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Disclosure in Local Government Financial Statements: the Case of Indonesia

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This study examines the impact of audit quality, management incentives and local goverment characteristic on local government financial statement disclosure. Based on previous study, disclosures have a positive relation to complexity of local government, management incentive and audit quality. Based on Indonesian Gavernemnt Accounting Standard (IGAS) as the disclosure measure, there is a positive relationship between government complexity and quality of audit and the level of local government disclosures.

JEL Codes: H 70, H 83, M 41, M 48

1. Introduction

Some studies have investigated economic determinants of accounting policy choices of local government entities. Zimmerman (1977) proposed economic reasons for the diverse state of municipal accounting and financial reporting. Using the data reported by State Governments in 1980, Ingram (1984) found associations between economic factors and cross-sectional variations in the accounting practice of state governments. The characteristics of the state were closely related to the quality of information delivered by local government.

Giroux and McLelland (2003) investigated the impact of governance structure (Mayor Council and Council Manager) and financial disclosures. Council Manager cities have superior financial disclosures compared to Mayor Council. Population, financial viability and wealth also significantly influence the disclosures. Falkman and Tagesson (2008), investigated the compliance of municipal financial statements to the accounting standards. The result suggested that large municipalities produce better accounting information and that weak audit quality was an important factor that explains the lower compliance with accounting standards. Laswad, Fisher and Oyelere (2005) investigated the determinants of internet financial reporting by local governments in New Zaeland.

Copley (1991) investigated the influence of audit quality on the financial disclosure of local governments. The result provided evidence showing that there is a positive relationship between audit quality and disclosure. Similar research in the private sector showed that audit quality can enhance the financial statement quality by improving the disclosure to reduce information asymmetry. Giroux and Jones (2011) found audit

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quality of local government is associated with the number of goverment audit clients and local governmet type.

This study investigates the influence of local government characteristics and the audit findings on the disclosure in local financial statements. The researcher used the mandatory disclosure required by the Indonesian Government Accounting Standard and discusses compliance of local government financial accounting with accounting standards.

The research use of variable audit findings and value of audit findings as variables that explain the level of disclosure. Research conducted in Indonesia, a developing country that had just conducted state financial reform. In 2003 the Government of Indonesia reformed state finances by issuing state finance laws, state treasury laws and the state audit laws. In 2005 the government issued accounting standards that are used as a standard to prepare financial reports of government agencies, local government and central government.

The result was that the disclosure level was. on average, 35.45%. It reflects that the compliance level of local government is very low, because 2006 was the first year implementing government accounting standards. Wealth, population and audit findings have positive correlations with disclosure. This research is in line with research by Falkman and Tagesson (2008) and Copley (1991). The type of local government and dependency of local government did not significantly influence the disclosure level.

This paper has four sections, section 2 describes previous study, section 3 describes financial reform in Indonesia, and section 4 describes the research methodology. A discussion of the result and conclusions are offered in sections 5 and 6.

2. Literature Review

Zimmerman (1977) assumed that all economic actors are rational, to evaluate, and maximize the welfare of the individual or the so-called REMMs (Resourceful, Evaluative, Maximizing Model). His analysis provides a description of the importance in understanding the supply and demand of information. According to Zimmerman, agency problems arise in the context of the whole organization, in the company between shareholders and management, at the club between management and members and within the government between elected officials and voters. When we compare the agency problem in local government and agency problems in large companies the implications that arise are that the government demand for information is less than the demand for commercial information. In essence, Zimmerman argued that the characteristics of government accounting practices influenced by the presence or absence of incentives from voters to monitor officials directly. Governments tend to issue financial statements and provide complete information if voters, through the parliament, actively evaluate the performance of government or voters determine the local budget based on evaluation of past financial performance reflected in financial statements.

Ingram (1984) divides the four factors that have a relationship with the level of disclosure by States in the United States of America.. Various factors have been identified from previous studies that potentially alter these incentives, thereby accounting for differences in accounting practices among governments. Primary among these factors are: (1) coalitions of voters that might induce increased monitoring and demand for information, (2) political appointive powers that might increase monitoring and demand for information among individuals in government, (3) strength of the Press to induce more official disclosure from the government, and (4) market recognition of signals of management quality that affect interest costs and provide benefits to the individual politicians.

Other studies of government financial statements focused on the impact of financial disclosure on the municipal bonds. Reck and Wilson (2006) found that greater information transparency will increase the price of municipal bonds in the secondary market. Investors in municipal bonds lack timely and frequent information about the municipals which may lead to inaccurate pricing of seasoned municipal bonds.

In terms of oversight by the voter, the conditions that may reduce the monitoring costs will drive demand for greater information. For example, coalitions of voters increased monitoring behaviour of politicians, because the potential outcome of the collective vote affects the election results. Political parties are one type of coalition which has an incentive to monitor the behaviour of the opposition. Industrial, occupational, geographic, and economic coalitions also have an incentive to seek additional disclosure which would reduce the cost of supervision. Urbanization, industrialization, personal income, and education can be used as benchmarks to reflect the interest group which will lead to the formation of the coalition. The existence of particular benefits and/or avoid taxes is a possible motivation for the coalition. Because each coalition has an incentive to maximize its share of the resources spent by the government, these incentives can be translated into requests for information to measure the availability and use of resources.

Ingram (1984) use four variables to measure voter coalition, i.e.,: (1) Inter-party competition measured by the Political Competition Index = 1 – percentage political party that won the last major election; (2) Industrial/ Geographic coalition; measured by Standard Metropolitan Statistical Area; (3) Economic Coalition; measured by income per capita; (4) Level of Education; measured by Median School Years.

Appointed administrators have access to internal information that enable them to find self-serving behaviour of politicians. However, the administrators have little incentive to disclose information if it could endanger their own careers. Powerful governors can choose many administrative staff, thus reducing the incentive to monitor their behaviour. Although the relationship between phenomena and accounting practices are not clear, strong governorship will use worse accounting systems to offset the governor's administrative powers.

Adiministrators of accounting and auditing systems have a position to influence accounting practices. They can monitor the behaviour of employees and changing the financial disclosure. This position can be selected, determined by the legislature, determined by the governor or jointly appointed.

(1) Appointive Powers of Governor

Measured by appointed Power Index is a scale for the majority of administrators chosen by the governor.

(2) Selection of Accounting System Administrator;
Gauge used is Selection Code: "0" for the chosen; "1" for which is determined by the legislature; "2" for which is determined by the governor and the legislature; "3" for which is determined by the governor.

(3) Selection of Auditor
Gauge used is Selection Code: "0" for the selected, "1" for which is determined by the legislature.

According to Zimmerman (1977), the Press is also involved in the agency relationship between voters and the politicians that will influence the contents of the local government financial reports. Creditors also have incentives to monitor government activities. This group has an incentive to ensure that bond prices are consistent with the default risk of bonds. Furthermore, this group needs information to evaluate efficiency so that the default risk comes down and bond prices rise and the creditors will be happy. Politicians have an incentive to reduce the cost of debt, thus they will increase the resources available for other programs that improve the welfare of politicians rather than paying a higher interest rate.

In addition, according to Ingram (1984), it is possible for creditors to provide a restriction on government operations and require the things that must be disclosed to monitor compliance with the restriction. So the dependence on third-party funds ought to improve disclosure.

- Reliance on Federal Funds
  Intergovernmental Revenue divided by Total Revenue represents external constraints of the regulations of the federal government. So that dependence on federal funds will also improve disclosure.
- State Wealth
  Tax resources available to cover the cost of local government was represented by Own Revenue Per Capita. This wealth measure also represents the need for additional information because the basic resource is greater.
- Professionalism
  Additional personal benefit is represented by managerial professionalism as measured by the salaries of governors, legislators, administrators and accounting, as well as the requirement that auditors must be someone who already has a Certified Public Accounting (CPA) qualification.
- Complexity of Government
  Complexity of government measured by the population in a region.

His study found that the coalition of voters, the administrative powers, and management incentives significantly explain variations in the quality of disclosure on the state level Ingram (1984).

Robbins and Austin (1984) developed their research model to invstigate the factors affecting the quality of disclosure in annual financial statements by the local government by using unidimensional measures. Independent variables used follow the study of Ingram (1984). The results of their research show administrative power and management incentive are associated with good disclosure quality using a simple index or compound index. In regression models, City Government Form, Reliance on Debt and Reliance on Federal Funds are the most significant variables explaining disclosure quality whether using a simple index or a compound index.

Cheng (1992) develops a politico-economic model based on the theoretical and empirical work in public choice and political science to explain state government accounting disclosure choice. Measures of the theoretical constructs hypothesized to influence accounting disclosure choice are selected from the literature. An up-dated 1986 practice index, based on Ingram's (1984) 12-practice categories, is used as the indicator accounting disclosure choice. The model is then tested for other indicators of accounting disclosure choice and a re-analysis is performed for 1978. Because of the complexity of the political context, LISREL methodology was used to test the model. The evidence supports the implication that state government accounting disclosure choice is dependent on factors in the political environment and on institutional forces. The model is robust over time and for different measures of accounting disclosure choice.

Ingram and De Jong (1987) examine the relationship between financial disclosures of local governments and the economic incentives of the local political manager to disclose. These economic incentives include the regulatory structure of the local government's financial reporting. Local governments face different state government regulations. Some States require GAAP compliance, some require compliance with state designated (non-GAAP) disclosure practices and some do not regulate local government financial disclosures. The primary findings are that disclosure practices of cities in States that do not regulate local government practices do not differ significantly from the practices of cities in GAAP regulated states. Further, when considered in conjunction with other political and socioeconomic variables, GAAP regulation appears to have a negligible effect on the financial reporting practices of local governments in GAAP regulated states. Finally, the disclosures of cities in states that require non-GAAP practices are significantly fewer than those of cities in the other categories. When considered in conjunction with other political and socioeconomic variables, non-GAAP reporting requirements appear to have a significant effect on the financial reporting practices of local governments in these states.

Giroux (2002) developed disclosure indexes of municipalities based on the anticipated needs of political groups. Next, disclosure quality relationships were modeled on political and economic incentives of the groups actively involved in governmental processes of municipalities. The results suggest that each group with political power has only limited influence on disclosure quality.

Gore (2004) examined the effects of disclosure regulation on municipal managers' incentives to disclose financial report information to the bond market. he compared disclosure levels of municipal governments in Michigan, which requires GAAP, with those in Pennsylvania, which has unregulated disclosure. In the absence of disclosure regulation that managers have bond market-induced incentives to disclose information. Controlling for other incentives to disclose, the evidence implies that regulation induces additional disclosures for low-debt governments, and is not binding for high-debt governments.

Giroux and McLelland (2003) conducted research in the USA. The research focussed on governance structure and disclosure. Mayor Council (MC) were municipals in which the mayor is elected directly by voters. Council Manager (CM) were municipals in whuch the mayor is elected by city councils (local parliaments). Based on this structure, they proposed that CM cities have more incentives to disclose. City councils have more incentive to monitor the mayor compare to voters. The results found CM cities have superior financial disclosures compare to MC. They used control variables used by previous researchers; financial condition, size, wealth, regulation. The research used two variables measuring disclosures: certificate of achievement and disclosure index. Disclosure index was measured by certificate of achievement plus unqualified opinion and quality of auditor (dummy variables big 6 audit firms). Municipals can achieve a score zero to three. The results found CM cities have higher disclosure compared to MC. Financial viability, population and wealth influenced the disclosure index.

Laswad, Fisher and Oyelere (2005) conducted research on 86 local governments in New Zealand. They investigated the determinants of internet financial reporting by local government. The research used the logit model. Some local governments in New Zealand disclose their financial statements in the website. They used dummy variables as dependent variable, 1 for local governments that disclose their financial statement in the website. Six variables used by Ingram (1984) are examined: political competition, size, leverage, type of local authority, municipal wealth and Press visibility. Results indicate that leverage, municipal wealth, Press visibility, and type of council are associated with the Internet financial reporting.

Falkman and Tagesson (2008), investigate municipal accounting in Sweden. Based on the new regulation in 1998, a standard setting body was formed, with responsibility for developing and interpreting generally accepted accounting principles for municipal accounting. The objective of this research was to explain the actual outcome of the municipal accounting reform in Sweden by investigating the actual observance and accounting regulation among the prepares. The research used the triangulation approach, survey, documentation study and interview. The research reveals that, the accounting reforms had a limited impact on accounting practices. Compliance by municipals to the accounting standard was poor in general. The research proposed some variables that influenced compliance, i.e., time (by using older accounting standard), ratio of income from municipal derived from government grants, size, dummy of political majority. The results suggested, large municipalities produce better accounting information and weak audit quality was an important factor that explains the lower compliance with accounting standards.

Giroux and Jones (2011) investigated audit quality of local governments in England and Wales. The objectives of the research were to explore variables that influence audit quality. The research reveals that audit quality of local government is associated with number of goverment audit clients and local governmet type.

Indonesian Context

Indonesia has more than twelve thousand islands and more than two hundred and fifty million people. Indonesians have three levels of governments, which are central, provincial, and municipal(city) or district governments. The Indonesian central government has more than 80 ministries and governmental agencies. Each ministry and government agency prepares financial statements, after that their financial statement are consolidated by the finance ministry to produce the Central Government Financial Statement. The Central Government Financial statement is audited by Supreme Audit Institution and submited to the central parliament.

The local or regional governments consist of 33 provinces and 447 city or district governments. In the past government structure, cities had a function as coordinators of several districs. But in the autonomy era, each district, city, and province has autonomy to regulate its region. Central government only has a little power to regulate local government. Each local government prepares the financial statemen that is audited by SAI and submitted to the local parliament. Since 2000, the Government of Indonesia has adopted a number of new policies and regulations on local government financial management aimed at promoting improved systems and greater accountability over public resources managed by local and regional governments.

Efforts to improve governance and control were started in the period of 2003 – 2004 when the Constitution was revised and the State Finance Law No. 17 of 2003, State Treasury Law No. 1 of 2004, and Law of Audit and their following regulations were passed (Auditing Management and Accountability of State Finance Law No. 15 of 2004). It provides clear definition and scope of the state finance, the obligation for government to design and implement internal control and to provide financial accountability in a basic financial statement based on a governmental accounting standard. Moreover, the revised Constitution and Law of Audit gives a better role and authority for the Audit.

As mentioned earlier, the state finance reform is the fruit of the 1999 reform movement following the economic crisis which caused significant changes in economic and political systems in Indonesia. Poor quality of information, especially in finance, was considered as one of the root causes (Nasution 2007). The poor financial information resulted from deficiencies in accounting and legal systems and weak governance and internal control. To address those weaknesses, the government, parliament and BPK (Supreme Audit Institution) introduced major fiscal reforms in the basic legal framework of state finance, treasury and auditing of management and accountability of state finance. Based on the new regulations, the government must develop an accounting standard. Each government institution must prepare a financial statement based on the standard and the SAI will audit that statement before it is submitted to parliament

The governmental accounting standards were issued in 2005 by the committee appointed by the President. As a complimentary of the accounting standard, the government launched a double-entry, decentralised computerised accounting system to replace the old single-entry, centralised manual accounting system The government shall submit their financial statements to SAI no later than three months after the end of fiscal year, and SAI shall send their report to parliament and government no later than two months after the financial statements are received. The government shall design and implement a governmental internal control system. The government issued a draft of the internal control system, which was designed according to international best practices on internal control. Another reform is civil services or public administration reform. They have asked for more effective, efficient and clean government. In order to meet this demands the nation has to change its public management into more democratic, efficient and more citizen oriented. Good governance has become the new paradigm in the administration of the public services. (Rai, 2008).

Expenditures of all local governments in Indonesia accounted for about 30 percent of total general government expenditure in 2004/2005. Although required by law, local governments do not normally provide their approved budgets and budget execution reports to the central government in a timely manner. Limited capacity, particularly in the more remote regions, is an important factor, but there have also been weaknesses in coordination between Ministry of Finance and Ministry of Home Affairs in establishing consistent standards for reporting.

At the beginning of 2006, the central government had only received 90 percent of local governments' budget reports for fiscal year 2004, a lag of more than 12 months. The Ministry of Finance has issued an instruction to all local governments to submit their 2007 budgets by March 2007 or risk a decrease in their general allocation from the central government.

The new government accounting system, while maintaining transaction records on a cash basis, has been adapted to deliver financial statements in formats used for accrual based accounts. Full accrual accounting was to be in place by 2008 but actually the accrual standard was issued in 2010. Currently, reports on budget realization are compiled from transaction records. Unfortunately, to convert cash-based transactions to accrual reporting is time consuming, requiring an examination of all revenue and expenditure transactions, which for a normal government can amount to thousands of transactions.

Hypotheses

Wealth

Research by Ingram (1984) found that there is a positive relationship between regional wealth levels and municipals' level of disclosure. Ingram (1984) stated that management incentives that were measured by wealth influenced disclosure level of local governments. In addition, Robbins and Austin (1986) replicated the Ingram research and obtained similar results. Lasward, Fisher and Oyelere (2005) also found a elstionship between municipal wealth and presentation of financial statements in local government websites.

The level of local wealth is measured by the own revenue for each person in the local government. Ingram (1984) also used own revenue per capita as local wealth. Own revenue is revenue collected by local government. By Indonesian law, local governments can collect local taxes, i.e., restaurant tax, movies tax, billboard promotion tax and water tax. Local governments can generate income from local state-owned companies, tourism and parking fees..The capacity of local government to generate own revenue reflects the ability for self-sunding and reduces the dependence on central government. Based on previous studies and the political hypothesis, if an entity has large wealth or size, the stakeholders need more information. Increasing wealth or size will make the voters concerned about the performance of local government.

Hypothesis 1: The level of local wealth has a positive relationship to the disclosure.

Dependency of local government
The more dependent an organization is, the more pressure to comply to the regulation. Part of local government revenue comes from the central government. The accounting standard is a government regulation that is used by local government to preprare financial statements. Falkman and Tagesson (2008) found that compliance by municipals to the accounting standard was influenced by the amount of income derived from central government grants.

According to Ingram (1984) ratio of inter-governmental revenue to total revenue is a proxy of the level of dependency local government to the federal government. High levels of dependency tend to increase disclosure. Central government will monitor and evaluate the local government because it gives funds for local expenditure. If the proportion of the local budget coming from central government os high, the local government will increase its disclosures. Robbins and Austin (1986) showed that there is a significant relationship between dependencies and quality of disclosure.

On average more than fifty percent of total revenue of local government is derived from central government. But since 2004, the central government has been increasing the autonomy. Local government budgets and, to some extent, policy was stated by local government heads and local parliaments.

Hypothesis 2: The level of local dependence on central government has a positive relationship to the level of disclosure.

Complexity
According to Ingram (1984) the complexity of governance as measured by the number of people was encouraging state governments to improve disclosure in financial reports. More population means that government must provide more public services to the society. Thus the large population will increase the complexcity of government in carrying out their functions as public servants. The local governments that have large population will disclose the complexity of the acitivities to public. They disclose more aspects and more problems to handle the complex acitivities.

Hypothesis 3: The complexity of government has a positive relationship to the level of disclosure.

Audit quality
Copley (1991) examines the relationship between audit quality and disclosure. The research used 282 cities. Disclosure was measured by the index of disclosure quality. The disclosure levels were associated with Big 8 auditors and cities with the city-manager governance structures. Copley indicated that audit quality influence the disclosure level. Reputable audit firm will encourage the municipals to make more disclosure and fulfill the disclosures required by accounting standars.

In Indonesia, all local governments are audited by Supreme Audit Institution (SAI). So there is no audior difference. But the quality of auditors varies among audit teams. Each municipal is audited by an auditor from the SAI Province unit. Each audit engangement is conducted by an audit team from SAI Province. Each team audits financial statements form 2-4 municipals.The quality auditor team varies depending on experience, education background and the knowledge of government accounting and financial process and regulation. The information is restricted by SAI, so it cannot be used in this research.

SAI use the Government Financial Audit Standard that refers to the general audit standard (international auditing standard adopted by the Indonesian public accounting prefession). SAI Audit delivers three reports to parliament, audit report of financial statement, internal control and compliance to government regulation. In the audit of internal control and regulation compliance report the audit findings in term of number of findings and monetary value of potential government loss.

Audit opinion of financial statement is given to local government based on three criteria:

a. Compliance to Indonesian Government Accounting Standard (IGAS)
b. Adequate disclosure of financial statement.
c. Compliance to government regulation
d. Effectiveness of internal control

In 2006 only 5 local governments had unqualified opinions and most of the opinions were disclaimers. But in 2010, there was some improvement, the unqualified opinions increased to 32 (9%). Central government has had qualified opinions since the 2009 financial statements.

The researcher use audit findings as a proxy of audit quality. If the local governments have a lot of finding, it means that auditors have high quality because they can detect the weaknesses of internal control and potential government loss. The research was conducted in 2006 the first year of government financial reformation. There was much corruption and weakness of internal control. Local government had just started to implement the accounting system for budget responsibility and financial statement purposes.

Audit finding classification of SAI consists of: having an indication of government losses, lack of acceptance, administration, inefficiency and ineffectiveness. The number of findings must be communicated to the management for further improvement. Beside the number, the researchr used value of the findings that give an indication of government loss as the value finding variable.

Hypothesis 4: The number audit findings has a positive relationship to the level of disclosure.

But the value of finding sometime relates to lack of evidence about expenditure, revenue and asset/liability recorded: aquisitions of assets that do not fulfill the government procedure, misused budget and potential government loss. Local governments have difficulties to disclose this specific information because they lack information or would not disclose because thyey relate to the local government leader's interest. So, if the local government has a high value of findings it tends to limit the disclosure of financial statement.

Hypothesis 5: The level of finding of potential government loss has a negative relationship to the level of disclosure.

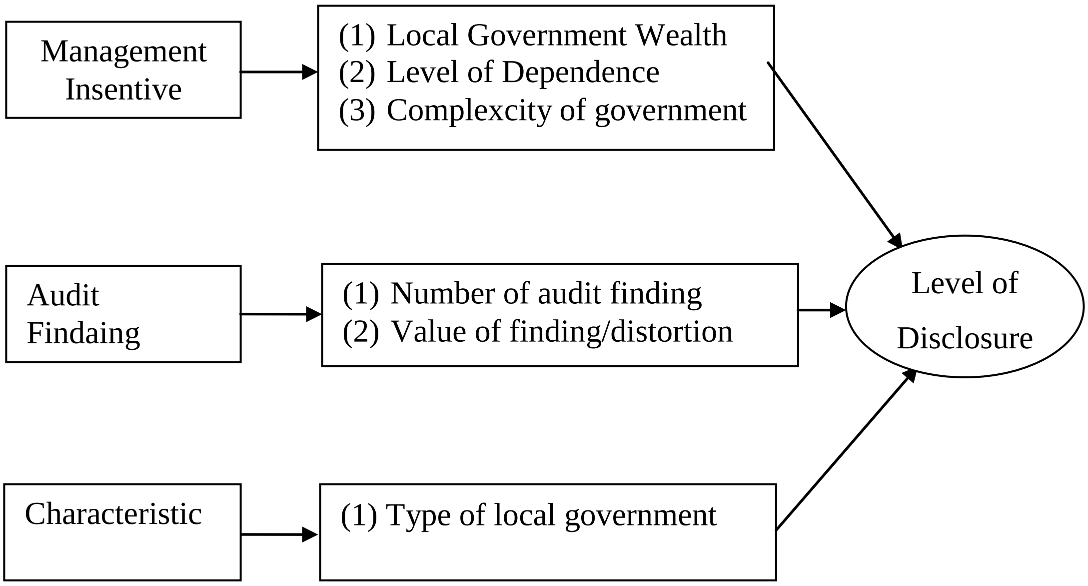
Cities have characteristics of strong economic factors supported by good infrastructures and many centres of educational activities to make the city more often interact with the community. So the city government should be motivated to be more transparent in revealing their financial reports. Cities sometimes hire consultants to improve the quality of financial statements including the disclosure.

Hypothesis 6: The type of local government has a positive relationship to the disclosure.

3. Research Methodology

This research uses the level of disclosure of local goverment financial statement that represent in the Notes to Financial Statements based on Indonesia Governent Accounting Standard(IGAS) as the dependent variable. The researcher divides these factors into three parts: (1) government incentives (management incentives) that consists of local government wealth, the level of dependence, and complexity of government; (2) the results of audit findings and the value of finding; (3) characteristics of the area covered by the type of local govenment which is divided into two groups, district or city.

Chart 1
Research Framework



Model that are used in the researh is:

$$DISC = \alpha + \beta_1 WEALTH + \beta_2 DEPEND + \beta_3 POP + \beta_4 FIND - \beta_5 NOM + \beta_6 MOR + \varepsilon$$

Table 1
Variables and Hypothesis

Coeficient	Variable	Varible Measurement	Hypothesis
WEALTH	Wealth of Local Government	Total Genuine Local Government Revenue devide by total population	Positive
DEPEND	Dependency of Local Government	Number of general allocation fund that transfer from central government to local government devide by total actual budget	Positive
POP	Complexcity of government	Numer of population	Positive
FIND	Audit Finding	Value of audit finding	Negatif
NOM	Value of Audit Finding	Value of audit finding devide with total actual budget	Negatif
MOR	Type of local Government	Dummy variable 1 if city and 0 if distict	Positive

This research uses a purposive sampling design, the exact type of quota sampling. This type of sampling design can ensure that certain groups are fairly represented in the study through a quota, which is set for each sub-group based on the number of each group in the population. Sampling criteria can be explained as follows.

a. Local government was selected to represent each province in Indonesia to set its quota based on the number of audited LGFS.
b. Audited LGFS must provide four components of report namely, the Budget Realization Report, Balance Sheet, Cash Flow, and Notes to the Financial Statements.

Object in this research were LGFS which has been audited by the SAI for the 2006 fiscal year in which SAP has been implemented. Total LGFS audited by the SAI for the 2006 budget year is 333 LGFS. The research select 92 LGFS that represent 33 provinces in Indonesia. LGFS used in this study were retrieved from the website of SAI; www.bpk.go.id.

4. Results

Based on the sample selection criteria in section 3, the selected sample includes 92 LGFS throughout Indonesia with the following explanation.

a. For each province the researcher took samples around of 30% of the total population.
b. Many local government that did not provide the four reports, namely, budget realization reports, balance sheets, cash flow statements and notes to the financial statements. The year 2006 was the starting period to implement IGAS so the population was limited to those local governments which had prepared complete financial statements

Table 2
Statistic Descriptive

	DISC	WEALTH	DEPEND	POP	MOR	FIND	NOM
Mean	35,4533	89230,87	66,21047	622739,8	0,33696	12,5326	7,38955
Median	34,175	67848,26	70,97638	295117,5	0	11	1,99845
Maximum	64,49	382940,5	83,3852	3835563	1	32	81,3748
Minimum	10,39	14300,85	14,36199	37132	0	1	0,0178
Std. Dev.	12,0299	69923,1	15,77693	715152,5	0,47526	6,78306	14,2346
Skewness	0,20176	1,845602	-1,67951	2,209495	0,68988	0,69163	3,19712
Kurtosis	2,54962	6,441259	5,165986	8,456399	1,47594	3,0269	13,6523
Jarque-Bera	1,40173	97,62448	61,23583	188,9824	16,2017	7,33743	591,703
Probability	0,49616	0	0	0	0,0003	0,02551	0
Sum	3261,7	8209240	6091,363	57292066	31	1153	679,839
Sum Sq. Dev.	13169,5	4,45E+11	22650,96	4,65E+13	20,5544	4186,9	18438,7
Observations	92	92	92	92	92	92	92

The descriptive statistics in Table 2 show that the level of disclosure has averaged 35.45%. This means that the level of disclosure LGFS is still small (compared with the maximum value that can be obtained 100%). Genuine Income per capita is still low, having an average Rp89.230, 87/person. The average level of local dependence on central government (General Allocation Fund / Total Actual Budget) is 66.21%. It means that more than 66% of the local is budget funded by central government because beside the General Allocation Fund local governments received special allocation fund, profit sharing fund, transfer of fund through the tecnical ministry. The average populatoin is 622,740 and has 715.153 standard deviation. It means that the pattern of population distribution is not equal among the local governments. Average type of city is 0.337, it means that the proportion of the City in the sample is less than 50%. Whereas the average number of audit findings is 13 the average value of findings is 7.29%.

The following Table used Pearson correlation to look at the relationships among the dependent variable and the independent variables. Pearson correlation helps us to understand the correlation between independent variables with one variable also dependency significance level between the two. We can see from Table 3 that there is a positive relationship which is not significant for all independent variables except the degree of dependence and the materiality level examination findings. This shows the level of significance of deviations with the level of disclosure.

Table 3
Pearson Correllation

Variabel Bebas	Level of Disclosure	
	Pearson Cor. Coef.	P-Value
Wealth of Local Government	0,119	0,238
Dependency of Local Government	-0,068	0,503
Complexcity of government	0,121	0,231
Audit Finding	0,111	0,272
Value of Audit Finding	0,002	0,982
Type of local Government	-0,256	0,014**

**significant at α = 0.05 with 92 observations (8 samples were *not available.*)

Before running the regression, the classical assumptions test was conducted. The regression model has fulfilled the classical assumptions and avoids multi-colinearity, auto-correlation and heteroscedasticity.

Table 4 shows that the adjusted R-squared of the model is 9.01%. These results indicate that the 9.01% disclosure level variation can be explained by all the independent variables. As for the rest, 90.99%, is explained by other variables. This may be because there are many other factors that have not been included in the model such as the coalition of voters and administrative selection, as practised by Ingram (1984).

F-stat = 0.028 $<\alpha = 0.05$, then the null hypothesis is rejected. This means that the model can explain the dependent variable and that at least there is one independent variable that has a relationship to the variable level of disclosure.

Table 4
Regression Result

Dependent Variable: LOG(DISC)				
Method: Least Squares				
Sample: 1 100				
Included observations: 92				
Excluded observations: 8				
White Heteroscedasticity-Consistent Standard Errors & Covariance				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0,519	1,667	-0,312	0,756
LOG(WEALTH)	0,184	0,083	2,216	0,029**
LOG(DEPEND)	0,083	0,132	0,625	0,534
LOG(POP)	0,103	0,044	2,316	0,023**
LOG(FIND)	0,146	0,086	1,699	0,093*
LOG(NOM)	-0,040	0,024	-1,696	0,094*
MOR	-0,028	0,109	-0,261	0,795
R-squared	0,150	Mean dependent var		3,504
Adjusted R-squared	0,090	S.D. dependent var		0,374
S.E. of regression	0,357	Akaike info criterion		0,851
Sum squared resid	10,840	Schwarz criterion		1,043
Log likelihood	-32,171	F-statistic		2,502
Durbin-Watson stat	1,620	Prob(F-statistic)		0,028

*significant at α = 0,1
**significant at α =0,05

The wealth of local government has a positive significant relationship with the level of disclosure at 95% confidence level. Therefore it can be said that the higher the level of wealth of a region, the greater the intention governments to increase their level of disclosure or, in other words, if the level of regional wealth increases by 1% the level of disclosure is increased by 0.184%. These results support Ingram (1984), the univariate correlation with the level of wealth is significantly positively associated with the level of disclosure.

The level of dependencey on the central government has a positive relationship that is not significant to the level of disclosure. In other words, large or small degrees of dependency on the central government do not provide incentive for the local government to increase the level of disclosure in LGFS. This may be because the central government in the autonomy era lacks control over local governments. The Fund transfered by central government to the local government is not based on the reporting complience but the transfer is automatic. So that local governments are less motivated to improve their disclosures. In 2009, the Central Government gave the incentive to local governments to improve the quality of financial statements. The Ministry of Finance will increase the general allocation fund if the financial statments have unqualified opinions from SAI. These results are similar to Ingram (1984) with univariate correlation; the degree of dependence has a positive relationship but no significant impact on the level of disclosure. The results are different from Austin (1986), the univariate correlation with the degree of dependence is negatively related to the 0.05 level and with multiple regression relating to the 0.1 significance level.

Complexity of government has postive relationships with the disclosure levels so the hypothesis is accepted. It can be concluded that complexity of local government will increase disclosure. These results differ from Ingram (1984) and Robbins and Austin (1986). In their research, the complexity of the government does have a positive relationship, but not significant using univariate correlation and multiple regressions in Robbins and Austin (1986).

The audit findings have positive and significant relationship to the level of disclosure, so that it can be said that if there is an increasing number of findings by 1% the level of disclosure will increase by 0.145876%. These results show that the quality of audit will increase the disclosure level. The result is consistent with Copley (2002) thataudit quality has a positive relationship with the disclosure level. Hihgh quality auditors will detect a lot weaknesses and findings and after that give some recommendations to improve disclosure. Local governments meet the recommendations of SAI to correct and improve disclosure. More findings will improve the disclosure quality. But, in terms of audit quality, more findings indicate the worse quality of financial statement.

The value of findings have a negative and significant relationship to the disclosure level. These results suggest the hypothesis that the higher the level of distortion, local governments tend to cover the disclosure of information so that the level is low. The local governments tend to decrease the disclosure when they have a lot of problems in accountability. Potential government loss was happened when the government did not have complete documentation of budget and asset acquisition.

tType of local government is not significant but still has a positive relationship to the disclosure levels. It can be concluded that both types of city and districts have no significant relationship to the level of disclosure. This means there is no difference between the levels of disclosure among the type of local government from the perspective of investors, the city economies are better than the district ones so the level of disclosure is a better city than the district.

5. Conclusion

This study investigate the relationship of the local government incentives, audit finding, and the types of local government to the level of disclosure. Government incentives include local genuine income per capita, level of dependence on central government and the complexity of government. Audit Finding used the number of audit findings and the value of finding/distortion. Type of local government includes city or district. This study found evidence that the three variables together could explain the level of disclosure. The following description of the individual test results for each variable.

1. In local government incentives, this study shows that there are positive and significant relationships of the wealth and complexity of government to the level of disclosure, while degree of dependence has no significant relationship to the level of disclosure.
2. Variable number of findings of the examination has a positive relationship while the level of distortion has a significant negative relationship.
3. Type of local government has no significant relationship to the level of disclosure.

The results obtained are consistent with information asymmetry between issuers and lenders in municipal bond markets being a possible reason for the inclusion of call provisions in municipal debt. Also, political factors appear to influence the call decision. The results imply that financial decision making in the public sector is influenced both by economic and political considerations, and suggest that the effectiveness of existing monitoring mechanisms in the public sector needs further examination. It is better to continue the research by expanding the sample and the period of observation. The research could also add the variables of readiness of local government to prepare financial statements, the quality of preparers and the quality of users of local government financial statements.

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