

Transparency of local government in Indonesia

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123

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Abstract

Purpose – The purpose of this paper is to provide empirical evidence about the influence of the size of local government, the quality of local government financial statements, the level of local government response to the disclosure of financial information and the local political environment on the transparency of local government in Indonesia.

Design/methodology/approach – The study sample consisted of 34 regional governments (provinces) in Indonesia in 2016, using purposive sampling and multiple regression analysis.

Findings – The results showed that the quality of financial reporting through the audit opinion and political environment have a significant positive effect on the transparency of local government in Indonesia. On the other hand, the size of the local government and local government response rate on the regulation do not affect the transparency of local government in Indonesia.

Originality/value – The agency, legitimacy and institutional theory have an important role in the underlying local government transparency practices in Indonesia. The results of this study should be used as the basis of thought and study to determine the factors that affect the performance of local governments from the financial and non-financial aspects.

Keywords Legitimacy, Transparency, Agency, Local government, Institutional

Paper type Research paper

Introduction

Transparency is a key issue in democratic governance. Democratic governance necessitates accountability to the public in order to increase transparency in disclosing more information about budgets and finances. Increased transparency is urgently needed in the context of oversight functions, preventing acts of corruption and misuse of public resources that would result in the disruption. The local government is the party mandated to manage the funds from the community, so that the success or failure of the fund management is very dependent on the local government agencies implementing it (Adisasmita, 2011). Fund management is done through the preparation of financial statements as a form of accountability of local financial management. Accountability is defined as the government's response to the public about its performance level (Pina *et al.*, 2010).



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In Indonesia, the prepared regional financial statements constitute a form of financial management accountability. According to the statement of Government Accounting Standards/Standar Akuntansi Pemerintahan (SAP) No. 01.9 on the presentation of financial statements, the specific purpose of government financial reporting is to provide information useful for decision making and to demonstrate the accountability of the reporting entity to the resources entrusted to it. Meanwhile, on the other hand, according to the explanation of government regulation of the Republic of Indonesia (Peraturan Pemerintah/PP) Number 56/2005 (Republik Indonesia, 2005b) on Regional Financial Information System, the support of the regional financial information system is required to support the formulation of national fiscal policy and improve transparency and accountability in the implementation of decentralization. In Article 13 (b), the government regulation states that regional financial information should be presented through the official site of local government. Law (Undang-Undang/UU) Number 14/2008 (Republik Indonesia, 2008) on Public Information Openness is issued to regulate the obligation for any public body to publicly publish public information. Public bodies in this regard include local government.

The issuance of the regulation resulted in any public information to be obtained by any applicant of public information quickly and timely, and in a simple and low-cost manner through internet media (Rahman *et al.*, 2013). To improve transparency and accountability in financial management, local governments can use the internet media to present and disseminate their financial statements (Pina *et al.*, 2010). Styles and Tennyson (2007) stated that internet financial reporting is a cheap but an effective way for local governments to present information on financial management.

Technological developments in the form of the Internet led to the term e-government, and as a consequence, the government began to adapt to the development of technology. E-government is the utilization of information technology applications conducted by the government, so the government can communicate various matters to various parties, either the public, investors, creditors, or parties concerned with relevant government information (Wijatno, 2009). Bertot *et al.* (2010) stated that advances in information and communication technology are seen to minimize costs effectively to create transparency and to reduce corruption in the government sector. Websites are a means of supporting the efficient delivery of information to the public at large and influencing the communicative aspects of financial reporting (Hiola and Rosidi, 2015). Using the internet has several advantages such as accounting data electronically can be accessed whenever and wherever (Xiao *et al.*, 2005). In Indonesia, the information through local government websites is disclosed in various ways, i.e., some governments disclose information in full and some, moderate or minimal (Afriansyah and Haryanto, 2013). The Instruction of the Minister of Home Affairs No. 188-52/1797/SJ/2012 (Republik Indonesia, 2012) on Improving the Transparency of Local Budget Management stipulated on the obligations of regional heads to prepare a menu of transparency content of the management of local budgets on their respective regional websites.

The local government is bound by government regulation related to it due to which it has an obligation to disseminate public information in a manner that is easily accessible to the public and in an easily understood language (Medina, 2012). In this case, there is a high level of convenience for the community as users can find and view financial (Styles and Tennyson, 2007) and non-financial information on the local government website. Therefore, it takes the financial resources (assets) and human resources owned by local governments to realize the infrastructure in the field of information technology.

Dowling and Pfeffer (1975) stated that the activities of the organization should be in accordance with the social values of the environment and to obtain the legitimacy support of organizational activities and its reporting should be in accordance with the expectations of the community and reflect the social value of the environment. The public demand for public sector organizations to improve the quality, professionalism and public accountability in implementing

their programs encourages the conduct of audits that are not only limited to compliance but also to performance (Badjuri and Trihapsari, 2004), so that local government finances audited by Audit Board of the Republic of Indonesia (BPK RI) can be interpreted as having legitimated.

In this regard, the reporting of regional financial information in its development will relate to its presentation in Local Government Financial Statements/Laporan Keuangan Pemerintah Daerah (LKPD) as a form of accountability for Regional Government Budget/Anggaran Pendapatan dan Belanja Daerah (APBD) implementation in accordance with government accounting standards established by the government. What is present in the LKPD is expected to be a useful and effective program of government effectiveness and efficiency for communities associated with the use of resources owned by local governments. Currently being applied to all local governments in Indonesia is a change in the accounting base used by the public sector from the cash system to the accrual system as per the instructions of the Minister of Home Affairs Regulation No. 64 of 2013 (Republik Indonesia, 2013) regarding the Implementation of Accrual-Based Government Accounting Standards to Local Government. Accrual basis is applied to financial reporting and the implementation of the local government budget. Transitional Provisions Article 10 states that: the regulation of regional heads which governs accounting policies as referred to in Article 4 paragraph (5) and regulation of regional heads which governs the local government accounting system/sistem akuntansi pemerintah daerah (SAPD) as referred to in Article 6 paragraph (4) shall be determined no later than May 31, 2014; and the adoption of accrual-based SAP on local government no later than the budget year 2015.

Financial information disclosure on websites can also be used as an alternative to reporting methods to demonstrate accountable and transparent local government commitments. Baber and Sen stated that the elected regional head of a regional government with high political competition is more vulnerable to criticism from his political rivals. Thus, the head of the serving region is likely to choose a broad reporting method, such as disclosure on the website, as a move to gain legitimacy from the public. This argument is supported by research by Jorge *et al.* (2011), Garcia and Garcia (2010) and Alvarez *et al.* (2010), where the conclusion of the results of their research said that a government that has a good performance will be in vain if the political competition within the government is too high. Political opponents will only preach negative things that will hurt the ruling regional leader. However, this may encourage the government to make a wider disclosure to the public. So the government that has a good performance but is in an unfavorable political environment will make the disclosure of financial information on the website.

Falkman and Tagesson (2008) and Pina *et al.* (2010) suggested that institutional theories and agency theory are two theories that can explain local government financial reporting practices. Institutional theory is a fact that the structure of an organization is influenced by the social environment in which it resides (Carruthers, 1995). Institutional theory becomes one of the dominant theoretical perspectives in organizational theory and is increasingly applied in accounting research to study accounting practices in organizations (Deegan and Unerman, 2006).

Institutional theory deals with the way an organization adapts to its environment. The purpose of establishing an organizational structure is to achieve success with the acquisition of a recognition (legitimacy) of all organizational activities that have been done to improve the output (outcome). One of them is the practice of local government financial reporting through the disclosure of local financial information on the website or website is a form of the implementation of legislation to gain legitimacy in the institutional context.

Implementation of regulations enacted in the regions will have consequences for local government work programs that impact the welfare of the community. If problems arise in the implementation of the government program so as to generate information asymmetry, it will have a negative impact on public services. That is what then led to agency problems. Zimmerman (1977) stated that agency problems occur in all organizations. In the

government sector, agency problems occur between elected government officials and appointed as principals and voters (community) as agents. Officials in the government as parties to public services have more information so that they can make decisions or policies that only emphasize government and authority and ignore the interests and welfare of the people. To reduce the problem, the local government must make efforts to present the financial statements in a transparent and accountable manner.

Styles and Tennyson (2007) stated that the disclosure of accounting information through internet financial reporting can be modeled as a function of demand and supply of information between principal and agent. The form of accountability for the implementation of local government through LKPD to the public is an agency relationship between local government as agent and community (voter) as principal. The relationship is suspected to cause agency problems, so the principal has an incentive to monitor the behavior of agents (Zimmerman, 1977). Financial reporting through the internet is an attempt to reduce information asymmetry between local government as an agent and its voters as principal (Laswad *et al.*, 2005).

Patrick (2007) found empirical evidence of the characteristics of government in Pennsylvania, that is, an organizational component used as a factor affecting administrative innovation Governmental Accounting Standard Board (GASB) 34. These characteristics consist of area size, functional differentiation (total local agency/SKPD), age of area, opportunity to innovate, specialization employment, debt financing and intergovernmental revenue. In some studies, the characteristics relate to the agency theory as part of the disclosure of information or local financial reporting to reduce the information asymmetry between principals and agents (Setyaningrum and Syafitri, 2012).

The characteristics of local government basically have been taken into account in the drafting of the Regional Government Budget/Rancangan APBD and its realization through the stages of APBD preparation starting from planning, approval, implementation, supervision and accountability of the budget by the executive to the legislature (Halim and Kusufi, 2012). Communities through the legislature based on agency theory will require the planning process until accountability of the APBD can be implemented accountably and transparently to create a good public governance.

The community cannot exercise its capacity as principal in conducting government oversight in its area. A control function is required on the implementation of governance in the region through its representatives who sit in legislative bodies that perform the functions of legislation, budget and supervision in accordance with Law no. 32 of 2004 (Republik Indonesia, 2004) on Regional Government. The mechanism of the way of governance in the regions is the synergy between the executive and the legislature as a political process in the preparation of APBD each year. Through APBD, the public will get information on budget execution in order to oversee local financial management (Ratmono, 2013).

This study will examine the effect of local government size as seen from the assets owned by local government and the quality of financial statements based on agency theory as it is a form of planning and responsibility of government performance as an executive to the society represented by the legislative in realizing the transparency of local government. This study will also examine the effect of the implementation of the accrual government accounting standard accreditation as a form of local government response to central government regulation provisions on the presentation of local government financial statements and the Regional House of Representatives/Dewan Perwakilan Rakyat Daerah (DPRD) control function on local government administration in disclosing financial and non-financial information in the local government based on institutional theory as a mechanism for the implementation of organizational functions in obtaining legitimacy from the public.

Based on the background description of the problem, the purpose of this study is to provide empirical evidence on the effect of local government size, the quality of local government financial statements, the level of local government response to the disclosure of

regional financial information and the political environment on the transparency of local governments in Indonesia. Contributions to local government governance literature, particularly local government transparency of local government financial and non-financial information, are linked to the examination of institutional, agency and legitimacy theories that are more widely developed in the private sector. In other words, theories that are more influential on issues related to the transparency of local governments through the examination of the size of local government, the quality of local government financial reports, the level of local government response to the disclosure of regional financial information and the political environment.

Literature review

Transparency

Piotrowski and Bartelli (2010) stated that the ease of accessing information owned by the government is one of the things that concern to the community. This is due to the linkage between transparency and ethical issues, corruption, administrative deviations and accountability. Transparency is one of the key elements in good governance in the form of guaranteeing access and freedom for everyone to obtain information on governance, including public finance management (Medina, 2012). Folscher (2000) in Medina (2012) revealed several advantages of transparency, namely:

- (1) reduce uncertainty that contributes to fiscal and macroeconomic stability so that future adjustments can be minimized;
- (2) improving the accountability of government, legislative, media and society can exercise better control of the government;
- (3) increase trust in government and build closer social relationships; and
- (4) improve the investment climate.

E-Government

Moon (2002) described the function and usefulness of web-based technology that can be classified into two (two) categories, external and internal. Externally, web-based technology can facilitate public relations within the community. Internally, the use of web and other information and communication technologies (ICT) has promising potential as an effective and efficient managerial tool to be able to collect, store, organize and manage data and information.

Electronic government is a process of the governance system by utilizing ICT as a tool to facilitate communication process and transactions to citizens, business organizations and between government agencies and staff so that efficiency, effectiveness, transparency and accountability of the government can be achieved to the community (Hartono and Mulyanto, 2010).

Indonesian government structure

The governance structure in Indonesia consists of the central government and local governments, where the regional government consists of the provincial-level government as well as the second-level local government, i.e., the district and city governments. Law Number 32/2004 (Republik Indonesia, 2004) Concerning regional government in Article (1) asserts that the autonomous region is a legal community unity which has regional boundaries authorized to regulate and administer government affairs and the interests of local people according to their own initiative based on community aspirations in the Unitary State system Republic of Indonesia.

Government Regulation Number 56/2005 (Republik Indonesia, 2005) on Regional Financial Management Article 1 explains that local government is the implementation of government affairs by DPRD according to the principle of autonomy and duty of assistance

with the principle of autonomy as widely as possible in the system and principle of the Unitary State The Republic of Indonesia as referred to in the 1945 Constitution of the State of the Republic of Indonesia. With the enactment of regional autonomy, the regional government is required to be able to manage its government independently. Local government is expected to realize transparency and accountability in financial management (Setyaningrum and Syafitri, 2012).

Development of governmental accounting standards in Indonesia

The renewal of regional financial management, which is done during the regional autonomy period, starts from the basic things, namely the budgeting system, treasury, and financial statement accountability. At that time, which must be reported by the head of region is the budget calculation report, calculation note, statement of cash flow and regional balance sheet. The inherent regulation at that time was Law Number 25/1999 (Republik Indonesia, 1999) concerning financial balance between central and regional government, then Government Regulation Number 105/2000 (Republik Indonesia, 2000) Concerning the Principal Management and Accountability of Regional Finance.

The government began to formulate policies related to financial reforms beginning with Law Number 17/2003 (Republik Indonesia, 2003) on State Finance. The development of government accounting standards is most striking, of course, marked by the birth of Government Regulation Number 24/2005 (Republik Indonesia, 2005a) on Government Accounting Standards which emphasize on the basis of Cash Towards Accrual (CTA). On the other hand, the most recent is the Government Regulation no. 71 Year 2010 (Republik Indonesia, 2010) on Accrual-Based Government Accounting Standards (accrual), which is the aspiration of Law Number 17/2003 (Republik Indonesia, 2003) Article 36 paragraph (1) and the implementation form of the concept of new public management.

Institutional agency and legitimacy theories

Falkman and Tagesson (2008) and Pina *et al.* (2010) suggested that institutional theories and agency theory are two complementary theories to explain local government financial reporting practices. Institutional theory suggests that organizations respond to pressures from their institutional context (DiMaggio and Powell, 1983; Carpenter and Feroz, 2001). The agency problem arises when the principal delegates decision-making authority to the agent (Zimmerman, 1977). In the government sector, agency problems occur between elected government officials and appointed principals and voters (community) as agents (Setyaningrum and Syafitri, 2012). Disclosure of public finance information via the internet can also be described by agency theory (Laswad *et al.*, 2005; Styles and Tennyson, 2007; Pina *et al.*, 2010).

The theory of legitimacy is used as a justification for why the provincial government should publicly disclose financial information through the official website of each provincial government. Deegan *et al.* (2000) state that the theory of legitimacy is based on the understanding of social contracts between social institutions and society. One effort that can be done is to make the disclosure of information by utilizing internet facilities in the form of website (Sinaga, 2011).

Size of local government and transparency of local government

There are several research results that test the size of the region with information in local government, especially the disclosure of financial information in the region. According to Afriansyah and Haryanto (2013), the total amount of local government assets is directly proportional to the community's concern about the performance of local government. According to Medina's (2012) research, the size of local government reflected in total local government assets is directly proportional to the availability and accessibility of financial

information on the official local government website. In line with the research of Medina (2012), also proven empirically in Trisnawati and Achmad's (2014) research, the size of local government through its total assets affects the publication of financial statements through the internet. In contrast, Setyaningrum and Syafitri (2012) used the size of the local government through the proxy of total assets and stated that there is no effect of assets on the mandatory disclosure of LKPD in Indonesia. The study is also in line with Dewi *et al.* (2015), which stated that provincial government assets have no effect on the level of disclosure of local financial information. While in the theory of legitimacy, a local government is encouraged to ensure that assets owned can be used for activities and performance so that good performance will be accepted and supported by the community.

Laswad *et al.*, Groof and Pitman (2004), Styles and Tennyson (2007) and Groof and Pitman (2004) stated that the availability of financial statements on the internet shows financial statement documents available online. Within the agency theory framework, the availability of local government budget information indicates an effort to reduce the problem of information asymmetry.

Based on the description, the following hypothesis can be formulated:

- H1.* The size of local government has a positive effect on the transparency of local government in Indonesia.

Quality of local government financial report and transparency of local government

After the financial report of the local government has been prepared and ready to be published to the public, it is necessary to conduct an audit process to assess the fairness of the local government's financial report conducted by the financial auditing agencies. Styles and Tennyson (2007) and Pina *et al.* (2010) provided empirical evidence that local governments will gain awards from external organizations for good financial reporting practices, thus tending more to present their financial statements on the internet. Contrary to the research by Styles and Tennyson (2007), research conducted by Trisnawati and Achmad (2014) shows that audit opinion has no effect on the publication of local government financial report through the internet.

In line with agency theory, the community as principal will demand to the government as an agent to demonstrate its accountability in the local financial statements through an auditor's examination of the fairness of its presentation. The audit results in the form of audit opinion will provide information to the local government performance in local financial management (Trisnawati and Achmad, 2014).

Based on the description, the following hypothesis can be formulated:

- H2.* The quality of local financial reports has a positive effect on the transparency of local governments in Indonesia.

Level of local government response and transparency of local government in Indonesia

According to The Regulation of Financial Accounting, there are two theories that can illustrate the background of this change in government accounting standards, namely free market perspective and pro-regulation perspective (Deegan and Unerman, 2006). Relating to institutional theory is how the organization adapts to its environment (Wahyuni and Adam, 2016). The purpose of establishing an organizational structure is to achieve success by obtaining a recognition (legitimacy) of all organizational activities that have been undertaken to improve the efficient outcomes (Wahyuni and Adam, 2016).

The adoption of accrual-based SAP is a requirement that all local governments should implement in accordance with Ministry of Home Affairs Regulation No. 64/2013 (Republik Indonesia, 2013), which provides consequences for changes in LKPD reporting aimed at

obtaining legitimacy from the central government. Wahyuni and Adam (2016) studies provide empirical evidence that the implementation of accrual-based SAP in Malang City is more directed to a coercion of existing rules in the organization.

Based on the description, the following hypothesis can be formulated:

H3. The level of local government response to regulations has a positive effect on the transparency of local governments in Indonesia.

Political environment and transparency of regional government

Garcia and Garcia (2010) argued that political opponents will be quick to inform any irregularities in the actions of the ruling party that are inconsistent with the promises made during the election. The more competitive the political environment, the more incentives will be incurred to communicate to the public (legitimacy) of good governance performance through the disclosure of financial information on the website (Perez *et al.*, 2008 in Dewi *et al.*, 2015). It is clear that the legitimacy of legislative bodies will legitimately carry out the functions of legislation, budgets and supervision in accordance with legislation on executive performance in local government.

Rahman *et al.* (2013) indicated that higher political competition will encourage local governments to report their financial information on the internet. Laswad *et al.* (2005), Sinaga (2011) and Afriansyah and Haryanto (2013) stated that political competition does not affect the level of disclosure of accounting information voluntarily through the internet. Trisnawati and Achmad (2014) studies provide empirical evidence that political competition encourages local governments to publish financial statements through the website.

Based on the brief description, the following hypothesis can be formulated:

H4. The political environment in local government positively influences the transparency of local governments in Indonesia.

Methods

Sample selection

The study population includes all provincial governments in Indonesia in 2016. Sampling is done by using purposive sampling method with the criteria of provincial governments in Indonesia that have an official website and can access local government financial report (LKPD) 2016 budget year available in SAP format, data audit opinion and political environment from the composition of DPRD members in 2014–2019.

Data collection

Data collection technique used is secondary data through local financial information disclosure obtained from each official website of local government (Province) in 2016. The data include information on the size of local government, the quality of financial statements, the level of response of local government and the political environment obtained from the official website of the local government (province). In addition, data on the quality of the local government’s website financial statements and Ikhtisar Hasil Pemeriksaan Semester (IHPS) by BPK Ri are also included. The political environment data are viewed based on the search of the regional political party and the members of the DPRD from the official source of the local government (provincial) website.

Research model

The research model is:

$$\text{TransPD}_{i,t} = \beta_0 + \beta_1 \text{Asset}_{i,t} + \beta_2 \text{Aopinion}_{i,t} + \beta_3 \text{Accrual}_{i,t} + \beta_5 \text{Politics}_{i,t} + e,$$

where Transparency = Transparency of local government; Asset = size of local government; Opinion = Quality of financial statements; Accrual = Local government response rate; Politics = Political environment; and e = error.

Research variables, operational definition and variable measurement

Dependent variable. Dependent variable in this study is the transparency of local government, i.e., public information disclosure by the local government through the disclosure of financial and non-financial information of local government based on the level of accessibility of local government web by the users. The level of information accessibility was measured using the index used in the Styles and Tennyson (2007) studies that have been modified according to the conditions in Indonesia (Ratmono, 2013).

Score calculation:

- 1 = if the local government website can be found on the first page of search on Google by typing the name of local government.
- +1 = if only three clicks or less are required to view financial and non-financial information on the local government website.
- +1 = if financial and non-financial data can be downloaded in various formats.
- +1 = if there is any previous financial and non-financial information on the local government website. The highest total score is 4, and the lowest is 1.

Independent variable. Governmental size. Size of local government is a variable to measure the economic resources controlled or owned by the local government as a result of past events and from which future economic benefits are expected to be obtained. The proxy for measuring local government size is total local government asset, as in Laswad *et al.* (2010), Medina (2012) and Setyaningrum and Syafitri (2012). Local government assets are measured using scale ratio, i.e., Size of Local Government = total natural logarithm of assets.

Quality of local government financial statements. The quality of local financial statements is an assessment of the preparation and presentation of LKPD based on BPK RI audit results set forth in the form of an audit opinion of local government. Audit opinion is an indicator of the quality of financial accountability as seen in the presentation of Local Government Financial Statements (LKPD). Audit opinions are multilevel, namely: adverse opinion (TW), disclaimer of opinion (TMP), qualified opinion (WDP) and unqualified opinion (WTP). For the scale of measurement of financial statement quality variable through audit opinion using dummy variable as in Trisnawati and Achmad (2014), Score 1 = WTP and 0 = Non WTP.

Level of local government response. Level of the response of local governments is the responsiveness of local governments to the enactment of a central government regulation as a liability and have public consequences. In this study, the level of response of local governments by looking at the application of Accrual-based Government Accounting Standards (SAP) on the provincial government website is measured on the basis of Permendagri Number 64/2013 (Republik Indonesia, 2013) on the provision of Article 10 paragraph (2) of the Transition of Article 2 paragraph (2) that the accrual-based SAP implementation in local government no later than the budget year 2015. In this study, the measurements using dummy variables are:

- 1 = SAP basis accrual implementation before the fiscal year 2015.
- 0 = SAP basis accrual implementation in the fiscal year 2015.

Political environment. Garcia and Garcia (2010) argued that political opponents will be quick to inform any irregularities in the actions of the ruling party that are inconsistent with the promises made during the election. This study suggests that the political environment factor can strengthen the influence of the local government's financial performance with the

compliance of financial information disclosure on the website if the regional leader has a minority support party (Hiola and Rosidi, 2015). Measurement of variables using dummy variables are as follows: 1 = minority and 0 = majority.

Statistical tests. Statistical test performed in carrying out the analysis includes a descriptive statistical analysis which aims to provide an overview of research observation. Classical assumption test includes multicollinearity test which aims to test whether the model regression found any correlation between independent variables and heteroskedasticity test which aims to test whether in the regression model variance inequality occurs from the residual one observation to another observation (Ghozali, 2012). The research model was tested employing multiple regression analysis with error rate 5 percent using SPSS analysis. Sensitivity analysis was performed for the dependent variable, i.e., disclosure of information by measuring the level of disclosure of local financial information from Garcia and Garcia (2010).

Findings

The sample of research is local government (province) all over Indonesia with 34 provinces. Statistics descriptive of the research data is shown in Table I. From Table I, it can be seen that the level of transparency measured by the level of accessibility of the local government website by the users is at mean 2.75, which means while accessing the local government website, can be found on the first page of search on Google, three clicks or less are required to view financial and non-financial information. For local government assets, the average assets owned by the local government are 1.2 trillion rupiah. In the audit opinion, the average score indicates that the audit opinion on local (provincial) governments in Indonesia is largely unqualified. The adoption of SAP accrual basis is still very low as almost all new local governments enact SAP accrual basis in the 2015–2016 budget range and based on local government data does not explicitly indicate the time of SAP implementation. The political environment seen from the supporters of the regional leaders’ party shows that most of the regional heads in Indonesia are carried by the majority party.

Classic assumption test

Table II shows the results of multicollinearity testing based on tolerance values and VIF and it can be concluded that there is no multicollinearity in the regression model. Figure 1 shows

Table I.
Statistics descriptive

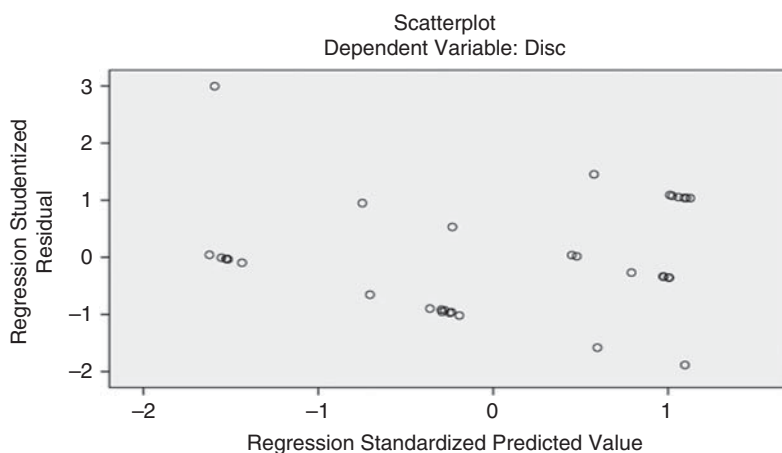
Variable	Mean	Maximum	Minimum	SD
Transparency	2.75	4.00	2.00	0.83
Asset	1.2 trillion	38.7 trillion	21 trillion	6.6 trillion
Audit opinion	0.57	1.00	0.00	0.50
Accrual	0.21	1.00	0.00	0.42
Politics environment	0.61	1.00	0.00	0.50
Sample	34	34	34	34

Source: Data processed

Table II.
Multicollinearity test

Independent variables	Tolerance	VIF
Asset	0.751	1.332
Audit opinion	0.803	1.245
Accrual	0.821	1.218
Politics environment	0.753	1.328

Source: Data processed



Source: Data processed

Figure 1. Heteroscedasticity test

the result of heteroscedasticity testing through the scatter plot to determine whether there is a pattern seen from the distribution of data. If the pattern on the picture does not show any indication to form a certain pattern, then there is no heteroscedasticity and vice versa.

Hypothesis testing

Regression analysis result. Table III shows the regression results to answer the research hypothesis by using SPSS analysis. Table III gives an analysis of the results of hypothesis testing of this study:

- (1) Effect of the size of local government on the transparency of local government in Indonesia. Results indicate that the size of local government as measured by total assets owned by local governments has no significant effect on the transparency of local government in Indonesia. This indicates that the assets owned by local governments have not been fully utilized for the realization of financial and non-financial transparency in local governments. This is likely due to the fact that

Research model

$$\text{TransPD}_{i,t} = \beta_0 + \beta_1 \text{Asset}_{i,t} + \beta_2 \text{Opinion}_{i,t} + \beta_3 \text{Accrual}_{i,t} + \beta_5 \text{Politics}_{i,t} + e$$

	Ekspektasi Tanda	Koefisien	Signifikansi	VIF
Asset	+	0.034	0.802	1.332
Opinion	+	0.616	0.038**	1.245
Accrual	+	-0.245	0.476	1.218
Politics env.	+	0.602	0.046**	1.328
Constanta	?	1.496	0.470	
Adjusted R ²			0.246	
F-test sign (F-statistic)			0.017**	
N			34	

Note: **Significant at 5 percent level

Source: Data processed

Table III. Regression results

the assets held are used for other purposes than for the provision of information and communications technology infrastructure for the region, which should be very useful for the community to gain access to local government information online. Results of this study are not in line with the research of Medina (2012) and Trisnawati and Achmad (2014) and indicate that the size of local government through its total assets affects the publication of financial statements through the internet. The results of this study are in line with Setyaningrum and Syafitri's (2012) studies that use the size of the local government through the proxy of total assets stating that there is no effect of assets on the mandatory disclosure of LKPD in Indonesia. The results of this study are also consistent with research conducted by Dewi *et al.* (2015) that provincial government assets have no effect on the level of disclosure of local financial information.

- (2) Effect of the quality of local government financial report on the transparency of local government in Indonesia.

Results show that the quality of financial statements through the results of audit opinion by BPK has a positive effect on the transparency of local government in Indonesia. This indicates that the audit opinion will have a great effect on the performance of local government in presenting its financial statements as the accountability of local financial management for the community, thereby increasing public confidence that local finance is actually used for their welfare. In this case, the relationship between the principal and the agent has gone well. Results of this study provide implications of local government efforts to produce financial statements of local government in accordance with the terms of existing legislation. The results of this study are in line with the study of Styles and Tennyson (2007), in contrast to the research conducted by Trisnawati and Achmad (2014) and indicate that audit opinion has no effect on the publication of local government financial statements through the internet.

- (3) Effect of local government response on the disclosure of regional financial information for the transparency of local government in Indonesia.

Results show that the response rate of central government regulation on SAP implementation of accrual basis has no significant effect on the transparency of local government in Indonesia. This indicates that the implementation of SAP accrual basis as an effort of government to make disclosure and presentation of LKPD accrual basis is not yet accompanied with the readiness of human resources and infrastructure in each local government. Almost all local governments in Indonesia have not provided explicit information reported in IHPS BPK, as specified in Permendagri Number 64/2013 (Republik Indonesia, 2013). The adoption of accrual-based SAP is a provision that all local governments implement in accordance with Permendagri Number 64/013, which provides consequences for changes in LKPD reporting aimed at obtaining legitimacy from the central government. The results of this study are consistent with the study of Wahyuni and Adam (2016), whose qualitative interpretation indicates that the implementation of accrual-based SAP (in Malang) leads more to a coercion of existing rules in the organization.

- (4) Effect of the political environment on the transparency of local government in Indonesia. Results show that the political environment through the support of political parties for regional heads in Indonesia gives a significant positive impact on the transparency of local governments in Indonesia. This indicates that the legislative legislature has an institutional presence in implementing the legislative, budgetary and supervisory functions in accordance with legislation on executive performance in local government. As Garcia and Garcia (2010) said, there will be

greater effort to be done by the local government to gain legitimacy if the level of political competition in the area is high, so there is the need for a communication strategy to solve the problem. There is a finding of this research that basically is not absolute supports majority or minority political party to head of the region and the efforts of executive and legislative synergy in doing local governance to get legitimacy by society as a voter in the local election. Results of this study are in line with the research of Rahman *et al.* (2013) and indicate that higher political competition will encourage local governments to report their financial information on the internet. Consistent with Trisnawati and Achmad (2014), the results provide empirical evidence that political competition encourages local governments to publish financial statements through the website. The results of this study are not in line with Laswad *et al.* (2005), Sinaga (2011) and Afryansyah and Haryanto (2013), who stated that political competition does not affect the level of disclosure of accounting information voluntarily through the internet.

- (5) Based on the findings of this research, empirically in relation to agency theory, legitimacy and institutionality have an important role in underpinning the transparency practices of local governments in Indonesia. Consequently, these theories become the basis of thought and study in determining the factors that affect the performance of local government seen from the financial and non-financial aspects (Table IV).

Sensitivity analysis

Sensitivity analysis is performed to test whether the measurement of the dependent variable will yield the same findings when other measurements are used with the independent variables in the research model. The transparency of local government finances is measured using scores such as Garcia and Garcia (2010). Sensitivity test results in Table V show that these findings are consistent and robust, and support the main test results.

No.	Category	Description (in Indonesia)	Scoring	Index
1	The information listed	Balance sheet/Neraca	1	A
		Budget realization report/ LRA	1	B
		Cash flow statement/LAK	1	C
		Recording system/Sistem Pencatatan	1	D
		Strategic plan/Renstra	1	E
		Financial statement Note/CaLK	1	F
		Last year data/Data Tahun Lalu	0.75	G
		Report of the regional device work unit/Laporan SKPD	0.75	H
		Performance accountability reports of government agencies/LAKIP	1	I
2	Formats used	PDF	1	J
		.rar	0.75	K
		.jpeg	0.75	L
		Excel	0.5	M
		PPT	0.5	N
3	Interaction with users	Word	0.5	O
		Email	1	P
		Telephone	1	Q
		Discussion forum	1	R
		Link page	1	S

Source: Garcia and Garcia (2010)

Table IV.
Scoring index

Table V.
Sensitivity test

Research model				
$TransPD_{i,t} = \beta_0 + \beta_1 Asset_{i,t} + \beta_2 AOpinion_{i,t} + \beta_3 Accrual_{i,t} + \beta_5 Politics_{i,t} + e$				
	Sign expectation	Koefisien	Signifikansi	VIF
Asset	+	0.090	0.000**	1.332
Opinion	+	0.037	0.041**	1.245
Accrual	+	-0.211	0.866	1.218
Politics env.	+	0.293	0.000**	1.328
Constanta	?	-1.160	0.002	
Adjusted R^2			0.69	
F-test sign (F-statistic)			0.000**	
N			34	

Notes: **Significant at 5 percent level, Source: data processed, TransPD is measured by terms: the maximum number of scoring results is 16.5. Each region has a minimum value of 0 and a maximum value of 1. Scale for the measurement used the following formula: score of each province's disclosure/total score (16, 5)

Conclusion

The results showed that the quality of financial statements through audit opinion and political environment has a significant positive effect on the transparency of local government in Indonesia. On the other hand, the size of local government and tingkan local government response to the regulation does not affect the transparency of local governments in Indonesia. This study found that agency theory, legitimacy and institutional play an important role in underpinning local government transparency practices in Indonesia. Consequently, the theory should be used as a rationale and study in determining the factors that influence the performance of local government viewed from the financial and non-financial aspects. Implication of this research is that local governments have accountability through the transparency of financial and non-financial information through the website according to the existing regulations on the implementation of local government.

Some limitations in this study need to be put forward so that the interpretation of research results is done carefully by considering all the limitations that exist. In addition, research limitations are useful for future research. The limitations in this study are as follows:

- (1) research sample is limited to the provincial government in Indonesia;
- (2) the study period is only in 2016; and
- (3) measurement of research variables of local government response rates on regulations using SAP accrual implementation indicators that may not yet represent the level of local government response to the full new regulation.

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