

Determinants Of The Level Of Disclosure Of Regional Government Financial Reports: A Study Of Regencies And Cities In Central Sulawesi Province

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Abstract

This study aims to examine and analyze the influence of local revenue and local government size on the level of disclosure of local government financial reports with audit opinion as a moderating variable. This study uses a quantitative method with secondary data in the form of district and city LKPDs in Central Sulawesi province for the period 2020-2024. The results of the study indicate that local revenue and local government size simultaneously influence the level of disclosure of local government financial reports. Local revenue has a positive effect on the level of disclosure of financial reports, indicating that the higher the local revenue, the higher the level of disclosure of LKPDs. Local government size has a negative effect on the level of disclosure of financial reports, indicating that the larger the size of the local government, the lower the level of disclosure of LKPDs. Meanwhile, audit opinion is unable to moderate the relationship between local revenue and local government size on the level of disclosure of local government financial reports, indicating that audit opinion is unable to strengthen or weaken the relationship between PAD and local government size on the level of disclosure of LKPDs.

Keywords: PAD, Regional Government Size, and LKPD Disclosure Level

INTRODUCTION

Disclosure of local government financial reports (LKPD) is a form of public accountability and transparency regarding regional financial management. According to Chen *et al.* (2016), the public and stakeholders can evaluate how the government allocates its resources, observe its behavior, and understand the dynamics of macroeconomic policies and standards through financial disclosure.

The phenomenon of regional financial report (LKPD) disclosure in Indonesia has shown positive developments in recent years. According to research by Aswar *et al.* (2022), the national LKPD disclosure rate has reached an average of 80.31%, indicating an increasing commitment to transparency and public accountability. This is also evident

604



in Central Sulawesi Province, where the 2023 Supreme Audit Agency (BPK) audit results showed that 10 out of 13 local governments received an unqualified opinion (WTP). This achievement demonstrates that most local governments have successfully prepared financial reports in accordance with applicable accounting standards. However, three local governments, Donggala Regency, Banggai Kepulauan Regency, and Parigi Moutong Regency, received an unqualified opinion (WDP), indicating that there are still differences in the quality of financial report disclosure across the region. This difference indicates a gap in the phenomenon that requires further research to understand the factors influencing the level of LKPD disclosure.

In this study, Regional Original Income (PAD) and local government size are the primary variables suspected of influencing the level of financial report disclosure. Regional income is a reflection of regional autonomy. The table below shows that the regional original income of Central Sulawesi province has increased year after year, as follows:

Table 1. Regional Original Income of Central Sulawesi Province 2020-2024

Year	Amount of PAD
2020	Rp. 1,122,670,398,589.07
2021	Rp. 1,494,246,273,498.51
2022	Rp. 1,559,706,290,296.45
2023	Rp. 1,714,725,360,539.84
2024	Rp. 2,115,134,617,384.52

Data source: BPK representative office for Central Sulawesi

A high PAD value indicates that the region has substantial resources, thus increasing its ability to fully disclose financial reports. Sunarti *et al.* (2021) also stated that the public demands transparency in PAD management, particularly regarding revenues derived from taxes, levies, and other sources. However, previous research has shown that the relationship between PAD and disclosure varies, requiring further analysis.

In addition to local revenue (PAD), local government size is also a variable further examined in this study. Larger local governments, whether in terms of total assets, population, or regional expenditure, tend to have more complex information systems and bureaucratic structures. Central Sulawesi Province has 13 local governments, with varying territorial areas, total assets, and populations. In this study, total assets serve as a benchmark for local government size, which has also increased in recent years, as seen below:



Table 2. Size of the Regional Government of Central Sulawesi Province in 2020-2024

Year	Total Assets
2020	Rp. 6,508,588,607,883.54
2021	Rp. 7,159,198,685,233.42
2022	Rp. 7,376,522,819,168.33
2023	Rp. 8,043,219,290,451.45
2024	Rp. 7,941,151,360,923.14

Data source: BPK representative office for Central Sulawesi

Several studies, such as Andriyan (2021), found a positive relationship between local government size and disclosure levels, while Cheisviyanni (2020) showed different results. This variation in findings reinforces the need for further research to confirm the relationship between the two.

This research was conducted for two main reasons. First, from an academic perspective, previous research on factors influencing LKPD disclosure still shows inconsistencies. For example, Kurniati & Siddi (2020) stated that Locally-Owned Revenue (PAD) has a positive effect on disclosure, while Moehardiono *et al.* (2021) showed different results. In this study, audit opinion was used as a moderating variable. This step was taken to address the research gap that emerged from the conflicting results between Setyaningsih's (2022) study, which stated that audit opinion was unable to moderate the relationship between PAD and the findings of Raditya (2022), which confirmed the opposite. This difference in results indicates a research gap that needs to be explained empirically. Second, although the achievement of local government financial report disclosure in Indonesia, particularly in Central Sulawesi Province, shows a positive trend, this research is important to conduct in Central Sulawesi Province to obtain an up-to-date picture of the percentage of LKPD disclosure levels and to assess the consistency and sustainability of positive achievements by examining the factors influencing the level of financial report disclosure.

LITERATURE REVIEW

Agency theory

In this study, agency theory is used to explain audit opinions, which are positioned as moderating variables. The implication is that audit opinions are viewed as an external oversight mechanism capable of reducing information asymmetry between local governments as agents and the public as principals. Jensen and Meckling (1976) explain that the principal-agent relationship creates the potential for information asymmetry, necessitating a monitoring mechanism to enhance accountability. In the public sector

606

context, audits serve to increase transparency and accountability in regional financial management (Mardiasmo, 2018).

When a local government obtains an unqualified audit opinion (WTP), it can increase the principal's trust in the agent. This indicates that the financial statements have been presented fairly, transparently, and in accordance with Government Accounting Standards. This reflects the local government's ability to manage Regional Original Revenue and assets accountably, thus encouraging improvements in the quality and completeness of LKPD disclosures.

Stewardship Theory

In the context of regional government, regional heads and financial officials are considered stewards who are trusted by the public to manage regional finances transparently and responsibly. Stewardship theory states that individuals in positions of authority will behave in good faith and be responsible for achieving organizational goals. The existence of disclosure in government financial reports is a manifestation of the government's accountability and implementation of good governance as a steward of all resources entrusted to it (Finakesti *et al*, 2022).

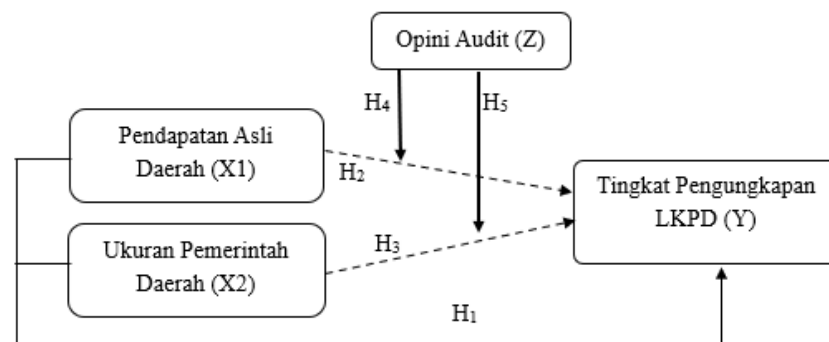


Figure 1. Framework of Thought

Information :

- : Simultaneous influence
 - - - - -> : Partially affected

Hypothesis

Simultaneously, PAD and regional assets reflect a commitment to the principle of public accountability as outlined in stewardship theory. Local governments, acting as stewards, have a moral incentive to demonstrate the reliability of public fund management through clear and accountable financial reporting. This means that PAD and regional size simultaneously enhance both the region's ability and obligation to provide quality financial reports. Research by Setyaningsih (2022) and Hiola (2021) shows that PAD and regional

government size influence the level of LKPD disclosure, both partially and simultaneously. This means that these two factors work in tandem to strengthen the transparency of financial reporting.

H1: Local revenue and the size of the local government have a simultaneous effect on the level of disclosure of local government financial reports.

Previous research has shown a positive relationship between local revenue (PAD) and the level of regional financial statements (LKPD) disclosure. Mawardi (2019) found that the greater the PAD, the higher the level of financial information disclosure. The findings of Finakesti *et al.* (2022) also confirm that PAD significantly influences the transparency of local government financial reporting. In the context of stewardship theory, the greater a region's PAD, the greater the local government's sense of responsibility in transparently disclosing financial management results.

H2: Local revenue has a significant effect on the level of disclosure of local government financial reports.

Transparency in financial reporting is a form of moral commitment to the values of public service. Therefore, the larger the local government, the greater the incentive to expand financial disclosure to maintain public trust and strengthen the legitimacy of government institutions.

H3: The size of the local government has a significant effect on the level of disclosure of local government financial reports.

Agency theory explains the relationship between the public as principal and the local government as agent, which is obligated to account for regional financial management through the presentation of transparent financial reports (Jensen & Meckling, 1976). This relationship has the potential for information asymmetry because the local government has greater information than the public regarding the management of Regional Original Revenue (PAD), regional assets, and the preparation of financial reports. This situation limits the public's ability to assess whether regional financial management has been carried out transparently and accountably.

To reduce this information asymmetry, an external oversight mechanism is needed through audits conducted by the Supreme Audit Agency (BPK). The audit opinion issued by the BPK reflects the fairness of financial statement presentation, compliance with Government Accounting Standards, the quality of regional financial management, and increases public trust in the financial information presented by regional governments.

Sunarti's (2021) research found that audit opinion moderates the relationship between PAD and local government size and the level of disclosure in local government financial reports. Raditya's (2022) and Setyaningsih's (2022) research also found that audit opinion moderates factors influencing the level of disclosure in local government financial reports.

H4: Audit opinion can moderate the relationship between PAD and the size of the local government on the level of disclosure of local government financial reports.

METHOD

This study uses secondary data obtained from audited Regional Government Financial Reports (LKPD) and Audit Reports issued by the Supreme Audit Agency (BPK). The study population includes all district and city governments in Central Sulawesi Province. Due to the relatively small population, this study employed a saturated sampling technique (census), where all members of the population were used as the research sample. The study sample consisted of 13 local governments observed during the 2020–2024 period, resulting in 65 observations.

Table 3. Variables and Indicators

Variables	Indicator
PAD	$Ln = \text{Total PAD (Inheritance 2025)}$
Local Government Size	$Ln = \text{Total Assets (Cheisviyanny et al. 2020)}$
Audit Opinion	$WTP = 5, WTP \text{ DPP} = 4, WDP = 3, TW = 2, TMP = 1$ (Sunarti et al. 2021)
LKPD Disclosure Level	$\text{Tingkat Pengungkapan}$ $= \frac{\text{Item Pengungkapan LKPD}}{\text{Total yang harus diungkapkan dalam SAP}}$ (Finakesti et al. 2022)

In this study, Moderated Regression Analysis (MRA) was conducted to test the hypothesis. The following is the regression model used for hypothesis testing.

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 Z_t + \beta_4 (X_{1t} \times Z_t) + \beta_5 (X_{2t} \times Z_t) + \epsilon_t$$

Information:

Y	= LevelDisclosure of LKPD
X ₁	=Locally-generated revenue
X ₂	=Size of Local Government
Z	=Audit Opinion
X ₁ x Z _t	=Interaction between PAD and Audit Opinion
X ₂ x Z _t	=Interaction of Government Size and Audit Opinion
t	=Year t



e =Errors or values from other variables are not included.

RESULTS AND DISCUSSION

Description of Research Object

The objects of this study are local revenue, local government size, the level of disclosure of local government financial reports, and audit opinions from 2020 to 2024. This observation was conducted using 65 time series observations. Therefore, the data used were local government financial reports for 2020-2024. The population used was district and city governments in Central Sulawesi.

Data analysis

Table 4. Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation
PAD	65	23.82	27.67	25,4183	,77438
SIZE	65	27.73	29.13	28,4777	,28255
OPINION	65	1.00	3.77	3,5156	,65607
DISC	65	,55	,84	,6588	,04533
Valid N (listwise)	65				

The dependent variable in this study is the level of LKPD disclosure, symbolized by DISC, based on SAP. The descriptive statistics in Table 3 above show that from a sample size (N) of 65, the average level of LKPD disclosure for districts and cities in Central Sulawesi is 65%.

Table 5. F Test Results

ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
Regression	,035	5	,007	4,341	,002b	
Residual	,096	59	,002			
Total	,132	64				
a. Dependent Variable: DISC						
b. Predictors: (Constant), SIZE_OPINI_C, SIZE_C, OPINI_C, PAD_C, PAD_OPINI_C						

Referring to the table above, the F count value is 4.341 with a significant value of 0.002. The sample used in this study is 65 (n); with 2 X variables (k); and a significant level of 0.05. So that the value of $df = nk-1 = 62$ is obtained, then the F table value is 3.51, meaning that $F \text{ count} > F \text{ table}$ ($4.341 > 3.51$) and the significant value is below the provisions, namely ($0.002 < 0.05$). These results indicate that the X variables in the study, namely PAD and the size of the local government, have a simultaneous effect on the level of financial report disclosure.

Table 6. t-Test Results

Coefficients^a							
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	,662	,005		123,927	,000		
PAD_C	,026	,010	,448	2,500	,015	,386	2,591
SIZE_C	-,071	,028	-,442	-2,520	,014	,402	2,485
OPINION_C	-,011	,010	-,163	-1,110	,271	,576	1,737
PAD_OPINION_C	,029	,030	,324	,984	,329	,115	8,732
SIZE_OPINION_C	-,020	,080	-,078	-,248	,805	,125	8,010
a. Dependent Variable: DISC							

The Simultaneous Influence of PAD and Regional Government Size on the Level of LKPD Disclosure

Given that the PAD variable has a significance value of 0.015 (< 0.05), it can be concluded that the PAD variable significantly influences the level of disclosure in local government financial reports. This finding is also supported by research conducted by Setyaningsih (2022) and Hiola (2021), which showed that PAD and local government size influence the level of LKPD disclosure, both partially and simultaneously.

Stewardship emphasizes that organizational managers do not act solely for personal gain, but rather strive to achieve organizational goals and fulfill the interests of those entrusted with them. Therefore, factors such as PAD and the size of the local government can collectively influence the level of LKPD disclosure because all of these

factors reflect the condition, capacity, and quality of local government management in carrying out public mandates.

The Influence of PAD on the Level of Disclosure of LKPD

Given that the PAD variable has a significant value of 0.015 (<0.05), it can be concluded that PAD significantly influences the level of disclosure in local government financial reports. This finding aligns with research by Mawardi (2019), which found that higher PAD leads to higher levels of financial information disclosure. Furthermore, research by Finakesti *et al.* (2022) also confirms that PAD significantly influences the disclosure of local government financial reports.

High PAD reflects a region's ability to tap its own economic potential, thus encouraging local governments to maintain public trust by improving the quality and completeness of their LKPD (Regional Financial Reports). Therefore, the results of this study align with stewardship theory, as the greater a region's financial capacity, the greater the incentive for local governments to act responsibly and transparently through the disclosure of financial reports.

The Influence of Regional Government Size on the Level of LKPD Disclosure

It is known that the significant value of the regional government size variable is 0.014 (<0.05) and seeing the (-) sign on the regression coefficient value, it can be concluded that the regional government size variable is negative and significant on the level of disclosure of regional government financial reports.

This negative impact can occur because local governments with significant assets face high management complexity, making it difficult to present complete and timely information. Furthermore, managing large assets requires greater human resources, technology, and budget, so resource constraints can hinder adequate financial reporting disclosure (Mahyuddin, 2025).

Moderation of Audit Opinion in the Relationship between PAD and Regional Government Size and the Level of LKPD Disclosure

The results of this study indicate that the audit opinion is not able to moderate the influence of local revenue and regional government size on the level of disclosure of regional government financial reports, which means that the audit opinion neither strengthens nor weakens the relationship between PAD and regional government size on the level of LKPD disclosure.

This indicates that even if a local government receives a favorable audit opinion, this does not necessarily encourage local governments with high PAD and significant assets to disclose financial information more widely. Therefore, the results of this study



indicate that the monitoring function through audit opinions has not fully strengthened the relationship between PAD and local government size and the level of LKPD disclosure as explained in agency theory.

CONCLUSION

The results of this study indicate that PAD and regional government size simultaneously influence the level of LKPD disclosure. Meanwhile, PAD has a positive influence on the level of LKPD disclosure. On the other hand, regional government size has a negative influence on the level of LKPD disclosure. And the audit opinion is unable to moderate the relationship between PAD and regional government size on the level of LKPD disclosure.

The limitations of this study are: 1. The measurement of local government size in this study uses total assets obtained from financial reports. However, the total asset value has the potential to not fully reflect the actual conditions, given differences in accounting policies, valuation methods, and possible inaccuracies in asset recording in each local government. 2. Time constraints in this study mean that the researcher has not been able to expand the observation period, so the results of this study are still limited to the scope of the data used.

The researcher then suggests that the district and city governments in Central Sulawesi Province pay attention to regional asset management by ensuring that the increase in total assets is accompanied by improvements in the quality of financial management, human resource capacity in accounting, and adequate use of information technology so that organizational complexity does not impact the decline in the level of LKPD disclosure. In addition, local governments need to conduct regular evaluations of the quality of financial report disclosure, especially information related to regional assets, through comparisons between periods and with other regions with similar characteristics to identify aspects that still need improvement. Local governments are also expected to further strengthen their commitment to the principles of good governance, especially transparency and accountability, through better asset management, orderly administration systems, and more complete information disclosure. In addition, local governments should not only focus on achieving a good audit opinion, but also need to improve the quality of transparency and completeness of financial report disclosure because a good audit opinion does not necessarily reflect the adequate fulfillment of all public information needs.



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