The Effect of Characteristics, Complexity and Audit Findings on the Level of Disclosure of the Local Government's Financial Statements with the Internal Control System as Moderating Variable

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Abstract:- This study aims to determine the effect of characteristics proxied by the size and independence of the region, complexity proxied by the number of legislative members and audit findings on the level of disclosure of Regional Government financial statements, and also see whether the internal control system can moderate the size and independence of blood, complexity and findings audit of the level of disclosure of regional financial statements. The population in this study is the Regional Government's financial statements that get a fair opinion without exception on the island of Sumatra in 2016 and 2017, the sampling technique in this study uses purposive sampling in order to obtain a sample of 116 local government financial statements. In this study using multiple linear regression analysis, the results showed that the characteristics did not significantly influence the level of disclosure of the financial statements as well as the complexity did not affect the level of disclosure in the Government's financial statements, but the audit findings variable could affect the level of disclosure of Regional Government financial statements. The findings of the study also showed that the internal control system could not moderate the karststerstik and the complexity of beer had an influence on the level of financial statement disclosure, but the internal control system could strengthen the effect of audit findings on the level of disclosure of the Regional Government's financial statements.

Keywords:- *Government Characteristics, Complexity, Audit Findings, Internal Control Systems, and the Level of Financial Statement Disclosure.*

I. INTRODUCTION

Disclosure of financial statements can reflect the conditions and conditions in an area so as to realize transparency and financial accountability of local governments, in preparing financial reports must follow applicable government accounting standards, as well as an examination or audit conducted by the Supreme Audit Board (BPK) before submitting it to DPR / DPRD as well as the general public for publication. Heriningsih (2013) explained that BPK's opinion would certainly be supported by the large amount of information disclosed by the local government financial statements, however, not all regional governments revealed all the information that had to be disclosed in their financial statements. The level of LKPD mandatory disclosure of SAP in Indonesia is still low, can be seen from the results of previous studies conducted by Liestiani (2008) with the results showing that the average level of disclosure of Local Governments was 35.45%, Lesmana (2010) was 22% where research carried out in districts or cities on the islands of Java and Syafitri (2012) with a result of 52.09% in a study of 620 local government financial reports in Indonesia. This shows that the Regional Government has not fully disclosed the mandatory disclosure items in its financial statements. Arifin, in Iqbal (2014) stated that the level of compulsory disclosure of LKPD was at a moderate level, the results of the study showed that LKPD still did not contain sufficient disclosure, even though some LKPDs that were sampled in the study had obtained a Fair Opinion without Exception (WTP) opinion.

In the standards set by the BPK for granting Fair Opinion without Exception (WTP) based on compliance with Government Accounting Standards (SAP), adequacy of disclosure, effectiveness of the Internal Control System (SPI), and compliance with laws and regulations. Local government management must be monitored for ensure that management is carried out in accordance with applicable regulations,

This study uses mandatory disclosure types based on government accounting standards PP 71 of 2010 attachment I, as well as the measurement index in this study referring to Lesmana research (2010) which contains 46 items of disclosure according to PSAP which are divided into 5 (five) categories, namely : (i) PSAP No.5 concerning Inventory Accounting (ii) PSAP No.6 concerning Investment Accounting (iii) PSAP No.7 concerning Fixed Asset Accounting (iv) PSAP No.8 concerning Construction Accounting in Work (v) PSAP No. 9 concerning Accounting for Obligations and 7 additional mandatory disclosures in the CaLK so that the total disclosures to be used in this study are 53 items. The more relevant checklist items, the percentage results of LKPD disclosures increasingly reflect the compliance of local governments in

presenting their financial reports in accordance with government accounting standards.

II. LITERATUR REVIEW

A. Agency Theory

According to DeGeorge (1992) in Asmara (2010) agency theory explains the relationship between principals and agents rooted in economic theory, decision theory, sociology, and organizational theory. Agency problems occur in all organizations, both public and private organizations. Agency problems occur when organizational members have different goals and there is division of labor. Agency theory refers to the relationship between the agency, the owner (Principal) who mandates the worker (Agent). One of the parties (principal) makes a contract, both implicitly or explicitly, with the other party (agent) in the hope that the agent will act / do work as desired by the principal (in this case the delegation of authority takes place).

B. Government Accounting Standards

Law No. 17 of 2003 concerning State finance clearly states that the accountability reports of the central government and regional governments must be presented in accordance with government accounting standards. Number 71 of 2010 becomes the accounting principles applied in preparing and presenting government financial reports. Thus, SAP is a legal requirement in an effort to improve the quality of government financial reports in Indonesia. The implementation of these regulations is that Central and Regional Government Financial Statements are gradually encouraged to apply accrual-based accounting.

C. Regional Government Financial Reports

According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) that "financial statements are structured reports on the financial position and transactions carried out by a reporting entity. The preparation and presentation of LKPD is carried out in accordance with government regulations governing Government Accounting Standards . LKPD presented must attach an overview of the realization of performance and financial statements of BUMD / regional companies. Furthermore LKPD submitted to the Supreme Audit Agency (BPK) for inspection. LKPD which has been audited by BPK is then submitted to the DPRD to be discussed and stipulated by a regional regulation regarding the accountability of the APBD implementation.

D. Difference between Public and Private Sector Financial Reports

Government financial statements are in some respects different from private sector financial statements, these differences include differences in the types of financial statements, elements of financial statements, and the purpose of financial statements with the accounting techniques used, but these two sectors also have an equation that both require financial accounting standards as a guideline for financial statements, the accounting cycle in the two sectors is not significant. The financial statements of government institutions do not focus on the organization as a whole, but rather focus on government work units as a part of the organization, government financial statements are more oriented in the long term because they are related to the concept of politics and state, in the private sector long-term focus cannot be done in detail because it is limited by market uncertainty.

E. Disclosure of Financial Statement

The word disclosure has the meaning of not covering up or not hiding. According to (Suhardjanto & Yulianingtyas, 2011) and Lesmana (2010) financial statements as a form of public accountability illustrate the conditions of operational activities, financial position, cash flow, and an explanation of the items in the financial statements. Provision of such information is in the interest of transparency, namely providing financial information that is open and honest to the community based on the consideration that the public has the right to know openly and comprehensively the responsibility of the government in managing the resources entrusted to him and his adherence to the laws and regulations. In general, the purpose of disclosure is to present information deemed necessary to achieve the objectives of financial reporting and to serve various parties who have different interests

F. Characteristics of Local Governments

Characteristics are special features; has a characteristic (specificity) in accordance with certain characteristics that distinguish something from something else. According to Choiriyah (2010) in (Rahayu 2014) states the characteristics of companies can explain the wide variations in voluntary disclosure in annual reports. Company characteristics are a predictor of disclosure quality.

G. Complexity

The word "complexity" comes from the Latin complexice which means totality or overall, a science that studies the totality of dynamic systems as a whole. According to (Khasanah, 2014) complexity is a condition and a variety of factors that exist in the internal and external environment that affect the organization.

H. Audit Findings

Auditing is a systematic process for obtaining and evaluating evidence objectively about the assertion of actions and activities of economic events, compliance with established criteria / standards and then communicating the results to the users of the report. (Malan, et al.1984) in mardiasmo (mardiasmo (2002). Kawedar (2010) in Rahayu (2016) said that to improve the quality of transparency and accountability of government financial reports, the financial statements need to be audited by the Supreme Audit Board (BPK). Audit quality is a major factor in audit practice. Government audit needs are based on the existence of demands for public accountability of government entities by the public.

I. Internal Control System

The internal control system includes the organizational structure, methods and measures coordinated to safeguard the organization's wealth, check the accuracy and reliability of accounting data, encourage efficiency and comply with leadership policies. The government internal control system according to (Yosefrinaldi, 2008) is an Internal Control System that is held in an overall within the central government and regional governments.

Martani and Zaelani (2011) in rahayu (2016) quoting from the 2006 KPMG Fraud Survey conducted in the United States of America found that weak internal control was the main factor causing fraud, which was 33% of the total cases of fraud that occurred. The second factor is the neglect of the existing internal control system by 24%. Based on these two factors, it appears that the existence and implementation of internal control is very important. According to the findings of the Supreme Audit Board (BPK) on the Regional Government Financial Report (LKPD) in 2010 against 516 LKPD, there were 5,193 cases of SPI weakness. Whereas in 2011 the Supreme Audit Board (BPK) found a number of weaknesses of the SPI of 5,675 cases against 520 Local Government Financial Statements (LKPD). The increasing number of case findings related to internal control weaknesses is certainly not in line with the determination of the government to want to create a clean and accountable government.

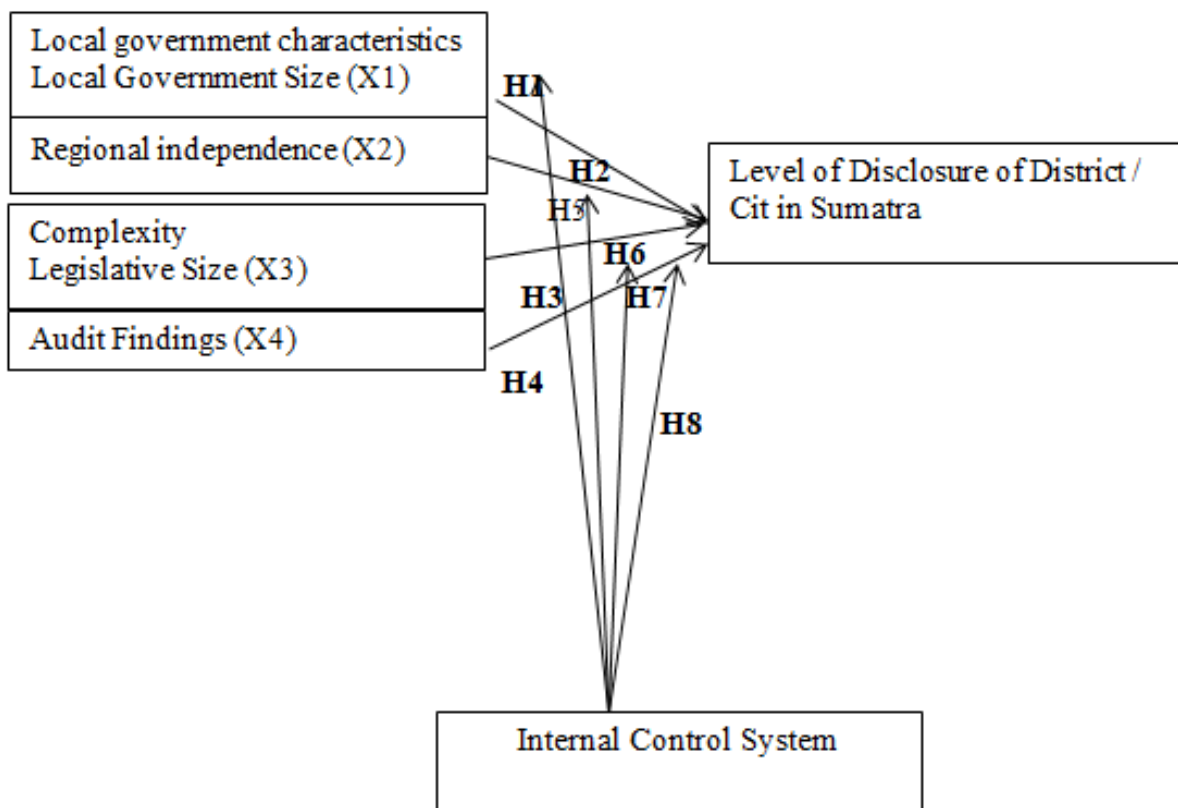The framework in this study is illustrated below

Fig 1

III. RESEARCH METHODS

The approach used in this research is quantitative descriptive research, descriptive approach is a study of problems in the form of current facts of a population with the aim of answering hypotheses related to the current status of the subject under study. Lehmann (1979) states quantitative descriptive research is one type of research that aims to describe systematically, factually, and accurately about the facts and nature of populations or try to describe the phenomenon in detail. The population used in this study is the financial statements of the Regional Government in Sumatra that have been audited by the Supreme Audit Board (BPK) sourced from BPK RI. The sample selection in this study was selected using a purposive sampling technique, which is the determination of the sample based on the criteria made by the researcher (Sekaran, 2010 in Maulana, 2015). In this study data collection using documentation techniques, documentation methods are data collection techniques by collecting and analyzing documents both written, picture and electronic. The data used in this study are the 2017 Regional Financial Statements in West Sumatra that have been audited by the Supreme Audit Board (BPK RI), besides using summary data from the BPK audit results obtained from the BPK official website as well as non-financial data such as the number of members occupied DPRD bench as a proxy of the legislative size variable contained on the official website of the Regional Government.

A. Dependent Variable

The dependent variable used in this study is the level of mandatory disclosure of local government financial reports

$$\text{DISC} \quad \frac{\text{Number of items disclosed}}{\text{Total Items that must be disclosed}}$$

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B. Independent Variable

➢ *Local Government Size*

Proxies for local government size variables in this study use the total assets of local governments. Total assets are obtained from the balance sheet, namely the amount of current assets and non-current assets, total assets are expressed in rupiah units

$$\text{SIZE} = \text{Total Assets in balance}$$

➢ *Level of Regional Independence*

Measurement of this variable uses the ratio shown by comparing the Original Regional Revenue with Total Regional Revenue.

Information:
TKD = Regional Independence Level
PAD = Regional Original Revenue
TPD = Total Regional Revenue

$$\text{TKD} = \frac{\text{PAD}}{\text{TPD}}$$

➢ *Complexity*

The DPRD has legislative, budgetary and supervisory functions (Law Number 32 of 2004). In the process of preparing the APBD, legislative size variables are measured by:

$$\text{LEG} = \text{legislative size}$$

➢ *Audit Findings*

Audit quality is a major factor in audit practice. Government audit needs are based on the existence of demands for public accountability of government entities by the public

$$\text{Audit} = \text{audit finding}$$

➢ *Moderating Variables*

Moderating variables are variables that influence (strengthen or weaken) the relationship between the independent variables and the dependent variable. In this study the moderating variable is the internal control system.

C. Research Instruments

This study uses a research instrument using a type of mandatory disclosure with the scoring system method. The scoring system in question is by making a disclosure checklist that is required based on Government Accounting Standards PP Number 71 of 2010 Appendix I and PSAP number five until nine, complete with regulations contained in Permendagri No. 13 of 2006

➢ *Multiple Linear Regression Analysis*

The data analysis technique used in this study is multiple linear regression models

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$$Y1 = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + e$$

Information:
- $Y1$ = Level of Disclosure of Financial Statements
- α = Constant
- $\beta1$ = Regression Coefficient Size of local government
- $\beta2$ = Regression Coefficient Level of regional independence
- $\beta3$ = Regression Coefficient of Legislative Size
- $\beta4$ = Regression Coefficient of Audit Findings
- $X1$ = Local Government Size
- $X2$ = Level of Regional Independence
- $X3$ = Legislative Measure
- $X4$ = Audit Findings
- e = tram error

➢ *Absolute Difference Value Test (Absolute Difference Value)*

The moderating hypothesis test is performed using the absolute difference test with the reason that this model is able to overcome multicollinearity which generally occurs very high when using interaction tests and this model incorporates the main effect variables in regression analysis, while the residual test only includes interaction effects only

The test step for absolute difference in this study can be described by the regression equation as follows:

$$Y = \alpha + \beta1X1 + \beta2X2 + \beta3X3 + \beta4X4 + \beta5\,|\,X1\text{-}X5\,| + \beta6\,|\,X2\text{-}X5\,| + \beta7\,|\,X3\text{-}X5\,|\,\beta8\,|\,X4\text{-}X5\,| + e$$

Information :
Y = Level of Disclosure of Financial Statements
α = Constant
β = Regression Coefficient
X1 = Local Government Size
X2 = Level of Regional Independence
X3 = Legislative Measure
X4 = Audit Findings
X5 = Internal Control System

Xi = is a standardiezed score [(Xi - xi) / σXi] = Zscore

| X1 - X5 | = is the interaction measured by absolute value the difference between X1 and X5

| X2 - X5 | = is the interaction measured by absolute value the difference between X2 and X5

| X3 - X5 | = is the interaction measured by absolute value the difference between X3 and X5

| X4 - X5 | = is the interaction measured by absolute value the difference between X4 and X5

e = Error Term

❖ *Multiple Analysis*

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.475	121.597		-.020	.984
	lx1	1.582	4.471	.043	.354	.724
	x2	.052	.181	.028	.288	.774
	x3	.152	.230	.077	.662	.510
	x4	.804	.494	.160	1.626	.107

Table 1

Dependent Variable: y

Based on Table 4.7 above, the estimation model can be analyzed as follows

Y = -2,475 + 1,582 X1 + 0,052 X2 + 0,152 X3 + 0,804X4 + e

Information

Y = Level of Disclosure of District / City LKPD in Sumatra

a = constant

X1 = Local Government Size

X2 = Regional independence

X3 = legislative measure

X4 = Audit Findings

e = Standard error

❖ *Multiple Analysis*

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-53.357	181.335		-.294	.769
	lx1	13.729	51.122	.376	.269	.789
	x2	-.133	.725	-.071	-.183	.855
	x3	-.139	1.538	-.070	-.090	.928
	x4	4.596	1.961	.917	2.344	.021
	Lmoderasi	-11.821	50.475	-.428	-.234	.815
	moderasi2	.032	.106	.132	.305	.761
	lmoderasi3	8.427	48.461	.230	.174	.862
	moderasi4	-.540	.273	-.949	-1.976	.031
	Z	3.953	3.559	.512	1.111	.269
a. Dependent Variable: y						

Table 2

A. Local Government Size Hypothesis (X1)

The first hypothesis in this study is that there is an influence of the size of the local government on the level of disclosure of local government financial statements. Based on the processed data from Table 4.7, the local government variable (X1) obtained the value of prob. tcount is 0.789. Because the value of tcount> 0.05, there is no significant difference between the independent variable and the dependent variable. Or in other words, there is no significant effect between the independent variable of local government size (X1) on the dependent variable level of disclosure of local government financial statements. This insignificant relationship occurs because the assets owned by local governments are usually large in number,

accompanied by adequate ability to record assets in accordance with applicable standards so that it often becomes an obstacle to report them in financial statements because not all government owned assets are recorded correctly. Then the other problem is the use of assets, in SAP No. 01 concerning asset recognition stipulates that assets must be recorded based on acquisition value, whereas most assets are obtained in a relatively long year so that the value of assets becomes less relevant.

B. The Regional Independence Hypothesis (X2)

The second hypothesis in this study is that there is an influence of regional independence on the level of disclosure of local government financial statements. Based on the processed data from Table 4.7, the local government variable (X2) obtained the value of prob. t count is 0.855. Because the value of tcount> 0.05, there is no significant difference between the independent variable and the dependent variable. Or in other words, there is no significant effect between the independent variable of regional independence (X2) on the dependent variable level of disclosure of local government financial statements. The insignificant influence of this research can be caused by the low demand for transparency and accountability from the community. These results prove that the increasing ratio of local government financial independence will not encourage the government to increase the level of financial statement disclosure.

C. Legislative Size Hypothesis (X3)

The third hypothesis in this study is that there is an effect of the size of the legislature on the level of disclosure of local government financial statements. Based on the processed data from Table 4.7, the legislative size variable (X3) obtained the value of prob. tcount is 0.928. Because the value of tcount> 0.05, there is no significant difference between the independent variable and the dependent variable. Or in other words, there is no significant effect between the independent variable legislative size (X3) on the dependent variable level of disclosure of local government financial statements. supervision conducted by members of the DPRD on regional government performance can be said to be not optimal. In terms of services provided by the local government to the community, the DPRD is expected to be more sensitive and proactive in fighting for the interests of the community rather than the personal or group interests. The poor role of the DPRD in fighting for the interests of the community can be seen from the large number of regional DPRD members who are entangled in corruption cases.

D. Audit Finding Hypothesis (X4)

The fourth hypothesis in this study is that there are effects of audit findings on the level of disclosure of local government financial statements. Based on the processed data table 4.7, the audit findings variable (X4) obtained the value of prob. t count of 0.021. Because the value of tcount <0.05 then there is significant between the independent variable and the dependent variable. Or in other words, there is a significant influence between the independent variable audit findings (X4) on the dependent variable level

of disclosure of local government financial statements. The positive regression results state that the more audit findings the less good the level of disclosure, meaning that with the large number of violations committed by the local government (many audit findings) the level of disclosure made is higher than in areas with large violations (many audit findings).

E. The Size Hypothesis of the Regional Government with the Internal Control System as Moderation

The fifth hypothesis in this study is that the internal control system moderates the regional size variables of the local government against the level of disclosure of local government financial statements. Based on the processed data from Table 4.8, the regional government variable size with a moderating variable (X1 * Z) obtained the value of prob. t count is 0.815. Because the value of tcount> 0.05 then there is no significant between independent variables by including moderation variables to the dependent variable. Or in other words, there is no significant effect between independent variables of regional government size by including moderation variable (X1 * Z) on the dependent variable level of disclosure of local government financial statements. Internal control includes the organizational plan and all coordination methods and measures adopted in a business or business to protect assets, check the accuracy and reliability of accounting data, encourage efficiency of activities and compliance with established managerial policies (Indra Bastian, 2007). One function of internal control is protecting assets. In this study the size of local government is measured by the total assets of local governments. This means that good internal control will be able to protect the assets of local governments and disclose them in their financial statements.

F. The Regional Independence Hypothesis with the Internal Control System as a Moderating Variable

The sixth hypothesis in this study is that the internal control system moderates the regional independence variable against the level of disclosure of the regional government financial statements. Based on the processed data from Table 4.8, the local government variable with a moderation variable (X2 * Z) obtained the value of prob. t count is 0.761. Because the value of tcount> 0.05 then there is no significant between independent variables by including moderation variables to the dependent variable. Or in other words, there is no significant effect between the independent variables of regional independence by including a moderating variable (X2 * Z) on the dependent variable level of disclosure of local government financial statements. Although an area has a high level of regional independence and is supported by an adequate control system, it does not guarantee it will support the high level of financial statement disclosure in an area. The results of the use of moderating variables that show no influence also conclude the ineffectiveness of the internal control system on the government

G. Legislative Size Hypothesis with an Internal Control System as a Moderating Variable

The seventh hypothesis in this study is that the internal control system moderates the legislative size variable against the level of disclosure of local government financial statements. Based on the processed data from Table 4.8, the local government variable with a moderating variable (X3 * Z) obtained the value of prob. tcount is 0.862. Because the value of tcount> 0.05 then there is no significant between independent variables by including moderation variables to the dependent variable. Or in other words, there is no significant effect between the independent variable of the legislative size by including the moderating variable (X3 * Z) on the dependent variable level of disclosure of local government financial statements. The large number of DPRD members can increase oversight of local governments so that the impact is with an increase in the disclosure of local government financial statements. An area that has a relatively large number of DPRD members and is supported by an adequate internal control system will have an effect on increasing the disclosure of its financial statements.

H. The Audit Findings Hypothesis with the Internal Control System as a Moderating Variable

The eighth hypothesis in this study is that the internal control system moderates the audit findings variable on the level of disclosure of local government financial statements. Based on the processed data from Table 4.8, the regional government variable size with a moderating variable (X4 * Z) obtained the value of prob. t count of 0.031. Because the value of tcount <0.05 then there is significant between independent variables by including moderation variables to the dependent variable. Or in other words, there is a significant influence between the independent variables of audit findings by including moderation variable (X4 * Z) on the dependent variable level of disclosure of local government financial statements. that the BPK audit is carried out in accordance with the Regulation of the State Audit Board of the Republic of Indonesia Number 01 of 2007 concerning the State Financial Audit Standards with the aim of providing opinions / opinions on the irregularities of financial information presented in the financial statements of regional governments based on: a) The effectiveness of the internal control system, b) Compliance with laws and regulations, c) disclosure and d) compliance with government accounting standards
.

IV. CONCLUSION, LIMITATIONS, AND FUTURE RESEARCH

A. Conclusion

Based on the results of data analysis, the following research results are obtained: On the characteristics of local government which is proxied by the size of the region and the degree of independence of the region does not have a significant effect on the level of disclosure, complexity that is proxied by the number of legislatures does not affect the level of disclosure, level of disclosure of Regional Government financial statements. Moderating variables that

are proxied by internal control systems cannot moderate government characteristics to the level of disclosure, nor can complexity be moderated by internal control systems to influence the level of disclosure, whereas the control system can strengthen the effect of audit findings on the level of disclosure of Regional Government financial statements.

B. Implications of Research Results

Disclosure is a form of transparency of the Regional Government to the people that shows the condition of the area. The implication of this research is, first, that the local government has a large wealth and assets that are expected to be able to manage their assets and form a good administration in organizing government, which is wrong only one can be done by disclosing the state of its financial statements. The existing internal control system must also be improved and managed properly, because all operational activities in the government will always be related to the internal control system, a good internal control system will have an impact on good governance.

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