

An Empirical Investigation and Analysis on Factors Influencing Local Government Accounting Practices

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Abstracts

Public sector and governmental accounting reforms have been adopted in many countries, including Indonesia. Many researches have done to explain governmental accounting reforms. Several of them focus on disclosure issue but there are limited studies that attempt to explain governmental accounting reforms emphasized on the technical accounting and transparency issues.

This study wants to examine in what extent local government financial accounting practices based on compliance index contains of technical accounting and the transparency issues. It also examines the influence of variables included in socio-economics condition, political factors, internal bureaucracy's professionalism and monitoring incentive and external demand factors toward local government financial accounting practice. These variables are local government size, local government wealth, financial autonomous, political competition, supports to selected executive education major of accounting staff, accounting training, legislative power and central government's influence.

Data were collected from officers of local government in Yogyakarta and Central Java province, local government official website, The Audit Board of The Republic of Indonesia (BPK-RI) official website and other relevant sources.

The result of this research in general shows that local government financial accounting practice is still in the 72,11% level on average. It is also shows that training and central government have significant influence toward local government accounting practices but local government size, local government wealth, financial autonomous, political competition, supports to selected executive, education major and legislative power have no significant influence toward local government financial accounting practices.

Key Words: *Local Government, Accounting Practice, Compliance Index, Socioeconomic condition, Political Factors, Professionalism, Monitoring Incentive and External demand.*

A. Introduction

In recent decades, public sector and governmental accounting reforms have occurred in many countries around the world. The reforms have brought various practices in public sector to get much closer to practices commonly found in private sector. These reforms and changes show various characteristics known as New Public Management (NPM). As an important part of NPM, accounting reforms often constitute the first stage of governmental reform, followed by governmental management reform, organization, and other parts of public administration (Christiaens, 1999). In line with this statement, the fact indeed shows that public sector accounting and financial statement as well as accrual-based financial system has been introduced and applied in accordance to generally accepted accounting principles in many countries (Carvalho et al., 2007).

Just like governmental accounting reform have occurred and been adopted in many countries, governmental accounting reform in Indonesia indeed have been going on through a long process started in about 1979-1980 undertaken by Financial Department with a plan for a study of modernization on governmental accounting system. The need for a standard of governmental accounting has been getting stronger in line with the reformation era that strongly demands transparency and accountability in the state financial management. After a long process, Governmental Accounting Standard (SAP), as one of the important elements of governmental accounting reform in Indonesia, has finally been stipulated by Governmental Decree Number 24 Year 2005 (Peraturan Pemerintah No. 24 Tahun 2005) on June 13th, 2005. With the issuance of this Decree, Indonesia for the first time has

Governmental Accounting Standard that is specifically composed to be standardized guidance for the government to compose its financial statement.

However, after a couple years the governmental accounting standard has been implemented, the implementation by local governments is still relatively weak. This is evident by the fact that many local governments are still incapable of devising financial statement in compliance with Generally Accepted Accounting Principle, although some regions have managed to devise reliable financial statement and obtained good audit opinion. Fact reveal that 2006 audit results on Local Government Financial statement (LKPD) conducted by The Audit Board of The Republic of Indonesia (BPK-RI) in 2006 showed an unqualified opinion on 3 LKPD (1%), qualified opinion for 326 LKPD (71,02%), audit adverse for 28 LKPD (6,10%), and disclaimer opinion for 102 LKPD (22,22%).

Several previous researches have identified various factors that have influences on the presentation and disclosure of local government financial statement. Ingram (1984) tested the impact of coalition of voters, election process of government administrator and auditor, alternative information sources, and management incentive (dependency on debt, dependency on federal government, degree of local/state welfare, professionalism and complexity of governance) on the quality of the disclosure of municipal government financial statement. Cheng (1992) stated that factors of socioeconomic, politic, internal bureaucracy and external pressure on local government are all determining factors on the quality of government financial statement disclosure.

Political factor that is measured by political competition construct has also been tested by many previous researchers. Baber (1983) stated that the higher the political competition, the higher the incentive for government to render information. Several studies have empirically tested this relationship (such as Ingram, 1984; Baber, 1983; Baber and Sen, 1984; Evans and Patton, 1987; Giroux, 1989). External monitoring factor has also been examined in many previous researches. Several monitoring factors that have been much tested are monitoring incentive by legislative (Cheng, 1992) and the power and visibility of press conducted by Ingram (1984), Cheng (1992) and Laswad, Fisher and Oyelere (2005). Some other studies tested socioeconomic factor.

It is the inconclusiveness of the previous research findings drives this research. Other driving factor for this research to be done is the fact that, as it has been stated by Christiaens (1999), several previous researches such as Ingram (1984), Robbins and Austin (1986), Giroux (1989) and Cheng (1992) only focused on the issue of disclosure instead of the issue of accounting technical implementation. With specific regard to Indonesia, there has been no previous research addressing this issue. Based on the above explanation, the research questions are stated as follow :

1. In what extent the implementation of financial accounting showing technical accounting mechanism and transparency issues by local government achieved?
2. Is there any influence from the factors of socioeconomic, politic, internal bureaucrat professionalism, monitoring incentive, and external demand on the financial accounting practices of local government?

B. Literature Review and Hypothesis Development

Governmental Accounting Reform in Indonesia

Effort to reform governmental accounting in Indonesia has been started by Finance Department in about 1979-1980 with planning for a study on the modernization of governmental accounting system. At that time, governmental administration system was performed manually.

Governmental accounting reform gained its momentum by the issuance of tripartite laws on the state and local finance which was initiated by the issuance of Law Number 17 Year 2003 on the State Finance that mandates a kind of Governmental Accounting Standard as a basis of composing financial statements of public institutions, and the strengthened by the Law Number 15 Year 2004 on the Audit of Management and Responsibility of State Finance. This Law had resulted in an urgent need for Accounting Standard used as a basis for composing and auditing the financial statement of governmental institutions by BPK. Without such standard, BPK will not be able to issue audit opinion. Next was the Law Number 1 Year 2004 on the State Treasury. According to this Law, the responsibility for State and Local Revenue and Expense Budget (APBN/APBD) takes the form of financial statement that complies with the Governmental Accounting Standard. After a long reform process, Government Decree Number 24 Year 2005 on the Governmental Accounting Standard was legalized on June 13th, 2005.

Transition strategy was also applied up to the fiscal year of 2008. By the issuance of the Government Decree Number 24 it is expected that local autonomy generally and local head election system in particular gain security protection in financial field through the accountability of financial responsibility based on certain standard.

Practices and Determinants of Governmental Accounting

The composition and presentation of information publish in public sector annual report constitutes one of the forms of public policy. Cheng (1992) declares that various literatures highlight that the choice of accounting policy constitutes the functions of economy and politic that are the decision of executive/legislative/bureaucracy formed by voter preference, interest group pressure, political parties' competition, institutional drive, external demand and constraint, as well as the condition of local government.

Carpenter and Feroz (1990) noted that the importance of fiscal pressure and political competition in creating a conducive environment for the adoption of GAAP by state government. The implication of this finding because the importance of relation between accounting system and state governmental budgeting system in the exposure of responsibility on public resources, political consensus on accounting should be made for external financial statement and this requires proper attention from the executive and legislative bodies. In order to provide quality accounting report, the qualification and professionalism of staff should be supportive. The pressure and incentive of external surveillance such as legislative and government strong roles also drives the need for a better financial reporting. In more details, those factors are elaborated in the proceeding parts.

Socioeconomic Condition

Carpenter (1991) reports that the influence of economic performance on political climate has much been documented in political literatures. In a proceeding study, Carpenter and Feroz (1990) reported that the Governor of New York supported legislation on financial reform after having analyzed budget condition. This study places socioeconomic condition as an influencing factor on the outcome of state financial statement decision in the USA.

Socioeconomic condition influences the availability of resources and government capacity to implement program or policy (Hendry, 1999). Government fiscal capacity may influence the formulation and implementation of financial reporting policy. Cheng (1992) cites that a determinant in accounting choice is capacity—defined as a financial capability to execute policy that will be implemented—to render demanded information. On the other hand, the limitation of fiscal capacity may give need signal for obtaining funding from external sources. When a government has been connected to external funding, the need for issuing disclosure complying with financial statement will come up.

A research by Ingram (1984) incorporate state wealth construct as a part of management incentive and assumes that this factor is positively associated with the increase in disclosure because a signal of good management quality renders benefit for individual politician. This approach is also used by Robbins and Austin (1986) and Christiaens (1999).

Political Factor

Political science literatures have concluded that political condition has a direct impact on policy formulation although it often looks more like facilitator between consumer and supplier of public goods and services (Hendry, 1999). Carpenter and Feroz (1990) reports that political climate in Kentucky has more influence on the decision to adopt Generally Accepted Accounting Principles than other factors that have been addressed in literatures such as citizen demand, signaling, and investment community.

Political competition has been much used to characterize political climate. Baber (1990) cites that shows relative cost of competition in the next election between the incumbent and prospective competitor. This study assumes that competition in the political affects government response to changes.

Several previous researches cite incentive for politicians to disclose information increases by the occurrence of political competition (Ingram, 1984; Baber and Sen, 1984; Baber, 1990; Carpenter, 1991; Laswad, Fisher and Oyelere, 2005). Carpenter and Feroz (1990) reported that political competition, coupled with other factors, creates favorable environment for the adoption of Generally Accepted Accounting Principles in Kentucky. Laswad, Fisher and Oyelere (2005) incorporates political competition factor as a determinant for the voluntary disclosure of government's financial statement through internet and find a positive significant correlation. With specific regard

to political competition, Carpenter (1991) found a positive correlation between three forms of political competition, namely electoral competition, parliamentary competition, and interest group competition, on a decision to adopt Generally Accepted Accounting Principles.

Professionalism of Internal Bureaucracy

Downs (1976) in Hendry (1999) admits that bureaucrat has a significant role in policy formulation. Name as an example, when Governor, Regent/Mayor, or legislative member proposes a new program, the proposal refers to the bureaucracy that would be held responsible for the administrative execution of the program. Bureaucrat may render a significant influence on the formulation of public policy by controlling the type and amount of information that will be provided by the policy maker.

In several previous studies, professionalism was incorporated as one of the constructs of management incentive factor (Ingram, 1984; Robbins and Austin, 1986; Christiaens, 1999). These researches only focused on the construct of accounting staff professionalism. Professionalism of accounting department staff would be measured in several parameters. The first is the science discipline of accounting department staff that has not been much addressed in the previous researches. The research using this indicator was once conducted by Holmes and Nicholls in Misra (2004) about accounting practice in the small and medium size enterprises. The previous research in public sector used indicators of education attainment (such as Evans and Patton, 1983; Cheng, 1992; Christiaens and Pateghem, 2004), accounting training (Christiaens, 1999; Christiaens and Peteghem, 2007; Vecchio, Johnson and Magner, 2004), membership in professional institution (Christiaens, 1999), business accounting experience of the staff (Christiaens, 1999), and salary of the accounting staff (Ingram, 1984). Christiaens (1999) found that accounting training significantly affects the local government's financial accounting practice in the state of Flemish, but found a different result when testing the evolution of accounting implementation (Christiaens dan Peteghem, 2007). These researches, apart from using science discipline indicator, also incorporate indicator of training and/or accounting technical guidance.

Monitoring Incentive and Influence of External Demand Legislative Power

One of the important premises of agency theory in the governmental sector is that in the condition of absence of stock exchange market mechanism, legislative body serves as a main instrument in monitoring the behavior of bureaucrat (Fama, 1980; Miller and Moe, 1983; Weingast, 1984; Spencer, 1982) in Cheng (1992). Legislative body is regarded to be trying to maximize their chances for the upcoming election by performing monitoring function towards the behavior of governmental bureaucracy.

In Indonesia, Local (Provincial and Municipal) House of Representative (DPRD) is an institution which has strategic role and position related to the surveillance of local finance. Governmental Decree RI Number 58 Year 2005 on the Management of Local Finance declares that supervision on the execution of Local Budget of Revenue and Expenditure (APBD) is performed by DPRD.

The Influence of Central Government

Researchers of public organization have concluded that the existence of large proportion of local funding by central government can increase the influence and monitoring of central government on the disclosure of local government. The result of previous study still gave different outcome on the influence of dependency to central government on accounting practice in the local government (state or municipal). Baber (1983), Ingram (1984) and Cheng (1992) used construct of federal funding in their research. Ingram (1984) used proxy of intergovernmental revenue/total revenue proportion, and found that this construct is not significant. Baber (1983) found population to be a significant control variable, it is still in question about the appropriateness of population as a proxy for the influence of federal government. Cheng (1992), using the same proxy as Ingram (1984), found a consistent result.

Hypothesis Development

Preparation of financial statement for the purpose of external report is a decision of public policy which is affected by structural and environmental factors. Hendry (1999) incorporated factors of population, local government real revenue, and per capita income as a construct for socioeconomic factor and found a significant correlation of the three factors. Cheng (1992) found that population does not a positive loading factor. Cheng's finding was then confirmed by Allen and Sanders (1994) and Carvalho et al. (2007).

H1: larger region is more superior in the degree of compliance.

A research by Ingram (1984) incorporated state wealth construct as a part of management incentive factor and assumed that this factor is positively associated to the increase in disclosure because a signal of management quality which renders benefit for individual politician. The next research by Robbins and Austin (1986) also gave the same result. Management which is more quality will surely gives incentive for doing a still better reporting.

H2: the more welfare a region the higher its compliance.

Related to financial independence, Hendry (1999) stated that the more independent a region the lesser monitoring incentive from federal government while the limitation of fiscal capacity may give signal that there is a need for funding from external sources. When a region is connected to external sources of funding, the need for issuing report in compliance to reporting standard will be higher. Based on the above explanation, hypothesis is presented as:

H3: financial independence is positively affects the degree of compliance.

Carpenter and Feroz (1990) noted that the importance of fiscal pressure and political competition in creating a conducive environment for the adoption of GAAP by state government. Implication of this finding is that because of the importance of the relation between accounting system and state government budget system in showing the accountability for public resources, a political consensus on accounting should be made for external financial reporting and this thing needs a proper attention on the part of executive and legislative bodies.

Political competition is much used as a construct for political factor. Carpenter (1991) divides political competition into electoral competition, parliamentary competition, and interest group competition and shows that the three forms of political competition positively affect the decision to adopt GAAP. Laswad, Fisher and Oyelere (2005) find that political competition as one of the main determinants for voluntary disclosure through internet. Based on this explanation, hypotheses are presented as follow:

H4a: Support for executive body negatively affects the degree of compliance.

H4b: The tighter the competition in the head of region election the tighter the degree of compliance.

Qualification and professionalism of staff constitute main determinant in many researches on quality of presentation as well as disclosure of financial statement. Christiaens (1999) stated that the degree of education and training of staff positively affects the degree of compliance even though he did not find the same result for training in the next research. For the indicator of science discipline, it has not been much researched in accounting literature but leading to it, such as membership in a professional accounting institution, has been conducted by Cheng (1992), Christiaens (1999), and Christiaens and Peteghem (2007). It is based on this explanation, the following hypotheses are conveyed:

H5a: As the number of accounting staffs with accounting education background gets larger, so does the degree of local government compliance get higher.

H5b: Accounting training and technical guidance provided to accounting staffs affects positively the degree of compliance.

One of the important premises of governmental agency theory is that in the condition of the absence of stock exchange market mechanism, legislative body becomes the main instrument to monitor bureaucrat's behavior (Fama, 1980; Miller and Moe, 1983; Weingast, 1984; Spencer, 1982) in Cheng (1992). Legislative body is deemed to be trying to maximize their chances for the next election by performing good monitoring function upon the behavior of governmental bureaucracy (executive body). A strong legislative body will manage to perform monitoring function in a better way.

H6: Legislative power positively affects the degree of compliance.

Carvalho et al. (2007) used financial dependency construct as one of the constructs of financial condition which affects the degree of compliance of a municipal in Portugal, while Ingram (1984) used construct of dependency to central government as one of the constructs of management incentive factor. The two researchers both used proxy of the proportion of grant (intergovernmental revenue) to total revenue, both of the researches found different results in which Carvalho et al. (2007) found positive influence while Ingram (1984) found the reversed result. Hypothesis of this research is:

H7: Funding dependency to the central government positively affects the degree of compliance.

C. Research Method

Unit of analysis in this research is local government of Regencies/Municipalities. Regencies and municipalities used for samples are those located in the Provinces of Yogyakarta Special Region and Central Java. Data used in this research is financial statements of the local governments in 2006 obtained in the official website of the Audit Board of the Republic of Indonesia (BPK-RI) and various other data.

Identification and Measurement of Variables

Dependent variable in this research is accounting practice of local governments measured by compliance index. The compliance index used is adopted from the index developed by Christiaens (1999) with some necessary adjustments to the condition and regulation in Indonesia. This compliance index does not only focus on measuring the disclosure of financial statements by local governments but also on the measurement of other qualifications such as the timeliness of financial statement, cut-off, completeness, classification, mechanical accuracy, and adequacy and usefulness. Most of the elements in the index are measure in dichotomy (D) that is point 1 if complies and point 0 if the reversed. Some other elements are qualitatively measured (QI) and quantitatively (Qt).

Independent variables of this research constitute independent variables which are grouped into four factors namely socioeconomic, politic, professionalism of internal bureaucracy, and monitoring incentives and external demand. Socioeconomic factor consists of regent/municipal size, local government welfare, and financial independency. Political factor consists of political competition and support towards the elected executive (Regent and Mayor). Professionalism factor is represented by the disciplines of education and training/technical guidance in local financial accounting followed by the accounting staffs. Factor of monitoring incentive consists of legislative power and dependency to the central government.

Data Analysis and Hypothesis Testing

Test of Classical Assumption

The tests of classical assumption performed in this research are those of normality, heteroscedasticity, and multicollinearity.

Hypothesis Testing

Hypothesis testing is performed by linear regression analysis, but prior to the hypothesis testing an analysis on the financial accounting practices of local government is conducted in which contains issues of accounting technical mechanism and transparency issues which are measured by using compliance index. Every category of both issues namely completeness, cut-off, classification, and mechanical accuracy for the issue of technical accounting and categories of timeliness, disclosure, and adequacy and usefulness for the issue of transparency will be analyzed first. The result of compliance index in a percentage form shows the degree of technical accounting practice of local government and in order to fulfill the demand for transparency. Statistical tests performed in this research are t-test to examine the influence of each of independent variables on the dependent variable, F test to examine the regression correlation between dependent variable and independent variables as a single entity. Before t-test and F-test are performed it is first determined the value of determination coefficient (R^2) to assess goodness of fit of the presented model. All the analyses are performed by using software of SPSS 16 for windows.

D. Result of the Research

Result of Classical Assumption Test

The result of classical assumption test shows that all tests meet all the requirements to be good research model. For the normality test of data residual, from the histogram graph it is apparent that the residual is normally distributed and take the symmetrical form not skew to the left or to the right. In probability plots graph, the dots disperse tightly around the diagonal line and this shows that the residual is normally distributed. The result of normality test by Kalmogorov-Smirnov test obtains the same output. From the multicollinearity test, the result is that VIF value is at the range of 1,178 – 5,357 and value of tolerance is at the range of 0.187–0.849, so all variables in the model do not have multicollinearity problem. From the result of heteroscedasticity on the model, in the scattered-plot graph it is apparent that the dots randomly disperse and scattered on the upper as well as lower area of 0 number and Y axis (doe not take any specific form). This conveys a conclusion that there is no heteroscedasticity problem in the regression model so the model is proper to be used to predict local governments accounting practice. This finding is strengthened by Park test result which shows that there is not any single independent variable plagued with

heteroscedasticity problem. The Park-test shows that among parameter coefficients of the independent variables nothing is significant.

Analysis of the Degree of Governmental Accounting Practice.

One of the interesting things in this research is the use of compliance index to measure local government's accounting practice in which it contains technical accounting practice and transparency issues which has not much been researched previously. Technical accounting mechanism measured in this research covers completeness, cut-off, classification, and mechanical accuracy, while the issues of transparency are portrayed by timeliness, disclosure, and adequacy and usefulness. All in all, the highest degree of compliance is 84,88% and the lowest is 60% with an average of 72,11%.

If it is viewed from accounting practices in a whole, the degree of accounting practice at the average of 72,11% surely do not yet show the expected result even though of it is compared with some other countries when they first composed financial statements in adherence to the GAAP or the newest regulation on the governmental accounting system, this figure does not mean poor condition. In Belgium for example, municipal government in the state of Flemish showed the degree of implementation averaging at 62% (Christiaens, 1999).

The reason presented in relation to this problem is the proper use of accrual-based accounting in governmental accounting. This reason is presented in Christiaens and Peteghem (2007) who stated that the obvious objective of legislative want to implement a new accounting system has never been formulated. The only argument for shifting to the accrual based is the dissatisfaction budget accounting system in properly portraying finance and management information. Another reason is that accounting reform was initiated in a top-down manner. Although there is a differing perspective on this problem, but there is a literature stating that the greater interest and support will arise when reform is initiated in a bottom-up way. This will ensure more the sustainability of learning and adoption process in the long run (Wollman, 2000) in Christiaens and Patteghem (2007).

Other factor relevant to the degree of local government's accounting practice is commitment of decision and policy maker in the regions. Other than experience in Belgium, experience in New Zealand also shows this condition. Without demand and usage of accrual information by decision makers, the implementation of accounting reform will not yet end up in success. The finding of Allen and Sander (1994) shows that the degree of compliance is higher in the regions with stronger attention on the disclosure of government's finance. Berry and Jacobs (1981) in Christiaens and Peteghem (2007) argued that the main reason for not complying is the not-yet adequate system of regulation enforcement.

Next, by taking a closer look on the components of each category in the issues of technical accounting and transparency, for technical accounting mechanism, the problem of cut-off still shows a lower degree of implementation at the rate of 61,36%. For the aspect of *completeness*, problem that occurs is several local governments do not separate tax receivable with non-tax receivable and not all local governments present and disclose provision. Classification aspect is no longer a problem in the financial statement by local governments. For mechanical accuracy, the presentation and disclosure of accumulated depreciation is very much minimal performed by local governments.

Related to the issues of transparency, timeliness of local governments to finalize their financial statements has been good. One of the assumptions for this is the quite long deadline time for local governments to prepare financial statement until it is audited by BPK, which is up to the end of sixth month in the next fiscal year. Result for the category of disclosure is not yet satisfactory. Although it has been regulated in the SAP, some Regencies and Municipalities do not yet disclose information on the fiscal policy and their macro economic conditions, so is the information on target achievement of local government Regulation of APBD together with its problems and constraints.

Transparency issue covered in the category of adequacy and usefulness investigates readability and understandability of local governments' financial statement. For this category, there are not many local governments who took initiatives and improvised in order to present the condition and the result of their financial statement analyses in a better way such as by using graph and different colors in their presentations. Christiaens and Peteghem (2007) stated that government still tends to convey their annual report, including financial statement in it, purely instead of reporting it in the form of documents supporting transparency issue and in a user-friendly way.

Hypothesis Testing and Explanation

Determination coefficient is used to test the goodness of fit of the regression model. The result of statistical test shows the value of R^2 is 0.526 and adjusted R^2 is 0.341 which means that the variability of dependent variable can be explained by the variability of independent variables at a score of 34.1% while the rest are explained by other variables that were not incorporated in the regression model. From the regression calculation, it is obtained the value of F at 2.839 and significant at 0.021. This means that independent variables namely size, welfare level, financial independence, political competition, support for the elected executive, educational discipline of accounting staff, training on the local financial accounting, legislative power, and the influence of central government as a group has a regression correlation with the local government accounting practice.

From data analysis with $\alpha = 0.05$ it is obtained that individually, accounting training variable (PELTH) and the influence of central government (PEMPUS) statistically influence significantly the local government financial accounting practice, other variables show insignificant result.

The result of hypothesis 1 test shows that size variable does not have significant influence statistically on the financial accounting practice of local government, or in other words the presented hypothesis is not supported. This finding is consistent with the findings of Robbins and Austin (1986), Cheng (1992), Allen and Sanders (1994), Laswad, Fisher and Oyelere (2005), and Carvalho et al. (2007) but in reversed comparison with the findings of Christiaens (1999) and Patrick (2000). An assumption that can be explained about this finding is that bigger regencies/municipalities do not guarantee their capability, competency, and willingness to report performance and management of their finance in a better way and do not take advantage of the economies of scale potential from a better financial reporting.

The result of hypothesis 2 test shows that this hypothesis is not supported. This finding is consistent with the findings of Robbins and Austin (1986), Christiaens (1999), and Christiaens and Peteghem (2007) but in reversed comparison with the findings of Ingram (1984), Cheng (1992), and Laswad, Fisher and Oyelere (2005). This means that fiscal capacity owned by regions does not automatically make the regions better in their financial reporting. An assumption that can be delivered about this finding is that local authority does not yet nor does not regard the welfare level as it is reflected in a higher Gross Regional Domestic Product (GRDP) as one of the mediums to expose their achievements through a better financial reporting.

The result of hypothesis 3 test shows that financial independence does not significantly affect in a statistical term on the financial accounting practice of local government, even so the correlation is positive. Thus, the hypothesis 3 is not supported. This finding reveals different result from that of Carvalho et al. (2007). An assumption that can be explained about this finding is, as it is also conveyed by Ingram (1984) and Laswad, Fisher and Oyelere (2005) that politicians will take initiative to report and disclose information that gives signal of management quality because in turn it will render benefits for their own good.

The result of hypothesis testing shows that hypotheses 4a and 4b are not supported but the direction of the influence of support for executive variable is consistent with the presented hypothesis but not significant. This finding is the same as the findings of Cheng (1992) and Laswad, Fisher and Oyelere (2007) but different and surprising if compared to many previous researches that show significant influence like the findings of Baber and Sen (1984), Ingram (1984), Carpenter and Feroz (1990), and Carpenter (1991). A reasonable explanation for this finding is that local authority does not yet consider quality of financial reporting as one of the important things in order to expose their performance even though they are in a tight political competition. The fact that has been revealed in a research by Laswad, Fisher and Oyelere (2005) where regions with tighter political competition happen to have tendency to voluntarily disclose information through internet, which in fact is less supportive for the above argument.

Finding for support for executive shows an interesting result. Even so it is not significant, but the direction of correlation, as it is expected, shows that legislative body still manages to well perform checks and balances function although it is not yet optimal. This finding is also supported by political and state governance legal theories declaring that political parties' coalition in which there is executive supporting party is not always advantageous for the elected executive.

The result of hypothesis testing shows that knowledge of accounting staff does not significantly affect the practice of local financial accounting. A possible reasonable explanation for this finding is that accounting education that is rendered at the level of high school, vocational higher education, as well as undergraduate higher education (S1) is

not yet capable of providing adequate knowledge and understanding about public sector/ governmental accounting. Another reasonable argument for this finding is the fact that staffs with accounting education background are also in a small proportion compared to all existing accounting staffs. In this research it is revealed that the proportion of accounting staffs with accounting education background averaging at 24.6%.

For the influence of training, it is assumed that this variable becomes significant because local governments start to care about the need for financial reporting that complies with the GAAP, particularly the governmental accounting standard (SAP). Embark upon this awareness, local governments have started to provide their staffs with various trainings and technical guidance of local finance, particularly the knowledge in financial accounting.

The test of legislative power influence on the financial accounting practice of local government shows insignificant result. This finding is assumed because the legislative body does not yet regard financial statement to be one of the mediums to measure important and critical public accountability, surveillance, and transparency. In several cases, local legislative body (DPRD) only focuses on the issues of budget reporting but does not view financial statement as a whole.

For the influence of central government, the test result shows that the presented hypothesis is supported. This finding is consistent with the finding of Patrick (2000) testing that local governments in Pennsylvania with higher percentage of funding from government (in the form of intergovernmental revenue) tend and are quick to adopt GASB 34 compared to local governments with less proportion of intergovernmental funding. This finding is also consistent with the research result of Robbins and Austin (1986) and Carvalho et al. (2007).

E. Conclusions and Limitations

Based on data analysis that has been performed, the financial accounting practice in the local governments covering the issues of technical accounting mechanism and transparency, is not yet in a satisfactory condition averaging at 72.11%. Based on the category of technical accounting mechanism issue, classification category constitutes the category with highest implementation rate and has been in a very good condition, stands at 100% figure. Category of cut-off is the category with the lowest implementation rate among other categories in the issue of technical accounting mechanism.

The result of hypothesis testing in this research shows that only accounting training (PELTH) and the influence of central government (PEMPUS) variables that have significant influence in statistical term on the financial accounting practice of local government.

The limitations of this research are among other things the relatively few units of analyses, integral weaknesses in the compliance index because it does not measure audit opinion, the low rate of reconciliation of the index calculation and does not yet encompass other variables that may have influences on the financial accounting practice of local government. It is expected that this research will be useful in comprehending important factors in the implementation of governmental accounting reform and for the next researches.

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