in Indonesia.

The results of this study indicate that regional wealth as measured by PAD has a significant effect on the level of financial statement disclosure at provincial governments in Indonesia. Therefore, provincial governments in Indonesia are expected to be able to make maximum use of PAD as an effort to increase the transparency of their financial statements. In addition, the government of Indonesia needs to issue various regulations or policies related to the use of PAD, especially at the provincial level, as this has proven to be one of the dominant factors driving the provincial government to disclose its accounting reports.

The findings of this study can specifically be used as the basis for making law reform policy decisions, since Indonesia faces major problems in the field of law application including accounting rules enforcement. The approximately 38,67% level of non-compliance clearly indicates that regulatory bodies in Indonesia must apply more stringent law enforcement in order for provincial governments to better adhere to accounting rules and other mandatory communication items.

From a theoretical perspective, there is evidence to support the use of stewardship theory as a useful framework for explaining mandatory disclosures practices in government institutions or other public sector entities.

The results of this study can also be used as input for the development of the curriculum for the Government Accounting course, where PAD is an important factor that needs to be managed properly because an increase in PAD will encourage local governments to disclose their financial statements as a way to account for all the mandates given by the public. This is in line with what is implied in the stewardship theory, that local governments always side with the public as a principle. In this regard, it can be proposed to add specific material to the Government Accounting course at the university level related to the management and reporting of PAD.

Overall, the results of this study generate important insights about Indonesian provincial governments and support a call for continued research in this fascinating, yet under researched area.

## REFERENCES

- [1] Abdullah, R. (2019), Factors affecting the role of local councils in local policy-making. *Review of Economics and Political Science*, 4(4), 285-303.

- [2] Adiputra, I., Utama, S. and Rossieta, H. (2018). Transparency of local government in Indonesia. *Asian Journal of Accounting Research*, 3(1), 123-138. <https://doi.org/10.1108/AJAR-07-2018-0019>.
- [3] Agustiningih, S.W., Murni, S. and Putri, G.A. (2017). Audit findings, local government characteristics, and local government financial statement disclosure. *Review of Integrative Business and Economics Research*, 6(3), 179-187.
- [4] Alhajjriana, G.I., Nor, W. dan Wijaya, R. (2017). Faktor-faktor yang mempengaruhi internet financial reporting pemerintah daerah dan implikasinya terhadap akuntabilitas laporan keuangan daerah. *Jurnal Akuntansi dan Bisnis*, 17(2), 100-109.
- [5] Ali, W., Frynas, J.G. and Mahmood, Z. (2017). Determinants of corporate social responsibility (CSR) disclosure in developed and developing countries: A literature review. *Corporate Social Responsibility and Environmental Management*, 24(4), 273-294.
- [6] Arifin, J. (2020). Disclosure of financial statements on the website: An empirical study in Indonesian local governments. *Review of Integrative Business and Economics Research*, 9(2), 174-188.
- [7] Arifin, J. (2018). Potential factors to enhance the level of disclosure within financial statements of Indonesian provincial governments. *Jurnal Akuntansi dan Keuangan*, 20(2), 89-98.
- [8] Arifin, J., Akuntansi Sektor Publik. Cetakan Pertama, UII Press., Yogyakarta, Indonesia, 2017.
- [9] Arifin, J., Tower, G. and Porter, S. (2015). Fiscal policy disclosure in Indonesian local government. *Jurnal Akuntansi dan Auditing Indonesia*, 17(1), 13-30.
- [10] Aureli, S., Magnaghi, E. and Salvatori, F. (2019). The role of existing regulation and discretion in harmonising non-financial disclosure. *Accounting in Europe*, 16(3), 290-312.
- [11] Budiarto, D.S. dan Indarti, L. (2019). Apakah karakteristik pemerintah daerah berpengaruh pada pengungkapan laporan keuangan pemerintah daerah? Riset pada kabupaten di Jawa Tengah. *Jurnal Akuntansi dan Bisnis*, 12(1), 19-29.
- [12] Camilleri, M. (2018). Theoretical insights on integrated reporting: The inclusion of non-financial capitals in corporate disclosures. *Corporate Communications: An International Journal*, 23(4), 567-581. <https://doi.org/10.1108/CCIJ-01-2018-0016>.
- [13] Chen, Z., Pan, J., Wang, L. and Shen, X. (2016). Disclosure of government financial information and the cost of local government's debt financing-Empirical evidence from provincial investment bonds for urban construction. *China Journal of Accounting Research*, 9(3), 191-206.
- [14] Coryanata, I. (2012). Akuntabilitas, partisipasi masyarakat dan transparansi kebijakan publik sebagai pemoderasi hubungan pengetahuan dewan tentang anggaran dan pengawasan keuangan daerah. *Jurnal Akuntansi dan Investasi*, 12(2), 110-125.
- [15] Dawd, I. and Charfeddine, L. (2019). Effect of aggregate, mandatory and voluntary disclosure on firm performance in a developing market: the case of Kuwait. *Int. J. Accounting, Auditing and Performance Evaluation*, 15(1), 31-56.
- [16] Dimitropoulos, P., Koronios, K., Thrassou, A. and Vrontis, D. (2019). Cash holdings, corporate performance and viability of Greek SMEs: Implications for stakeholder relationship management. *EuroMed Journal of Business*, Vol. ahead-of-print No. ahead-of-print. <https://doi.org/10.1108/EMJB-08-2019-0104>.
- [17] Diptyana, P., and Rokhmania, N. (2018). Exploring government internet financial reporting in Indonesia. *Jurnal Ekonomi Dan Bisnis*, 21(1), 115-138.
- [18] Dumay, J., La Torre, M. and Farneti, F. (2019). Developing trust through stewardship: Implications for intellectual capital, integrated reporting, and the EU Directive 2014/95/EU. *Journal of Intellectual Capital*, 20(1), 11-39. <https://doi.org/10.1108/JIC-06-2018-0097>.
- [19] El-Diftar, D., Jones, E., Ragheb, M. and Soliman, M. (2017). Institutional investors and voluntary disclosure and transparency: The case of Egypt. *Corporate Governance*, 17(1), 134-151.
- [20] Evada, D., Hadi, J. and Adelia, K. (2020). The influence of complexity and audit findings on the disclosure regional financial statements in Indonesia. *Journal of Accounting, Finance and Auditing Studies*, 6(3), 1-18.
- [21] Ferry, L., and Murphy, P. (2018). What about financial sustainability of local government: A critical review of accountability, transparency, and public assurance arrangements in England during Austerity. *International Journal of Public Administration*, 4(8), 619-629.
- [22] Guritno, D.C., Samudro, B.R. and Soesilo, A.M. (2019). The paradox of political dynasties of regeneration type and poverty in regional autonomy era. *International Journal of Ethics and Systems*, 35(2), 179-194.
- [23] Handoko, F., Pamungkas, B., Syakhroza, A. and Hermawan, A.A. (2018). Moderating effect of press highlights on the effect of the quality of internal control systems on disclosure in local

- government financial reports. *Proceedings of the Asia Pacific Business and Economics Conference* (APBEC 2018)
- [24] Hardiningsih, P., Januarti, I., Srimindarti, C and Oktaviani, R.M. (2019). Does the characteristics of regional government and complexity affect on the disclosure regional financial statements?. *Jurnal Akuntansi dan Auditing Indonesia*, 23(2), 106-116.
- [25] Idris, A.L.M., Surasni, N.K. and Irwan, M. (2018). The determinant disclosure of internet financial reporting in district and city government in Indonesia. *IJER*, 9(1), 62-74.
- [26] Keay, A. (2017). Stewardship theory: Is board accountability necessary?. *International Journal of Law and Management*, 59(6), 1292-1314. <https://doi.org/10.1108/IJLMA-11-2016-0118>.
- [27] Kyriacou, A.P, Gallo,L.M. and Sagales, O.R. (2017). Regional inequalities, fiscal decentralization and government quality. *Regional Studies*, 51(6), 945-957.
- [28] Mastilak, M., Matuszewski, L., Miller, F. and Woods, A. (2018). Self-fulfilling prophecy? An examination of exposure to agency theory and unethical behavior. *Research on Professional Responsibility and Ethics in Accounting (Research on Professional Responsibility and Ethics in Accounting)*, (21), Emerald Publishing Limited, 111-152. <https://doi.org/10.1108/S1574-076520180000021007>.
- [29] Nor, W., Hudaya, M. and Novriyandana, R. (2019). Financial statements disclosure on Indonesian local government websites: A quest of its determinant(s). *Asian Journal of Accounting Research*, 4(1), 112-128.
- [30] Othman, R., Nath, N and Laswad, F. (2018). Determinants of voluntary environmental reporting by New Zealand Regional Councils. *Accounting for Sustainability: Asia Pacific Perspectives*, 281-301.
- [31] Pahlevi, A.R dan Setiawan. D. (2017). Apakah karakteristik kepala daerah berdampak terhadap kinerja pemerintahan?. *Jurnal Akuntansi Multiparadigma*, 8(3), 571-582.
- [32] Parker, D., Dressel, U., Chevers, D. and Zeppetella, L. (2018). Agency theory perspective on public-private-partnerships: International development project. *International Journal of Productivity and Performance Management*, 67(2), 239-259.
- [33] Peraturan Pemerintah Republik Indonesia (PP) No. 71 Tahun 2010 tentang Standar Akuntansi Pemerintahan. 2010. Jakarta.
- [34] Rahman, H.W.A.N., Zain, M. and Al-Haj, H.Y.Y N. (2011). CSR disclosures and its determinants: evidence from Malaysian government link companies. *Social Responsibility Journal*, 7(2), 181-201.
- [35] Render, B., Stair, R.M., Hanna, M.E and Hale, T.S., *Quantitative Analysis for Management*, Pearson Education., London, 2015.
- [36] Rini, R dan Damiati, L. (2017). Analisis Hasil Audit Pemerintahan dan Tingkat Korupsi Pemerintahan Provinsi di Indonesia. *Jurnal Dinamika Akuntansi dan Bisnis*, 4(1), 73-90.
- [37] Santis, S., Grossi, G. and Bisogno, M. (2019). Drivers for the voluntary adoption of consolidated financial statements in local governments. *Public Money and Management*, 39(8), 534-543.
- [38] Schillemans, T. (2013). Moving beyond the clash of interests: On stewardship theory and the relationships between central government departments and public agencies. *Public Management Review*, 15(4), 541-562.
- [39] Schillemans, T. and Bjurstrom, K.H. (2019). Trust and verification: Balancing agency and stewardship theory in the governance of agencies. *International Public Management Journal*, 1-35. <https://doi.org/10.1080/10967494.2018.1553807>.
- [40] Sellami, Y.M. and Fendri, H.B. (2017). The effect of audit committee characteristics on compliance with IFRS for related party disclosures: Evidence from South Africa. *Managerial Auditing Journal*, 32(6), 603-626.
- [41] Setyaningrum, D., dan Syafitri, F. (2012). Analisis pengaruh karakteristik pemerintah daerah terhadap tingkat pengungkapan laporan keuangan. *Jurnal Akuntansi dan Keuangan Indonesia*, 9(2), 154-170.
- [42] Simamora, R.A. and Hendarjatno, H. (2019). The effects of audit client tenure, audit lag, opinion shopping, liquidity ratio, and leverage to the going concern audit opinion. *Asian Journal of Accounting Research*, 4(1), 145-156.
- [43] Souza, J.A.S., Rissatti, J.C., Rover, S. and Borba, J.A. (2019). The linguistic complexities of narrative accounting disclosure on financial statements: An analysis based on readability characteristics. *Research in International Business and Finance*, (48), 59-74.
- [44] Suhardjanto, D. dan Yulianingtyas, R.R. (2011). Pengaruh karakteristik pemerintah daerah terhadap kepatuhan pengungkapan wajib dalam laporan keuangan pemerintah daerah (Studi empiris pada kabupaten/kota di Indonesia). *Jurnal Akuntansi dan Auditing*, 8(1), 30-42.
- [45] Susanti, D. (2017). Pengaruh karakteristik pemerintah daerah, opini audit dan temuan audit terhadap kinerja pemerintah daerah (Studi pada pemerintah kabupaten/kota di Sumatera tahun 2010-2013). *Jurnal Akuntansi dan Keuangan UNJA*, 2(4), 11-20.
- [46] Suwarjuwono, P dan Ritonga, I.R. (2017). Analisis tingkat pengungkapan akun persediaan dalam laporan keuangan pemerintah

- daerah di Jawa. *Jurnal Dinamika Akuntansi dan Bisnis* 4(2), 173-188
- [47] Undang-Undang Republik Indonesia (Law) No. 22 Tahun 1999 tentang Pemerintah Daerah. 1999. Jakarta.
- [48] Undang-Undang Republik Indonesia (Law) No. 17 Tahun 2003 tentang Keuangan Negara. 2003. Jakarta.
- [49] Undang-Undang Republik Indonesia (Law) No. 28 Tahun 2009 tentang Pajak Daerah dan Retribusi Daerah. 2009. Jakarta
- [50] Utami, S.R. dan Sulardi. (2019). Pengaruh karakteristik pemerintah daerah, opini audit, dan rasio kemandirian terhadap pengungkapan laporan keuangan pemerintah daerah. *Jurnal Akuntansi dan Bisnis*, 19(2), 253-263.