THE EFFECT OF CHARACTERISTICS, COMPLEXITY, AND AUDIT FINDINGS AGAINST THE DISCLOSURE OF THE GOVERNMENT FINANCIAL STATEMENTS OF GOVERNMENTS WITH INTERNAL CONTROL SYSTEM AS VARIABLE MODERATING

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ABSTRACT

This study aims to know the influence of characteristics, complexity and audit findings on the level of disclosure of Local Government Finance Report in the region of South Sulawesi. The variables studied in this research are the size of the local government, the degree of regional independence as a proxy of the characteristics of the regional government, the legislative size as a proxy of complexity, audit findings and the level of mandatory disclosure are also used. The study used Internal control as moderating variable and followed secondary data. The documentation methods followed include, collecting secondary data, reports of financial statements and non-financial data. Secondary data obtained from the Office of BPK Representative of South Sulawesi Province in the form of Report of Examination Result and Non Financial data obtained from BPS year 2013-2015. The analytics tool used in this study is multiple linear regression. Based on the result of the research, it is concluded that the variables of local government size and legislative size have a significant positive effect on disclosure level. While audit findings have significant negative effect and the level of regional independence has no effect on the level of disclosure. From the results of the regression of moderation, the internal control system as a moderating variable moderates the relationship of size of the local
government on the level of disclosure and control systems. It moderates the relationship as a measure of legislative against disclosure level. While the level of local independence on the level of disclosure and the relationship between the audit level of disclosure cannot be moderated by the internal control system.

**Keywords**: characteristics, complexity, audit finding, regional financial report, internal control system

**INTRODUCTION**

*Good governance* is most prominent in management and accountability of public administration today. According to Maulana, (2015) good governance is a set of procedures or processes imposed by government agencies to create harmony in the management and operational accountability. Good governance is closely related to how the government is able to implement autonomy in its area. Hilmi, (2011) suggested that the government affairs are partly transferred from the central government. Before the reforms government affairs are mostly handled by the central government, while after the reform, the government affairs largely directed to the regions. Syafitri, (2012) states that one of the concrete efforts of local governments is to realize transparency and accountability of their financial management, through the presentation of local government financial statements that meet the principles on time and prepared in accordance with generally accepted government accounting standards.

Efforts to realize *good governance* and improving the transparency and accountability of the government’s financial management, both central and local governments must submit an accountability report in the form of financial statements. Law Number 32 Year 2004 regarding Regional Government states that each government, whether provincial, regency, and municipal government, is required to prepare its own financial statements. According to the Indonesian Institute of Accountants (IAI) in the Basic Framework of Preparation and Presentation of Financial Statements it is mentioned that users of financial statements include investors, employees, government,
financial institutions and the public for economic decision-making. The quality of decision-making is influenced by the quality of the financial statement disclosures provided through the annual reports (annual report). Agar disclosure in the financial statements can be understood and does not give rise to misinterpretation, then the presentation of financial statements must be accompanied by sufficient disclosure (adequate disclosure).

According to Heriningsih (2013), the urgency of demands for good governance will be the hope of the people of Indonesia to create a government clean from corruption, collusion and nepotism (KKN). To realize good governance is expected to be free from KKN which will certainly be seen from the audit results from BPK. Better the findings obtained by BPK for the audit conducted, the greater the disclosure that should be disclosed by a government. Heriningsih, (2013) explains that the opinion of BPK will be certainly supported by the amount of information disclosed by local government financial statements. However, not all local governments disclose all the information that should be disclosed in the financial statements. One element that determines unqualified opinion is the disclosure. Yusup (2014), said that according to the Head of West Java Provincial Representative BPK RI Slamet Kurniawan, unqualified opinion should be based on compliance with Government Accounting Standards (SAP), the adequacy of disclosure, the effectiveness of the Internal Control System (ICS), and compliance with laws and regulations.

State finances shall be administered by competent state apparatus in an orderly, law-abiding, efficient, effective, transparent, economical, and accountable manner with due regard to justice and fairness as a prerequisite to support the successful administration of the State administration. To achieve this, agencies also need a strong internal control system and financial supervisor. In this case, legislative members as one of their role in supervision function to achieve the goals of an organization (Wakhyudi, 2005). With the support of a strong internal control system will certainly improve the quality of financial statement disclosure. The system of internal control is an
integral process in actions and activities carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, the safeguarding of state assets, and compliance with laws (PP No. 60 of 2008 on SPI). While Winarni and Murni (2007) (in Khasanah, 2014), indicates that DPRDs have strategic roles and positions to control local financial policies economically, efficiently, effectively, transparently and accountably, large numbers of legislative members are expected to tighten local government financial controls.

The level of mandatory disclosure of LKPD to SAP in Indonesia is still low. It can be seen from the results of previous research (Liestiani 2008), that with the result of 35.45% (Lesmana 2010), by 22% and with the result of 52.09% (Syafitri, 2012). This indicates that the local government yet fully revealed the disclosure of financial items required. Report by the agency theory, local government management should be monitored to ensure that the management is done by full adherence to the rules and regulations. The case about the level of compliance against the provisions of the legislations are still a lot going on government agencies in Indonesia as shown in the summary table of BPK audit results below:

Table 1 The Findings of Non-Compliance with the Laws Regulation on Financial Audit of Second Semester of 2014

<table>
<thead>
<tr>
<th>Group findings</th>
<th>Number of Problems</th>
<th>Value (Million IDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional Losses</td>
<td>406</td>
<td>246,255,70</td>
</tr>
<tr>
<td>Regional Loss Potential</td>
<td>54</td>
<td>94,196,39</td>
</tr>
<tr>
<td>Lack of acceptance</td>
<td>154</td>
<td>54,105,18</td>
</tr>
<tr>
<td>Administration</td>
<td>363</td>
<td>-</td>
</tr>
<tr>
<td>Inadequacy</td>
<td>20</td>
<td>33,293,87</td>
</tr>
<tr>
<td>Inefficiency</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ineffectiveness</td>
<td>10</td>
<td>8405.80</td>
</tr>
<tr>
<td>Amount</td>
<td>1,007</td>
<td>436,356,64</td>
</tr>
</tbody>
</table>

Source: IHP BPK Semester II (2014)

Based on the results of the financial audit Second Half of 2014 revealed non-compliance with the statutory provisions as much as
1,007 cases worth Rp. 436,363.64 which has the potential to cause a loss to the State. These conditions make the researcher interested to analyze more about the factors influencing mandatory disclosure of LKPD to SAP.

**Formulation of the problem**

Based on the above background, the Government Accounting Standards are very important for the transparency and accountability of a public organization. Furthermore, Lesmana explained (2010) that the quality, benefits, and capabilities of the financial statements are reflected in the suitability of the compilation format and the delivery of financial statements that conforms with accounting standards. Financial statements that have followed SAP meet the transparency criteria for report users. While in some studies of disclosure levels in the government financial statements, the results indicate that the percentage of disclosure rates conducted by the government through LKPD is still low, so the researcher wants to examine the effect of factors that include the characteristics of local government, the complexity of local government and audit findings on the level of disclosure financial report of local government in South Sulawesi.

From the above explanation can be formulated problem as follows:

1. What is the size of local government affect the level of disclosure financial report of South Sulawesi Provincial Government?
2. Does the level of regional independence affect the level of disclosure of financial statements of South Sulawesi Provincial Government?
3. Is the legislative measure affect the level of disclosure of financial statements Government of South Sulawesi?
4. Does the audit findings affect the level of disclosure of the Government Financial Report of South Sulawesi Province?
5. Is the internal control system moderates the relationship size of government, the level of independence of the region, the size of the legislature and the audit findings on the level of
disclosure of financial statements of South Sulawesi Provincial Government?

THEORETICAL REVIEW

Agency Theory

According to DeGeorge (1992) in Asmara (2010), agency theory explains principal and agent relationships rooted in economic theory, decision theory, sociology, and organizational theory. Agency issues occur in all organizations, both public and private. Stiglitz (1999: 203) in Asmara (2010) also describes the agency theory regarding the contractual relationship between the two parties, i.e., principal and agent. Agency theory discusses the agency relationship in which a certain party (principal) delegate work to another party (the agent) that does the job. One party (the principal) to make a contract, either implicitly or explicitly, to another party (the agent) in the hope that the agency will act / perform such tasks as desired by the principal (in this case was delegated authority).

In the enterprise agency problems occurs between the shareholders as principal and as agent management. Maulana (2015), agency theory is a theory that has the standpoint that the principals in this case is the owner or agent in charge of top management to carry out tasks effectively, efficiently and economically in accordance with the principle of value for money. Agency theory considers that the agent cannot be trusted to act in the best possible way for the benefit of the principal.

Zimmerman (1977) states that the government sector, agency problems occur between yangterpilih government officials and appointed as principal and voters (people) as agent. Furthermore Von Hagen (2003), in Syafitri (2012), argues that the principal-agent relationship that occurs between voters (voters) and the legislature basically shows how voters choose politicians to make decisions about public spending for them and they provide funds by paying taxes. When officials are then involved in decision-making on budget allocations,
it is expected to represent the interests or preferences of the principal or the electorate.

Maulana, (2015) states that in fact the official as an agent does not always have the same interests as the public. Officials at the government as a party to organize public services have more information, causing asymmetry. Adanya templates to enable this information to fraud or corruption by agents. Consequences, local governments should be able to improve on its performance as a mechanism Internal control checks and balances in order to reduce information asymmetry. Officials in the government can also make decisions or policies that are only concerned with the principalities and powers and ignore the interests and welfare. To mitigate such problems, efforts should be made by local governments to present financial statements in a transparent and accountable manner.

**Government Accounting Standards**

Law no. 17 of 2003 on State finances clearly states that the accountability reports of central and local governments should be presented in accordance with government accounting standards 1 of 2004 also mentions the importance of government accounting standards. The latest autonomy law, Law no. 32 of 2004 on local government also mentions the presentation of local government financial statements in accordance with government accounting standards. From the above description it can be inferred that government accounting standards are needed as a guideline of financial reporting in the government. Thus on June 13, 2005 the government established Government Regulation no. 24 of 2005 on government accounting standards. Then in 2010 published PP No.71 of 2010 on Accounting Standards accrual-based government as a replacement of the PP. 24 Year 2005.

**Local Government Financial Statements**

According to the Financial Accounting Standards issued by the Indonesian Institute of Accountants (IAI), the financial statements are
the financial statements section of the financial reporting process. Complete financial statements usually include the balance sheet, income statement, statement of changes in financial position presented in various ways (such as cash flow or cash flow statements), other records and reports and explanatory materials that are an integral part of the financial statements. It also includes schedules and additional information relating to such reports, financial information on industry and geographical segments and disclosure of the effects of price changes.

**Disclosure of LKPD In Calk**

In general, the purpose of disclosure is to provide information that is deemed necessary to achieve the objectives of financial reporting and to serve various parties with different interests. According to Syafitri (2012), the reporting of financial statements is conducted for the purposes of: (1) Accountability, means accountability for the management of resources and implementation of policies entrusted to the reporting entity in achieving the stated objectives; (2) management, intended to help users to evaluate the implementation of the activities of a reporting entity within the reporting period so as to facilitate the functions of planning, management and control over all assets, liabilities and equity of public funds for the benefit of the community, (3) transparency, which provides open and honest financial information to the community based on the consideration that the community has the right to know openly and thoroughly the accountability of the government in the management of the resources entrusted to it and its adherence to legislation and (4) the balance between generations, that is to assist the users in knowing the adequacy of government revenue in the reporting period to finance all allocated expenditures and whether future generations are assumed to share the burden of the expenditure.

**Conceptual Framework**

It can be summarized that the theory used in this paper is the *agency theory* that explained in the government sector, where the *agency
provisions occurred between government officials appointed as principal and voters (people) as agent. The framework is illustrated as follows:

Figure 1 Conceptual Framework

Research Hypothesis

H1: The size of local government influence the level of local government financial statement disclosure.

H2: The level of local independence affect the level of disclosure of financial statements.

H3: Size disclosure legislative affect the level of the financial statements.

H4: The number of audit findings affect the disclosure of financial statements.
H5: Internal control system moderates relations local government size of financial statements.

H6: Internal control system moderates level of independence of regional relations on the level of financial statements.

H7: Internal control system moderates the number of legislative relations on the level of financial statements.

H8: Internal control system moderates relations audit findings on the level of financial statements for local government.

RESEARCH METHODS

Research design

The type of research used in this research is quantitative research. Quantitative research is an inductive, objective, and scientific research method in which the data obtained are the numbers or statements assessed, and analyzed by statistical analysis. According Sugiyono (2012) quantitative research methods can be interpreted as a research method that is based on the philosophy of positivism.

Population

Population used in this research is financial report of Local Government in South Sulawesi which have been audited by Internal controller which sourced from BPK RI. Location of this research is the Office of the Supreme Audit Agency (BPK) Representative of South Sulawesi Province located on Jl. Andi Pangeran Pettarani, Kec. Makassar, Makassar City South Sulawesi

Data analysis

Data analysis technique used in this research is multiple linear regression model. Multiple regression analysis is done to test the influence of two or more independent variables to one dependent variable. (Ghozali, 2011)
RESULT

Table 2 Regression Analysis Results

<table>
<thead>
<tr>
<th>coefficients a</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>20.885</td>
<td>23.860</td>
<td>-875</td>
<td>.388</td>
<td></td>
</tr>
<tr>
<td>Ln_Size_Anda</td>
<td>1.747</td>
<td>.848</td>
<td>.540</td>
<td>2.060</td>
<td>.048</td>
</tr>
<tr>
<td>Level_Independence</td>
<td>11.371</td>
<td>7.648</td>
<td>-.409</td>
<td>-1.487</td>
<td>.147</td>
</tr>
<tr>
<td>Legislative size</td>
<td>.092</td>
<td>.044</td>
<td>.347</td>
<td>2.067</td>
<td>.047</td>
</tr>
<tr>
<td>Audit Findings</td>
<td>-.390</td>
<td>.152</td>
<td>-.392</td>
<td>2.574</td>
<td>.015</td>
</tr>
</tbody>
</table>

Based on the above table can be composed of multiple regression equation as follows: Annual Disclosure = -20.885 + 1.747 -11.371 government size + 0.092 degree of independence of the Legislative size - 390 audit findings + e.

1) Determination Coefficient Analysis

The coefficient of determination (R2) is used to find out the extent of contribution of independent variables to the dependent variable. The coefficient of determination can be seen from the following table:

Table 3 Model Summary

<table>
<thead>
<tr>
<th>Model Summary b</th>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>.560 a</td>
<td>.313</td>
<td>.222</td>
<td>3.30018</td>
</tr>
</tbody>
</table>

The results of multiple regression indicates that the coefficient of determination (Adjusted R Square) is 0.222. This means that 22.2% of local government level disclosure variables can be explained by the
four independent variables, namely the size of local government, the level of regional independence, the legislative size and audit findings, and the remaining 77.8% explained by other factors.

2) Simultaneous Regression Test (F)

This test is used to determine the extent to which independent variables together affect the dependent variable. The F statistic test can be seen from the following table:

Table 4 ANOVA – F test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>149.100</td>
<td>4</td>
<td>37.275</td>
<td>3.423</td>
<td>.020 b</td>
</tr>
<tr>
<td>Residual</td>
<td>326.735</td>
<td>30</td>
<td>10891</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>475.836</td>
<td>34</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Level_Public
b. Predictors: (Constant), Findings_Audit, Legislative Size, Ln_Ukuran_Pemda, Tingkat_Kemandirian

Table 4 Beta Coefficient and t test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig</th>
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<td>-.392</td>
<td>.015</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Level_Public

1. Based on the above table shows that local governments obtained a variable size, t count equal to 2.060 with a significance of 0.048. Significant value to the variable size of local government shows a
value below a significant level 5% (α = 0.05) and the value of 2.060 t count > t-table is 1.697, which means that H1 is accepted so that the size of local government a significant effect on the level of disclosure.

2. The results of the t test for the region’s autonomy level variable results obtained t count equal to -1.487 with a significance of 0.147 on a significant level of 5% (α = 0.05) dannilai-1.487 t count <t-table value 1.697yang means that H2 rejected so that the level of regional independence does not affect the level of disclosure.

3. The results of the t test for variables legislative measure results obtained t count equal to 2.067 with a significance of 0.047 indicates a value significantly below the level 5% (α = 0.05) and 2.067 t count> t-table is 1697, which means that the H3 is accepted so that the size of the legislature have a significant effect on the level of disclosure.

4. The results of the t test for the variable results of the audit findings obtained t count equal to -2.574 with a significance level of 0.015 indicates under significant level of 5% (α = 0.05) and the value of -2.574 t <t-table means variable value 1.697 audit findings has a negative and significant influence on the level of disclosure, thus H4 is rejected.

DISCUSSION

This result found that out of 8 hypothesis tested only 5 hypothesis were accepted. The variables tested consist of 4 independent variable that is the size of local government, level of regional independence, legislative size and audit findings and moderating variable is internal control system. The size of local government have a significant positive effect on the level of disclosure. The size of a large local government will encourage the local government to reveal the legislative financial. Report size have positive and significant impact on the level of disclosure. This indicates that the oversight function of Parliament to governent already operating effectively. Internal control system is able to strengthen the relationship between the size of local government, legislative size and audit findings on the level of disclosure of local government financial statements.
SUGGESTIONS

Some suggestions that can be given based on the research results are as follows:

- The results indicate that the level of disclosure of local government financial statements in South Sulawesi Province is still very low. Hence, the implementation of rewards and punishment strictly necessary so that local governments adhere to the laws and regulations that have been set.
- The success in the realization of good governance within an area requiring cooperation. The results of this study indicate that the level of regional independence has no effect on the level of disclosure, in this case indicates that the government parties that have high independence is not motivated in disclosing its financial statements. Therefore the government in South Sulawesi despite having high regional independence must be transparent and accountable in terms of disclosure. In addition, inadequate internal controls need to be continuously improved.

CONCLUSION

This study aims to examine and analyze the influence of local government characteristics, complexity and audit findings on the level of disclosure of local government financial statements in South Sulawesi in the fiscal year 2013-2015. Based on the results of the test results show that the average level of disclosure of local government financial statements (LKPD) in City South Sulawesi amounted to 27.33%. The level of disclosure made by the local government is still low, means that the local government in South Sulawesi has not fully complied with the Government Accounting Standards (SAP) applies.

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