Timeliness of Local Government Financial Reporting: Evidence From Indonesia

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Article Info

Abstract: This research analyzed the determinant of timeliness of local government financial reporting on the financial statements of 508 local governments from 2015 to 2019 financial periods in Indonesia. With secondary data based on the total sampling method, this research used a panel data regression fixed effect model. This study found that financial control and local government revenues positively affected the timeliness of local government financial reporting, local government capital expenditures and the complexity of local governments. Each had an insignificant positive and negative effect on local government financial reporting timeliness. From this study, local governments must increase the capacity of financial supervisors, so the process of financial supervision of local governments can run well, from planning and implementation to reporting on LKPD.

Keywords: Timeliness of Local Government Financial Reporting; Financial Supervision; Revenue; Capital Expenditure; Complexity

INTRODUCTION

The government system in Indonesia has adhered to the principle of decentralization since 1999. The local government states that a principle of decentralization is the delegation of authority and the transfer of operational tasks in the context of decision-making from the central to local governments (Undang-Undang Republik Indonesia Nomor 23 Tahun 2014 Tentang Pemerintah Daerah, 2014). Decentralization impact is that local governments must be accountable for delegating authority, including local government financial reporting. Local government financial reports (LKPD) are expected to be accountable, and LKPD reporting must be timely. Halim and Abdullah (2006) stated that the timeliness of LKPD reporting is a form of representation to the public following the agency concept.

LKPD reporting limit, every year in the third month, the local government must report LKPD to the Indonesian Audit Board (BPK RI) (Undang Undang Republik Indonesia Nomor 1 Tahun 2004 Tentang Perbendaharaan Negara, 2004). Timely LKPD reporting is expected to provide accurate information because it does not lose its capacity to influence local government decisions (Meihana *et al.*, 2021). In addition, timely reported LKPD can provide opportunities for local governments to obtain Regional Incentive Funds (DID) (Peraturan Menteri Keuangan Republik Indonesia Nomor 167/PMK.07/2020 Tentang Perubahan Atas Peraturan Menteri Keuangan Nomor 141/PMK.07/2019 Tentang Pengelolaan Dana Insentif Daerah, 2020).
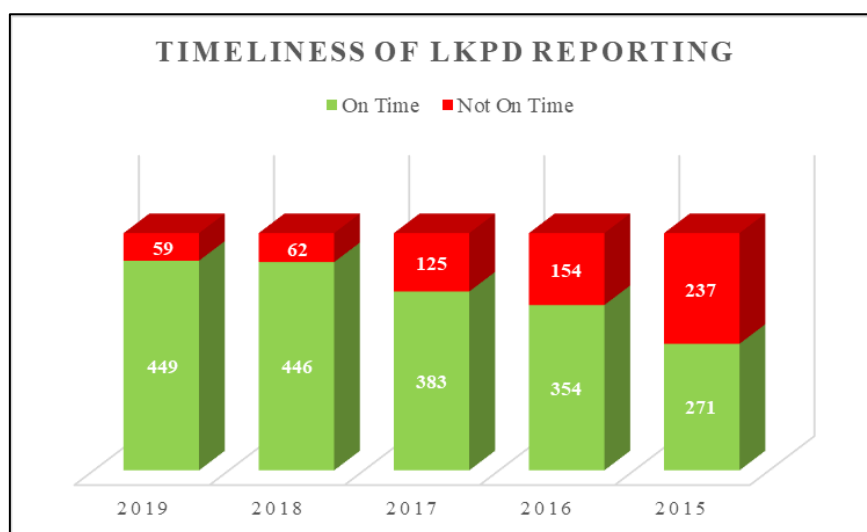
Figure 2. Timeliness of LKPD Reporting in Indonesia for the period 2015 to 2019

In the last five years, there are still many local governments in Indonesia that are still not timely in reporting LKPD. As of 2019, there are still 59 local governments that are not on time as a manifestation of the lack of accountability of local governments. Local governments are not reporting their finances on time because they are not ready to implement accrual-based financial reports for revenues, expenditures, assets and equity (Aswar *et al*., 2021). Thus, local governments cannot provide timely reports under applicable regulations. Local governments can receive sanctions of suspension of budget execution or delays in disbursing funds by the Regional General Treasurer (Peraturan Pemerintah Republik Indonesia Nomor 8 Tahun 2006 Tentang Pelaporan Keuangan Dan Kinerja Instansi Pemerintah, 2006).

Administrative sanctions for local governments that are not timely reporting LKPD are actually to create a deterrent effect so that LKPD reporting can be convenient. Several indicators examine determinants of timeliness of LKPD reporting, such as financial supervision (Baatwah et al., 2019; Ghafran & Yasmin, 2018; Sutaryo & Muhtar, 2020; van Helden & Reichard, 2019), local government revenues (Cagle et al., 2014; Sutaryo & Muhtar, 2020), local government capital expenditures (Sutaryo & Muhtar, 2020; Syofyan *et al*., 2018) and local government complexity (Trein et al., 2019; van Helden and Reichard 2019).

This study focuses on reporting LKPD by local governments to BPK RI. This study extends previous studies by examining the factors of financial supervision, local government revenues, local government capital expenditures and complexity in one study. We also added a control variable, namely regional wealth (Arifin et al., 2015; Furqan et al., 2020; Harumiati & Payamta, 2014; Sutaryo & Muhtar, 2020).

Maintaining regional financial management is the local government's financial supervision responsibility. Local government revenues and capital expenditures are related to LKPD reporting, the complexity of local government complicates financial management in the region, and regional wealth is also a matter of LKPD reporting.

Because regional governments still do not report their finances on time, it is necessary to know the cause of the timeliness. This study examines the effect of financial supervision, income, capital expenditure and local government complexity on the timeliness of local government financial reporting.

This research is expected to contribute to LKPD reporting practices as a form of local government responsibility in making decisions not to lose capability and accountability in managing local government finances. This research is also expected to encourage the public to monitor the transparency and accountability of local government financial management.

LITERATURE REVIEW
Agency Theory

The theory that underlies research on financial supervision, local government revenues, local government capital expenditures, and the complexity of local governments on the timeliness of LKPD reporting can be explained from the agency theory perspective. Agency theory is related to agency relationships that give rise to a contract when one or more people, commonly called principals, employ another person, commonly called an agent, to provide a service as well as authority in the form of decision-making to the agent (Jensen and Meckling, 1976).

The agency relationship is also manifested in the government structure between the executive and the legislature. The executive or local government acts as an agent, while the legislature or the Regional Legislative Council (DPRD) serves as the principal. DPRD is a representative of the people who gives authority to local governments to manage regional finances, so DPRD, as the principal, should obtain information on regional finances so that they can measure the level of success of the performance of local governments as agents (Halim and Abdullah, 2006).
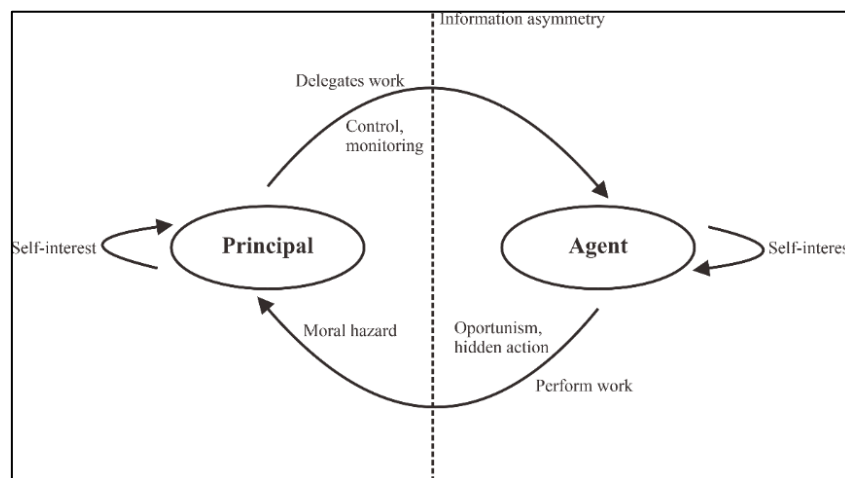

Figure 1. Agency theory with job assignment from principal to agent (Van Slyke, 2007)

Agency theory can cause a conflict if the agent and the principal differ in interest. The dispute arises because each party is more concerned with its interests, and the interests of each party are opposite (Jensen and Meckling, 1976). Conflicts between agents and principals can also arise when the principal does not know what the agent is doing. This ignorance can lead to information asymmetry, and the principal's interests are not aligned with the agent's (Kholmi, 2010). Agency conflict is described if the local government's decisions as the agent do not follow the will of the people represented by the DPRD as the principal. The accountability of regional financial management is one of the mechanisms through the presentation of LKPD. It sometimes finds a mismatch of interests between the executive and legislative agencies (Pamungkas *et al.*, 2018).

Timeliness of LKPD Reporting

Punctuality is a local government responsible for the community's authority. This authority is accompanied by requests by the public for information on how local governments manage public resources, thereby reducing misinformation between the public and locals (Garrido-Rodríguez *et al.*, 2019). This aspect is considered necessary in ensuring local government accountability, which is accommodated by the timely reporting of LKPD. Timeliness can be interpreted as the quality of available information that has been planned and appropriately completed (Al-Mulla and Bradbury, 2020).

LKPD reporting represents local government accountability. Local governments, including the Governor, Mayor, and Regent, have no later than three months after the end of the fiscal year to report LKPD to BPK RI (Peraturan Menteri Dalam Negeri Nomor 13 Tahun 2016 Tentang Pedoman Pengelolaan Keuangan Daerah, 2006; Undang Undang Republik Indonesia Nomor 1

Tahun 2004 Tentang Perbendaharaan Negara, 2004). LKPD submitted by local governments to BPK RI includes Budget Realization Reports, Balance Sheets, and Notes to Financial Statements.

At present, the accountability of local governments is considered to have decreased, one of which causes a decrease in the accountability of local governments, namely the inaccuracy of LKPD reporting times (Nduhura *et al.*, 2021).

Financial Supervision

Internal financial supervision is a process operated by an agency to ensure the realization of effectiveness, efficiency and economy in the agency's operations, the reliability of financial reporting, and compliance with applicable regulations (COSO, 2013). According to Scott (2014), an internal control system is a process to provide adequate assurance that the control objectives have been achieved—the Financial and Development Supervisory Agency (BPKP) role as internal financial supervisor in Indonesia. Regarding the implementation instructions for the appointment and certification of structural officials into the functional position of auditors through the selection of transfers and reappointments, stated that to realize accountability for financial supervision, BPKP adopted the Internal Audit Capability Model (IACM) (Peraturan Kepala BPKP Nomor 11 Tahun 2017 Tentang Perubahan Atas Peraturan Kepala Badan Pengawasan Keuangan Dan Pembangunan Nomor PER-1633/K/JF/2012 Tentang Petunjuk Pelaksanaan Pengangkatan Dan Sertifikasi Pejabat Struktural Ke Dalam Jabatan Fungsional A, 2017). IACM divides the level of financial supervisory capability into five levels.
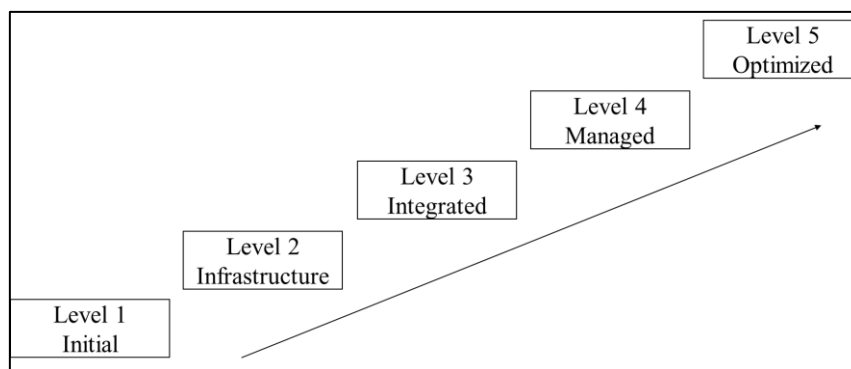

Figure 3. Level of Financial Supervisory Capability

Financial supervision is measured by the competence of the government's internal supervisors. Local government financial supervisors should be competent to apply their skills and knowledge to achieve something expected (Sutopo *et al.*, 2017). The competence of local government financial supervisors can realize effective and efficient financial supervision. Effective and efficient financial supervisors can facilitate timely LKPD reporting (Chukwu *et al.*, 2020). Weak financial supervision can cause delays in LKPD reporting, supported by (Meiryani *et al.*, 2021; Tinumbia *et al.*, 2018), stating that solid internal control can reduce financial reporting delays.

Local Government Revenues

Local government revenues are all regional rights that are recognized as adding to the value of net assets in the fiscal year (Peraturan Menteri Dalam Negeri Republik Indonesia Nomor 77 Tahun 2020 Tentang Pedoman Teknis Pengelolaan Keuangan Daerah, 2020). Local government revenue is one of the capital for local governments in obtaining development funds and can be used for regional expenditures (Wijayanti and Latifa, 2020). Local government revenues consist of Regional Original Revenue (PAD), Transfer Revenue, and Other Legitimate Regional Revenues (Peraturan Menteri Dalam Negeri Republik Indonesia Nomor 77 Tahun 2020 Tentang Pedoman Teknis Pengelolaan Keuangan Daerah, 2020).

Local government revenues are closely related to regional expenditures. One component of regional expenditure is the expenditure of salary. Psychologically, the greater the salary expenditure, the better the performance of the budget manager. A large amount of local government revenue can reduce delays in reporting LKPD (Rudžionienė and Guptor, 2019).

According to (Dhanurista *et al.*, 2021), a large amount of local government revenue can cause LKPD reporting to be timely.

Local Government Capital Expenditure

Local government capital expenditure is one component of expenditure in LKPD reporting. Capital expenditures are budgetary expenditures for acquiring fixed and other assets to provide benefits for more than one accounting period (Peraturan Pemerintah Republik Indonesia Nomor 71 Tahun 2010 Tentang Standar Akuntansi Pemerintah, 2010). The fixed and other assets have characteristics such as being tangible, adding to government assets, having a useful life of more than one year, and their value is relatively material.

Figure 4. Realization of Local Government Capital Expenditure

Capital expenditure is a productive indicator of local governments' use of the budget in carrying out public service activities because capital expenditures are used to obtain fixed assets and other assets that can benefit more than one accounting period and can't be shown to the public in their realization (Hoesada, 2016). Expenditures for capital expenditures used to acquire fixed and other assets of significant value can realize good public services but also require good management. One of the capital expenditures is spending on information systems. The information system used can help the accounting process. The capital expenditure accounting system is considered a tool to accelerate LKPD reporting (Carolyn et al., 2021). According to (Zhang et al., 2022), large amounts of capital expenditure can lead to timely reporting.

Local Government Complexity

An entity can be considered significant if it has accounting staff, a modern accounting information system and an excellent internal control system so that the preparation of financial statements will be faster in presentation (Furqan *et al.*, 2020). The complexity concerning the government aligns with decentralization in Indonesia. Decentralization with regional autonomy can regulate the course of government and manage natural resources in an area, so it is necessary to divide the expected tasks to be effective, efficient, and economical to realize the vision and mission of the regional government. The Work Unit of Regional Apparatus (SKPD) recognizes the division of tasks. The regional instrument is an extra element of the Regional Head and DPRD in the administration of government affairs, which is the authority in the region (Peraturan Pemerintah Republik Indonesia Nomor 72 Tahun 2019 Tentang Perubahan Pemerintah Nomor 18 Tahun 2016 Tentang Perangkat Daerah, 2019). Regional apparatuses generally have the task of assisting in formulating policies, coordinating, and implementing these policies. The regulation also stipulates that the regional apparatus comprises the Provincial Apparatus and the City or Regency Regional Apparatus.

Local governments can also be considered large if they have qualified SKPDs, in this case, related to complexity. SKPDs influence policy-making for each activity in the context of problem-solving, resulting in delays in reporting LKPD (Trein *et al.*, 2019). According to (Hardiningsih *et al.*, 2019; Sutaryo & Muhtar, 2020), a small amount of local government complexity can lead to timely reporting.

Regional Wealth

Regional wealth is a variable measured by the total assets owned by the regional government (Furqan *et al.*, 2020). Local governments can have great wealth with large assets (Arifin *et al.*, 2015). The greater the wealth of a regional government, the greater the possibility of delays in local government financial reporting. So it requires adequate financial supervision. Likewise, regional governments with large regional assets certainly have large revenues, capital

expenditures, and more SKPDs. Therefore, regional wealth in this study is positioned as a variable controlling the causal relationship between the independent and dependent variables (Sutaryo *et al.*, 2020). Under the variable control function, that controls so that the influence of the independent variable on the dependent variable is not influenced by external factors that are not examined.
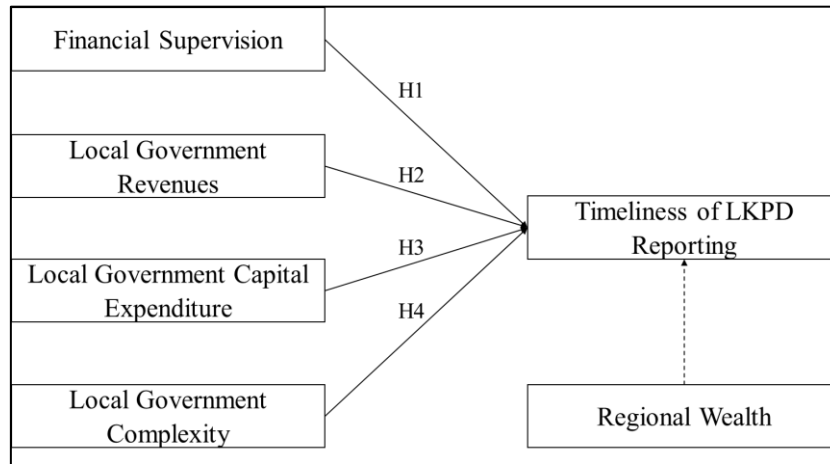
Figure 5. Research Framework

The research hypothesis is as follows:
H1: Financial Supervision affects the Timeliness of LKPD Reporting.
H2: Local Government Revenues affect the Timeliness of LKPD Reporting.
H3: Local Government Capital Expenditure affects the Timeliness of LKPD Reporting.
H4: Local Government Complexity negatively affects the Timeliness of LKPD Reporting.

RESEARCH METHOD

This research concerns all city or district governments in Indonesia that the BPK has audited from 2015 to 2019. This study used the difference between the LKPD reporting deadline date and the LKPD reporting date as the dependent variable, with financial supervision, local government revenues, local government capital expenditures, and local government complexity as independent variables and control regional wealth. The research data were analyzed using the STATA 16 application as panel data. The measurement of research variables is presented in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Acronym	Measurement
Timeliness of LKPD Reporting	TIMELINESS$_{it}$	The difference of days from the LKPD reporting limit following applicable regulations, namely March 31 each year until the date of LKPD reporting by the local government to the BPK RI
Financial Supervision	IACM$_{it}$	The level of financial supervisory capability following the IACM ranges from 1 to 5.
Local Government Revenues	LNREV$_{it}$	Natural logarithm value of total local government revenue in one fiscal year
Local Government Capital Expenditures	LNCE$_{it}$	The natural logarithm value of the total realization of local government capital expenditures in one fiscal year
Local Government Complexity	SKPD$_{it}$	Number of SKPD in local government.
Control Variables		
Regional Wealth	ASSET$_{it}$	The natural logarithm value of the total assets of the local government in one fiscal year

Hypothesis testing using a multiple linear regression model, which is formulated as follows:
$$\text{TIMELINESS}_{it} = \alpha + \beta_1 \text{IACM}_{it} + \beta_2 \text{LNREV}_{it} + \beta_3 \text{LNCE}_{it} + \beta_4 \text{SKPD}_{it} + \beta_5 \text{ASSET}_{it} + \varepsilon$$

Notes:

$TIMELINESS_{it}$	= Timeliness of LKPD Reporting
α	= Constant
$\beta_1 - \beta_7$	= Regression Coefficient
$IACM_{it}$	= Financial Supervision
$LNREV_{it}$	= Local Government Revenues
$LNCE_{it}$	= Local Government Capital Expenditures
$SKPD_{it}$	= Local Government Complexity
$ASSET_{it}$	= Regional Wealth
ε	= Error

RESULTS AND DISCUSSION
Descriptive Statistic and Correlation

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
y	2,540	-1.823622	20.32002	-173	82
x1	2,540	1.876378	0.7219025	1	3
ln_x2	2,540	27.87886	0.50931	24.48431	29.80108
ln_x3	2,540	26.35801	0.5382858	17.723	28.61425
x4	2,540	51.79646	21.23143	20	209
ln_ctrl1	2,540	28.46697	0.6312732	25.49457	31.38673

Based on Table 2, the maximum LKPD reporting is 173 days after the reporting date, and the earliest LKPD reporting is 82 days before the reporting deadline. The average LKPD reporting is 1.82 days after the reporting date limit. The sample values are not aggregated, as shown by the standard deviation value of 20.33. It is known that the value range of financial supervision is 1 to 3. The lowest level of financial supervision is one, and the highest level is 3.

The average level of financial supervision is 1.87, and the sample values cluster around the mean value, shown by a standard deviation value of 0.72. The minimum value of the natural logarithm of local government revenue is 24.48, and the maximum value is 29.80. The average natural logarithm of local government revenues is 27.87, and the sample values cluster around the mean value, shown by a standard deviation value of 0.50. The minimum value of the natural logarithm of local government capital expenditure is 17.72, and the maximum is 28.61. The average natural logarithm of local government capital expenditures is 26.35, and the sample values cluster around the average value, shown by a standard deviation value of 0.53. It is known that the lowest local government capability is 20 SKPD, while the highest local government capability is 209 SKPD. The average capability of local government is 51.79 SKPD. The sample values are not aggregated, as shown by the standard deviation value of 21.23. It is known that the lowest natural logarithm of regional wealth is 25.49, and the highest is 31.38. The average natural logarithm of regional wealth is 28.46, with a standard deviation of 0.63, meaning that the sample values cluster around the mean value.

Hypotheses Testing

This study uses a fixed effect model approach least square dummy variable (LSDV) with dummy variables to observe the heterogeneity of the cross-section units in the panel data regression (Gujarati & Porter, 2009).

Table 3. Panel Data Regression with Fixed Effect Model

Source	SS	df	MS		
Model	551599.251	519	1062.81166	Number of obs	2,540
Residual	496761.732	2,020	245.921649	F (519, 2020)	4.32
Total	1048360.98	2,539	412.903105	Prob > F	0.0000
				R-squared	0.5262
				Adj R-squared	0.4044
				Root MSE	15.682

(Std. Err. adjusted for 513 clusters in the id)

y	Coef.	Robust Std. Err.	t	P > |t|	[95% Conf. Interval]	
x1_1	52.57032	1.067321	49.25	0.000	50.47346	54.66719
x1_2	63.60028	0.8224361	77.33	0.000	61.98452	65.21605
x1_3	70.36784	1.338569	52.57	0.000	67.73808	72.99761
ln_x2	7.510142	2.45828	3.06	0.002	2.680585	12.3397
ln x3	0.2049983	1.145764	0.18	0.858	-2.045979	2.455975
x4	-0.0105499	0.0309227	-0.34	0.733	-0.0713009	0.050201
ln ctrl1	15.14561	3.38563	4.47	0.000	8.494175	21.79705
_cons	-708.5411	116.2616	-6.09	0.000	-936.9496	-480.1327
sigma_u	18.205823					
sigma_e	15.681889					
rho	0.57406844	(fraction of variance due to u_i)				

Figures and tables must be centered in the column. Large figures and tables may span across both columns. Any table or figure that takes up more than 1 column width must be positioned at the top or bottom of the page.

Based on the table above, it is known that the coefficient of determination (R-squared) is R^2 = 0.5356. This value can be interpreted as independent variables in the form of a natural logarithm that simultaneously affects the timeliness of LKPD reporting (Y) by 52.62%, and other factors influence the remaining 47.38%.

Table 3 shows that the F-test probability value is higher than 0.05, meaning that this multiple linear regression model is suitable for use, and independent variables simultaneously affect the timeliness of LKPD reporting (Y).

Meiryani et al. (2021) and Tinumbia et al. (2018) revealed that strong internal controls can reduce delays in financial reporting. The government's internal financial supervisor should have competent people who can apply their skills and knowledge to achieve something expected (Sutopo *et al*., 2017). Therefore, the competence of the government's internal financial supervisor can create an effective and efficient SPIP that requires timely reporting of LKPD (Chukwu *et al*., 2020).

Dhanurista et al. (2021) found that large local government revenues can lead to timely reporting of LKPD. Large income allows spending to be more optimal, especially salary spending. The greater the salary expenditure, the better the performance of the budget manager. Large local government revenues can reduce delays in LKPD reporting (Rudžionienė & Guptor, 2019).

In contrast to Carolyn *et al*. (2021) and Zhang et al. (2022), large capital expenditures can lead to timely reporting. This study failed to substantiate these findings. Syofyan et al. (2018) found that good capital expenditure management certainly takes time in the process, which can result in delays in reporting. Therefore, the effect of capital spending on the timeliness of local government financial reporting is not significant (Srivastava *et al*., 2015).

Meanwhile, Hardiningsing et al. (2019) and Sutaryo et al. (2020) stated that the least complexity of local government can lead to timely reporting. A large entity is characterized by having accounting staff, a modern accounting information system, and a capable internal control system (Furqan *et al*., 2020). Thus, the regional government can also be considered large if it has a qualified SKPD. In this case, it is related to complexity. The large number of SKPDs influences

policy-making for each activity within the problem-solving framework, which can result in delays in LKPD reporting (Trein *et al.*, 2019).

The regional wealth control variable has an effect. This result implies that local government assets have a high level of complexity, so they are still an obstacle in local government financial reporting in Indonesia (Sutaryo *et al.*, 2020). These results support Arifin et al. (2015), mentioning that local governments with large assets tend to report their financial reports not on time because large assets reflect the complexity of regional government affairs, which are also large.

CONCLUSION

This study concluded that the influence of financial supervisors and local government revenues on the timeliness of LKPD reporting had a significant positive impact. Meanwhile, local government capital expenditure on the timeliness of LKPD reporting had a positive but insignificant impact, and the complexity of local government has an insignificant negative impact on the timeliness of LKPD reporting. These results implied that local governments must be able to carry out the accounting process to report LKPD on time and remain accountable. The revenue treasurer, as the authority in local government revenue and the expenditure treasurer, as the authority in local government expenditure, must be more accountable by regularly reporting so that the LKPD report can be carried out on time at the end of the period. This reality cannot be separated from the role of the regional inspectorate as the regional government's financial supervisor in overseeing the accounting process of the regional government.

Local governments must increase the capacity of financial supervisors, so the process of financial supervision of local governments can run well, from planning and implementation to reporting on LKPD. Each stage must follow established procedures and produce an accountable LKPD. Local governments are expected to adopt information technology in managing regional finances, such as e-budgeting and e-procurement, to simplify the complexity of local governments to stay on time in the LKPD reporting process.

This study still contains limitations in research. This study only used secondary data without using primary data. Based on these limitations, further research is expected to add primary data to obtain more complete results.

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