

Report on Local Government Finances Determinants: Evidence from Stewardship Perspectives

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ABSTRACT

This study aims to provide empirical findings regarding the determinants of the level of reports of local government finance disclosure in districts/cities in East Java province. Determinants of the level of reports of local government finance disclosure include regional characteristics, complexity, and audit findings which are broken down into independent variables, including regional wealth, level of dependence, total assets, number of local government agencies, population, number of findings, and level of irregularities. The sample in this study was 93 reports on local government finances audited by the Audit Board of the Republic of Indonesia representing East Java Province for the 2017-2019 period (3 years), which were obtained using the purposive sampling method. The analytical method uses multiple linear regression analysis. The results showed that regional wealth and the level of dependence had a negative effect. Total assets positively affected the level of disclosure of financial statements. At the same time, the number of local government agencies, population, number of findings, and level of irregularities did not significantly affect the financial reports of district/city regional governments in East Java province. The central government needs to encourage regional financial transparency, especially for regions with a high local revenue and dependency level.

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ABSTRAK

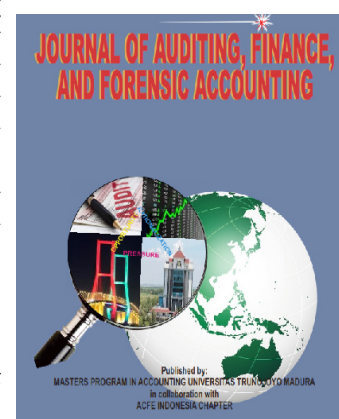
Penelitian ini bertujuan untuk memberikan bukti empiris determinan dari tingkat pengungkapan report on local government finance pada kabupaten/kota di provinsi Jawa Timur. Determinan atas tingkat pengungkapan laporan keuangan pemerintah antara lain adalah karakteristik daerah, kompleksitas dan temuan audit yang dibreakdown kedalam variabel independen diantaranya: kekayaan daerah, tingkat ketergantungan, total aset, jumlah satuan kerja perangkat daerah (SKPD), jumlah penduduk, jumlah temuan dan tingkat penyimpangan. Sampel dalam penelitian ini sebanyak 93 LKPD yang sudah diaudit oleh BPK-RI perwakilan Provinsi Jawa Timur periode Tahun 2017-2019 (3 tahun) yang diperoleh dengan menggunakan metode Purposive Sampling. Metode analisis menggunakan analisis regresi linier berganda. Hasil penelitian menunjukkan bahwa kekayaan daerah dan tingkat ketergantungan berpengaruh negatif, kemudian total aset berpengaruh positif terhadap tingkat pengungkapan laporan keuangan, sedangkan jumlah SKPD, jumlah penduduk, jumlah temuan dan tingkat penyimpangan tidak berpengaruh signifikan terhadap report on local government finance kabupaten/kota di provinsi jawa timur.

Keyword:

East Java, level of dependence, regional wealth, report on local government finances disclosure, total assets



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1. INTRODUCTION

Report on local government finance has a vital role in implementing regional government financial management, as stated in the Government Accounting Standards (GAS) Conceptual Framework. As the party that controls the running of the wheels of government, development, and public services, local governments must be able to create transparency and accountability in their financial management to create a clean government (Good Governance). A genuine effort to increase the transparency and accountability of financial management, both local and central government, is to submit accountability reports in the form of financial statements, as mandated in Law Number 23 of 2014 (in lieu of Law Number 32 of 2004) concerning Regional Government which explained that each government, both provincial, district and city governments, is required to make its financial reports.

In financial reporting, disclosure consists of two kinds, namely mandatory disclosure and voluntary disclosure. The minimum disclosure required by the applicable accounting standards is mandatory disclosure (Zaelani and Martani, 2011). Mandatory disclosure is the disclosure of information that must be disclosed by the rules set by an authoritarian body. Mandatory disclosure is part of GAS which aims to achieve public financial transparency and accountability. Disclosure of information on financial reports is also essential because it allows stakeholders to see that the entity that makes the financial statements has performed well (Boubaker et al., 2012).

Government Regulation Number 71 of 2010, as contained in the conceptual framework for government accounting, explains that government financial reports are a form of accountability for managing state finances. Hence, the components that must be included in financial reports have at least the types of reports on finance and elements of information required in laws and regulations (statutory reports). Transparency in the disclosure of this information will reduce the information asymmetry between the government and the community as stakeholders (Fuertes-Callén et al., 2014; Mokhtar, 2017).

Disclosure of financial reports must be appropriate to be used as a basis for decision making resulting in careful and right decisions (Almilia and Retrinasari, 2007). Ahmed et al. (2017) explain that disclosure and transparency are essential aspects of good government governance practices to increase public trust. Financial reports must be audited by the Audit Board of The Republic of Indonesia to improve the transparency and accountability of government financial reports (Rahayu and Aryani, 2016). The Audit Board of The Republic of Indonesia audit results can be in the form of opinions, findings, conclusions, or suggestions and recommendations.

The determinants of the disclosure level of government financial reports include regional characteristics, complexity, and audit findings. As is the case in Hilmi and Martani's research (2012) which proxies regional characteristics by regional wealth,

total assets, and level of dependency, regional complexity uses the variables number of local government agencies and population as well as audit findings factors represented by the number of findings and the level of irregularities. Suhardjanto et al. (2009) state that the characteristics of local government through the size of local government and regional financial independence can explain compliance with mandatory disclosures in the local government finance report. The more complex the government, the greater the disclosure needed to help readers of financial statements understand the complexity of the activities carried out by the government (Khasanah and Rahardjo, 2014).

Audit findings are cases that become the Audit Board of the Republic of Indonesia's findings in financial reports in the form of discrepancies and confusion with the actual reports and indications of a violation. Audit findings may indicate conformity or non-compliance with audit criteria or obtain opportunities for improvement. The auditor must investigate appropriately to determine the audit criteria violated and recommend corrective action.

Setyaningrum and Syafitri (2012) explain that the size of the area and the number of local government agencies have no significant effect on the level of disclosure. Research by Hilmi and Martani (2012) states results that corroborate this research. Meanwhile, the number of local government agencies' variables hurts the level of reports on local government finances disclosure. "The same results were shown by Patrick's study (2007) in examining the impact of the characteristics of the Pennsylvania regional government on the implementation of the Governmental Accounting Standard Board (GASB) 34. The results stated that the size of the area represented by total assets positively influences the level of disclosure compliance.

Previous research conducted by Naopal et al. (2017) show that regional characteristics, population, audit findings, and audit opinions simultaneously affect the level of reports of local government finance disclosure. Partially, government age and audit opinion have a positive effect, while government size, audit findings, and population partially have no impact on reports of local government finance disclosure. The difference that will be carried out in this research is to use seven (7) variables, including regional wealth, level of dependency, and total assets representing the characteristics of local government, the number of local government agencies and population representing the complexity of the government and the number of findings and deviation levels representing the Audit Board of the Republic of Indonesia audit findings.

Research related to financial statement disclosure's determinants is fundamental for two reasons. The first is to evaluate compliance with mandatory disclosures made by local governments to improve the quality of government financial reports. This is also driven by the stakeholders' need for information (Arussi et al., 2009). Second, disclosing information on financial statements

also has positive effects, including macroeconomic benefits (Khlifi, 2022) and mitigation of agency problems (Senani et al., 2022). This study from extensive investigations gave findings that total assets significantly and positively affect the level of disclosure of financial statements, but regional wealth and the level of dependence had a negative and significant effect. This study also provides empirical findings that the number of local government agencies, population, number of results, and level of irregularities did not significantly affect the financial reports of district/city regional governments in East Java province.

To explain the underlying concept regarding financial report disclosure by local government, researchers use stewardship theory and formulate some variables mentioned above. This theory has been used by Melis and Nijhof (2018) to explain the context of clarifying the voting and engagement behavior of Dutch institutional investors. They must explore this theory more in other behavior contexts, such as institutional investors. By Melis and Nijhof's (2018) endeavor, this study contributes to the stewardship literature by exploring the behavior of East Java's local government in disclosing their financial report. This study also provides the findings that total assets, regional wealth, and the level of dependence are predictors of financial report disclosure in East Java's local government. Based on this result, the central government can formulate regulations to encourage regional financial transparency, especially for regions with a high local revenue and dependency level.

2. LITERATURE REVIEW AND HYPHOTESIS DEVELOPMENT

2.1. Stewardship Theory

Stewardship theory mentions managers as agents that move according to shareholders' best interest because they have a pro-organizational dan collectivistic nature (Choi et al., 2018). Dumay et al. (2019) argue that stewardship is essential to guide managerial behavior, increase trust, and drive better disclosure. For the past 20 years or more, this theory has offered an alternative way of interpreting the relationship between principal and agent (Keay, 2017). This theory reconceptualizes the relationship between the government as the agent and society as the principal with the notion that the two will try to align their interest, especially the agent. The interest alignment between the principal and agent will be rewarded with wealth maximization (Löhde et al., 2021); this lead to the construct that government, especially disclosure of financial report produced by local government.

As Melis and Nijhof (2018) state, stewardship theory needs to be explored more regarding the area that is rarely investigated; this study tries to broaden the concept of stewardship behavior in East Java's local government disclosing their financial information to the public. Hu and Alon (2014) also support stewardship theory in explaining agent behavior in China. This strengthens the notion that agents also have a tendency to become a steward for principals

(society). It is also argued that stewardship theory is more of a view that covers organizations, not only individuals (Lehrer and Segal, 2020). Organizations that tend to behave stewardly will align its interest and disclose more information to the principal (society) for their welfare.

2.2. Local Government Characteristics

Characteristics of local government, according to Suhardjanto and Yulianingtyas (2011) and Nugroho and Muid (2014), are unique characteristics attached to local government, marking an area and distinguishing it from other regions. Compliance with mandatory disclosures in the local government finance report is expected to be explained in the characteristics of regional governments so that predictors of compliance with compulsory disclosures are characteristics of local governments. Sumarjo (2010) describes the characteristics of local government by using the size of regional government proxied by total assets, prosperity (wealth) proxied by Original Local Government Revenue, legislative size, level of leverage proxied by total debt divided by total equity, and intergovernmental revenue as measured by the ratio between the amount total balancing funds with the total income. Hilmi and Martani (2012) use fewer proxies to explain the characteristics of local government, namely regional wealth, level of dependence, and total assets.

This research refers to the government characteristic model conducted by Hilmi and Martani (2012), namely: 1) regional wealth, which is proxied by Original Local Government Revenue; 2) the level of dependence (intergovernmental revenue), which is proxied by the level of dependence expressed by the amount of transfer funds divided by the total regional income; and 3) total assets.

2.3. Local Government Complexity

Hilmi and Martani (2012) describe the complexity of government using the number of local government agencies and population. In this study, the researcher uses the complexity mode, which refers to Hilmi and Martani's study (2012): 1) the number of local government agencies and 2) the total population.

2.4. The Audit Board of the Republic of Indonesia Audit Findings

The audit finding is an attempt to violate the applicable provisions regarding internal control and compliance with laws and regulations that the auditor discovered during the inspection. These findings and recommendations will be communicated to the object of inspection so that improvements and corrections are made (Priharjanto and Wardani, 2016). The Audit Board of the Republic of Indonesia's audit findings refer to two aspects: the number of findings and the level of irregularities. The results of the Audit Board of the Republic of Indonesia examination of the audit findings were divided into two: findings on the weaknesses of the internal control system and findings on non-compliance with laws and regulations. The internal control system findings

are divided into three groups of findings, namely flaws in the accounting and reporting control system, weaknesses in the Regional Revenues and Expenditures Budget implementation system, and deficiencies in the internal control structure. At the same time, the findings of non-compliance are divided into five classifications of findings, namely indications/potential regional losses, lack of revenue, administrative weaknesses, inefficiencies, and ineffectiveness. Meanwhile, the level of audit deviation is a nominal finding compared to the total expenditure realization.

2.5. Hypothesis Development

The Effect of Regional Wealth on The Level of Local Government Financial Statement Disclosure

A study by Hilmi and Martani (2012) explains that the level of regional wealth has a positive and significant influence on the local government financial statement disclosure. The greater the regional wealth, the greater the level of disclosure the regional government makes. The greater the region's wealth, the greater the resources it has to make disclosures so that regional wealth can increase the level of disclosure in financial reports. The stewardship theory states that local governments try to show responsibility for their excellent performance through the results of immense wealth and a lot of resources so that they try to express it better in their financial reports. Based on the description above, the hypothesis for this research is:

H_1 : Regional wealth affects the level of local government financial statement disclosure

The Effect of Dependency Level on The Level of Local Government Financial Statement Disclosure

The greater the level of dependency, the greater the level of disclosure by the local government. Based on the theory of stewardship, accountability for the use of these funds is an awareness of the stewards in carrying out their role responsibilities, namely through the form of transparency and accountability in regional financial management as well as reducing information asymmetry and realizing public trust (principals) both to the community and the central or provincial government that funds are not misused. Research by Suhardjanto and Yulianingtyas (2011) found that the city government's dependency level has a positive and significant relationship to the level of disclosure of the city government's financial statements. Likewise to Hilmi and Martani's research (2012). Based on the description above, the hypothesis for this study is:

H_2 : Dependency level affects the level of local government financial statement disclosure

The Effect of Total Assets on The Level of Local Government Financial Statement Disclosure

Large and complex total assets require good asset management, so greater disclosure regarding asset maintenance and management. In accordance with the context of stewardship

theory, the greater the assets owned by the local government (steward), the greater the responsibility of the local government to manage assets and present financial reports in a transparent manner to the public/people as the trustee (principal) as a form of government responsibility to its people. The research conducted by Patrick (2007) shows that the variable size proxied by total assets has a positive and significant effect on the completeness of disclosure. Likewise, Hilmi and Martani's (2012) research relates it to local government performance. Based on the description above, the hypothesis for this research is:

H_3 : Total assets affects the level of local government financial statement disclosure

The Effect of Number of Local Government Agencies on The Level of Local Government Financial Statement Disclosure

The number of local government agencies describes the number of affairs that are a priority for local governments in developing regions. The more affairs that become the priority of the local government, the more complex the government is. The more the number of local government agencies, the more information must be disclosed to reduce information asymmetry and show better steward performance. The more functional differentiation in local government, the more ideas, information, and innovations available regarding disclosure (Hilmi and Martani, 2012). Based on the description above, the hypothesis for this research is:

H_4 : The number of local government agencies affects the level of local government financial statement disclosure.

The Effect of Population on The Level of Local Government Financial Statement Disclosure

The population is a proxy for the complexity of governance. This complexity does not inhibit the level of disclosure but even increases the level of disclosure. This is because the more significant the population, the greater the impetus from the community to request greater disclosure from local governments in presenting and disclosing government financial reports as a form of government responsibility (steward) to its people (principal). Hilmi and Martani (2012) revealed that the number of residents has a positive and significant relationship with the level of disclosure. This result is in line with research conducted by Liestiani (2008), which shows that population size positively affects the level of disclosure. Based on the description above, the hypothesis for this research is:

H_5 : Population affects the level of local government financial statement disclosure.

The Effect of Number of Findings on The Level of Local Government Financial Statement Disclosure

The Audit Board of the Republic of Indonesia's audit findings are cases found by the Audit Board of the Republic of Indonesia regarding local government financial reports on violations committed by a region against internal control provisions and statutory provisions. The existence of these findings causes the

Audit Board of the Republic of Indonesia to request an increase in disclosure and correction. Thus, the greater the findings, the higher the level of financial statement disclosure. Research by Martani and Liestiani (2012) found that the number of audit findings has a positive and significant relationship to the level of disclosure of district/city government financial statements. Based on the description above, the hypothesis for this research is:

H_6 : Number of findings affect the level of local government financial statement disclosure

The Effect of Level of Irregularities on The Level of Local Government Financial Statement Disclosure

The proxy used for this variable is total inspection findings (in rupiah)/total expenditure. The higher the level of deviation in an area, the lower the level of disclosure in the local government financial statement should be. According to Martani and Liestiani (2012), the level of audit irregularities has a positive and significant effect on the level of local government financial statement disclosure. Similar to the explanation of audit findings, the regional government's considerable audit irregularities have prompted the Audit Board of the Republic of Indonesia to request additional disclosures and corrections. Based on the description above, the hypothesis for this research is:

H_7 : Level of irregularities affects the level of local government financial statement disclosure.

3. RESEARCH METHODS

This research can be classified as causal and refers to a quantitative approach. Seeing the existence of a relationship and the influence of variable X on variable Y, it is necessary to use a causal approach.

3.1. Population and Sample

The population in this study are district/city local governments in East Java province, with 38 local governments consisting of 29 district governments and nine city governments. The samples in this research are local government financial statements of regencies/cities in East Java Province for 2017 to 2019 fiscal years. The sampling method is carried out using a purposive sampling technique, which is a sampling technique based on specific considerations, including:

1. Local government financial statements for regencies/cities in East Java Province for the 2017-2019 period, which the Audit Board of the Republic of Indonesia has audited.
2. Provide complete data for the 2017-2019 period needed in the research process.

3.2. Data Collection Technique

Data collection techniques are done by way of documentation. The data used is in the form of local government financial statements of the Regency/City of East Java Province for 2017-2019, obtained from the Audit Board of the Republic of Indone-

sia Representative for East Java Province. Meanwhile, population data is obtained from the official website of the Central Bureau of Statistics.

3.3. Variables

Level of Local Government Financial Statements Disclosure

The disclosure level of the local government financial statements in question is in the form of a comparison between the disclosures that have been presented in the local government financial statements with the disclosures that should have been presented in the Notes to Financial Statements by the applicable Government Accounting Standards (Hilmi and Martani, 2012). Therefore, this research can be measured using the formula:

$$DISC = \frac{\text{Disclosure in Local Government Financial Statement}}{\text{Disclosure in Statement of Government Accounting Standards}}$$

Regional Wealth

Regional wealth can be proxied by Original Local Government Revenue. Original Local Government Revenue is used because it has a role in measuring regional wealth. The measurement of regional wealth refers to research by Setyaningrum and Syafitri (2012). The regional government wealth formula can be calculated by:

$$WEALTH = Ln \text{ Original Local Government Revenue}$$

Dependency Level

The level of dependence is how much the region depends on the central government (Heriningsih and Ruserlistyani, 2013). Research by Hilmi and Martani (2012) and Heriningsih and Ruserlistyani (2013) uses transfer funds compared to total income to explain the level of dependence of local governments. The local government dependency level formula can be calculated by:

$$DEPEND = \frac{\text{Transfer Funds}}{\text{Total Income}}$$

Total Assetst

Assets, according to Government Regulation Number 71 of 2010, are economic resources that are controlled and/or owned by the government as a result of past events and from which future economic and/or social benefits are expected to be obtained, both by the government and the community, and can be measured in units of money, including non-financial resources needed to provide services to the general public and resources maintained for historical and cultural reasons. Local government assets can be measured by calculating the total number of assets owned by the local government using the formula:

$$ASSET = Ln \text{ Asset}$$

Number of Local Government Agency

Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, Local Government Agency is an accounting entity, namely a unit of government that manages the budget, assets, and obligations, organizes accounting, and presents financial reports based on the accounting it organizes. Local Government Agency is calculated based on the number of Local Government Agency in each region. The Regional Work Unit formula can be calculated by:

$$SKPD = \text{Number of Local Government Agency in each Regency/City}$$

Population

In the Indonesian Wikipedia, a population is a group of people who occupy a particular geographical area and space. The number of the population reflects the complexity of government. The total population is measured based on each local government's total number of residents. The formula for the number of inhabitants can be calculated by:

$$POP = \text{Ln Number of Population in each Regency/City}$$

Number of Findings

The total findings of the Audit Board of the Republic of Indonesia (FIND) are the total number of audit findings by the Audit Board of the Republic of Indonesia, which consist of two types of findings, namely findings on internal control system weaknesses and findings on non-compliance with laws and regulations (Law Number 15 of 2004). The audit findings used in this study refer to Hilmi and Martani's research (2012), namely by using the audit findings of the Audit Board of the Republic of Indonesia inspections for local government non-compliance with applicable laws and regulations. The formula used to measure the number of findings is as follows:

$$FIND = \text{Number of Findings}$$

Level of Irregularities

Audit findings can be seen in terms of the occurrence of cases and their nominations. Audit findings that have rupiah denominations are found in findings of non-compliance with laws and regulations. This study measures the level of irregularities refers to the research of Hilmi and Martani (2012), namely the nominal value of irregularities compared to the total realized spending. The formula used to measure the degree of irregularities is as follows:

$$DEV = \frac{\text{Nominal Irregularities}}{\text{Total Spending}}$$

3.4. Data Analysis Technique

This research uses the method of multiple regression analysis. Multiple regression analysis is a statistical method that tests the effect of two or more independent variables on one

dependent variable. The multiple regression equation is formulated as follows:

$$DISC_{it} = \alpha_{it} + \beta_1 WEALTH_{it} + \beta_2 DEPEND_{it} + \beta_3 ASSET_{it} + \beta_4 SKPD_{it} + \beta_5 POP_{it} + \beta_6 FIND_{it} + \beta_7 DEV_{it} + E_{it}$$

Description:

- DISC : Level of Local Government Financial Statement Disclosure
 WEALTH : Regional Wealth
 DEPEND : Dependency Level
 ASSET : Total Assets
 SKPD : Number of Local Government Agencies
 POP : Population
 FIND : Number of Findings
 DEV : Level of Irregularities

4. RESULTS AND DISCUSSION

Descriptive Analysis

The sample in this study used 93 District/City Local Government Financial Statements in East Java Province; from the sample obtained descriptive statistics which included the amount of data obtained (n), minimum value, maximum value, average (mean), and standard deviation of the research variables. The results of the descriptive statistics are presented in Table 1 as follows:

Table 1. Descriptive Statistical Test Results

Variable	Min	Max	Range	Mean	Std Deviation
Regiona; Wealth (X1)	25.63	29.31	3.68	26.61	0.735
Dependency Level (X2)	0.23	0.85	0.62	0.635	0.090
Total Assets (X3)	25.79	31.43	5.64	28.97	0.722
Number of Local Government Agencies (X4)	28	74	46	52,73	11.97
Population (X5)	11.75	14.88	3.13	13.68	0.746
Number of Findings (X6)	5	20	15	11.61	3.16
Level of Irregularities (X7)	0.00	0.02	0.02		0.0038
Level of Local Government Financial Statement Disclosure (Y)	0.70	0.91	0.21	0.798	0.047
Valid N	93				

Source: Processed Data Used SPSS 24

Based on the results of the descriptive analysis data processing in Table 1, it can be concluded that:

1. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the regional wealth variable having a minimum and maximum difference value of 3.68. The minimum value is 25.63, namely Sampang Regency, and the maximum is 29.31, namely the City of Surabaya. The mean or average value is 26.62, with a standard deviation value of 0.735.
2. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the level of dependence variable having a minimum and maximum difference value of 0.62. The minimum value is 0.23, Surabaya City, and the maximum is 0.85, Bojonegoro Regency. The mean or average value is 0.634, with a standard deviation value of 0.090.
3. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the total asset variable having a minimum and maximum difference of 5.64. The minimum value is 25.79, namely Pacitan Regency, and the maximum is 31.43, namely the City of Surabaya. The mean or average value is 28.97, with a standard deviation value of 0.722.
4. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the number of local government agencies variable having a minimum and maximum difference value of 0.46. The minimum value is 0.28 for the City of Blitar, and the maximum is 0.74, namely for the City of Jember. The mean or average value is 52.73, with a standard deviation of 11.97.
5. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the population variable having a different value of 3.13. The minimum value is 11.75, namely the City of Mojokerto, and the maximum is 14.88, namely the City of Surabaya. The mean or average value is 13.68, with a standard deviation value of 0.746.
6. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the number of findings variable having a minimum and maximum value of 5. The minimum value is 15, namely Magetan Regency, and the maximum is 20, namely Surabaya City. The mean or average value is 11.61, with a standard deviation value of 3.16.
7. The analysis shows that the number of samples (N) is 93, with the overall value obtained for the level of irregularities variable having a minimum and maximum difference value of 0.02. The minimum value is 0.00, namely Tulungagung Regency, and the maximum is 0.02, namely Jember Regency. The mean or average value is 0.0028, with a standard deviation value of 0.0038.
8. Based on the analysis results, the number of samples (N) was 93, with the overall value obtained for the level of Local Government Financial Statement disclosure variable having a minimum and maximum difference value of 0.21. The minimum value is 0.70, namely Bondowoso Regency, and the maximum is 0.91, namely Banyuwangi Regency. The mean or average value is 0.798, with a standard deviation value of 0.047.

Multiple Regression Analysis

The multiple regression analysis model is used to determine the effect of the independent variable on the dependent variable. The independent variables in this study are regional wealth, level of dependency, total assets, number of local government agencies, population, number of findings, and level of irregularities. The variable that will be affected is the Local Government Financial Statement disclosure level in district/city governments in East Java province. The results of multiple regression calculations in this study are presented in Table 2.

Table 2. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.872	0.19		2.730	0.008
2 Regional Wealth	-0.003	0.001	-0.477	-2.130	0.036
3 Dependency Level	-0.220	0.078	-0.422	-2.805	0.006
4 Total Assets	0.025	0.012	0.376	2.107	0.038
5 Number of Local Government Agency	0.000	0.001	0.126	0.785	0.434
6 Population	0.009	0.013	0.142	0.680	0.498
7 Number of Findings	0.001	0.001	0.094	0.942	0.349
8 Level of Irregularities	0.907	1.276	0.074	0.711	0.479

Source: Processed Data Used SPSS 24

Mathematically the results of the multiple regression analysis can be written as follows:

$$DISC = 0.872 - 0.003 (WEALTH) - 0.220 (DEPEND) + 0.025 (ASSET) + 0.000 (SKPD) + 0.009 (POP) + 0.001 (FIND) + 0.907 (DEV) + e$$

Hypothesis Testing

The t-statistical test was carried out to show how far the independent variable partially affects the dependent variable, with a significance level of probability (α) of 0.05. Table 3 is the result of the t-statistical test as follows:

Table 3. Partial Test Results (T Test)

	Model	T Count	Sig	Conclusions
1	Regional Wealth	-2.130	0.036	Accepted
2	Dependency Level	-2.805	0.006	Accepted
3	Total Assets	2.107	0.038	Accepted
4	Number of Local Government Agency	0.785	0.434	Rejected
5	Population	0.680	0.498	Rejected
6	Number of Findings	0.942	0.349	Rejected
7	Level of Irregularities	0.711	0.479	Rejected

Source: Processed Data Used SPSS 24

DISCUSSION

Some things that can affect the level of local government financial statement disclosure include the characteristics of local government, which comprise regional wealth, dependency level, and total assets; regional complexity, which consists of the number of local government agencies and population, as well as audit findings of the Audit Board of The Republic of Indonesia which includes, the number of findings and the level of audit irregularities. The results of the tests that have been carried out above show that regional wealth (H_1) and the dependency level (H_2) have a significant adverse effect on the level of local government financial statement disclosure, and total assets (H_3) have a significant positive impact. On the other hand, the number of local government agencies (H_4), population (H_5), number of findings (H_6), and the level of irregularities (H_7) do not affect the level of local government financial statement disclosure. The following will be discussed about the results of the research that has been done.

Regional Wealth on The Level of Local Government Financial Statement Disclosure

The first hypothesis (H_1), which states Original Local Government Revenue affects the level of local government financial statement disclosure, is accepted, but its effect is significantly negative. So it can be concluded that regional wealth has a significant adverse impact on the level of local government financial statement disclosure. This result is corroborated by Ramdhani's (2016) research which states that Original Local Government Revenue has a significant adverse effect on the local government financial statement disclosure level. A greater Original Local Government Revenue can cause a decrease in local government financial statement disclosure, and vice versa; a reduction in Original Local Government Revenue revenue can increase local government financial statement disclosure. This is because the decrease in Original Local Government Revenue will make external parties and the community, as the principal, ask for more explanation from the regional government and pressure the

regional government to reveal the causes of the decrease in Original Local Government Revenue. This is one factor that encourages increased local government financial statement disclosure as a form of local government accountability (Steward).

Dependency Level on The Level of Local Government Financial Statement Disclosure

The second hypothesis (H_2), which states the dependency level affects the level of local government financial statement disclosure, is accepted; but its effect is a significant negative. So it can be concluded that the dependency level significantly negatively affects the level of local government financial statement disclosure. This result is corroborated by research conducted by Ramdhani (2016) and Setyaningrum and Syafitri (2012), which states that dependence significantly affects local government financial statement disclosure. The reduced dependence of local governments on the central government reflects the increasing financial capacity of the regions.

Total Assets on The Level of Local Government Financial Statement Disclosure

The third hypothesis (H_3), which states total assets affect the level of local government financial statement disclosure, is accepted. So it can be concluded that total assets influence the level of local government financial statement disclosure. This research supports the results of Setyaningrum and Syafitri (2012) and Khasanah and Rahardjo (2014), who found that total assets positively affect the level of local government financial statement disclosure. Large and complex total assets require good management and administration, so greater disclosure is needed regarding the administration and management of assets. The consequence of a government with significant assets is that it also has great pressure from the public to present its financial reports full of increasing transparency and reducing information asymmetry (Lesmana, 2010).

Number of Local Government Agencies on The Level of Local Government Financial Statement Disclosure

The fourth hypothesis (H_4), which states that the number of local government agencies affects the level of local government financial statement disclosure, is rejected. The results of this study align with the research of Hilmi and Martani (2012), which also states that the number of local government agencies does not affect the level of local government financial statement disclosure. This could be due to the management and administration of the local government agencies, which have not carried out their duties by applicable regulations, and/or there are activities between local government agencies that tend to be general so that they do not require more disclosure. Singh and Tiwari (2020) argue that the lack of motivation and the high emotional and physical costs of becoming a steward make local government agencies an

organization that lacks stewardship.

Population on The Level of Local Government Financial Statement Disclosure

The fifth hypothesis (H_5), which states population affects the level of local government financial statement disclosure, is rejected. So it can be concluded that the population does not influence the local government's financial statement disclosure level. This study's results align with Naopal's research (2017), which found that the partial population has no significant effect on the level of local government financial statement disclosure. The results of this study are also supported by the research conducted by Ingram (1984) and Robbins and Austin (1986). They are corroborated by the results of research by Cristiana and Maryono (2016), which show that population does not affect the level of local government financial statement disclosure. This is likely to occur because even though the population is large, the need for information regarding the disclosure of reports on local government finance is not a primary need for most people.

Number of Findings on The Level of Local Government Financial Statement Disclosure

The sixth hypothesis (H_6), which states the number of findings affects the level of local government financial statement disclosure, is rejected. So it can be concluded that the number of findings does not affect the local government financial statement disclosure level. The study results align with the research of Hilmi and Martani (2012) and Khasanah and Rahardjo (2014), which state that audit findings do not affect the local government financial statement disclosure. This research also corroborates the results of Hendriyani and Tahar (2015) and Cristiana and Maryono (2016) that audit findings do not affect the level of local government financial statement disclosure. From the data used in the research sample, most of the Audit Board of the Republic of Indonesia's audit findings are findings of non-compliance with laws and regulations and internal control systems which are not directly related to local government financial statement disclosure. This causes the recommendations not to have much effect on improving the quality of local government financial statement disclosure. Apart from that, the local government has not optimally implemented the Audit Board of the Republic of Indonesia's recommendations on the audit findings.

Level of Irregularities on The Level of Local Government Financial Statement Disclosure

The seventh hypothesis (H_7), which states that irregularity levels affect local government financial statement disclosure, is rejected. So it can be concluded that the level of deviation does not affect the level of local government financial statement disclosure. This research is in line with Cristiana and Maryono (2016), which

state that the level of irregularities does not affect the level of local government financial statement disclosure. The significant irregularities from the Audit Board of the Republic of Indonesia's audit findings do not necessarily encourage local governments to make large disclosures.

5. CONCLUSION AND SUGGESTION

This research aims to test the variable assumed as the determinant of local government financial statement disclosure. The variables are regional wealth, dependency level, total assets, number of local government agencies, population, number of findings, and level of irregularities. The statistical analysis found that Total assets positively affected the level of disclosure of financial statements. Still, regional wealth and the level of dependence had a negative effect. On the other hand, the number of local government agencies, population, number of findings, and level of irregularities did not significantly affect the financial reports of district/city regional governments in East Java province. The central government needs to encourage regional financial transparency, especially for regions with a high local revenue and dependency level. The government could make a law for regions with high dependency levels to disclose more information regarding the economy and finances so that people can monitor local government performance, especially in East Java.

This research has to be interpreted cautiously for several limitations. First, this study only uses local government financial statement data over three years, causing a deficiency in accurately measuring disclosure trends. Future research is expected to increase the period of research years to find out the trend of the disclosure level of reports on local government finance to be more accurate. Second, some variables prove not to be a determinant of local government financial statement disclosure of East Java. Future research can use replicate these variables so that the consistency of the research results can be assessed.

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