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Johan Arifin, SE., M.Si., Ph.D., CFA, CertIPSAS
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Condong Catur Campus, Ace Partadiredja Building
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Condong Catur Campus, Ace Partadiredja Building

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Condong Catur Campus, Ace Partadiredja Building

Ring Road Utara, Condong Catur, Depok, Sleman Yogyakarta 55283 Indonesia

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Head of Accounting Department

**FACULTY OF ECONOMICS
UNIVERSITAS ISLAM INDONESIA**

Condong Catur Campus, Ace Partadiredja Building
Ring Road Utara, Condong Catur, Depok, Sleman Yogyakarta 55283 Indonesia
T: (62) 274 881546
E: johan.arifin@uii.ac.id
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DETERMINANTS OF THE QUALITY OF LOCAL GOVERNMENT FINANCIAL STATEMENTS IN INDONESIA: COERCIVE PRESSURE DOMINATES

Johan Arifin¹
Zuraidah Mohd-Sanusi²
Erna Hidayah³

^{1,2}Department of Accounting, Universitas Islam Indonesia, Indonesia. (+Corresponding author)

²University Technology Mara, Accounting Research Institute, Shah Alam, Malaysia.

ABSTRACT

Article History

Received: xxxxxxxx

Revised: xxxxxxxx

Accepted: xxxxxxxx

Published: xxxxxxxx

Keywords

Institutional isomorphism

Number of civil servants

Number of local parliamentarians

Comparative studies

Urbanization level

Intergovernmental revenue

Education level of the regional

head.[H1]

Many ~~Indonesian local governments'~~ financial statements ~~of the Indonesian local government~~ are still of concern[H2]. This fact is indicated by the poor audit results on the local government financial statements released by the Indonesian Supreme Audit Board (BPK). Using the perspective of institutional isomorphism theory, this study ~~aims~~ aimed to examine various potential factors that affect the quality of Indonesian local government financial statements, including the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, and the number of local parliamentarians. This study used a sample of 220 local governments in Indonesia taken in 2018. The logistic regression analysis showed that the number of civil servants and the number of local parliamentarians significantly ~~affect~~ affected the quality of Indonesian local government financial statements. This highlights the influence of coercive pressures on the quality of financial statements ~~in~~ in ~~the many~~ Indonesian local governments. These findings can serve as input for the Indonesian government in formulating public policies, particularly regarding improving the quality of local government financial statements.

Contribution/Originality: From a theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a theoretical framework to explain the practice of preparing qualified financial statements in public sector institutions. Furthermore, this study proves that coercive pressure dominates as a factor affecting the quality of local government financial statements in Indonesia.

1. INTRODUCTION

As one of the developing countries in Asia, Indonesia has recently reformed many aspects of its governmental sectors in the last decade, including reformation in the financial sector. The implementation of financial reforms along with the enactment of regional autonomy in Indonesia has changed the authoritative and centralized governance system into a good governance system that is under the applicable laws and regulations (Triggs, Kacaribu, & Wang, 2019). Before the reform, most of the government affairs in Indonesia were handled by the central government. The issuance of the law of reforms required that some of the government's household affairs be handled by local governments (Waliyyani & Makhmud, 2015). In the reform era, the local government is authorized to manage besides the local government, regional development, and provide community services as well. Thus, to maintain good governance, every Indonesian local government is required to realize transparent and accountable financial management (Maulana & Handayani, 2015).

Public accountability shall be is achieved by complying with government accounting systems and standards to achieve good governance. The Local government financial statements are submitted to stakeholders in one period

to realize transparent and accountable financial reports in local government financial management under Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances and Law of the Republic of Indonesia No. 9 2015 on Local Government.

The financial statements released by the local government ~~will be~~ are referred to by stakeholders in the decision-making process. Thus, the information contained in financial statements must be under the user's needs, must provide benefit by supporting decision making, and can be easily understood by users (Safkaur, Afiah, Poulus, & Dahlan, 2019). Accounting information in financial statements must comply with the Government Accounting Standards as stipulated in Government Regulation No. 71 of 2010, which is relevant, reliable, comparable, and understandable.

However, Mokoginta, Lambey, and Pontoh (2017) noted that the quality of Indonesian local government financial statements is generally far below the standard requirements. In other words, the local government's financial statements are yet to meet the government's expectations, despite some quality improvements from year to year. In addition, Arifin (2020) revealed that the level of mandatory disclosure of local government financial statements in Indonesia is 62%, indicating that not all local governments have disclosed their financial statements to applicable regulations.

This study used the quality of the local government financial statements as the dependent variable based on the Indonesian Supreme Audit Board (BPK) audit of local government financial statements in several districts/municipalities in Indonesia. This study ~~aims~~ aimed to address some factors to affect the quality of local government's financial statements. The predictor variables of this study were the number of local parliamentarians and the number of civil servants to test the theory of coercive isomorphism. A comparative study variable was used to examine the applicability of mimetic isomorphism theory, while regional head education variables and the level of urbanization were used to examine the applicability of normative isomorphism theory.[H3]

The quality of financial accountability of a country or local government is revealed by an assessment carried out by a competent and independent institution (Ahmad & Saad, 2020). The Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances has stipulated that local governments must be held accountable for the implementation of regional revenue and expenditure budget by submitting their financial statements to the local parliamentarians as a legislative body. As a legislative institution, a local parliamentarian is in charge of supervising the implementation of local government (Arifin, Tower, & Porter, 2015). Many local parliamentarians are expected to improve the quality of supervision of local governments and contribute positively to the quality of financial statements. In addition to local parliamentarians' supervision, public accountability and trust in the information of the local government financial statements are enhanced by the audits of the Supreme Audit Board (BPK). The Supreme Audit Board is the only external financial examiner in Indonesia that has great authority to provide opinions on the financial statements of government institutions (Raba, 2017). The audit is carried out annually to assess and state the fairness of the financial information presented in the financial statements.

To obtain an unqualified opinion from the BPK, a local government may learn from other local governments that receive the unqualified opinion from the BPK through a comparative study. Such a method is believed to provide additional knowledge in dealing with changes or adjustments to the work system in ~~the~~ future (Wungow, Lambey, & Pontoh, 2016). Comparative studies allow the government to improve the system, enhance quality, determine new policies, and add insight related to the quality of financial reports (Rudyanto, 2019).

In addition, every financial manager must gain an insight into the quality financial statements to ensure that the submitted financial statements are free from material misstatement. Education is one indicator of quality human resources. A high level of education can assist the apparatus in completing their tasks, including the preparation of high-quality and on-time local government budget and financial statements (Erlina, Tarigan, & Muda, 2017).

Furthermore, Suhardjanto and Yulianingtyas (2011) revealed that the number of civil servants as the state apparatus can serve as the potential determinant of the quality of financial statements in government organizations.

The number of civil servants represents the number of prioritized affairs for local governments to develop the area. The larger the number of affairs of a certain region, the greater is the number of civil servants who shall prepare the financial reports of each affair. The achievement of good financial reports cannot be separated from the rules and regulations of the organization. An organization with a large number of employees will generally apply many rules and regulations, but this larger number of employees also can better provide more public services.

Another factor to affects the quality of local government financial statements is the level of urbanization. The government needs to support the increasing population in urban areas by implementing development programs to empower the population for the good sake of the community. Development programs in some developed areas are the right answer to trigger economic growth. The better development programs resulted in a higher level of financial statement compliance of the metropolitan areas to the government standards. As a result, urban areas serve as a magnetic attraction for people who have higher education, which eventually leads to higher and progressive demands for public, social, and economic reform agendas in the densely populated urban areas (Ratmono, 2013). Thus, urbanization is a natural process of change to improve the quality of financial statements.

Broadly speaking, this study examines—examined several key variables assumed to affect the quality of Indonesian local government financial statements. Three main important aspects are—were addressed in this study. First, this study used an institutional isomorphism theory to examine the quality of local government financial statements, since this theory has—had a broader perspective than other theories, especially to examine the quality of local government financial statements (Martínez-Ferrero & García-Sánchez, 2017). Second, this research was conducted in Indonesia, since this country is known for its unique government structure consisting of some tiers, ranging from the central government, provincial government, and local government that manages districts and municipalities. This study focused on the financial statements of the district and municipal levels, which in this study are referred to as local governments. Third, this study used the number of civil servants working in local governments as one of the predictor variables. The use of a predictive variable aims—aimed to measure the effect of a reduction in the number of employees in each local government in Indonesia due to the introduction of information technology in local governments.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Previous Studies and Discussion of Institutional Theory

There have been many studies on the quality of financial statements in public sector organizations by adopting various basic theories, for example, Legitimacy theory (Ali, Lodhia, & Narayan, 2021; Deegan, 2019; Hassan & Guo, 2017) Stakeholder theory (Beske, Haustein, & Lorson, 2020; Rudyanto & Siregar, 2018; Zhang, Chong, & Jia, 2019) Agency theory (Goebel, 2019; Nirwana & Haliah, 2018; Shahzad, Rehman, Hanif, Asim, & Baig, 2019) Stewardship theory (Camilleri, 2018; Dumay & Cai, 2015) Institutional theory (Carungu, Di Pietra, & Molinari, 2021; Simoni, Bini, & Bellucci, 2020; Vitolla, Raimo, Rubino, & Garzoni, 2020). Of these several theories, agency theory and institutional theory are the most frequently used theories to predict potential factors that affect financial statements.

According to DiMaggio and Powell (1983), organizations are formed by the surrounding institutional environment. Influential ideas from the surrounding area were—are—then institutionalized and considered valid and accepted as the way of thinking of the organization. To legitimate this way of thinking, the organizations apply some pressure by way of regulations and statements. Institutional theory is known for its assertion of organizations as mere symbols and rituals.

In terms of organizational studies, many researchers have often used the institutional theory as the basic research framework. The institutional theory states that institutions outside the organization may influence organizational behavior or decisions taken by the organization. This fact is also held by Boxenbaum and Jonsson (2017) who believed that the considerable impact of external pressure has forced organizations to survive by seeking to adapt to the condition, an attempt known as isomorphism. Isomorphism refers to a process of pushing

one unit in a population to resemble another unit in the face of the same environmental conditions. Institutional theory means that the existence of an organization is influenced by normative pressures arising from external or internal sources (Hyatt & Berente, 2017). Institutional theory is usually referred to as explaining action and decision-making in a public organization (Alvesson & Spicer, 2019).[H4]

The institutional theory explains that organizations that prioritize legitimacy will tend to try to conform to external expectations or social expectations where the organization is located. As a result of the adjustment to external or social expectations, organizations tend to separate their internal activities and focus on systems that are symbolic of external parties. Public organizations that tend to gain legitimacy may have similarities or isomorphism with various other public organizations. Isomorphism is the process of pushing one unit into the population to imitate other units in the face of similar environmental conditions [H5](AbouAssi & Bies, 2018).

Institutional theory predicts that if organizations can imitate other organizations because of institutional pressure, the pressure will cause the need to adapt to the environment by applying three forms of changes or efforts of the organization. The first form is a coercive isomorphism, namely the process of adjustment towards equality by way of "coercion" of the powerful stakeholders. This form of adaptation will draw the responding organization to be highly dependent. For example, pressure comes because government regulations have sanctions for those who violate them. The second type is a mimetic isomorphism, or the process of imitating other organizations that are successful in one field, not because of encouragement, but because of ambiguous goals or symbiotic environmental uncertainty (Hwang & Choi, 2017). Therefore, organizations in this type of adaptation will tend to make themselves the same model as other organizations and encourage other organizations to imitate them. According to Alsharari (2020) the process of imitating other organizations normally occurs in an uncertain environment. For example, other countries have been attempting to imitate the Scandinavian government management because it is considered successful. Third, normative isomorphism refers to the role of a group that is often associated with professionalism and struggles for adoption practices that should be carried out.[H6]

2.2. Financial Statements Quality

To ensure the benefits for their users, the financial statements are required to provide high-quality information which is very useful for decision making (Stolowy & Paugam, 2018). The quality of the Indonesian financial statements of government institutions can be measured using the opinion of the Indonesian auditor institution, namely the Supreme Audit Board (BPK). The opinion by the Indonesian Supreme Audit Board on the financial statements is provided by conforming to the Law of the Republic of Indonesia No. 15 of 2004 concerning the Audit of State Finance Management and Accountability. Article 16 paragraph 1 of the law explains that opinion is an auditor's professional statement regarding the fairness of financial information that has been presented in financial statements based on criteria: compliance with government accounting standards, adequate disclosure, compliance with laws and regulations, and the effectiveness of the internal control system. The opinion given by the Supreme Audit Board (BPK) must also consider the level of conformity, adequate disclosure of financial statements related to the predetermined materiality level, and follow-up on the results of the examination in the previous year (Habiby, 2020).

The quality of financial statements as measured using BPK's opinion, according to institutional theory can be seen as a socially acceptable practice to gain legitimacy from their institutional context (Adiputra, Utama, & Rossieta, 2018). The BPK's opinion obtained by the local government is intended to gain legitimacy from the community, the central government, or other organizations that the local government has the ability and good commitment to producing quality financial statements.

In this study [H7], audit opinions are divided into 2 types, namely unqualified opinions which reflect very good audit results, and qualified opinions which reflect audit results that are not so good. An unqualified opinion is given when the financial statements have presented all material respects fairly and are under generally accepted

accounting principles. In contrast, qualified opinion is given when the financial statements have presented all financial statements fairly in all material respects, under generally accepted accounting principles, but with several exclusions (Ardi, Saputra, & Mulyani, 2019). The quality of financial statements influences accountability because good quality financial statements will lead to accountability of the submitted financial statements (Setyowati, Isthika, & Pratiwi, 2016).^[H8]

2.3. Hypotheses Related to Coercive Isomorphism

2.3.1. The Number of Local Parliamentarians

This study examines the predictor variables for the number of local parliamentarians^[H9] in the framework of coercive isomorphism. The number of local parliamentarians as a research variable has been used in several previous kinds of research on public sector organizations as a strong determinant, for example, to test the level of financial statement disclosure (Arifin et al., 2015) and Nurlianto and Aswar (2020).

In the perspective of institutional theory, coercive pressure refers to pressure from external parties to improve the quality of local government financial reports. Research by Murtini, Suhardjanto, Djuminah, and Probohudono (2021) revealed that there is potentially great pressure from parliamentarians to make disclosures of local government financial statements. In line with the aspect of coercive isomorphism in institutional theory, local parliamentarians are considered to have the power to pressure local government administrators to be in line with the community's aspirations. Therefore, this study used the number of local parliamentarians as a predictor to measure the quality of financial reports.^[H10]

As the people's representative, the local parliamentarian has a supervisory function to control the running of the government to make sure that it is in line with the community aspirations and other functions. The members of local parliamentarians supervise the implementation and reporting of local government financial information to better improve the transparency and accountability of the local government's financial reports. Therefore, it is assumed that the higher number of local parliamentarians can help better prepare and present accountable financial reports since there will be better supervision, feedback, and encouragement to local governments to make the best use of their existing budget properly (Bolívar, Galera, Subirés, & Muñoz, 2018).

In the perspective of institutional theory, the supervisory function by the local parliamentarians serves as a coercive pressure from external parties to local governments to change their accountability system to result in higher quality local government financial reports. Logically, the greater the number of local parliamentarians, the stronger the coercive pressure on the behavior of local governments in producing quality financial statements.

Article 21 of the Law of the Republic of Indonesia No. 15 of 2004 concerning Local Financial Management stipulated that the local parliamentarians could ask the local government to carry out a follow-up on the results of the audit to improve the quality of its financial reports. Thus, an increasing number of local parliamentarians can potentially improve the quality of financial reports.^[H11] Based on this description, the following research hypothesis is proposed:

H₁: The number of local parliamentarians is positively correlated with the quality of local government financial statements.

2.3.2. The Number of Civil Servants

This study also used another predictor variable in the coercive isomorphism framework, namely the number of civil servants^[H12]. Coercive pressure refers to the need for an organization to apply certain norms due to the pressure from other organizations or society. In this case, the number of civil servants is one of the potential variables that may have a coercive pressure since there will be some pressures from the government executives as one of the users of financial statements.

The number of civil servants describes the number of affairs to be prioritized by local governments in regional development. In this context, the greater number of government affairs, the more complex the government

structure. The more complex a government structure, the greater number of civil servants. As a result, the more the number of civil servants, the more information is disclosed as a way to reduce [asymmetry–asymmetrical](#) information and as a way to show better performance (Martínez-Ferrero & García-Sánchez, 2017). Thus, the larger number of civil servants is expected to result in higher fulfillment of local government financial statement disclosures with better quality of financial statements (Khasanah & Rahardjo, 2014).

The Indonesian Government Regulation No.71 of 2010 concerning Government Accounting Standards has stipulated the obligation for the local governments to submit an accountability report in the form of financial statements. In this case, the local government is one of the reporting entities and a government unit consisting of one or more accounting entities. From this definition, the accounting entity refers to a civil servant or local work unit. In the Indonesian government structure, civil servants are accounting entities that are required to record transactions that occur within government institutions. Thus, a more number of civil servants results in a more complex government unit, which is expected to achieve a better quality of the financial statements (Hermansyah & Marlina, 2019).

Logically, the more functional differentiation within the local government can increase the available ideas, information, and innovations regarding the quality of good financial reports. Furthermore, Pradono and Basukianto (2015) also revealed that the greater number of civil servants in a government organization will improve the performance of the government organization. Based on the given description, the following research hypothesis is proposed:

H₁: The number of civil servants is positively correlated with the quality of local government financial statements.

2.4. Hypothesis Related to Mimetic Isomorphism

2.4.1. Comparative Study

The predictor variable in the mimetic isomorphism framework in this study is the implementation of a comparative study by one local government to another local government. The implementation of comparative study is closely related to the pressure of mimetic isomorphism. In this case, when a local government is facing uncertainty or an unsolved problem, the comparative study provides one way to solve the existing problems. The comparative study enables one local government to imitate the practices of other local governments as the object of a comparative study. This comparative study is generally applied to organizations that are seen to have better achievement and gain better legitimacy than the organizations that imitate them.

Comparative studies are the process of extracting certain knowledge from other locations and institutions to be applied and developed in their institution. Comparative studies are part of competency development and employee career development through increased knowledge and skills (Bach & Veit, 2018). A comparative study is an educational process carried out by an organization or company, which enables a short-term learning process to improve insight, attitudes, and skills, as well as knowledge to be applied for future betterment. These activities are known to be useful for the need for future developments to meet the expected outcome.

The comparative study in terms of local government organizations is intended to dig up information, add insight about other local governments, compare the performance of other local governments that have good quality financial statements, and transfer knowledge on the way to achieve the unqualified opinion from the Indonesian Supreme Audit Board (BPK) on their financial statements. This fact was revealed by Zhang and Zhao (2019) in their research, which stated that comparative studies can improve employee performance. Thus, the improvement in employee performance can produce higher-quality financial statements. Based on the above-mentioned description, the following hypothesis is proposed in this study:

H₂: Comparative studies are positively correlated with the quality of local government financial statements.

2.5. Hypotheses Related to Normative Isomorphism

2.5.1. Regional Head's Educational Background

The next predictor variable is the educational background of the regional head. This variable is included in the framework of normative isomorphism, which is associated with the homogenization process of the organization through the educational process and the association of professional organizations. Within the framework of normative isomorphism, it is explained that a person or an organization adopts various forms because of the professional demands of the organization.

Education is a process of changing the attitudes and behavior of a person or group as an effort to increase the maturity level of a person through teaching and training (Kroesen, Handy, & Chorus, 2017). Education can enhance someone's knowledge abilities and improve his/her quality because educated people are expected to think and act more rationally and understand the duties and responsibilities assigned to them more appropriately. Employees with good self-acknowledgment should be able to improve their performance and produce work reports of better quality (Jonker & Botma, 2012). Panagiotakopoulos (2020) further stated that in terms of job completion, educational background and level serve as considerable important factors that affect job completion.

Someone with a formal educational background has more complex information because the level of education can reflect the individual's self-acknowledgment and skills (Pratiwi & Aryani, 2017). Education in a particular field (specialization) will increase knowledge and confidence in areas related to one's work (Carr, Loucks, & Blöschl, 2018). Increasing knowledge and skills are part of an educational path that can enhance one's competence and career development (Jafari-Sadeghi, Kimiagari, & Biancone, 2020). In other words, educational background plays an essential role in enhancing the quality of a person.

The regional head plays a central and strategic role in the government system at the regional level. As a leader, the regional head shall direct the thoughts and opinions of members of the organization, guide, set organizational goals, motivate members of the organization to conform to organizational goals, influence, and supervise members of the group he leads. The Law of the Republic of Indonesia No. 32 of 2004 concerning Local Government stipulates those regional heads are regional leaders who are required and authorized to lead the administration of local governments. In addition, regional heads are in power in regional financial management, and they are required to be able to produce financial reports of the organizations they lead under applicable government accounting regulations and standards. Logically, regional heads with a higher educational background will find it easier to understand and apply all kinds of existing regulations, including government accounting standards in the presentation of financial statements.

The level of education indicates a person's level of professionalism in carrying out their duties. Therefore, an adequate level of education allows a person to carry out their duties more easily in good financial management (Abualoush, Bataineh, & Alrowwad, 2018). A high level of education potentially can improve employee performance. Hence, increasing employee performance increases may lead to the production of good quality financial reports (Maqbool & Zameer, 2018). Based on this description, the following hypothesis is proposed:

H₆: The education level of the regional head is positively correlated with the quality of local government financial statements.

2.5.2. The Level of Urbanization

The last predictor variable in this study is the level of urbanization. Urbanization is popularly defined as the movement of people from rural to urban areas. Several studies and data show that the more advanced the level of a country's economy, the higher the level of urbanization (Zheng & Walsh, 2019). Thus, urbanization is a natural phenomenon in line with the development and economic growth and the level of welfare of the population in a country.

According to Masoumi, Hosseini, and Gouda (2018) urbanization is not merely a population-related phenomenon, but in a broader scope, urbanization is seen as a political, social, cultural, and economic phenomenon. There is a tendency that some big cities will grow and develop, then form mega-scale level cities known as

metropolitan cities. Urbanization and economic factors will certainly lead to some significant changes in all aspects, such as population, politics, culture, social, technology, environmental resources, and historical results (Zhang & Zhao, 2019). Urban development and urbanization are strongly influenced by economic development in the area. Thus, the more advanced the economic level of an area, the higher the level of urbanization. Hence, this condition will have an impact on increasing public accountability in the area and will result in a better quality of financial statements from the region.

In this context, the variable of the level of urbanization is classified in the normative isomorphism framework, since the higher level of urbanization certainly requires more need for special skills, education, and adequate experience has given the high level of competitiveness in urban areas that require a higher level of professionalism. Someone who does not have special expertise or experience will certainly be displaced from the existing professional competition.

In addition, urban areas have a higher population density, thus enabling them to have more legislators and a more educated population than non-urban areas. Therefore, urban areas generally have higher and more progressive demands for political, social, and economic reform agendas (Yoshida, 2020). Based on the institutional theory, it can be argued that the demand for normative isomorphisms, such as the quality of financial statements will be better for local governments with higher urbanization rates. Given the above-mentioned description, the following hypothesis is proposed in this study:

H₁: The level of urbanization is positively correlated with the quality of local government financial statements.

2.6. Control Variable [H13]

2.6.1. Intergovernmental Revenue

Intergovernmental revenue or the level of dependence on the central government is the amount of local government revenue obtained from central government transfers to local governments to finance regional government operations. It also refers to funds given by the central government in the form of balancing funds (Girsang & Yuyetta, 2015).

According to Marhawai (2015) the fiscal imbalances result from the central government's policy in the field of fiscal decentralization for the sake of fiscal imbalances between the central and regional governments. The central government will demand that local governments make sufficient disclosures with supporting information as a basis for monitoring the performance of local governments on the use of transfer funds. The level of dependence of local governments on the central government can make local governments comply with applicable regulations (Cohen & Hlepas, 2017). In this regard, local governments are encouraged to increase the transparency of the funds they receive to increase the trust of the central government and to demonstrate compliance with relevant regulations. In this study, intergovernmental revenue is used as a control variable, which is measured using total balancing funds divided by total income.

3. RESEARCH METHODOLOGY

3.1. Population and Sample

The research population of this study is the district/municipality government in Indonesia totaling 540 districts/municipalities in the 2018 fiscal year, which ~~have been~~were audited by the Indonesian Supreme Audit Board (BPK) and met the required information related to the research variables.

Samples were selected using purposive sampling method based on the following criteria: ~~the~~The Indonesian local governments that have official websites containing information about government financial statements and audit results in the form of opinions from auditors, information on regional head profiles, data on the number of civil servants, urbanization levels, as well as information on the number of local parliamentarians. Based on these criteria, 220 research samples were selected.

3.2. *Dependent Variable*

According to the problem under study, the [dependent](#) variable quality of local government financial statements in Indonesia was measured by point 1 if the local government obtained an unqualified opinion (good) and point 0 if the district/municipality government received a qualified opinion (not good).

3.3. *Independent Variables* [H14]

3.3.1. *Educational Background of Regional Heads*

Education is essential for human life because it allows a person to enhance his potential to realize expected personality, intelligence, and skills. The higher the level of education, the more complex [are](#) the knowledge, skills, and experience they have. In this study, the element of the regional head's education level is seen from the highest level of formal education completed by the regional heads.

3.3.2. *Number of Civil Servants*

The website of the Central Bureau of Statistics provides data on the number of civil servants in each local government in Indonesia. According to Government Regulation of the Republic of Indonesia No. 71 of 2010 concerning Government Accounting Standards, it is stated that civil servants are an accounting entity that has the task of managing the budget, assets, and the obligation to carry out accounting and present financial statements based on applicable rules and standards.

$$\text{Civil Servants} = \text{LN (Number of Civil Servants)}$$

3.3.3. *Comparative Studies*

The comparative studies in this context are emphasized to improve the civil servants' ability to do more specific jobs, especially those related to accounting and finance. The comparative study variable in this study is measured based on the following measurements: 1 point if the local government conducts a comparative study and 0 points if the local government does not conduct a comparative study.

3.3.4. *Urbanization Level*

Urbanization is generally defined as the movement of people from rural areas to cities. The level of urbanization is proxied by the natural logarithm (Ln) of the population density per km². This measurement is done because there has been a large gap in population density from one local government to another, which can lead to an extremely different level of urbanization.

$$\text{Urbanization} = \text{Ln (Population Density per Km}^2\text{)}$$

3.3.5. *Number of Local Parliamentarians*

The number of local parliamentarians in this study is used as a proxy in measuring legislative size. The number of local parliamentarians is proxied by the natural logarithm (Ln) of the number of local parliamentarians. The measurement is done because there has been a significant difference in the number of local parliamentarians from one local government to another, which can lead to extremely different values.

$$\text{Local Parliamentarians} = \text{Ln (Number of local parliamentarians)}$$

3.4. Control Variables [H15]

3.4.1. Intergovernmental Revenue

Intergovernmental revenue is a type of local government revenue generated from transfers from the central government to local governments to finance local government operations. In this research, the author used the following formula to compare total revenue as a way to measure intergovernmental revenue (Xiao, 2020):

$$IGROV = \frac{\text{Total Fiscal Imbalances}}{\text{Total Revenue}}$$

4. DATA ANALYSIS

The purpose of this study was to determine the effect of the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, the number of local parliamentarians, and intergovernmental revenue on the quality of local government financial statements [H16]. It analyzed the data derived from 220 local government financial statements in districts/municipalities in Indonesia in 2018 that have met the predetermined criteria. These data were included in local government financial statements.

4.1. Descriptive Statistical Analysis

The independent variables in this study were the educational background of regional heads, the number of civil servants, comparative study activities, the level of urbanization, and the number of local parliamentarians, while the intergovernmental revenue was a control variable. Furthermore, the quality of local government financial statements was determined as the dependent variable. These variables were tested statistically descriptively as shown in Table 1:

Table 1. Descriptive statistical analysis.

Variables	n	Minimum	Maximum	Mean	Standard Deviation
Educational background of regional heads	220	1	4	2.78	1.001
Number of civil servants	220	524	20580	6118	3760.251
Comparative studies	220	0	1	0.71	0.456
Urbanization level	220	2.99	13340.00	2108.75	2887.61
Number of local parliamentarians	220	18	50	36.07	10.463
Intergovernmental revenue	220	0.063	1.229	0.50485	0.166105
Local government financial report quality (BPK opinion)	220	0	1	0.84	0.368

4.2. Testing the Feasibility of the Regression Model

Hosmer and Lemeshow's Goodness of fit test is shown in Table 2:

Table 2. Regression model feasibility test results.

Step	Chi-square	df	Sig.
1	3.651	8	0.885

Table 2 indicates that the feasibility criteria of the model tested by Hosmer and Lemeshow's goodness of fit test is met by the chi-square of 3.651 with a significant probability of 0.885. A significance value greater than 0.05 causes the H_0 hypothesis to fail to be rejected. This means that there is no difference between the estimation data of

the logistic regression model and the observation data, so the model is feasible and appropriate to use. Therefore, it can be concluded that the model used in the research, in general, is said to be appropriate and feasible.

4.3. Logistic Regression Analysis

Logistic regression model analysis was conducted to determine how the probable occurrence of the dependent variable can be predicted with the independent variable, which gives a reason to conduct this analysis. Table 3 shows the results of the regression model coefficient analysis.

Table 3. Results of regression model analysis.

Variables	B	S.E.	Wald	df	Sig.	Exp (B)
Step 1 ^a ZX1	-0.061	0.303	0.040	1	0.812	0.941
ZX2	0.627	0.441	2.124	1	0.030	0.526
ZX3	0.035	0.281	0.015	1	0.913	1.034
ZX4	0.042	0.311	0.017	1	0.822	1.043
ZX5	0.615	0.480	1.802	1	0.041	1.904
ZX6	-0.461	0.298	2.401	1	0.122	0.630
Constant	1,787	0.304	34.614	1	0.000	5.974

Legend: ZX1: Educational background of regional heads; ZX2: Number of civil servants; ZX3: Comparative studies; ZX4: Level of urbanization; ZX5: Number of local parliamentarians.

The data analysis in this study obtained the following regression model:

$$Y = 1.787 - 0.061 ZX1 + 0.627 ZX2 + 0.035 ZX3 + 0.042 ZX4 + 0.615 ZX5 - 0.461 ZX6$$

4.4. Hypotheses Testing

Table 4 Describes the results of hypotheses testing in this study.

Table 4. Summary of hypotheses testing results.

Hypothesis	Descriptive	B	Sig (p-value)	Results
H ₁	Educational background of regional heads	-0.061	0.812	Not Supported
H ₂	Number of civil servants	0.627	0.030	Supported
H ₃	Comparative studies	0.035	0.913	Not Supported
H ₄	Level of urbanization	0.042	0.822	Not Supported
H ₅	Number of local parliamentarians	0.615	0.041	Supported

4.5. Discussion

4.5.1. The Effect of Educational Background of Regional Heads on the Quality of Local Government Financial Statements

The hypothesis testing proves that the educational background of regional heads was not positively correlated with the quality of local government financial reports based on the p-value of 0.812, which was greater than the alpha value of 0.05 and the different direction of the coefficient. This result indicates that the higher the educational level of the regional head does not correspond to their ability in preparing good quality local government financial statements. It was assumed that the higher the educational level of the regional heads, the better their ability in managing the region, including in preparing regional financial statements. However, this study revealed that the educational background of regional heads did not cause any considerable effect on the quality of financial statements. This is likely because regional heads who have higher education do not have a degree and proficiency in accounting, business, or economic education background, which makes them have a low level of understanding the preparation and presentation of correct financial statements. On this basis, regional heads who have higher educational backgrounds do not necessarily have a better understanding of the government administration, especially related to financial statements.

Based on institutional theory, the educational background of regional heads is classified as normative isomorphism pressure because regional heads' education is a professional role in the attempt of adoption

standard practices as required. Logically, the regional heads play an essential role in influencing the preparation and presentation of local government financial statements, because a higher level of education will help them to know and understand the preparation of quality regional financial statements.

The results of this study are not in line with the researchers' expectations that regional heads who have higher education levels will be better at producing quality financial statements. A different result, however, was revealed by Jaenudin and Chairunisa (2015) who stated that the higher level of education of leaders is positively correlated with the quality of local government financial reports because they can improve the performance of the employees working in the financial section. In this way, the improvement in the performance of employees in the financial section can produce good quality financial statements.

Research by Wungow et al. (2016) demonstrated that not all employees who have a high level of education can understand and have the ability to solve problems in regional financial statements because many employees in each Regional Work Unit are placed not under their field of expertise, not to mention the lack of employees with the backgrounds of accounting as required for the position in the financial sectors[H19]. Employees with accounting backgrounds generally have a good understanding of accounting and financial reporting. A person is said to have a good understanding of accounting if he/she understands the process to carry out a good accounting to prepare for a proper financial statement that meets the principles and standards of financial statements as stipulated in the regulations (laws). The results of this study are in line with research by Hanifah, Sarpingah, and Putra (2020) which states that the latest education of regional heads does not affect the quality of local government financial statements.

4.5.2. The Effect of the Number of Civil Servants on the Quality of Local Government Financial Statements

The statistical tests prove that the number of civil servants was positively correlated with the quality of local government financial statements based on the p-value of 0.030, which was smaller than the alpha value of 0.05. In addition, the regression coefficient value was 0.627 with a positive direction. The results of this test are in line with the expectation that a higher number of civil servants will result in better quality financial statements than local governments with fewer civil servants. According to Chen, Lam, and Zhu (2021) the preparation and arrangement of quality financial statements require a lot of human resources who master government accounting. Human resource is a key factor in creating quality financial statements because only those having the mastery of Government Accounting Standards shall compile government financial statements. Financial statements must be submitted by the regional government consisting of one or more accounting entities. In this process, the regional head as the highest level of authority shall administer the regional government and regional financial management, and delegate his authority to be carried out by each civil servant in each district/municipality area. In the government structure in Indonesia, civil servants are accounting entities that are required to record transactions that occur within the local government environment. This shows that civil servants have the coercive power of pressuring local governments to carry out activities under predetermined plans and applicable regulations. This pressure includes the pressure exerted by civil servants on local governments to produce better quality financial statements as an indication of public accountability.

4.5.3. The Effect of Comparative Studies on the Quality of Local Government Financial Statements

The hypothesis testing proves that conducting comparative studies was not positively correlated with the quality of local government financial statements based on the p-value of 0.913, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that a comparative study shall improve employee performance, including in their performance to prepare good quality financial statements. The ineffectiveness of this variable is probably because the materials provided in the comparative study to improve the quality of the preparation of financial statements has not been effective. After all, the comparative study

participants have different scientific experiences and competencies. Another possibility is due to different situations and conditions found during the process of adopting comparative study materials as implemented in the local government conducting comparative studies.

There are some obstacles in the implementation of a comparative study by a local government with poor quality financial statements to local governments that are considered to have better quality management and financial reporting. These obstacles may be due to several factors including the quality of human resources, infrastructure facilities, regulatory systems, and local government policies (Ratnadila, 2018). Related to this, the local government needs to try to overcome these problems before deciding to conduct a comparative study in other regions.

In this regard, it is conclusive that there has not been a good process of mimetic pressure of isomorphism on the implementation of comparative studies between the local governments with poor financial reports to other local governments with better quality financial reports. There are no certain achievable positive outcomes of the local governments that have participated in comparative studies in the improvement in the quality of their financial statements because the comparative study activities do not cause a local government to take mimetic actions (imitate) the knowledge gained to make an optimal contribution to the region.

This study is in line with Trawardani, Prasetya, and Mayowan (2015) who demonstrated that comparative studies do not contribute positively to the quality of local government financial reports, because comparative studies have not been able to influence the work ability of employees which has an impact on improving government performance. Therefore, it can be concluded that comparative studies conducted by local governments in Indonesia have not been able to improve the quality of local government financial statements.

4.5.4. The Effect of Urbanization Level on the Quality of Local Government Financial Statements

The hypothesis testing proves that the urbanization level was not positively correlated with the quality of local government financial reports based on the p-value of 0.822, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that urban areas will produce good quality financial reports. It was assumed that the local governments with a higher level of urbanization would produce a better quality of financial reports given the higher level of political, social, and economic reform agendas and development programs as compared to non-urban areas (Bambang, Pusparini, & Nurabiah, 2020).

Based on the research, one possible factor to cause the lack of positive correlation between the level of urbanization and the quality of financial reports is the uneven distribution of the population with higher concentration in certain areas, which thus impedes the development of the whole community. The results of this study are in line with Huda (2015) which revealed that the level of urbanization did not contribute positively to the quality of local government financial statements. This finding does not support the institutional theory, since the level of urbanization does not cause an organization to be pressured by normative isomorphism to increase professionalism, especially related to improving the quality of local government financial statements.

4.5.5. The Effect of the Number of Local Parliamentarians on the Quality of Local Government Financial Statements

The hypothesis testing proves that the number of local parliamentarians was positively correlated with the quality of local government financial reports based on the p-value of 0.041, which was smaller than the alpha value of 0.05 and with the direction of the regression coefficient which was the same as the hypothesis. The results of this test are in line with the researcher's expectations that a greater number of local parliamentarians will result in better-quality financial statements. The local parliamentarian members are the people's representative who has a supervisory function and control the running of a government to ensure that it is by the aspirations of the people. In addition, they also have the task of supervising the implementation and reporting of local government financial information to create an accountable and transparent government. This shows that local parliamentarians have the

power to pressure local governments to improve the quality of their financial statements. The institutional theory applies a coercive isomorphism pressure, as indicated by an external pressure given by local parliamentarians to local governments to improve the quality of their financial statements. Thus, it can be concluded that in this study the coercive pressure caused by the number of local parliamentarians can support the improvement in the quality of local government financial statements.

This is different from Madelia (2018) which revealed that a large number of local parliamentarians does not necessarily affect the better function and role in the supervisory process exercised by the local parliamentarians. Many issues regarding corruption committed by local parliamentarians have led to a decrease in government performance which has a negative impact and results in a decrease in the performance of the quality of local government financial statements. Thus, it can be concluded that the quality of local parliamentarians is more important than the number of local parliamentarians to create a good supervisory function in government, resulting in the evidence that many local parliamentarians cannot improve the quality of local government financial statements.

4.5.6. The Effect of Intergovernmental Revenue on the Quality of Local Government Financial Statements

The results of statistical testing also prove that intergovernmental revenue (as a control variable) was not positively correlated with the quality of local government financial statements. This result is attributed to the fact that the central and local governments are no longer closely related during the decentralization, which may lead to a lack of special monitoring from the central government, especially regarding the quality of local government financial statements. There has been declining monitoring activity on local government financial performance because the result is not referred to in determining the regional fiscal imbalances. As a result, it does not encourage local governments to improve the quality of their financial statements. Thus, it can be concluded that the amount of intergovernmental revenue has not been able to improve the quality of local government financial statements. [H20]

5. CONCLUSION AND RECOMMENDATIONS [H21]

The research presented in this paper focuses on an empirical analysis of the veracity of isomorphic institutional theory to find factors that affect the quality of local government financial statements. In summary, from the three isomorphic components including coercive, mimetic, and normative, only coercive components have a significant effect on the quality of financial statements of Indonesian local governments. These components include the number of civil servants and the number of local parliamentarians. These coercive variables provide evidence that pressure from outside of the organization which includes the number of civil servants, and the number of local parliamentarian members are the dominant factor affecting the quality of local government financial statements in Indonesia. It has been proven in this study that the number of civil servants is positively correlated with the quality of local government financial statements. It means the quantity and competence of civil servants are indispensable in meeting various needs to ensure that the quality of financial statements is under applicable rules or regulations. This implies that the coercive pressure caused by a large number of civil servants can encourage the improvement of the quality of local government financial statements in Indonesia. In addition, this study also proves that the pressure arising from the number of local parliamentarians affects the quality of local government financial statements. This result shows that coercive pressure resulting from a large number of local parliamentarians has the power to pressure local governments to improve the quality of their financial statements.

These findings can be used as input for the Indonesian government in formulating public policy taking into account the potential factors that are expected to increase the strength of coercive pressure, such as creating more effective regulations that encourage the practice of preparing quality financial statements or applying law enforcement more consistently. The lack of regulation and effective law enforcement is likely to contribute to the

indifferent impact of the coercive variables used in research (civil servants and local parliamentarians), related to efforts to improve the quality of the Indonesian Regional Government Financial Report.

Moreover, empirical findings from this study are potentially important for regulatory bodies, professional accounting agencies, local governments, central governments, and users of local government financial statements. These findings can be applied to develop and improve public sector governance. In particular, these findings can be input for public policy making in calibrating the implementation of regulations on Government Accounting Standards in Indonesia (Government Regulation No. 71 of 2010, 2010) better in supporting the quality improvement of the Regional Government Financial Report in Indonesia.

Finally, from various previous discussions, the results of this study contribute to the public sector accounting literature in some important things. First, this research regarding the quality of financial statements in Indonesia which is one of the first studies known to examine the quality of financial statements in the context of the local government by using the principle of isomorphic institutional theory. In the Indonesian environment, it is often stated that the Indonesian local government has shown financial statements that tend to decline in quality. However, there are very few empirical studies that provide evidence to support or deny this view. Therefore, the findings of this thesis are expected to be the basis for subsequent studies that examine institutional key factors related to improving the quality of financial statements. While from theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a useful framework for explaining the determinants of the quality of local government financial statements or other public sector entities, especially those related to the influence of coercive pressure.

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: All authors contributed equally to the conception and design of the study.

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1. I have revised and completed several parts of my article according to your notes. Please find the revised article in this email attachment.
2. Email of each author as follows:
Johan Arifin = johan.arifin@uii.ac.id

Zuraidah Mohd Sanusi = zuraidah@salam.uitm.edu.my

Erna Hidayah = erna.hidayah@uii.ac.id

3. Phone number of each author as follows:

Johan Arifin = +628122751505

Zuraidah Mohd Sanusi = +60133455274

Erna Hidayah = +6281222662296

4. ORCID profile link of each author as follows:

Johan Arifin = <https://orcid.org/0000-0003-3622-8923>

Zuraidah Mohd Sanusi = <https://orcid.org/0000-0002-8047-4219>

Erna Hidayah = <https://orcid.org/0000-0001-9673-5308>

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DETERMINANTS OF THE QUALITY OF LOCAL GOVERNMENT FINANCIAL STATEMENTS IN INDONESIA: COERCIVE PRESSURE DOMINATES

Johan Arifin¹
Zuraidah Mohd-Sanus²
Erna Hidayah³

¹Department of Accounting, Universitas Islam Indonesia, Indonesia. (+Corresponding author)

²University Technology Mara, Accounting Research Institute, Shah Alam, Malaysia.

³ Department of Accounting, Universitas Islam Indonesia, Indonesia

ABSTRACT

Article History

Received: xxxxxxxx

Revised: xxxxxxxx

Accepted: xxxxxxxx

Published: xxxxxxxx

Keywords

Comparative studies, institutional isomorphism

Education level of the regional head

Number of civil servants

Number of local parliamentarians

Comparative studies

Urbanization level, institutional isomorphism

Intergovernmental revenue

Number of civil servants

Number of local parliamentarians

Urbanization level

Many Indonesian local governments' financial statements of the Indonesian local government are still of concern. This fact is indicated by the poor audit results on the local government financial statements released by the Indonesian Supreme Audit Board (BPK). Using the perspective of institutional isomorphism theory, this study aims-aimed to examine various potential factors that affect the quality of Indonesian local government financial statements, including the number of local parliamentarians, the number of civil servants, comparative studies, the educational background of regional heads, and the level of urbanization. This study used a sample of 220 local governments in Indonesia taken in 2018. The logistic regression analysis showed that the number of civil servants and the number of local parliamentarians significantly affect-affected the quality of Indonesian local government financial statements. This highlights the influence of coercive pressures on the quality of financial statements in-of the many Indonesian local governments. These findings can serve as input for the Indonesian government in formulating public policies, particularly regarding improving the quality of local government financial statements.

Contribution/Originality: From a theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a theoretical framework to explain the practice of preparing qualified financial statements in public sector institutions. Furthermore, this study proves that coercive pressure dominates as a factor affecting the quality of local government financial statements in Indonesia.

1. INTRODUCTION

As one of the developing countries in Asia, Indonesia has recently reformed many aspects of its governmental sectors in the last decade, including reformation in the financial sector. The implementation of financial reforms along with the enactment of regional autonomy in Indonesia has changed the authoritative and centralized governance system into a good governance system that is under the applicable laws and regulations (Triggs, Kacaribu, & Wang, 2019). Before the reform, most of the government affairs in Indonesia were handled by the central government. The issuance of the law of reforms required that some of the government's household affairs be handled by local governments (Waliyani & Makhmud, 2015). In the reform era, the local government is authorized to manage besides the local government, regional development, and provide community services as well. Thus, to maintain good governance, every Indonesian local government is required to realize transparent and accountable financial management (Maulana & Handayani, 2015).

Public accountability shall be-is achieved by complying with government accounting systems and standards to achieve good governance. The Local government financial statements are submitted to stakeholders in one period

Commented [JA1]: Please be placed the third writer in a different line from the first author, because the first writer is the correspondence writer. So it needs to be separated from the third author. Thanks...

Commented [H2]: Not clear, what do you mean?

Commented [JA3R2]: The purpose of the word "still of concern" is that there are still many local governments in Indonesia whose financial statements are not good, for example not according to standards, lack of disclosure, and lack of obedience to other government regulations. Therefore, I mention as "still of concern".

to realize transparent and accountable financial reports in local government financial management under Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances and Law of the Republic of Indonesia No. 9 2015 on Local Government.

The financial statements released by the local government ~~will be are~~ referred ~~to~~ by stakeholders in the decision-making process. Thus, the information contained in financial statements must be under the user's needs, ~~must~~ provide benefit by supporting decision making, and can be easily understood by users (Safkaur, Afiah, Poulus, & Dahlan, 2019). Accounting information in financial statements must comply with the Government Accounting Standards as stipulated in Government Regulation No. 71 of 2010, which is relevant, reliable, comparable, and understandable.

However, Mokoginta, Lambey, and Pontoh (2017) noted that the quality of Indonesian local government financial statements is generally far below the standard requirements. In other words, the local government's financial statements are yet to meet the government's expectations, despite some quality improvements from year to year. In addition, Arifin (2020) revealed that the level of mandatory disclosure of local government financial statements in Indonesia is 62%, indicating that not all local governments have disclosed their financial statements to applicable regulations.

This study used the quality of the local government financial statements as the dependent variable based on the Indonesian Supreme Audit Board (BPK) audit of local government financial statements in several districts/municipalities in Indonesia. This study ~~aims-aimed~~ to address some factors to affect the quality of local government's financial statements. The predictor variables of this study were the number of local parliamentarians and the number of civil servants to test the theory of coercive isomorphism. A comparative study variable was used to examine the applicability of mimetic isomorphism theory, while regional head education variables and the level of urbanization were used to examine the applicability of normative isomorphism theory.

The quality of financial accountability of a country or local government is revealed by an assessment carried out by a competent and independent institution (Ahmad & Saad, 2020). The Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances has stipulated that local governments must be held accountable for the implementation of regional revenue and expenditure budget by submitting their financial statements to the local parliamentarians as a legislative body. As a legislative institution, a local parliamentarian is in charge of supervising the implementation of local government (Arifin, Tower, & Porter, 2015). Many local parliamentarians are expected to improve the quality of supervision of local governments and contribute positively to the quality of financial statements. In addition to local parliamentarians' supervision, public accountability and trust in the information of the local government financial statements are enhanced by the audits of the Supreme Audit Board (BPK). The Supreme Audit Board is the only external financial examiner in Indonesia that has great authority to provide opinions on the financial statements of government institutions (Raba, 2017). The audit is carried out annually to assess and state the fairness of the financial information presented in the financial statements.

To obtain an unqualified opinion from the BPK, a local government may learn from other local governments that receive the unqualified opinion from the BPK through a comparative study. Such a method is believed to provide additional knowledge in dealing with changes or adjustments to the work system in ~~the~~ future (Wungow, Lambey, & Pontoh, 2016). Comparative studies allow the government to improve the system, enhance quality, determine new policies, and add insight related to the quality of financial reports (Rudyanto, 2019).

In addition, every financial manager must gain an insight into the quality financial statements to ensure that the submitted financial statements are free from material misstatement. Education is one indicator of quality human resources. A high level of education can assist the apparatus in completing their tasks, including the preparation of high-quality and on-time local government budget and financial statements (Erlina, Tarigan, & Muda, 2017).

Furthermore, Suhardjanto and Yulianingtyas (2011) revealed that the number of civil servants as the state apparatus can serve as the potential determinant of the quality of financial statements in government organizations.

Commented [H4]: What is the rationale of using the mimetic isomorphism theory?

Commented [JA5R4]: If you ask the rationalization of the mimetic variable, then the explanation is as follows: Mimetic isomorphism is related to the pressure to imitate other organizational practices with the aim of improving performance. The activity of conducting comparative studies to other local governments that have better quality of financial statements and then mimic their practices with the aim of improving the quality of our financial statements is a mimetic pressure in isomorphism theory.

The number of civil servants represents the number of prioritized affairs for local governments to develop the area. The larger the number of affairs of a certain region, the greater ~~is~~ the number of civil servants who shall prepare the financial reports of each affair. The achievement of good financial reports cannot be separated from the rules and regulations of the organization. An organization with a large number of employees will generally apply many rules and regulations, but this larger number of employees also can better provide more public services.

Another factor that affects the quality of local government financial statements is the level of urbanization. The government needs to support the increasing population in urban areas by implementing development programs to empower the population for the good sake of the community. Development programs in some developed areas are the right answer to trigger economic growth. The better development programs resulted in a higher level of financial statement compliance of the metropolitan areas to the government standards. As a result, urban areas serve as a magnetic attraction for people who have higher education, which eventually leads to higher and progressive demands for public, social, and economic reform agendas in the densely populated urban areas (Ratmono, 2019). Thus, urbanization is a natural process of change to improve the quality of financial statements.

Broadly speaking, this study ~~examines~~ ~~examined~~ several key variables assumed to affect the quality of Indonesian local government financial statements. Three main important aspects ~~are~~ ~~were~~ addressed in this study. First, this study used an institutional isomorphism theory to examine the quality of local government financial statements, since this theory ~~has~~ ~~had~~ a broader perspective than other theories, especially to examine the quality of local government financial statements (Martínez-Ferrero & García-Sánchez, 2017). Second, this research was conducted in Indonesia, since this country is known for its unique government structure consisting of some tiers, ranging from the central government, provincial government, and local government that manages districts and municipalities. This study focused on the financial statements of the district and municipal levels, which in this study are referred to as local governments. Third, this study used the number of civil servants working in local governments as one of the predictor variables. The use of a predictive variable ~~aims~~ ~~aimed~~ to measure the effect of a reduction in the number of employees in each local government in Indonesia due to the introduction of information technology in local governments.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Previous Studies and Discussion of Institutional Theory

There have been many studies on the quality of financial statements in public sector organizations by adopting various basic theories, for example, Legitimacy theory (Ali, Lodhia, & Narayan, 2021; Deegan, 2019; Hassan & Guo, 2017) Stakeholder theory (Beske, Hausteijn, & Lorson, 2020; Rudyanto & Siregar, 2018; Zhang, Chong, & Jia, 2019) Agency theory (Goebel, 2019; Nirwana & Haliah, 2018; Shahzad, Rehman, Hanif, Asim, & Baig, 2019) Stewardship theory (Camilleri, 2018; Dumay & Cai, 2015) Institutional theory (Carungu, Di Pietra, & Molinari, 2021; Simoni, Bini, & Bellucci, 2020; Vitolla, Raimo, Rubino, & Garzoni, 2020). Of these several theories, agency theory and institutional theory are the most frequently used theories to predict potential factors that affect financial statements.

According to DiMaggio and Powell (1983), organizations are formed by the surrounding institutional environment. Influential ideas from the surrounding area ~~were~~ ~~are~~ ~~then~~ institutionalized and considered valid and accepted as the way of thinking of the organization. To legitimize this way of thinking, the organizations apply some pressure by way of regulations and statements. Institutional theory is known for its assertion of organizations as mere symbols and rituals.

In terms of organizational studies, many researchers have often used the institutional theory as the basic research framework. The institutional theory states that institutions outside the organization may influence organizational behavior or decisions taken by the organization. This fact is also held by Boxenbaum and Jonsson (2017) who believed that the considerable impact of external pressure has forced organizations to survive by seeking to adapt to the condition, an attempt known as isomorphism. Isomorphism refers to a process of pushing

one unit in a population to resemble another unit in the face of the same environmental conditions. Institutional theory means that the existence of an organization is influenced by normative pressures arising from external or internal sources (Hyatt & Berente, 2017). Institutional theory is usually referred to as explaining action and decision-making in a public organization (Alvesson & Spicer, 2019). Thus this isomorphism theory is suitable to be used as a basis theory in predicting various factors that potentially influence the practice of preparing quality financial statements in the Indonesian local governments. This is because this theory has a broader perspective including coercive, mimetic, and normative pressures perspective. Each of these pressures will be explained in the development of hypotheses section in this study.

The institutional theory explains that organizations that prioritize legitimacy will tend to try to conform to external expectations or social expectations where the organization is located. As a result of the adjustment to external or social expectations, organizations tend to separate their internal activities and focus on systems that are symbolic of external parties. Public organizations that tend to gain legitimacy may have similarities or isomorphism with various other public organizations. Isomorphism is the process of pushing one unit into the population to imitate other units in the face of similar environmental conditions (AbouAssi & Bies, 2018).

Institutional theory predicts that if organizations can imitate other organizations because of institutional pressure, the pressure will cause the need to adapt to the environment by applying three forms of changes or efforts of the organization. The first form is a coercive isomorphism, namely the process of adjustment towards equality by way of "coercion" of the powerful stakeholders. This form of adaptation will draw the responding organization to be highly dependent. For example, pressure comes because government regulations have sanctions for those who violate them. The second type is a mimetic isomorphism, or the process of imitating other organizations that are successful in one field, not because of encouragement, but because of ambiguous goals or symbiotic environmental uncertainty (Hwang & Choi, 2017). Therefore, organizations in this type of adaptation will tend to make themselves the same model as other organizations and encourage other organizations to imitate them. According to Alsharari (2020) the process of imitating other organizations normally occurs in an uncertain environment. For example, other countries have been attempting to imitate the Scandinavian government management because it is considered successful. In connection with this research, for example, a local government will try to imitate the practice of preparing financial statements of other local governments that get the best opinion from the government auditor (BPK). Third, normative isomorphism refers to the role of a group that is often associated with professionalism and struggles for adoption practices that should be carried out. In the context of improving the quality of financial statements such as the level of education of regional heads and members of local parliamentarians in each Indonesian local government.

2.2. Financial Statements Quality

To ensure the benefits for their users, the financial statements are required to provide high-quality information which is very useful for decision making (Stolowy & Paugam, 2018). The quality of the Indonesian financial statements of government institutions can be measured using the opinion of the Indonesian auditor institution, namely the Supreme Audit Board (BPK). The opinion by the Indonesian Supreme Audit Board on the financial statements is provided by conforming to the Law of the Republic of Indonesia No. 15 of 2004 concerning the Audit of State Finance Management and Accountability. Article 16 paragraph 1 of the law explains that opinion is an auditor's professional statement regarding the fairness of financial information that has been presented in financial statements based on criteria: compliance with government accounting standards, adequate disclosure, compliance with laws and regulations, and the effectiveness of the internal control system. The opinion given by the Supreme Audit Board (BPK) must also consider the level of conformity, adequate disclosure of financial statements related to the predetermined materiality level, and follow-up on the results of the examination in the previous year (Habiby, 2020).

Commented [H6]: Need to justify the use of isomorphism theory?

Commented [JA7R6]: I have tried to add sentences that justify the use of isomorphism theory used as a basis theory in my research.

Commented [H8]: Why repeat?

Commented [JA9R8]: Just delete the sentence that I crossed out because it was repeated

Field Code Changed

Commented [H10]: In what context?

You're talking about financial statements in this paper

Please relate

Commented [JA11R10]: Please just delete the sentence that I crossed. I have replaced it with example that is relevant to financial statement problem.

The quality of financial statements as measured using BPK's opinion, according to institutional theory can be seen as a socially acceptable practice to gain legitimacy from their institutional context (Adiputra, Utama, & Rossieta, 2018). The BPK's opinion obtained by the local government is intended to gain legitimacy from the community, the central government, or other organizations that the local government has the ability and good commitment to producing quality financial statements.

In this study, audit opinions are divided into 2 types, namely unqualified opinions which reflect very good audit results, and qualified opinions which reflect audit results that are not so good. An unqualified opinion is given when the financial statements have presented all material respects fairly and are under generally accepted accounting principles. In contrast, qualified opinion is given when the financial statements have presented all financial statements fairly in all material respects, under generally accepted accounting principles, but with several exclusions (Ardi, Saputra, & Mulyani, 2019). The quality of financial statements influences accountability because good quality financial statements will lead to accountability of the submitted financial statements (Setyowati, Isthika, & Pratiwi, 2016).

2.3. Hypotheses Related to Coercive Isomorphism

2.3.1. The Number of Local Parliamentarians

This study examines the predictor variables for the number of local parliamentarians in the framework of coercive isomorphism. The number of local parliamentarians as a research variable has been used in several previous kinds of research on public sector organizations as a strong determinant, for example, to test the level of financial statement disclosure (Arifin et al., 2015) and Nurlianto and Aswar (2020).

In the perspective of institutional theory, coercive pressure refers to pressure from external parties to improve the quality of local government financial reports. Research by Murtini, Suhardjanto, Djuminah, and Probodunono (2021) revealed that there is potentially great pressure from parliamentarians to make disclosures of local government financial statements. In line with the aspect of coercive isomorphism in institutional theory, local parliamentarians are considered to have the power to pressure local government administrators to be in line with the community's aspirations. Therefore, this study used the number of local parliamentarians as a predictor to measure the quality of financial reports.

As the people's representative, the local parliamentarian has a supervisory function to control the running of the government to make sure that it is in line with the community aspirations and other functions. The members of local parliamentarians supervise the implementation and reporting of local government financial information to better improve the transparency and accountability of the local government's financial reports. Therefore, it is assumed that the higher number of local parliamentarians can help better prepare and present accountable financial reports since there will be better supervision, feedback, and encouragement to local governments to make the best use of their existing budget properly (Bolívar, Galera, Subirés, & Muñoz, 2018).

In the perspective of institutional theory, the supervisory function by the local parliamentarians serves as a coercive pressure from external parties to local governments to change their accountability system to result in higher quality local government financial reports. Logically, the greater the number of local parliamentarians, the stronger the coercive pressure on the behavior of local governments in producing quality financial statements.

Article 21 of the Law of the Republic of Indonesia No. 15 of 2004 concerning Local Financial Management stipulated that the local parliamentarians could ask the local government to carry out a follow-up on the results of the audit to improve the quality of its financial reports. Thus, an increasing number of local parliamentarians can potentially improve the quality of financial reports (Effendi, 2021). Based on this description, the following research hypothesis is proposed:

H: The number of local parliamentarians is positively correlated with the quality of local government financial statements.

Commented [H12]: Which study?

Commented [JA13R12]: I mean "in this research I'm doing."

Commented [H14]: Need a bigger critical opinion?

Commented [JA15R14]: My explanation is as follows: Indonesian Local Government whose financial statements have received "unqualified opinion" (which reflect very good audit results) from the Supreme Audit Board (BPK) is considered to have implemented public accountability well. Therefore, the Indonesian central government once gave awards to the local governments who were 3 times in a row got "unqualified opinion" from BPK.

Commented [H16]: This variable is not mentioned in the introduction where you talk only about governance

Commented [JA17R16]: I have mentioned and explained the phrase of "local parliamentarians" in the "Introduction Section", more precisely in the fifth paragraph of the fourth row.

Commented [H18]: Please mention it earlier too in introduction and add its definition.

All variables used for Hypo development must be introduced in the introduction section

Commented [JA19R18]: I have mentioned all predictor variables in the "introduction" section in paragraph 5. While the explanation of each predictor variable and its relationship with the dependent variable is explained in each explanation of the hypothesis so that no repetition occurs.

Commented [H20]: Source?

Commented [JA21R20]: I have added the source of the reference

2.3.2. The Number of Civil Servants

This study also used another predictor variable in the coercive isomorphism framework, namely the number of civil servants. Coercive pressure refers to the need for an organization to apply certain norms due to the pressure from other organizations or society. In this case, the number of civil servants is one of the potential variables that may have a coercive pressure since there will be some pressures from the government executives as one of the users of financial statements.

The number of civil servants describes the number of affairs to be prioritized by local governments in regional development. In this context, the greater number of government affairs, the more complex the government structure. The more complex a government structure, the greater number of civil servants. As a result, the more the number of civil servants, the more information is disclosed as a way to reduce asymmetry-asymmetrical information and as a way to show better performance (Martínez-Ferrero & García-Sánchez, 2017). Thus, the larger number of civil servants is expected to result in higher fulfillment of local government financial statement disclosures with better quality of financial statements (Khasanah & Rahardjo, 2014).

The Indonesian Government Regulation No.71 of 2010 concerning Government Accounting Standards has stipulated the obligation for the local governments to submit an accountability report in the form of financial statements. In this case, the local government is one of the reporting entities and a government unit consisting of one or more accounting entities. From this definition, the accounting entity refers to a civil servant or local work unit. In the Indonesian government structure, civil servants are accounting entities that are required to record transactions that occur within government institutions. Thus, a more number of civil servants results in a more complex government unit, which is expected to achieve a better quality of the financial statements (Hermansyah & Marlina, 2019).

Logically, the more functional differentiation within the local government can increase the available ideas, information, and innovations regarding the quality of good financial reports. Furthermore, Pradono and Basukianto (2015) also revealed that the greater number of civil servants in a government organization will improve the performance of the government organization. Based on the given description, the following research hypothesis is proposed:

H: The number of civil servants is positively correlated with the quality of local government financial statements.

2.4. Hypothesis Related to Mimetic Isomorphism

2.4.1. Comparative Study

The predictor variable in the mimetic isomorphism framework in this study is the implementation of a comparative study by one local government to another local government. The implementation of comparative study is closely related to the pressure of mimetic isomorphism. In this case, when a local government is facing uncertainty or an unsolved problem, the comparative study provides one way to solve the existing problems. The comparative study enables one local government to imitate the practices of other local governments as the object of a comparative study. This comparative study is generally applied to organizations that are seen to have better achievement and gain better legitimacy than the organizations that imitate them.

Comparative studies are the process of extracting certain knowledge from other locations and institutions to be applied and developed in their institution. Comparative studies are part of competency development and employee career development through increased knowledge and skills (Bach & Veit, 2018). A comparative study is an educational process carried out by an organization or company, which enables a short-term learning process to improve insight, attitudes, and skills, as well as knowledge to be applied for future betterment. These activities are known to be useful for the need for future developments to meet the expected outcome.

The comparative study in terms of local government organizations is intended to dig up information, add insight about other local governments, compare the performance of other local governments that have good quality

Commented [H22]: Same here? Please first refer it in the beginning

I suggest to draw a theoretical framework before discussing variables / hypotheses

Commented [JA23R22]: I have added the research framework after the discussion of hypotheses and control variables.

financial statements, and transfer knowledge on the way to achieve the unqualified opinion from the Indonesian Supreme Audit Board (BPK) on their financial statements. This fact was revealed by Zhang and Zhao (2019) in their research, which stated that comparative studies can improve employee performance. Thus, the improvement in employee performance can produce higher-quality financial statements. Based on the above-mentioned description, the following hypothesis is proposed in this study:

H: Comparative studies are positively correlated with the quality of local government financial statements.

2.5. Hypotheses Related to Normative Isomorphism

2.5.1. Regional Head's Educational Background

The next predictor variable is the educational background of the regional head. This variable is included in the framework of normative isomorphism, which is associated with the homogenization process of the organization through the educational process and the association of professional organizations. Within the framework of normative isomorphism, it is explained that a person or an organization adopts various forms because of the professional demands of the organization.

Education is a process of changing the attitudes and behavior of a person or group as an effort to increase the maturity level of a person through teaching and training (Kroesen, Handy, & Chorus, 2017). Education can enhance someone's knowledge abilities and improve his/her quality because educated people are expected to think and act more rationally and understand the duties and responsibilities assigned to them more appropriately. Employees with good self-acknowledgment should be able to improve their performance and produce work reports of better quality (Jonker & Botma, 2012). Panagiotakopoulos (2020) further stated that in terms of job completion, educational background and level serve as considerable important factors that affect job completion.

Someone with a formal educational background has more complex information because the level of education can reflect the individual's self-acknowledgment and skills (Pratiwi & Aryani, 2017). Education in a particular field (specialization) will increase knowledge and confidence in areas related to one's work (Carr, Loucks, & Blöschl, 2018). Increasing knowledge and skills are part of an educational path that can enhance one's competence and career development (Jafari-Sadeghi, Kimiagari, & Biancone, 2020). In other words, educational background plays an essential role in enhancing the quality of a person.

The regional head plays a central and strategic role in the government system at the regional level. As a leader, the regional head shall direct the thoughts and opinions of members of the organization, guide, set organizational goals, motivate members of the organization to conform to organizational goals, influence, and supervise members of the group he leads. The Law of the Republic of Indonesia No. 32 of 2004 concerning Local Government stipulates those regional heads are regional leaders who are required and authorized to lead the administration of local governments. In addition, regional heads are in power in regional financial management, and they are required to be able to produce financial reports of the organizations they lead under applicable government accounting regulations and standards. Logically, regional heads with a higher educational background will find it easier to understand and apply all kinds of existing regulations, including government accounting standards in the presentation of financial statements.

The level of education indicates a person's level of professionalism in carrying out their duties. Therefore, an adequate level of education allows a person to carry out their duties more easily in good financial management (Abualoush, Bataineh, & Alrowwad, 2018). A high level of education potentially can improve employee performance. Hence, increasing employee performance increases may lead to the production of good quality financial reports (Maqbool & Zameer, 2018). Based on this description, the following hypothesis is proposed:

H: The education level of the regional head is positively correlated with the quality of local government financial statements.

2.5.2. The Level of Urbanization

The last predictor variable in this study is the level of urbanization. Urbanization is popularly defined as the movement of people from rural to urban areas. Several studies and data show that the more advanced the level of a country's economy, the higher the level of urbanization (Zheng & Walsh, 2019). Thus, urbanization is a natural phenomenon in line with the development and economic growth and the level of welfare of the population in a country.

According to Masoumi, Hosseini, and Gouda (2018) urbanization is not merely a population-related phenomenon, but in a broader scope, urbanization is seen as a political, social, cultural, and economic phenomenon. There is a tendency that some big cities will grow and develop, then form mega-scale level cities known as metropolitan cities. Urbanization and economic factors will certainly lead to some significant changes in all aspects, such as population, politics, culture, social, technology, environmental resources, and historical results (Zhang & Zhao, 2019). Urban development and urbanization are strongly influenced by economic development in the area. Thus, the more advanced the economic level of an area, the higher the level of urbanization. Hence, this condition will have an impact on increasing public accountability in the area and will result in a better quality of financial statements from the region.

In this context, the variable of the level of urbanization is classified in the normative isomorphism framework, since the higher level of urbanization certainly requires more need for special skills, education, and adequate experience has given the high level of competitiveness in urban areas that require a higher level of professionalism. Someone who does not have special expertise or experience will certainly be displaced from the existing professional competition.

In addition, urban areas have a higher population density, thus enabling them to have more legislators and a more educated population than non-urban areas. Therefore, urban areas generally have higher and more progressive demands for political, social, and economic reform agendas (Yoshida, 2020). Based on the institutional theory, it can be argued that the demand for normative isomorphisms, such as the quality of financial statements will be better for local governments with higher urbanization rates. Given the above-mentioned description, the following hypothesis is proposed in this study:

H: The level of urbanization is positively correlated with the quality of local government financial statements.

2.6. Control Variable

2.6.1. Intergovernmental Revenue

Intergovernmental revenue or the level of dependence on the central government is the amount of local government revenue obtained from central government transfers to local governments to finance regional government operations. It also refers to funds given by the central government in the form of balancing funds (Girsang & Yuyetta, 2015).

According to Marhawai (2015) the fiscal imbalances result from the central government's policy in the field of fiscal decentralization for the sake of fiscal imbalances between the central and regional governments. The central government will demand that local governments make sufficient disclosures with supporting information as a basis for monitoring the performance of local governments on the use of transfer funds. The level of dependence of local governments on the central government can make local governments comply with applicable regulations (Cohen & Hlepas, 2017). In this regard, local governments are encouraged to increase the transparency of the funds they receive to increase the trust of the central government and to demonstrate compliance with relevant regulations. In this study, intergovernmental revenue is used as a control variable, which is measured using total balancing funds divided by total income.

Based on the discussion of all predictor variables and control variables in advance, the research framework can be presented as follows:

Commented [H24]: It is better you draw a framework soon after this section showing all variables

Commented [JA25R24]: I have added a research framework figure..

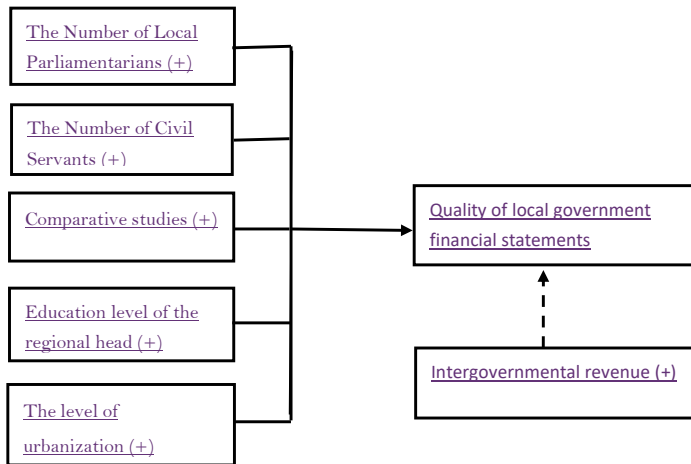


Figure 1. Research Framework

3. RESEARCH METHODOLOGY

3.1. Population and Sample

The research population of this study is the district/municipality government in Indonesia totaling 540 districts/municipalities in the 2018 fiscal year, which were audited by the Indonesian Supreme Audit Board (BPK) and met the required information related to the research variables.

Samples were selected using purposive sampling method based on the following criteria: The Indonesian local governments that have official websites containing information about government financial statements and audit results in the form of opinions from auditors, information on regional head profiles, data on the number of civil servants, urbanization levels, as well as information on the number of local parliamentarians. Based on these criteria, 220 research samples were selected.

3.2. Dependent Variable

According to the problem under study, the dependent variable quality of local government financial statements in Indonesia was measured by point 1 if the local government obtained an unqualified opinion (good) and point 0 if the district/municipality government received a qualified opinion (not good).

3.3. Independent Variables

3.3.1. Number of Local Parliamentarians

The number of local parliamentarians in this study is used as a proxy in measuring legislative size. The number of local parliamentarians is proxied by the natural logarithm (Ln) of the number of local parliamentarians. The measurement is done because there has been a significant difference in the number of local parliamentarians from one local government to another, which can lead to extremely different values.

Commented [H26]: What are they?

Commented [JA27R26]: Independent variables consist of 5 variables, including local parliamentarians, civil servants, comparative studies, education and urbanization as indicated by paragraph numbering, namely: (3.3) is the title "Independent Variable". Whereas (3.3.1 - 3.3.5) are subtitles that explain the types of independent variables.

Commented [JA28]: For the explanation of each predictor variable, I sort them based on the mention of the isomorphism variable sequence, starting from the coercive variables (the number of local parliamentarians & civil servants), followed by the mimetic variable (comparison study) and the last is the variables normative (educational background and urbanization).

$$\text{Local Parliamentarians} = \text{Ln (Number of local parliamentarians)}$$

3.3.2. Number of Civil Servants

The website of the Central Bureau of Statistics provides data on the number of civil servants in each local government in Indonesia. According to Government Regulation of the Republic of Indonesia No. 71 of 2010 concerning Government Accounting Standards, it is stated that civil servants are an accounting entity that has the task of managing the budget, assets, and the obligation to carry out accounting and present financial statements based on applicable rules and standards.

$$\text{Civil Servants} = \text{LN (Number of Civil Servants)}$$

3.3.3. Comparative Studies

The comparative studies in this context are emphasized to improve the civil servants' ability to do more specific jobs, especially those related to accounting and finance. The comparative study variable in this study is measured based on the following measurements: 1 point if the local government conducts a comparative study and 0 points if the local government does not conduct a comparative study.

3.3.4. Educational Background of Regional Heads

Education is essential for human life because it allows a person to enhance his potential to realize expected personality, intelligence, and skills. The higher the level of education, the more complex are the knowledge, skills, and experience they have. In this study, the element of the regional head's education level is seen from the highest level of formal education completed by the regional heads.

3.3.5. Urbanization Level

Urbanization is generally defined as the movement of people from rural areas to cities. The level of urbanization is proxied by the natural logarithm (Ln) of the population density per km². This measurement is done because there has been a large gap in population density from one local government to another, which can lead to an extremely different level of urbanization.

$$\text{Urbanization} = \text{Ln (Population Density per Km}^2\text{)}$$

3.4. Control Variables

3.4.1. Intergovernmental Revenue

Intergovernmental revenue is a type of local government revenue generated from transfers from the central government to local governments to finance local government operations. In this research, the author used the following formula to compare total revenue as a way to measure intergovernmental revenue (Xiao, 2020):

$$IGROV = \frac{\text{Total Fiscal Imbalances}}{\text{Total Revenue}}$$

4. DATA ANALYSIS

Commented [H29]: What are they?

Commented [JA30R29]: There is only one variable control, namely Intergovernmental Revenue.

The purpose of this study was to determine the effect of the number of local parliamentarians, the number of civil servants, comparative studies, educational background of regional heads, the level of urbanization, and intergovernmental revenue on the quality of local government financial statements. It analyzed the data derived from 220 local government financial statements in districts/municipalities in Indonesia in 2018 that have met the predetermined criteria. These data were included in local government financial statements.

4.1. Descriptive Statistical Analysis

The independent variables in this study were the educational background of regional heads, the number of civil servants, comparative study activities, the level of urbanization, and the number of local parliamentarians, while the intergovernmental revenue was a control variable. Furthermore, the quality of local government financial statements was determined as the dependent variable. These variables were tested statistically descriptively as shown in Table 1:

Table 1. Descriptive statistical analysis

Variables	n	Minimum	Maximum	Mean	Standard Deviation
Number of local parliamentarians (X1)	220	18	50	36.07	10.463
Number of civil servants (X2)	220	524	20580	6118	3760.251
Comparative studies (X3)	220	0	1	0.71	0.456
Educational background of regional heads (X4)	220	1	4	2.78	1.001
Urbanization level (X5)	220	2.99	13340.00	2108.75	2887.61
Intergovernmental revenue (X6)	220	0.063	1.229	0.50485	0.166105
Local government financial statements report quality (BPK opinion) (Y)	220	0	1	0.84	0.368

4.2. Testing the Feasibility of the Regression Model

Hosmer and Lemeshow's Goodness of fit test is shown in Table 2:

Table 2. Regression model feasibility test results.

Step	Chi-square	df	Sig.
1	3.651	8	0.885

Table 2 indicates that the feasibility criteria of the model tested by Hosmer and Lemeshow's goodness of fit test is met by the chi-square of 3.651 with a significant probability of 0.885. A significance value greater than 0.05 causes the H_0 hypothesis to fail to be rejected. This means that there is no difference between the estimation data of the logistic regression model and the observation data, so the model is feasible and appropriate to use. Therefore, it can be concluded that the model used in the research, in general, is said to be appropriate and feasible.

4.3. Logistic Regression Analysis

Logistic regression model analysis was conducted to determine how the probable occurrence of the dependent variable can be predicted with the independent variable, which gives a reason to conduct this analysis. Table 3 shows the results of the regression model coefficient analysis.

Table 3. Results of regression model analysis

Variables	B	S.E.	Wald	df	Sig.	Exp (B)
ZX1	0.615	0.480	1.802	1	0.041	1.904
ZX2	0.627	0.441	2.124	1	0.030	0.526
ZX3	0.035	0.281	0.015	1	0.913	1.034
ZX4	-0.061	0.303	0.040	1	0.812	0.941

Commented [H31]: Please show it in a framework, a figure?

Commented [JA32R31]: A research framework has been added.

Commented [H33]: Please draw a figure

Commented [JA34R33]: A research framework figure have been added

Commented [JA35]: I sort the variables based on the mention of the isomorphism variable sequence, starting from the coercive variables (the number of local parliamentarians & civil servants), followed by the mimetic variable (comparison study) and the last is the variables normative (educational background and urbanization).

Commented [JA36]: I sort the variables based on the mention of the isomorphism variable sequence, starting from the coercive variables (the number of local parliamentarians & civil servants), followed by the mimetic variable (comparison study) and the last is the variables normative (educational background and urbanization).

ZX5	0.042	0.311	0.017	1	0.822	1.043
ZX6	-0.461	0.298	2.401	1	0.122	0.630
Constant	1.787	0.304	34.614	1	0.000	5.974

Legend: ZX1: Number of local parliamentarians; ZX2: Number of civil servants; ZX3: Comparative studies; ZX4: Educational background; ZX5: Level of urbanization; ZX6: Intergovernmental revenue

The data analysis in this study obtained the following regression model:

$$Y = 1.787 - 0.061 ZX1 + 0.627 ZX2 + 0.035 ZX3 + 0.042 ZX4 + 0.615 ZX5 - 0.461 ZX6$$

4.4. Hypotheses Testing

Table 4 Describes the results of hypotheses testing in this study.

Table 4. Summary of hypotheses testing results.

Hypothesis	Descriptive	B	Sig (p-value)	Results
H ₁	Number of local parliamentarians	0.615	0.041	Supported
H ₂	Number of civil servants	0.627	0.030	Supported
H ₃	Comparative studies	0.035	0.913	Not Supported
H ₄	Educational background of regional heads	-0.061	0.812	Not Supported
H ₅	Level of urbanization	0.042	0.822	Not Supported

4.5. Discussion

4.5.1. The Effect of the Number of Local Parliamentarians on the Quality of Local Government Financial Statements

The hypothesis testing proves that the number of local parliamentarians was positively correlated with the quality of local government financial reports based on the p-value of 0.041, which was smaller than the alpha value of 0.05 and with the direction of the regression coefficient which was the same as the hypothesis. The results of this test are in line with the researcher's expectations that a greater number of local parliamentarians will result in better-quality financial statements. The local parliamentary members are the people's representative who has a supervisory function and control the running of a government to ensure that it is by the aspirations of the people. In addition, they also have the task of supervising the implementation and reporting of local government financial information to create an accountable and transparent government. This shows that local parliamentarians have the power to pressure local governments to improve the quality of their financial statements. The institutional theory applies a coercive isomorphism pressure, as indicated by an external pressure given by local parliamentarians to local governments to improve the quality of their financial statements. Thus, it can be concluded that in this study the coercive pressure caused by the number of local parliamentarians can support the improvement in the quality of local government financial statements.

This is different from Madelia (2018) which revealed that a large number of local parliamentarians does not necessarily affect the better function and role in the supervisory process exercised by the local parliamentarians. Many issues regarding corruption committed by local parliamentarians have led to a decrease in government performance which has a negative impact and results in a decrease in the performance of the quality of local government financial statements. Thus, it can be concluded that the quality of local parliamentarians is more important than the number of local parliamentarians to create a good supervisory function in government, resulting in the evidence that many local parliamentarians cannot improve the quality of local government financial statements.

4.5.2. The Effect of the Number of Civil Servants on the Quality of Local Government Financial Statements

The statistical tests prove that the number of civil servants was positively correlated with the quality of local government financial statements based on the p-value of 0.030, which was smaller than the alpha value of 0.05. In addition, the regression coefficient value was 0.627 with a positive direction. The results of this test are in line with

Commented [JA37]: For the discussion of each predictor variable, I sort them based on the mention of the isomorphism variable sequence, starting from the coercive variables (the number of local parliamentarians & civil servants), followed by the mimetic variable (comparison study) and the last is the variables normative (educational background and urbanization).

the expectation that a higher number of civil servants will result in better quality financial statements than local governments with fewer civil servants. According to Chen, Lam, and Zhu (2021) the preparation and arrangement of quality financial statements require a lot of human resources who master government accounting. Human resource is a key factor in creating quality financial statements because only those having the mastery of Government Accounting Standards shall compile government financial statements. Financial statements must be submitted by the regional government consisting of one or more accounting entities. In this process, the regional head as the highest level of authority shall administer the regional government and regional financial management, and delegate his authority to be carried out by each civil servant in each district/municipality area. In the government structure in Indonesia, civil servants are accounting entities that are required to record transactions that occur within the local government environment. This shows that civil servants have the coercive power of pressuring local governments to carry out activities under predetermined plans and applicable regulations. This pressure includes the pressure exerted by civil servants on local governments to produce better quality financial statements as an indication of public accountability.

4.5.3. The Effect of Comparative Studies on the Quality of Local Government Financial Statements

The hypothesis testing proves that conducting comparative studies was not positively correlated with the quality of local government financial statements based on the p-value of 0.913, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that a comparative study shall improve employee performance, including in their performance to prepare good quality financial statements. The ineffectiveness of this variable is probably because the materials provided in the comparative study to improve the quality of the preparation of financial statements has not been effective. After all, the comparative study participants have different scientific experiences and competencies. Another possibility is due to different situations and conditions found during the process of adopting comparative study materials as implemented in the local government conducting comparative studies.

There are some obstacles in the implementation of a comparative study by a local government with poor quality financial statements to local governments that are considered to have better quality management and financial reporting. These obstacles may be due to several factors including the quality of human resources, infrastructure facilities, regulatory systems, and local government policies (Ratnadila, 2018). Related to this, the local government needs to try to overcome these problems before deciding to conduct a comparative study in other regions.

In this regard, it is conclusive that there has not been a good process of mimetic pressure of isomorphism on the implementation of comparative studies between the local governments with poor financial reports to other local governments with better quality financial reports. There are no certain achievable positive outcomes of the local governments that have participated in comparative studies in the improvement in the quality of their financial statements because the comparative study activities do not cause a local government to take mimetic actions (imitate) the knowledge gained to make an optimal contribution to the region.

This study is in line with Trawardani, Prasetya, and Mayowan (2015) who demonstrated that comparative studies do not contribute positively to the quality of local government financial reports, because comparative studies have not been able to influence the work ability of employees which has an impact on improving government performance. Therefore, it can be concluded that comparative studies conducted by local governments in Indonesia have not been able to improve the quality of local government financial statements.

4.5.4. The Effect of Educational Background of Regional Heads on the Quality of Local Government Financial Statements

The hypothesis testing proves that the educational background of regional heads was not positively correlated with the quality of local government financial reports based on the p-value of 0.812, which was greater than the

alpha value of 0.05 and the different direction of the coefficient. This result indicates that the higher the educational level of the regional head does not correspond to their ability in preparing good quality local government financial statements. It was assumed that the higher the educational level of the regional heads, the better their ability in managing the region, including in preparing regional financial statements. However, this study revealed that the educational background of regional heads did not cause any considerable effect on the quality of financial statements. This is likely because regional heads who have higher education do not have a degree and proficiency in accounting, business, or economic education background, which makes them have a low level of understanding the preparation and presentation of correct financial statements. On this basis, regional heads who have higher educational backgrounds do not necessarily have a better understanding of the government administration, especially related to financial statements.

Based on institutional theory, the educational background of regional heads is classified as normative isomorphism pressure because regional heads' education is a professional role in the attempt of adoption standard practices as required. Logically, the regional heads play an essential role in influencing the preparation and presentation of local government financial statements, because a higher level of education will help them to know and understand the preparation of quality regional financial statements.

The results of this study are not in line with the researchers' expectations that regional heads who have higher education levels will be better at producing quality financial statements. A different result, however, was revealed by Jaenudin and Chairunisa (2015) who stated that the higher level of education of leaders is positively correlated with the quality of local government financial reports because they can improve the performance of the employees working in the financial section. In this way, the improvement in the performance of employees in the financial section can produce good quality financial statements.

Research by Wungow et al. (2016) demonstrated that not all employees who have a high level of education can understand and have the ability to solve problems in regional financial statements because many employees in each Regional Work Unit are placed not under their field of expertise, not to mention the lack of employees with the backgrounds of accounting as required for the position in the financial sectors. Employees with accounting backgrounds generally have a good understanding of accounting and financial reporting. A person is said to have a good understanding of accounting if he/she understands the process to carry out a good accounting to prepare for a proper financial statement that meets the principles and standards of financial statements as stipulated in the regulations (laws). The results of this study are in line with research by Hanifah, Sarpingah, and Putra (2020) which states that the latest education of regional heads does not affect the quality of local government financial statements.

4.5.5. The Effect of Urbanization Level on the Quality of Local Government Financial Statements

The hypothesis testing proves that the urbanization level was not positively correlated with the quality of local government financial reports based on the p-value of 0.822, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that urban areas will produce good quality financial reports. It was assumed that the local governments with a higher level of urbanization would produce a better quality of financial reports given the higher level of political, social, and economic reform agendas and development programs as compared to non-urban areas (Bambang, Pusparini, & Nurabiah, 2020).

Based on the research, one possible factor to cause the lack of positive correlation between the level of urbanization and the quality of financial reports is the uneven distribution of the population with higher concentration in certain areas, which thus impedes the development of the whole community. The results of this study are in line with Huda (2015) which revealed that the level of urbanization did not contribute positively to the quality of local government financial statements. This finding does not support the institutional theory, since the

Commented [H38]: Please explain

Commented [JA39R38]: I have explained in the next paragraph that the higher the level of education of a regional head will assist them in understanding the preparation of quality regional financial statements.

Commented [H40]: Are you talking about regional heads?

Commented [JA41R40]: No. I explained an organization that exists in a local government in Indonesia whose name is Regional Work Unit (RWU). In Indonesia, each local government consists of various organizational units (RWU) whose task is to assist regional heads in the administration of regional government in various sectors.

level of urbanization does not cause an organization to be pressured by normative isomorphism to increase professionalism, especially related to improving the quality of local government financial statements.

4.5.6. *The Effect of Intergovernmental Revenue on the Quality of Local Government Financial Statements*

The results of statistical testing also prove that intergovernmental revenue (as a control variable) was not positively correlated with the quality of local government financial statements. This result is attributed to the fact that the central and local governments are no longer closely related during the decentralization, which may lead to a lack of special monitoring from the central government, especially regarding the quality of local government financial statements. There has been declining monitoring activity on local government financial performance because the result is not referred to in determining the regional fiscal imbalances. As a result, it does not encourage local governments to improve the quality of their financial statements. Thus, it can be concluded that the amount of intergovernmental revenue has not been able to improve the quality of local government financial statements.

5. CONCLUSION AND RECOMMENDATIONS

The research presented in this paper focuses on an empirical analysis of the veracity of isomorphic institutional theory to find factors that affect the quality of local government financial statements. In summary, from the three isomorphic components including coercive, mimetic, and normative, only coercive components have a significant effect on the quality of financial statements of Indonesian local governments. These components include the number of civil servants and the number of local parliamentarians. These coercive variables provide evidence that pressure from outside of the organization which includes the number of civil servants, and the number of local parliamentarian members are the dominant factor affecting the quality of local government financial statements in Indonesia. It has been proven in this study that the number of civil servants is positively correlated with the quality of local government financial statements. It means the quantity and competence of civil servants are indispensable in meeting various needs to ensure that the quality of financial statements is under applicable rules or regulations. This implies that the coercive pressure caused by a large number of civil servants can encourage the improvement of the quality of local government financial statements in Indonesia. In addition, this study also proves that the pressure arising from the number of local parliamentarians affects the quality of local government financial statements. This result shows that coercive pressure resulting from a large number of local parliamentarians has the power to pressure local governments to improve the quality of their financial statements.

These findings can be used as input for the Indonesian government in formulating public policy taking into account the potential factors that are expected to increase the strength of coercive pressure, such as creating more effective regulations that encourage the practice of preparing quality financial statements or applying law enforcement more consistently. The lack of regulation and effective law enforcement is likely to contribute to the indifferent impact of the coercive variables used in research (civil servants and local parliamentarians), related to efforts to improve the quality of the Indonesian Regional Government Financial Report.

Moreover, empirical findings from this study are potentially important for regulatory bodies, professional accounting agencies, local governments, central governments, and users of local government financial statements. These findings can be applied to develop and improve public sector governance. In particular, these findings can be input for public policy making in calibrating the implementation of regulations on Government Accounting Standards in Indonesia (Government Regulation No. 71 of 2010, 2010) better in supporting the quality improvement of the Regional Government Financial Report in Indonesia.

Finally, from various previous discussions, the results of this study contribute to the public sector accounting literature in some important things. First, this research regarding the quality of financial statements in Indonesia which is one of the first studies known to examine the quality of financial statements in the context of the local government by using the principle of isomorphic institutional theory. In the Indonesian environment, it is often

Commented [H42]: Any limitations of the study?

Commented [JA43R42]: We recommend related to the limitations of this research as follows: To increase the strength of the research results, it is better for the coming research to be designed a research scenario using time series data, where the data is taken from several fiscal years.

stated that the Indonesian local government has shown financial statements that tend to decline in quality. However, there are very few empirical studies that provide evidence to support or deny this view. Therefore, the findings of this thesis are expected to be the basis for subsequent studies that examine institutional key factors related to improving the quality of financial statements. While from theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a useful framework for explaining the determinants of the quality of local government financial statements or other public sector entities, especially those related to the influence of coercive pressure. Finally, to increase the strength of the research results, we suggest that the coming research is designed by a research scenario using time series data, where data is taken from several fiscal years.

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: All authors contributed equally to the conception and design of the study.

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1. I have revised and completed several parts of my article according to your notes. Please find the revised article in this email attachment.
2. Email of each author as follows:
Johan Arifin = johan.arifin@uii.ac.id
Zuraidah Mohd Sanusi = zuraidah@salam.uitm.edu.my
Erna Hidayah = erna.hidayah@uii.ac.id
3. Phone number of each author as follows:
Johan Arifin = +628122751505
Zuraidah Mohd Sanusi = +60133455274
Erna Hidayah = +6281222662296

4. ORCID profile link of each author as follows:

Johan Arifin = <https://orcid.org/0000-0003-3622-8923>

Zuraidah Mohd Sanusi = <https://orcid.org/0000-0002-8047-4219>

Erna Hidayah = <https://orcid.org/0000-0001-9673-5308>

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DETERMINANTS OF THE QUALITY OF LOCAL GOVERNMENT FINANCIAL STATEMENTS IN INDONESIA: COERCIVE PRESSURE DOMINATES

Johan Arifin¹
Zuraidah Mohd-Sanus²
Erna Hidayah³

¹Faculty of Business and Economics University, Islam Indonesia, Indonesia.

²University Technology Mara, Accounting Research Institute, Shah Alam, Malaysia. (+ Corresponding author)

³Department of Accounting, Indonesian Islamic University, Indonesia.

ABSTRACT

Article History

Received: xxxxxxxx

Revised: xxxxxxxx

Accepted: xxxxxxxx

Published: xxxxxxxx

Keywords

Institutional isomorphism

Number of civil servants

Number of local parliamentarians

Comparative studies

Urbanization level

Intergovernmental revenue

Education level of the regional head.

Many Indonesian local governments' financial statements are still of concern. This fact is indicated by the poor audit results on the local government financial statements released by the Indonesian Supreme Audit Board (BPK). Using the perspective of institutional isomorphism theory, this study aims to examine various potential factors that affect the quality of Indonesian local government financial statements, including the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, and the number of local parliamentarians. This study used a sample of 220 local governments in Indonesia taken in 2018. The logistic regression analysis showed that the number of civil servants and the number of local parliamentarians significantly affect the quality of Indonesian local government financial statements. This highlights the influence of coercive pressures on the quality of financial statements in many Indonesian local governments. These findings can serve as input for the Indonesian government in formulating public policies, particularly regarding improving the quality of local government financial statements.

Contribution/Originality: From a theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a theoretical framework to explain the practice of preparing qualified financial statements in public sector institutions. Furthermore, this study proves that coercive pressure dominates as a factor affecting the quality of local government financial statements in Indonesia.

1. INTRODUCTION

As one of the developing countries in Asia, Indonesia has recently reformed many aspects of its governmental sectors in the last decade, including reformation in the financial sector. The implementation of financial reforms along with the enactment of regional autonomy in Indonesia has changed the authoritative and centralized governance system into a good governance system that is under the applicable laws and regulations (Triggs, Kacaribu, & Wang, 2019). Before the reform, most of the government affairs in Indonesia were handled by the central government. The issuance of the law of reforms required that some of the government's household affairs be handled by local governments (Waliyani & Makhmud, 2015). In the reform era, the local government is authorized to manage the local government, regional development, and provide community services. Thus, to maintain good governance, every Indonesian local government is required to realize transparent and accountable financial management (Maulana & Handayani, 2015).

Public accountability shall be achieved by complying with government accounting systems and standards to achieve good governance. The Local government financial statements are submitted to stakeholders in one period to realize transparent and accountable financial reports in local government financial management under Law of the

Republic of Indonesia No. 17 of 2003 concerning State Finances and Law of the Republic of Indonesia No. 9 2015 on Local Government.

The financial statements released by the local government will be referred by stakeholders in the decision-making process. Thus, the information contained in financial statements must be under the user's needs, provide benefit by supporting decision making, and can be easily understood by users (Safkaur, Afiah, Poulus, & Dahlan, 2019). Accounting information in financial statements must comply with the Government Accounting Standards as stipulated in Government Regulation No. 71 of 2010, which is relevant, reliable, comparable, and understandable.

However, Mokoginta, Lambey, and Pontoh (2017) noted that the quality of Indonesian local government financial statements is generally far below the standard requirements. In other words, the local government's financial statements are yet to meet the government's expectations, despite some quality improvements from year to year. In addition, Arifin (2020) revealed that the level of mandatory disclosure of local government financial statements in Indonesia is 62%, indicating that not all local governments have disclosed their financial statements to applicable regulations.

This study used the quality of the local government financial statements as the dependent variable based on the Indonesian Supreme Audit Board (BPK) audit of local government financial statements in several districts/municipalities in Indonesia. In particular, this study aims to address some factors to affect the quality of local government's financial statements. The predictor variables of this study were the number of local parliamentarians and the number of civil servants as a way to test the theory of coercive isomorphism. A comparative study variable was used to examine the applicability of mimetic isomorphism theory, while regional head education variables and the level of urbanization were used to examine the applicability of normative isomorphism theory.

The quality of financial accountability of a country or local government is revealed by an assessment carried out by a competent and independent institution (Ahmad & Saad, 2020). The Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances has stipulated that local governments must be held accountable for the implementation of regional revenue and expenditure budget by submitting their financial statements to the local parliamentarians as a legislative body. As a legislative institution, a local parliamentarian is in charge of supervising the implementation of local government (Arifin, Tower, & Porter, 2015). Many local parliamentarians are expected to improve the quality of supervision of local governments and contribute positively to the quality of financial statements. In addition to local parliamentarians' supervision, public accountability and trust in the information of the local government financial statements are enhanced by the audits of the Supreme Audit Board (BPK). The Supreme Audit Board is the only external financial examiner in Indonesia that has great authority to provide opinions on the financial statements of government institutions (Raba, 2017). The audit is carried out annually to assess and state the fairness of the financial information presented in the financial statements.

To obtain an unqualified opinion from the BPK, a local government may learn from other local governments that receive the unqualified opinion from the BPK through a comparative study. Such a method is believed to provide additional knowledge in dealing with changes or adjustments to the work system in the future (Wungow, Lambey, & Pontoh, 2016). Comparative studies allow the government to improve the system, enhance quality, determine new policies, and add insight related to the quality of financial reports (Rudyanto, 2019).

In addition, every financial manager must gain an insight into the quality financial statements to ensure that the submitted financial statements are free from material misstatement. Education is one indicator of quality human resources. A high level of education can assist the apparatus in completing their tasks, including the preparation of high-quality and on-time local government budget and financial statements (Erlina, Tarigan, & Muda, 2017).

Furthermore, Suhardjanto and Yulianingtyas (2011) revealed that the number of civil servants as the state apparatus can serve as the potential determinant of the quality of financial statements in government organizations. The number of civil servants represents the number of prioritized affairs for local governments to develop the area. The larger the number of affairs of a certain region, the greater the number of civil servants who shall prepare the

financial reports of each affair. The achievement of good financial reports cannot be separated from the rules and regulations of the organization. An organization with a large number of employees will generally apply many rules and regulations, but this larger number of employees also can better provide more public services.

Another factor to affects the quality of local government financial statements is the level of urbanization. The government needs to support the increasing population in urban areas by implementing development programs to empower the population for the good sake of the community. Development programs in some developed areas are the right answer to trigger economic growth. The better development programs resulted in a higher level of financial statement compliance of the metropolitan areas to the government standards. As a result, urban areas serve as a magnetic attraction for people who have higher education, which eventually leads to higher and progressive demands for public, social, and economic reform agendas in the densely populated urban areas (Ratmono, 2013). Thus, urbanization is a natural process of change to improve the quality of financial statements.

Broadly speaking, this study examines several key variables assumed to affect the quality of Indonesian local government financial statements. Three main important aspects are addressed in this study. First, this study used an institutional isomorphism theory to examine the quality of local government financial statements, since this theory has a broader perspective than other theories, especially to examine the quality of local government financial statements (Martínez-Ferrero & García-Sánchez, 2017). Second, this research was conducted in Indonesia, since this country is known for its unique government structure consisting of some tiers, ranging from the central government, provincial government, and local government that manages districts and municipalities. This study focused on the financial statements of the district and municipal levels, which in this study are referred to as local governments. Third, this study used the number of civil servants working in local governments as one of the predictor variables. The use of a predictive variable aims to measure the effect of a reduction in the number of employees in each local government in Indonesia due to the introduction of information technology in local governments.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Previous Studies and Discussion of Institutional Theory

There have been many studies on the quality of financial statements in public sector organizations by adopting various basic theories, for example, Legitimacy theory (Ali, Lodhia, & Narayan, 2021; Deegan, 2019; Hassan & Guo, 2017) Stakeholder theory (Beske, Hausteine, & Lorson, 2020; Rudyanto. & Siregar, 2018; Zhang, Chong, & Jia, 2019) Agency theory (Goebel, 2019; Nirwana & Haliah, 2018; Shahzad, Rehman, Hanif, Asim, & Baig, 2019) Stewardship theory (Camilleri, 2018; Dumay & Cai, 2015) Institutional theory (Carungu, Di Pietra, & Molinari, 2021; Simoni, Bini, & Bellucci, 2020; Vitolla, Raimo, Rubino, & Garzoni, 2020). Of these several theories, agency theory and institutional theory are the most frequently used theories to predict potential factors that affect financial statements.

According to DiMaggio and Powell (1983) organizations are formed by the surrounding institutional environment. Influential ideas from the surrounding area were then institutionalized and considered valid and accepted as the way of thinking of the organization. To legitimate this way of thinking, the organizations apply some pressure by way of regulations and statements. Institutional theory is known for its assertion of organizations as mere symbols and rituals.

In terms of organizational studies, many researchers have often used the institutional theory as the basic research framework. The institutional theory states that institutions outside the organization may influence organizational behavior or decisions taken by the organization. This fact is also held by Boxenbaum and Jonsson (2017) who believed that the considerable impact of external pressure has forced organizations to survive by seeking to adapt to the condition, an attempt known as isomorphism. Isomorphism in particular refers to a process of pushing one unit in a population to resemble another unit in the face of the same environmental conditions. Institutional theory means that the existence of an organization is influenced by normative pressures arising from

external or internal sources (Hyatt & Berente, 2017). Institutional theory is usually referred to as explaining action and decision-making in a public organization (Alvesson & Spicer, 2019).

The institutional theory explains that organizations that prioritize legitimacy will tend to try to conform to external expectations or social expectations where the organization is located. As a result of the adjustment to external or social expectations, organizations tend to separate their internal activities and focus on systems that are symbolic of external parties. Public organizations that tend to gain legitimacy may have similarities or isomorphism with various other public organizations. Isomorphism is the process of pushing one unit into the population to imitate other units in the face of similar environmental conditions (AbouAssi & Bies, 2018).

Institutional theory predicts that if organizations can imitate other organizations because of institutional pressure, the pressure will cause the need to adapt to the environment by applying three forms of changes or efforts of the organization. The first form is a coercive isomorphism, namely the process of adjustment towards equality by way of "coercion" of the powerful stakeholders. This form of adaptation will draw the responding organization to be highly dependent. For example, pressure comes because government regulations have sanctions for those who violate them. The second type is a mimetic isomorphism, or the process of imitating other organizations that are successful in one field, not because of encouragement, but because of ambiguous goals or symbiotic environmental uncertainty (Hwang & Choi, 2017). Therefore, organizations in this type of adaptation will tend to make themselves the same model as other organizations and encourage other organizations to imitate them. According to Alsharari (2020) the process of imitating other organizations normally occurs in an uncertain environment. For example, other countries have been attempting to imitate the Scandinavian government management because it is considered successful. Third, normative isomorphism refers to the role of a group that is often associated with professionalism and struggles for adoption practices that should be carried out.

2.2. Financial Statements Quality

To ensure the benefits for their users, the financial statements are required to provide high-quality information which is very useful for decision making (Stolowy & Paugam, 2018). The quality of the Indonesian financial statements of government institutions can be measured using the opinion of the Indonesian auditor institution, namely the Supreme Audit Board (BPK). The opinion by the Indonesian Supreme Audit Board on the financial statements is provided by conforming to the Law of the Republic of Indonesia No. 15 of 2004 concerning the Audit of State Finance Management and Accountability. Article 16 paragraph 1 of the law explains that opinion is an auditor's professional statement regarding the fairness of financial information that has been presented in financial statements based on criteria; compliance with government accounting standards, adequate disclosure, compliance with laws and regulations, and the effectiveness of the internal control system. The opinion given by the Supreme Audit Board (BPK) must also consider the level of conformity, adequate disclosure of financial statements related to the predetermined materiality level, and follow-up on the results of the examination in the previous year (Habiby, 2020).

The quality of financial statements as measured using BPK's opinion, according to institutional theory can be seen as a socially acceptable practice to gain legitimacy from their institutional context (Adiputra, Utama, & Rossieta, 2018). The BPK's opinion obtained by the local government is intended to gain legitimacy from the community, the central government, or other organizations that the local government has the ability and good commitment to producing quality financial statements.

In this study, audit opinions are divided into 2 types, namely unqualified opinions which reflect very good audit results, and qualified opinions which reflect audit results that are not so good. An unqualified opinion is given when the financial statements have presented all material respects fairly and are under generally accepted accounting principles. In contrast, qualified opinion is given when the financial statements have presented all financial statements fairly in all material respects, under generally accepted accounting principles, but with several exclusions (Ardi, Saputra, & Mulyani, 2019). The quality of financial statements influences accountability because

good quality financial statements will lead to accountability of the submitted financial statements (Setyowati, Isthika, & Pratiwi, 2016).

2.3. Hypotheses Related to Coercive Isomorphism

2.3.1. The Number of Local Parliamentarians

This study examines the predictor variables for the number of local parliamentarians in the framework of coercive isomorphism. The number of local parliamentarians as a research variable has been used in several previous kinds of research on public sector organizations as a strong determinant, for example, to test the level of financial statement disclosure (Arifin et al., 2015) and Nurlianto and Aswar (2020).

In the perspective of institutional theory, coercive pressure refers to pressure from external parties to improve the quality of local government financial reports. Research by Murtini, Suhardjanto, Djuminah, and Probodono (2021) revealed that there is potentially great pressure from parliamentarians to make disclosures of local government financial statements. In line with the aspect of coercive isomorphism in institutional theory, local parliamentarians are considered to have the power to pressure local government administrators to be in line with the community's aspirations. Therefore, this study used the number of local parliamentarians as a predictor to measure the quality of financial reports.

As the people's representative, the local parliamentarian has a supervisory function to control the running of the government to make sure that it is in line with the community aspirations and other functions. The members of local parliamentarians supervise the implementation and reporting of local government financial information to better improve the transparency and accountability of the local government's financial reports. Therefore, it is assumed that the higher number of local parliamentarians can help better prepare and present accountable financial reports since there will be better supervision, feedback, and encouragement to local governments to make the best use of their existing budget properly (Bolívar, Galera, Subirés, & Muñoz, 2018).

In the perspective of institutional theory, the supervisory function by the local parliamentarians serves as a coercive pressure from external parties to local governments to change their accountability system to result in higher quality local government financial reports. Logically, the greater the number of local parliamentarians, the stronger the coercive pressure on the behavior of local governments in producing quality financial statements.

Article 21 of the Law of the Republic of Indonesia No. 15 of 2004 concerning Local Financial Management stipulated that the local parliamentarians could ask the local government to carry out a follow-up on the results of the audit to improve the quality of its financial reports. Thus, an increasing number of local parliamentarians can potentially improve the quality of financial reports. Based on this description, the following research hypothesis is proposed:

H: The number of local parliamentarians is positively correlated with the quality of local government financial statements.

2.3.2. The Number of Civil Servants

This study also used another predictor variable in the coercive isomorphism framework, namely the number of civil servants. Coercive pressure refers to the need for an organization to apply certain norms due to the pressure from other organizations or society. In this case, the number of civil servants is one of the potential variables that may have a coercive pressure since there will be some pressures from the government executives as one of the users of financial statements.

The number of civil servants describes the number of affairs to be prioritized by local governments in regional development. In this context, the greater number of government affairs, the more complex the government structure. The more complex a government structure, the greater number of civil servants. As a result, the more the number of civil servants, the more information is disclosed as a way to reduce asymmetry information and as a way to show better performance (Martínez-Ferrero & García-Sánchez, 2017). Thus, the larger number of civil

servants is expected to result in higher fulfillment of local government financial statement disclosures with better quality of financial statements (Khasanah & Rahardjo, 2014).

The Indonesian Government Regulation No.71 of 2010 concerning Government Accounting Standards has stipulated the obligation for the local governments to submit an accountability report in the form of financial statements. In this case, the local government is one of the reporting entities and a government unit consisting of one or more accounting entities. From this definition, the accounting entity refers to a civil servant or local work unit. In the Indonesian government structure, civil servants are accounting entities that are required to record transactions that occur within government institutions. Thus, a more number of civil servants results in a more complex government unit, which is expected to achieve a better quality of the financial statements (Hermansyah & Marlina, 2019).

Logically, the more functional differentiation within the local government can increase the available ideas, information, and innovations regarding the quality of good financial reports. Furthermore, Pradono and Basukianto (2015) also revealed that the greater number of civil servants in a government organization will improve the performance of the government organization. Based on the given description, the following research hypothesis is proposed:

H: The number of civil servants is positively correlated with the quality of local government financial statements.

2.4. Hypothesis Related to Mimetic Isomorphism

2.4.1. Comparative Study

The predictor variable in the mimetic isomorphism framework in this study is the implementation of a comparative study by one local government to another local government. The implementation of comparative study is closely related to the pressure of mimetic isomorphism. In this case, when a local government is facing uncertainty or an unsolved problem, the comparative study provides one way to solve the existing problems. The comparative study enables one local government to imitate the practices of other local governments as the object of a comparative study. This comparative study is generally applied to organizations that are seen to have better achievement and gain better legitimacy than the organizations that imitate them.

Comparative studies are the process of extracting certain knowledge from other locations and institutions to be applied and developed in their institution. Comparative studies are part of competency development and employee career development through increased knowledge and skills (Bach & Veit, 2018). A comparative study is an educational process carried out by an organization or company, which enables a short-term learning process to improve insight, attitudes, and skills, as well as knowledge to be applied for future betterment. These activities are known to be useful for the need for future developments to meet the expected outcome.

The comparative study in terms of local government organizations is intended to dig up information, add insight about other local governments, compare the performance of other local governments that have good quality financial statements, and transfer knowledge on the way to achieve the unqualified opinion from the Indonesian Supreme Audit Board (BPK) on their financial statements. This fact was revealed by Zhang and Zhao (2019) in their research, which stated that comparative studies can improve employee performance. Thus, the improvement in employee performance can produce higher-quality financial statements. Based on the above-mentioned description, the following hypothesis is proposed in this study:

H: Comparative studies are positively correlated with the quality of local government financial statements.

2.5. Hypotheses Related to Normative Isomorphism

2.5.1. Regional Head's Educational Background

The next predictor variable is the educational background of the regional head. This variable is included in the framework of normative isomorphism, which is associated with the homogenization process of the organization through the educational process and the association of professional organizations. Within the framework of

normative isomorphism, it is explained that a person or an organization adopts various forms because of the professional demands of the organization.

Education is a process of changing the attitudes and behavior of a person or group as an effort to increase the maturity level of a person through teaching and training (Kroesen, Handy, & Chorus, 2017). Education can enhance someone's knowledge abilities and improve his/her quality because educated people are expected to think and act more rationally and understand the duties and responsibilities assigned to them more appropriately. Employees with good self-acknowledgment should be able to improve their performance and produce work reports of better quality (Jonker & Botma, 2012). Panagiotakopoulos (2020) further stated that in terms of job completion, educational background and level serve as considerable important factors that affect job completion.

Someone with a formal educational background has more complex information because the level of education can reflect the individual's self-acknowledgment and skills (Pratiwi & Aryani, 2017). Education in a particular field (specialization) will increase knowledge and confidence in areas related to one's work (Carr, Loucks, & Blöschl, 2018). Increasing knowledge and skills are part of an educational path that can enhance one's competence and career development (Jafari-Sadeghi, Kimiagari, & Biancone, 2020). In other words, educational background plays an essential role in enhancing the quality of a person.

The regional head plays a central and strategic role in the government system at the regional level. As a leader, the regional head shall direct the thoughts and opinions of members of the organization, guide, set organizational goals, motivate members of the organization to conform to organizational goals, influence, and supervise members of the group he leads. The Law of the Republic of Indonesia No. 32 of 2004 concerning Local Government stipulates those regional heads are regional leaders who are required and authorized to lead the administration of local governments. In addition, regional heads are in power in regional financial management, and they are required to be able to produce financial reports of the organizations they lead under applicable government accounting regulations and standards. Logically, regional heads with a higher educational background will find it easier to understand and apply all kinds of existing regulations, including government accounting standards in the presentation of financial statements.

The level of education indicates a person's level of professionalism in carrying out their duties. Therefore, an adequate level of education allows a person to carry out their duties more easily in good financial management (Abualoush, Bataineh, & Alrowwad, 2018). A high level of education potentially can improve employee performance. Hence, increasing employee performance increases may lead to the production of good quality financial reports (Maqbool & Zameer, 2018). Based on this description, the following hypothesis is proposed:

H. The education level of the regional head is positively correlated with the quality of local government financial statements.

2.5.2. The Level of Urbanization

The last predictor variable in this study is the level of urbanization. Urbanization is popularly defined as the movement of people from rural to urban areas. Several studies and data show that the more advanced the level of a country's economy, the higher the level of urbanization (Zheng. & Walsh, 2019). Thus, urbanization is a natural phenomenon in line with the development and economic growth and the level of welfare of the population in a country.

According to Masoumi, Hosseini, and Gouda (2018) urbanization is not merely a population-related phenomenon, but in a broader scope, urbanization is seen as a political, social, cultural, and economic phenomenon. There is a tendency that some big cities will grow and develop, then form mega-scale level cities known as metropolitan cities. Urbanization and economic factors will certainly lead to some significant changes in all aspects, such as population, politics, culture, social, technology, environmental resources, and historical results (Zhang. & Zhao, 2019). Urban development and urbanization are strongly influenced by economic development in the area. Thus, the more advanced the economic level of an area, the higher the level of urbanization. Hence, this condition

will have an impact on increasing public accountability in the area and will result in a better quality of financial statements from the region.

In this context, the variable of the level of urbanization is classified in the normative isomorphism framework, since the higher level of urbanization certainly requires more need for special skills, education, and adequate experience has given the high level of competitiveness in urban areas that require a higher level of professionalism. Someone who does not have special expertise or experience will certainly be displaced from the existing professional competition.

In addition, urban areas have a higher population density, thus enabling them to have more legislators and a more educated population than non-urban areas. Therefore, urban areas generally have higher and more progressive demands for political, social, and economic reform agendas (Yoshida, 2020). Based on the institutional theory, it can be argued that the demand for normative isomorphisms, such as the quality of financial statements will be better for local governments with higher urbanization rates. Given the above-mentioned description, the following hypothesis is proposed in this study:

H: The level of urbanization is positively correlated with the quality of local government financial statements.

2.6. Control Variable

2.6.1. Intergovernmental Revenue

Intergovernmental revenue or the level of dependence on the central government is the amount of local government revenue obtained from central government transfers to local governments to finance regional government operations. It also refers to funds given by the central government in the form of balancing funds (Girsang & Yuyetta, 2015).

According to Marhawai (2015) the fiscal imbalances result from the central government's policy in the field of fiscal decentralization for the sake of fiscal imbalances between the central and regional governments. The central government will demand that local governments make sufficient disclosures with supporting information as a basis for monitoring the performance of local governments on the use of transfer funds. The level of dependence of local governments on the central government can make local governments comply with applicable regulations (Cohen & Hlepas, 2017). In this regard, local governments are encouraged to increase the transparency of the funds they receive to increase the trust of the central government and to demonstrate compliance with relevant regulations. In this study, intergovernmental revenue is used as a control variable, which is measured using total balancing funds divided by total income.

3. RESEARCH METHODOLOGY

3.1. Population and Sample

The research population of this study is the district/municipality government in Indonesia totaling 540 districts/municipalities in the 2018 fiscal year, which have been audited by the Indonesian Supreme Audit Board (BPK) and met the required information related to the research variables.

Samples were selected using purposive sampling method based on the following criteria: the Indonesian local governments that have official websites containing information about government financial statements and audit results in the form of opinions from auditors, information on regional head profiles, data on the number of civil servants, urbanization levels, as well as information on the number of local parliamentarians. Based on these criteria, 220 research samples were selected.

3.2. Dependent Variable

According to the problem under study, the variable quality of local government financial statements in Indonesia was measured by point 1 if the local government obtained an unqualified opinion (good) and point 0 if the district/municipality government received a qualified opinion (not good).

3.3. Independent Variables

3.3.1. Educational Background of Regional Heads

Education is essential for human life because it allows a person to enhance his potential to realize expected personality, intelligence, and skills. The higher the level of education, the more complex the knowledge, skills, and experience they have. In this study, the element of the regional head's education level is seen from the highest level of formal education completed by the regional heads.

3.3.2. Number of Civil Servants

The website of the Central Bureau of Statistics provides data on the number of civil servants in each local government in Indonesia. According to Government Regulation of the Republic of Indonesia No. 71 of 2010 concerning Government Accounting Standards, it is stated that civil servants are an accounting entity that has the task of managing the budget, assets, and the obligation to carry out accounting and present financial statements based on applicable rules and standards.

$$\text{Civil Servants} = \text{LN (Number of Civil Servants)}$$

3.3.3. Comparative Studies

The comparative studies in this context are emphasized to improve the civil servants' ability to do more specific jobs, especially those related to accounting and finance. The comparative study variable in this study is measured based on the following measurements: 1 point if the local government conducts a comparative study and 0 points if the local government does not conduct a comparative study.

3.3.4. Urbanization Level

Urbanization is generally defined as the movement of people from rural areas to cities. The level of urbanization is proxied by the natural logarithm (Ln) of the population density per km². This measurement is done because there has been a large gap in population density from one local government to another, which can lead to an extremely different level of urbanization.

$$\text{Urbanization} = \text{LN (Population Density per Km}^2\text{)}$$

3.3.5. Number of Local Parliamentarians

The number of local parliamentarians in this study is used as a proxy in measuring legislative size. The number of local parliamentarians is proxied by the natural logarithm (Ln) of the number of local parliamentarians. The measurement is done because there has been a significant difference in the number of local parliamentarians from one local government to another, which can lead to extremely different values.

$$\text{Local Parliamentarians} = \text{LN (Number of local parliamentarians)}$$

3.4. Control Variables

3.4.1. Intergovernmental Revenue

Intergovernmental revenue is a type of local government revenue generated from transfers from the central government to local governments to finance local government operations. In this research, the author used the following formula to compare total revenue as a way to measure intergovernmental revenue (Xiao, 2020):

$$IGROV = \frac{\text{Total Fiscal Imbalances}}{\text{Total Revenue}}$$

4. DATA ANALYSIS

The purpose of this study was to determine the effect of the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, the number of local parliamentarians, and intergovernmental revenue on the quality of local government financial statements. It analyzed the data derived from 220 local government financial statements in districts/municipalities in Indonesia in 2018 that have met the predetermined criteria. These data were included in local government financial statements.

4.1. Descriptive Statistical Analysis

The independent variables in this study were the educational background of regional heads, the number of civil servants, comparative study activities, the level of urbanization, and the number of local parliamentarians, while the intergovernmental revenue was a control variable. Furthermore, the quality of local government financial statements was determined as the dependent variable. These variables were tested statistically descriptively as shown in Table 1:

Table 1. Descriptive statistical analysis.

Variables	n	Minimum	Maximum	Mean	Standard Deviation
Educational background of regional heads	220	1	4	2.78	1.001
Number of civil servants	220	524	20580	6118	3760.251
Comparative studies	220	0	1	0.71	0.456
Urbanization level	220	2.99	13340.00	2108.75	2887.61
Number of local parliamentarians	220	18	50	36.07	10.463
Intergovernmental revenue	220	0.063	1.229	0.50485	0.166105
Local government financial report quality (BPK opinion)	220	0	1	0.84	0.368

4.2. Testing the Feasibility of the Regression Model

Hosmer and Lemeshow's Goodness of fit test is shown in Table 2:

Table 2. Regression model feasibility test results.

Step	Chi-square	df	Sig.
1	3.651	8	0.885

Table 2 indicates that the feasibility criteria of the model tested by Hosmer and Lemeshow's goodness of fit test is met by the chi-square of 3.651 with a significant probability of 0.885. A significance value greater than 0.05 causes the H_0 hypothesis to fail to be rejected. This means that there is no difference between the estimation data of the logistic regression model and the observation data, so the model is feasible and appropriate to use. Therefore, it can be concluded that the model used in the research, in general, is said to be appropriate and feasible.

4.3. Logistic Regression Analysis

Logistic regression model analysis was conducted to determine how the probable occurrence of the dependent variable can be predicted with the independent variable, which gives a reason to conduct this analysis. Table 3 shows the results of the regression model coefficient analysis.

Table 3. Results of regression model analysis.

???	B	S.E.	Wald	df	Sig.	Exp (B)
Step 1 ^a ZX1	-0.061	0.303	0.040	1	0.812	0.941
ZX2	0.627	0.441	2.124	1	0.030	0.526
ZX3	0.035	0.281	0.015	1	0.913	1.034
ZX4	0.042	0.311	0.017	1	0.822	1.043
ZX5	0.615	0.480	1.802	1	0.041	1.904
ZX6	-0.461	0.298	2.401	1	0.122	0.630
Constant	1.787	0.304	34.614	1	0.000	5.974

Legend: ZX1: Educational background of regional heads; ZX2: Number of civil servants; ZX3: Comparative studies; ZX4: Level of urbanization; ZX5: Number of local parliamentarians.

The data analysis in this study obtained the following regression model:

$$Y = 1.787 - 0.061 ZX1 + 0.627 ZX2 + 0.035 ZX3 + 0.042 ZX4 + 0.615 ZX5 - 0.461 ZX6$$

4.4. Hypotheses Testing

Table 4 Describes the results of hypotheses testing in this study.

Table 4. Summary of hypotheses testing results.

Hypothesis	Descriptive	B	Sig (p-value)	Results
H ₁	Educational background of regional heads	-0.061	0.812	Not Supported
H ₂	Number of civil servants	0.627	0.030	Supported
H ₃	Comparative studies	0.035	0.913	Not Supported
H ₄	Level of urbanization	0.042	0.822	Not Supported
H ₅	Number of local parliamentarians	0.615	0.041	Supported

4.5. Discussion

4.5.1. The Effect of Educational Background of Regional Heads on the Quality of Local Government Financial Statements

The hypothesis testing proves that the educational background of regional heads was not positively correlated with the quality of local government financial reports based on the p-value of 0.812, which was greater than the alpha value of 0.05 and the different direction of the coefficient. This result indicates that the higher the educational level of the regional head does not correspond to their ability in preparing good quality local government financial statements. It was assumed that the higher the educational level of the regional heads, the better their ability in managing the region, including in preparing regional financial statements. However, this study revealed that the educational background of regional heads did not cause any considerable effect on the quality of financial statements. This is likely because regional heads who have higher education do not have a degree and proficiency in accounting, business, or economic education background, which makes them have a low level of understanding the preparation and presentation of correct financial statements. On this basis, regional heads who have higher educational backgrounds do not necessarily have a better understanding of the government administration, especially related to financial statements.

Based on institutional theory, the educational background of regional heads is classified as normative isomorphism pressure because regional heads' education is a professional role in the attempt of adoption standard practices as required. Logically, the regional heads play an essential role in influencing the preparation and presentation of local government financial statements, because a higher level of education will help them to know and understand the preparation of quality regional financial statements.

The results of this study are not in line with the researchers' expectations that regional heads who have higher education levels will be better at producing quality financial statements. A different result, however, was revealed by Jaenudin and Chairunisa (2015) who stated that the higher level of education of leaders is positively correlated with the quality of local government financial reports because they can improve the performance of the employees

working in the financial section. In this way, the improvement in the performance of employees in the financial section can produce good quality financial statements.

Research by [Wungow et al. \(2016\)](#) demonstrated that not all employees who have a high level of education can understand and have the ability to solve problems in regional financial statements because many employees in each Regional Work Unit are placed not under their field of expertise, not to mention the lack of employees with the backgrounds of accounting as required for the position in the financial sectors. Employees with accounting backgrounds generally have a good understanding of accounting and financial reporting. A person is said to have a good understanding of accounting if he/she understands the process to carry out a good accounting to prepare for a proper financial statement that meets the principles and standards of financial statements as stipulated in the regulations (laws). The results of this study are in line with research by [Hanifah, Sarpingah, and Putra \(2020\)](#) which states that the latest education of regional heads does not affect the quality of local government financial statements.

4.5.2. The Effect of the Number of Civil Servants on the Quality of Local Government Financial Statements

The statistical tests prove that the number of civil servants was positively correlated with the quality of local government financial statements based on the p-value of 0.030, which was smaller than the alpha value of 0.05. In addition, the regression coefficient value was 0.627 with a positive direction. The results of this test are in line with the expectation that a higher number of civil servants will result in better quality financial statements than local governments with fewer civil servants. According to [Chen, Lam, and Zhu \(2021\)](#) the preparation and arrangement of quality financial statements require a lot of human resources who master government accounting. Human resource is a key factor in creating quality financial statements because only those having the mastery of Government Accounting Standards shall compile government financial statements. Financial statements must be submitted by the regional government consisting of one or more accounting entities. In this process, the regional head as the highest level of authority shall administer the regional government and regional financial management, and delegate his authority to be carried out by each civil servant in each district/municipality area. In the government structure in Indonesia, civil servants are accounting entities that are required to record transactions that occur within the local government environment. This shows that civil servants have the coercive power of pressuring local governments to carry out activities under predetermined plans and applicable regulations. This pressure includes the pressure exerted by civil servants on local governments to produce better quality financial statements as an indication of public accountability.

4.5.3. The Effect of Comparative Studies on the Quality of Local Government Financial Statements

The hypothesis testing proves that conducting comparative studies was not positively correlated with the quality of local government financial statements based on the p-value of 0.913, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that a comparative study shall improve employee performance, including in their performance to prepare good quality financial statements. The ineffectiveness of this variable is probably because the materials provided in the comparative study to improve the quality of the preparation of financial statements has not been effective. After all, the comparative study participants have different scientific experiences and competencies. Another possibility is due to different situations and conditions found during the process of adopting comparative study materials as implemented in the local government conducting comparative studies.

There are some obstacles in the implementation of a comparative study by a local government with poor quality financial statements to local governments that are considered to have better quality management and financial reporting. These obstacles may be due to several factors including the quality of human resources, infrastructure facilities, regulatory systems, and local government policies ([Ratnadila, 2018](#)). Related to this, the

local government needs to try to overcome these problems before deciding to conduct a comparative study in other regions.

In this regard, it is conclusive that there has not been a good process of mimetic pressure of isomorphism on the implementation of comparative studies between the local governments with poor financial reports to other local governments with better quality financial reports. There are no certain achievable positive outcomes of the local governments that have participated in comparative studies in the improvement in the quality of their financial statements because the comparative study activities do not cause a local government to take mimetic actions (imitate) the knowledge gained to make an optimal contribution to the region.

This study is in line with [Trawardani, Prasetya, and Mayowan \(2015\)](#) who demonstrated that comparative studies do not contribute positively to the quality of local government financial reports, because comparative studies have not been able to influence the work ability of employees which has an impact on improving government performance. Therefore, it can be concluded that comparative studies conducted by local governments in Indonesia have not been able to improve the quality of local government financial statements.

4.5.4. The Effect of Urbanization Level on the Quality of Local Government Financial Statements

The hypothesis testing proves that the urbanization level was not positively correlated with the quality of local government financial reports based on the p-value of 0.822, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that urban areas will produce good quality financial reports. It was assumed that the local governments with a higher level of urbanization would produce a better quality of financial reports given the higher level of political, social, and economic reform agendas and development programs as compared to non-urban areas ([Bambang, Pusparini, & Nurabiah, 2020](#)).

Based on the research, one possible factor to cause the lack of positive correlation between the level of urbanization and the quality of financial reports is the uneven distribution of the population with higher concentration in certain areas, which thus impedes the development of the whole community. The results of this study are in line with [Huda \(2015\)](#) which revealed that the level of urbanization did not contribute positively to the quality of local government financial statements. This finding does not support the institutional theory, since the level of urbanization does not cause an organization to be pressured by normative isomorphism to increase professionalism, especially related to improving the quality of local government financial statements.

4.5.5. The Effect of the Number of Local Parliamentarians on the Quality of Local Government Financial Statements

The hypothesis testing proves that the number of local parliamentarians was positively correlated with the quality of local government financial reports based on the p-value of 0.041, which was smaller than the alpha value of 0.05 and with the direction of the regression coefficient which was the same as the hypothesis. The results of this test are in line with the researcher's expectations that a greater number of local parliamentarians will result in better-quality financial statements. The local parliamentarian members are the people's representative who has a supervisory function and control the running of a government to ensure that it is by the aspirations of the people. In addition, they also have the task of supervising the implementation and reporting of local government financial information to create an accountable and transparent government. This shows that local parliamentarians have the power to pressure local governments to improve the quality of their financial statements. The institutional theory applies a coercive isomorphism pressure, as indicated by an external pressure given by local parliamentarians to local governments to improve the quality of their financial statements. Thus, it can be concluded that in this study the coercive pressure caused by the number of local parliamentarians can support the improvement in the quality of local government financial statements.

This is different from [Madelia \(2018\)](#) which revealed that a large number of local parliamentarians does not necessarily affect the better function and role in the supervisory process exercised by the local parliamentarians. Many issues regarding corruption committed by local parliamentarians have led to a decrease in government

performance which has a negative impact and results in a decrease in the performance of the quality of local government financial statements. Thus, it can be concluded that the quality of local parliamentarians is more important than the number of local parliamentarians to create a good supervisory function in government, resulting in the evidence that many local parliamentarians cannot improve the quality of local government financial statements.

4.5.6. The Effect of Intergovernmental Revenue on the Quality of Local Government Financial Statements

The results of statistical testing also prove that intergovernmental revenue (as a control variable) was not positively correlated with the quality of local government financial statements. This result is attributed to the fact that the central and local governments are no longer closely related during the decentralization, which may lead to a lack of special monitoring from the central government, especially regarding the quality of local government financial statements. There has been declining monitoring activity on local government financial performance because the result is not referred to in determining the regional fiscal imbalances. As a result, it does not encourage local governments to improve the quality of their financial statements. Thus, it can be concluded that the amount of intergovernmental revenue has not been able to improve the quality of local government financial statements.

5. CONCLUSION AND RECOMMENDATION

The research presented in this paper focuses on an empirical analysis of the veracity of isomorphic institutional theory to find factors that affect the quality of local government financial statements. In summary, from the three isomorphic components including coercive, mimetic, and normative, only coercive components have a significant effect on the quality of financial statements of Indonesian local governments. These components include the number of civil servants and the number of local parliamentarians. These coercive variables provide evidence that pressure from outside of the organization which includes the number of civil servants, and the number of local parliamentarian members are the dominant factor affecting the quality of local government financial statements in Indonesia. It has been proven in this study that the number of civil servants is positively correlated with the quality of local government financial statements. It means the quantity and competence of civil servants are indispensable in meeting various needs to ensure that the quality of financial statements is under applicable rules or regulations. This implies that the coercive pressure caused by a large number of civil servants can encourage the improvement of the quality of local government financial statements in Indonesia. In addition, this study also proves that the pressure arising from the number of local parliamentarians affects the quality of local government financial statements. This result shows that coercive pressure resulting from a large number of local parliamentarians has the power to pressure local governments to improve the quality of their financial statements.

These findings can be used as input for the Indonesian government in formulating public policy taking into account the potential factors that are expected to increase the strength of coercive pressure, such as creating more effective regulations that encourage the practice of preparing quality financial statements, or applying law enforcement more consistently. The lack of regulation and effective law enforcement is likely to contribute to the indifferent impact of the coercive variables used in research (civil servants and local parliamentarians), related to efforts to improve the quality of the Indonesian Regional Government Financial Report.

Moreover, empirical findings from this study are potentially important for regulatory bodies, professional accounting agencies, local governments, central governments, and users of local government financial statements. These findings can be applied to develop and improve public sector governance. In particular, these findings can be input for public policy making in calibrating the implementation of regulations on Government Accounting Standards in Indonesia ([Government Regulation No. 71 of 2010, 2010](#)) better in supporting the quality improvement of the Regional Government Financial Report in Indonesia.

Finally, from various previous discussions, the results of this study contribute to the public sector accounting literature in some important things. First, this research regarding the quality of financial statements in Indonesia

which is one of the first studies known to examine the quality of financial statements in the context of the local government by using the principle of isomorphic institutional theory. In the Indonesian environment, it is often stated that the Indonesian local government has shown financial statements that tend to decline in quality. However, there are very few empirical studies that provide evidence to support or deny this view. Therefore, the findings of this thesis are expected to be the basis for subsequent studies that examine institutional key factors related to improving the quality of financial statements. While from theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a useful framework for explaining the determinants of the quality of local government financial statements or other public sector entities, especially those related to the influence of coercive pressure.

Funding:
Competing Interests:
Acknowledgement:

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Determinants of the Quality of Local Government Financial Statements in Indonesia: Coercive Pressure Dominates

Abstract

Many Indonesian local governments' financial statements are still of concern. This fact is indicated by the poor audit results on the local government financial statements released by the Indonesian Supreme Audit Board (BPK). Using the perspective of institutional isomorphism theory, this study aims to examine various potential factors that affect the quality of Indonesian local government financial statements, including the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, and the number of local parliamentarians. This study used a sample of 220 local governments in Indonesia taken in 2018. The logistic regression analysis showed that the number of civil servants and the number of local parliamentarians significantly affect the quality of Indonesian local government financial statements. This highlights the influence of coercive pressures on the quality of financial statements in many Indonesian local governments. These findings can serve as input for the Indonesian government in formulating public policies, particularly regarding improving the quality of local government financial statements.

Keywords: Institutional isomorphism, number of civil servants, number of local parliamentarians, comparative studies, urbanization level, intergovernmental revenue, education level of the regional head.

Contribution/Originality: From a theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a theoretical framework to explain the practice of preparing qualified financial statements in public sector institutions. Furthermore, this study proves that coercive pressure dominates as a factor affecting the quality of local government financial statements in Indonesia.

1. INTRODUCTION

As one of the developing countries in Asia, Indonesia has recently reformed many aspects of its governmental sectors in the last decade, including reformation in the financial sector. The implementation of financial reforms along with the enactment of regional autonomy in Indonesia has changed the authoritative and centralized governance system into a good governance system that is under the applicable laws and regulations (Triggs et al., 2019). Before the reform, most of the government affairs in Indonesia were handled by the central government. The issuance of the law of reforms required that some of the government's household affairs be handled by local governments (Waliyyani & Makhmud, 2015). In the reform era, the local government is authorized to manage the local government, regional development, and provide community services. Thus, to maintain good governance, every Indonesian local government is required to realize transparent and accountable financial management (Maulana & Handayani, 2015).

Public accountability shall be achieved by complying with government accounting systems and standards to achieve good governance. The Local government financial statements are submitted to stakeholders in one period to realize transparent and accountable financial reports in local government financial management under Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances and Law of the Republic of Indonesia No. 9 2015 on Local Government.

The financial statements released by the local government will be referred by stakeholders in the decision-making process. Thus, the information contained in financial statements must be under the user's needs, provide benefit by supporting decision making, and can be easily understood by users (Safkaur et al., 2019). Accounting information in financial statements must comply with the Government Accounting Standards as stipulated in Government Regulation No. 71 of 2010, which is relevant, reliable, comparable, and understandable.

However, Mokoginta et al. (2017) noted that the quality of Indonesian local government financial statements is generally far below the standard requirements. In other words, the local government's financial statements are yet to meet the government's expectations, despite some quality improvements from year to year. In addition, Arifin (2020) revealed that the level of mandatory disclosure of local government financial statements in Indonesia is 62%, indicating that not all local governments have disclosed their financial statements to applicable regulations.

This study used the quality of the local government financial statements as the dependent variable based on the Indonesian Supreme Audit Board (BPK) audit of local government financial statements in several districts/municipalities in Indonesia. In particular, this study aims to address some factors to affect the quality of local government's financial statements. The predictor variables of this study were the number of local parliamentarians and the number of civil servants as a way to test the theory of coercive isomorphism. A comparative study variable was used to examine the applicability of mimetic isomorphism theory, while regional head education variables and the level of urbanization were used to examine the applicability of normative isomorphism theory.

The quality of financial accountability of a country or local government is revealed by an assessment carried out by a competent and independent institution (Ahmad & Saad, 2020). The Law of the Republic of Indonesia No. 17 of 2003 concerning State Finances has stipulated that local governments must be held accountable for the implementation of regional revenue and expenditure budget by submitting their financial statements to the local parliamentarians as a legislative body. As a legislative institution, a local parliamentarian is in charge of supervising the implementation of local government (Arifin et al., 2015). Many local parliamentarians are expected to improve the quality of supervision of local governments and contribute positively to the quality of financial statements. In addition to local parliamentarians' supervision, public accountability and trust in the information of the local government financial statements are enhanced by the audits of the Supreme Audit Board (BPK). The Supreme Audit Board is the only external financial examiner in Indonesia that has great authority to provide opinions on the financial statements of government institutions (Raba, 2017). The audit is carried out annually to assess and state the fairness of the financial information presented in the financial statements.

To obtain an unqualified opinion from the BPK, a local government may learn from other local governments that receive the unqualified opinion from the BPK through a

comparative study. Such a method is believed to provide additional knowledge in dealing with changes or adjustments to the work system in the future (Wungow et al., 2016). Comparative studies allow the government to improve the system, enhance quality, determine new policies, and add insight related to the quality of financial reports (Rudyanto, 2019).

In addition, every financial manager must gain an insight into the quality financial statements to ensure that the submitted financial statements are free from material misstatement. Education is one indicator of quality human resources. A high level of education can assist the apparatus in completing their tasks, including the preparation of high-quality and on-time local government budget and financial statements (Erlina et al., 2017).

Furthermore, Suhardjanto and Yulianingtyas (2011) revealed that the number of civil servants as the state apparatus can serve as the potential determinant of the quality of financial statements in government organizations. The number of civil servants represents the number of prioritized affairs for local governments to develop the area. The larger the number of affairs of a certain region, the greater the number of civil servants who shall prepare the financial reports of each affair. The achievement of good financial reports cannot be separated from the rules and regulations of the organization. An organization with a large number of employees will generally apply many rules and regulations, but this larger number of employees also can better provide more public services.

Another factor to affects the quality of local government financial statements is the level of urbanization. The government needs to support the increasing population in urban areas by implementing development programs to empower the population for the good sake of the community. Development programs in some developed areas are the right answer to trigger economic growth. The better development programs resulted in a higher level of financial statement compliance of the metropolitan areas to the government standards. As a result, urban areas serve as a magnetic attraction for people who have higher education, which eventually leads to higher and progressive demands for public, social, and economic reform agendas in the densely populated urban areas (Ratmono, 2013). Thus, urbanization is a natural process of change to improve the quality of financial statements.

Broadly speaking, this study examines several key variables assumed to affect the quality of Indonesian local government financial statements. Three main important aspects are addressed in this study. First, this study used an institutional isomorphism theory to examine the quality of local government financial statements, since this theory has a broader perspective than other theories, especially to examine the quality of local government financial statements (Martínez-Ferrero & García-Sánchez, 2017). Second, this research was conducted in Indonesia, since this country is known for its unique government structure consisting of some tiers, ranging from the central government, provincial government, and local government that manages districts and municipalities. This study focused on the financial statements of the district and municipal levels, which in this study are referred to as local governments. Third, this study used the number of civil servants working in local governments as one of the predictor variables. The use of a predictive variable aims to measure the effect of a reduction in the number of employees in each local government in Indonesia due to the introduction of information technology in local governments.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Previous Studies and Discussion of Institutional Theory

There have been many studies on the quality of financial statements in public sector organizations by adopting various basic theories, for example, Legitimacy theory (Ali et al., 2021; Deegan, 2019; Hassan & Guo, 2017), Stakeholder theory (Rudyanto & Siregar, 2018); Beske et al., 2020; Zhang et al., 2019), Agency theory (Shahzad et al., 2019; Goebel, 2019; Nirwana & Haliah, 2018), Stewardship theory (Camilleri, 2018; Dumay & Cai, 2015), Institutional theory (Vitolla et al., 2020; Carungu et al., 2021; Simoni et al., 2020). Of these several theories, agency theory and institutional theory are the most frequently used theories to predict potential factors that affect financial statements.

According to DiMaggio and Powell (1983) organizations are formed by the surrounding institutional environment. Influential ideas from the surrounding area were then institutionalized and considered valid and accepted as the way of thinking of the organization. To legitimate this way of thinking, the organizations apply some pressure by way of regulations and statements. Institutional theory is known for its assertion of organizations as mere symbols and rituals.

In terms of organizational studies, many researchers have often used the institutional theory as the basic research framework. The institutional theory states that institutions outside the organization may influence organizational behavior or decisions taken by the organization. This fact is also held by Boxenbaum and Jonsson (2017) who believed that the considerable impact of external pressure has forced organizations to survive by seeking to adapt to the condition, an attempt known as isomorphism. Isomorphism in particular refers to a process of pushing one unit in a population to resemble another unit in the face of the same environmental conditions. Institutional theory means that the existence of an organization is influenced by normative pressures arising from external or internal sources (Hyatt & Berente, 2017). Institutional theory is usually referred to as explaining action and decision-making in a public organization (Alvesson & Spicer, 2019).

The institutional theory explains that organizations that prioritize legitimacy will tend to try to conform to external expectations or social expectations where the organization is located. As a result of the adjustment to external or social expectations, organizations tend to separate their internal activities and focus on systems that are symbolic of external parties. Public organizations that tend to gain legitimacy may have similarities or isomorphism with various other public organizations. Isomorphism is the process of pushing one unit into the population to imitate other units in the face of similar environmental conditions (Abouassi & Bies, 2018).

Institutional theory predicts that if organizations can imitate other organizations because of institutional pressure, the pressure will cause the need to adapt to the environment by applying three forms of changes or efforts of the organization. The first form is a coercive isomorphism, namely the process of adjustment towards equality by way of "coercion" of the powerful stakeholders. This form of adaptation will draw the responding organization to be highly dependent. For example, pressure comes because government regulations have sanctions for those who violate them. The second type is a mimetic isomorphism, or the process of imitating other organizations that are successful in one field, not because of encouragement, but because of ambiguous goals or symbiotic environmental uncertainty (Hwang & Choi, 2017). Therefore, organizations in this type of adaptation will tend to make themselves the same model as other organizations and

encourage other organizations to imitate them. According to Alsharari (2019), the process of imitating other organizations normally occurs in an uncertain environment. For example, other countries have been attempting to imitate the Scandinavian government management because it is considered successful. Third, normative isomorphism refers to the role of a group that is often associated with professionalism and struggles for adoption practices that should be carried out.

2.2. Financial Statements Quality

To ensure the benefits for their users, the financial statements are required to provide high-quality information which is very useful for decision making (Stolowy & Paugam, 2018). The quality of the Indonesian financial statements of government institutions can be measured using the opinion of the Indonesian auditor institution, namely the Supreme Audit Board (BPK). The opinion by the Indonesian Supreme Audit Board on the financial statements is provided by conforming to the Law of the Republic of Indonesia No. 15 of 2004 concerning the Audit of State Finance Management and Accountability. Article 16 paragraph 1 of the law explains that opinion is an auditor's professional statement regarding the fairness of financial information that has been presented in financial statements based on criteria; compliance with government accounting standards, adequate disclosure, compliance with laws and regulations, and the effectiveness of the internal control system. The opinion given by the Supreme Audit Board (BPK) must also consider the level of conformity, adequate disclosure of financial statements related to the predetermined materiality level, and follow-up on the results of the examination in the previous year (Habiby, 2020).

The quality of financial statements as measured using BPK's opinion, according to institutional theory can be seen as a socially acceptable practice to gain legitimacy from their institutional context (Adiputra et al., 2018). The BPK's opinion obtained by the local government is intended to gain legitimacy from the community, the central government, or other organizations that the local government has the ability and good commitment to producing quality financial statements.

In this study, audit opinions are divided into 2 types, namely unqualified opinions which reflect very good audit results, and qualified opinions which reflect audit results that are not so good. An unqualified opinion is given when the financial statements have presented all material respects fairly and are under generally accepted accounting principles. In contrast, qualified opinion is given when the financial statements have presented all financial statements fairly in all material respects, under generally accepted accounting principles, but with several exclusions (Ardi et al., 2019). The quality of financial statements influences accountability because good quality financial statements will lead to accountability of the submitted financial statements (Setyowati et al., 2016).

2.3. Hypotheses Related to Coercive Isomorphism

2.3.1. The Number of Local Parliamentarians

This study examines the predictor variables for the number of local parliamentarians in the framework of coercive isomorphism. The number of local parliamentarians as a research variable has been used in several previous kinds of research on public sector organizations as a strong determinant, for example, to test the level of financial statement disclosure (Arifin et al., 2015); and (Nurlianto & Aswar, 2020).

In the perspective of institutional theory, coercive pressure refers to pressure from external parties to improve the quality of local government financial reports. Research by Murtini et al. (2021) revealed that there is potentially great pressure from parliamentarians to make disclosures of local government financial statements. In line with the aspect of coercive isomorphism in institutional theory, local parliamentarians are considered to have the power to pressure local government administrators to be in line with the community's aspirations. Therefore, this study used the number of local parliamentarians as a predictor to measure the quality of financial reports.

As the people's representative, the local parliamentarian has a supervisory function to control the running of the government to make sure that it is in line with the community aspirations and other functions. The members of local parliamentarians supervise the implementation and reporting of local government financial information to better improve the transparency and accountability of the local government's financial reports. Therefore, it is assumed that the higher number of local parliamentarians can help better prepare and present accountable financial reports since there will be better supervision, feedback, and encouragement to local governments to make the best use of their existing budget properly (Bolívar et al., 2018).

In the perspective of institutional theory, the supervisory function by the local parliamentarians serves as a coercive pressure from external parties to local governments to change their accountability system to result in higher quality local government financial reports. Logically, the greater the number of local parliamentarians, the stronger the coercive pressure on the behavior of local governments in producing quality financial statements.

Article 21 of the Law of the Republic of Indonesia No. 15 of 2004 concerning Local Financial Management stipulated that the local parliamentarians could ask the local government to carry out a follow-up on the results of the audit to improve the quality of its financial reports. Thus, an increasing number of local parliamentarians can potentially improve the quality of financial reports. Based on this description, the following research hypothesis is proposed:

H₁: The number of local parliamentarians is positively correlated with the quality of local government financial statements.

2.3.2. The Number of Civil Servants

This study also used another predictor variable in the coercive isomorphism framework, namely the number of civil servants. Coercive pressure refers to the need for an organization to apply certain norms due to the pressure from other organizations or society. In this case, the number of civil servants is one of the potential variables that may have a coercive pressure since there will be some pressures from the government executives as one of the users of financial statements.

The number of civil servants describes the number of affairs to be prioritized by local governments in regional development. In this context, the greater number of government affairs, the more complex the government structure. The more complex a government structure, the greater number of civil servants. As a result, the more the number of civil servants, the more information is disclosed as a way to reduce asymmetry information and as a way to show better performance (Martínez-Ferrero & García-Sánchez, 2017). Thus, the larger number of civil servants is expected to result in higher

fulfillment of local government financial statement disclosures with better quality of financial statements (Khasanah & Rahardjo, 2014).

The Indonesian Government Regulation No.71 of 2010 concerning Government Accounting Standards has stipulated the obligation for the local governments to submit an accountability report in the form of financial statements. In this case, the local government is one of the reporting entities and a government unit consisting of one or more accounting entities. From this definition, the accounting entity refers to a civil servant or local work unit. In the Indonesian government structure, civil servants are accounting entities that are required to record transactions that occur within government institutions. Thus, a more number of civil servants results in a more complex government unit, which is expected to achieve a better quality of the financial statements (Hermansyah & Marlina, 2019).

Logically, the more functional differentiation within the local government can increase the available ideas, information, and innovations regarding the quality of good financial reports. Furthermore, Pradono and Basukianto (2015) also revealed that the greater number of civil servants in a government organization will improve the performance of the government organization. Based on the given description, the following research hypothesis is proposed:

H₂: The number of civil servants is positively correlated with the quality of local government financial statements.

2.4. Hypothesis Related to Mimetic Isomorphism

2.4.1. Comparative Study

The predictor variable in the mimetic isomorphism framework in this study is the implementation of a comparative study by one local government to another local government. The implementation of comparative study is closely related to the pressure of mimetic isomorphism. In this case, when a local government is facing uncertainty or an unsolved problem, the comparative study provides one way to solve the existing problems. The comparative study enables one local government to imitate the practices of other local governments as the object of a comparative study. This comparative study is generally applied to organizations that are seen to have better achievement and gain better legitimacy than the organizations that imitate them.

Comparative studies are the process of extracting certain knowledge from other locations and institutions to be applied and developed in their institution. Comparative studies are part of competency development and employee career development through increased knowledge and skills (Bach & Veit, 2017). A comparative study is an educational process carried out by an organization or company, which enables a short-term learning process to improve insight, attitudes, and skills, as well as knowledge to be applied for future betterment. These activities are known to be useful for the need for future developments to meet the expected outcome.

The comparative study in terms of local government organizations is intended to dig up information, add insight about other local governments, compare the performance of other local governments that have good quality financial statements, and transfer knowledge on the way to achieve the unqualified opinion from the Indonesian Supreme Audit Board (BPK) on their financial statements. This fact was revealed by (Zhang & Zhao, 2019) in their research, which stated that comparative studies can improve

employee performance. Thus, the improvement in employee performance can produce higher-quality financial statements. Based on the above-mentioned description, the following hypothesis is proposed in this study:

H₃: Comparative studies are positively correlated with the quality of local government financial statements.

2.5. Hypotheses Related to Normative Isomorphism

2.5.1. Regional Head's Educational Background

The next predictor variable is the educational background of the regional head. This variable is included in the framework of normative isomorphism, which is associated with the homogenization process of the organization through the educational process and the association of professional organizations. Within the framework of normative isomorphism, it is explained that a person or an organization adopts various forms because of the professional demands of the organization.

Education is a process of changing the attitudes and behavior of a person or group as an effort to increase the maturity level of a person through teaching and training (Kroesen et al., 2017). Education can enhance someone's knowledge abilities and improve his/her quality because educated people are expected to think and act more rationally and understand the duties and responsibilities assigned to them more appropriately. Employees with good self-acknowledgment should be able to improve their performance and produce work reports of better quality (Jonker & Botma, 2012). Panagiotakopoulos (2020) further stated that in terms of job completion, educational background and level serve as considerable important factors that affect job completion.

Someone with a formal educational background has more complex information because the level of education can reflect the individual's self-acknowledgment and skills (Pratiwi & Aryani, 2017). Education in a particular field (specialization) will increase knowledge and confidence in areas related to one's work (Carr et al., 2018). Increasing knowledge and skills are part of an educational path that can enhance one's competence and career development (Jafari-Sadeghi et al., 2019). In other words, educational background plays an essential role in enhancing the quality of a person.

The regional head plays a central and strategic role in the government system at the regional level. As a leader, the regional head shall direct the thoughts and opinions of members of the organization, guide, set organizational goals, motivate members of the organization to conform to organizational goals, influence, and supervise members of the group he leads. The Law of the Republic of Indonesia No. 32 of 2004 concerning Local Government stipulates those regional heads are regional leaders who are required and authorized to lead the administration of local governments. In addition, regional heads are in power in regional financial management, and they are required to be able to produce financial reports of the organizations they lead under applicable government accounting regulations and standards. Logically, regional heads with a higher educational background will find it easier to understand and apply all kinds of existing regulations, including government accounting standards in the presentation of financial statements.

The level of education indicates a person's level of professionalism in carrying out their duties. Therefore, an adequate level of education allows a person to carry out their duties more easily in good financial management (Abualoush et al., 2018). A high level of education potentially can improve employee performance. Hence, increasing employee performance increases may lead to the production of good quality financial reports

(Maqbool & Zameer, 2018). Based on this description, the following hypothesis is proposed:

H₄: The education level of the regional head is positively correlated with the quality of local government financial statements.

2.5.2. The Level of Urbanization

The last predictor variable in this study is the level of urbanization. Urbanization is popularly defined as the movement of people from rural to urban areas. Several studies and data show that the more advanced the level of a country's economy, the higher the level of urbanization (Zheng & Walsh, 2019). Thus, urbanization is a natural phenomenon in line with the development and economic growth and the level of welfare of the population in a country.

According to Masoumi et al. (2018), urbanization is not merely a population-related phenomenon, but in a broader scope, urbanization is seen as a political, social, cultural, and economic phenomenon. There is a tendency that some big cities will grow and develop, then form mega-scale level cities known as metropolitan cities. Urbanization and economic factors will certainly lead to some significant changes in all aspects, such as population, politics, culture, social, technology, environmental resources, and historical results (Zhang & Zhao, 2019). Urban development and urbanization are strongly influenced by economic development in the area. Thus, the more advanced the economic level of an area, the higher the level of urbanization. Hence, this condition will have an impact on increasing public accountability in the area and will result in a better quality of financial statements from the region.

In this context, the variable of the level of urbanization is classified in the normative isomorphism framework, since the higher level of urbanization certainly requires more need for special skills, education, and adequate experience has given the high level of competitiveness in urban areas that require a higher level of professionalism. Someone who does not have special expertise or experience will certainly be displaced from the existing professional competition.

In addition, urban areas have a higher population density, thus enabling them to have more legislators and a more educated population than non-urban areas. Therefore, urban areas generally have higher and more progressive demands for political, social, and economic reform agendas (Yoshida, 2020). Based on the institutional theory, it can be argued that the demand for normative isomorphisms, such as the quality of financial statements will be better for local governments with higher urbanization rates. Given the above-mentioned description, the following hypothesis is proposed in this study:

H₅: The level of urbanization is positively correlated with the quality of local government financial statements.

2.6. Control Variable

2.6.1. Intergovernmental Revenue

Intergovernmental revenue or the level of dependence on the central government is the amount of local government revenue obtained from central government transfers to local governments to finance regional government operations. It also refers to funds given by the central government in the form of balancing funds (Girsang & Yuyetta, 2015).

According to Marhawai (2015), the fiscal imbalances result from the central government's policy in the field of fiscal decentralization for the sake of fiscal imbalances between the central and regional governments. The central government will demand that local governments make sufficient disclosures with supporting information as a basis for monitoring the performance of local governments on the use of transfer funds. The level of dependence of local governments on the central government can make local governments comply with applicable regulations (Cohen & Hlepas, 2017). In this regard, local governments are encouraged to increase the transparency of the funds they receive to increase the trust of the central government and to demonstrate compliance with relevant regulations. In this study, intergovernmental revenue is used as a control variable, which is measured using total balancing funds divided by total income.

3. RESEARCH METHODOLOGY

3.1. Population and Sample

The research population of this study is the district/municipality government in Indonesia totaling 540 districts/municipalities in the 2018 fiscal year, which have been audited by the Indonesian Supreme Audit Board (BPK) and met the required information related to the research variables.

Samples were selected using purposive sampling method based on the following criteria: the Indonesian local governments that have official websites containing information about government financial statements and audit results in the form of opinions from auditors, information on regional head profiles, data on the number of civil servants, urbanization levels, as well as information on the number of local parliamentarians. Based on these criteria, 220 research samples were selected.

3.2. Dependent Variable

According to the problem under study, the variable quality of local government financial statements in Indonesia was measured by point 1 if the local government obtained an unqualified opinion (good) and point 0 if the district/municipality government received a qualified opinion (not good).

3.3. Independent Variables

3.3.1. Educational Background of Regional Heads

Education is essential for human life because it allows a person to enhance his potential to realize expected personality, intelligence, and skills. The higher the level of education, the more complex the knowledge, skills, and experience they have. In this study, the element of the regional head's education level is seen from the highest level of formal education completed by the regional heads.

3.3.2. Number of Civil Servants

The website of the Central Bureau of Statistics provides data on the number of civil servants in each local government in Indonesia. According to Government Regulation of the Republic of Indonesia No. 71 of 2010 concerning Government Accounting Standards, it is stated that civil servants are an accounting entity that has the task of managing the budget, assets, and the obligation to carry out accounting and present financial statements based on applicable rules and standards.

$$\text{Civil Servants} = \text{LN (Number of Civil Servants)}$$

3.3.3. Comparative Studies

The comparative studies in this context are emphasized to improve the civil servants' ability to do more specific jobs, especially those related to accounting and finance. The comparative study variable in this study is measured based on the following measurements: 1 point if the local government conducts a comparative study and 0 points if the local government does not conduct a comparative study.

3.3.4. Urbanization Level

Urbanization is generally defined as the movement of people from rural areas to cities. The level of urbanization is proxied by the natural logarithm (Ln) of the population density per km². This measurement is done because there has been a large gap in population density from one local government to another, which can lead to an extremely different level of urbanization.

$$\text{URBANIZATION} = \text{LN (Population Density per Km}^2\text{)}$$

3.3.5. Number of Local Parliamentarians

The number of local parliamentarians in this study is used as a proxy in measuring legislative size. The number of local parliamentarians is proxied by the natural logarithm (Ln) of the number of local parliamentarians. The measurement is done because there has been a significant difference in the number of local parliamentarians from one local government to another, which can lead to extremely different values.

$$\text{Local Parliamentarians} = \text{LN (Number of local parliamentarians)}$$

3.4. Control Variables

3.4.1. Intergovernmental Revenue

Intergovernmental revenue is a type of local government revenue generated from transfers from the central government to local governments to finance local government operations. In this research, the author used the following formula to compare total revenue as a way to measure intergovernmental revenue (Xiao, 2020):

$$IGROV = \frac{\text{Total Fiscal Imbalances}}{\text{Total Revenue}}$$

4. DATA ANALYSIS

The purpose of this study was to determine the effect of the educational background of regional heads, the number of civil servants, comparative studies, the level of urbanization, the number of local parliamentarians, and intergovernmental revenue on the quality of local government financial statements. It analyzed the data derived from 220 local government financial statements in districts/municipalities in Indonesia in 2018 that have met the predetermined criteria. These data were included in local government financial statements.

4.1. Descriptive Statistical Analysis

The independent variables in this study were the educational background of regional heads, the number of civil servants, comparative study activities, the level of urbanization, and the number of local parliamentarians, while the intergovernmental revenue was a control variable. Furthermore, the quality of local government financial statements was determined as the dependent variable. These variables were tested statistically descriptively as shown in Table 1 below:

Table 1. Descriptive Statistical Analysis

Variables	n	Minimum	Maximum	Mean	Standard Deviation
Educational background of regional heads	220	1	4	2,78	1,001
Number of civil servants	220	524	20580	6118	3760,251
Comparative studies	220	0	1	0,71	0,456
Urbanization level	220	2,99	13340,00	2108,75	2887,61
Number of local parliamentarians	220	18	50	36,07	10,463
Intergovernmental revenue	220	0,063	1,229	0,50485	0,166105
Local government financial report quality (BPK opinion)	220	0	1	0,84	0,368

4.2. Testing the Feasibility of the Regression Model

Hosmer and Lemeshow's Goodness of fit test is shown in Table 2 below:

Table 2. Regression Model Feasibility Test Results

Step	Chi-square	df	Sig.
1	3,651	8	0,885

Table 2 indicates that the feasibility criteria of the model tested by Hosmer and Lemeshow's goodness of fit test is met by the chi-square of 3.651 with a significant probability of 0.885. A significance value greater than 0.05 causes the H_0 hypothesis to fail to be rejected. This means that there is no difference between the estimation data of the logistic regression model and the observation data, so the model is feasible and

appropriate to use. Therefore, it can be concluded that the model used in the research, in general, is said to be appropriate and feasible.

4.3. Logistic Regression Analysis

Logistic regression model analysis was conducted to determine how the probable occurrence of the dependent variable can be predicted with the independent variable, which gives a reason to conduct this analysis. Table 3 shows the results of the regression model coefficient analysis.

Table 3. Results of Regression Model Analysis

	B	S.E.	Wald	df	Sig.	Exp (B)
Step 1 ^a ZX1	-,061	,303	,040	1	,812	,941
ZX2	,627	,441	2,124	1	,030	,526
ZX3	,035	,281	,015	1	,913	1,034
ZX4	,042	,311	,017	1	,822	1,043
ZX5	,615	,480	1,802	1	,041	1,904
ZX6	-,461	,298	2,401	1	,122	,630
Constant	1,787	,304	34,614	1	,000	5,974

Legend: ZX1: Educational background of regional heads; ZX2: Number of civil servants; ZX3: Comparative studies; ZX4: Level of urbanization; ZX5: Number of local parliamentarians.

The data analysis in this study obtained the following regression model:

$$Y = 1,787 - 0,061 ZX1 + 0,627 ZX2 + 0,035 ZX3 + 0,042 ZX4 + 0,615 ZX5 - 0,461 ZX6$$

4.4. Hypotheses Testing

Table 4 below describes the results of hypotheses testing in this study.

Table 4. Summary of Hypotheses Testing Results

Hypothesis	Descriptive	B	Sig (p-value)	Results
H ₁	Educational background of regional heads	-0,061	0,812	Not Supported
H ₂	Number of civil servants	0,627	0,030	Supported
H ₃	Comparative studies	0,035	0,913	Not Supported
H ₄	Level of urbanization	0,042	0,822	Not Supported
H ₅	Number of local parliamentarians	0,615	0,041	Supported

4.5. Discussion

4.5.1. The Effect of Educational Background of Regional Heads on the Quality of Local Government Financial Statements

The hypothesis testing proves that the educational background of regional heads was not positively correlated with the quality of local government financial reports based

on the p-value of 0.812, which was greater than the alpha value of 0.05 and the different direction of the coefficient. This result indicates that the higher the educational level of the regional head does not correspond to their ability in preparing good quality local government financial statements. It was assumed that the higher the educational level of the regional heads, the better their ability in managing the region, including in preparing regional financial statements. However, this study revealed that the educational background of regional heads did not cause any considerable effect on the quality of financial statements. This is likely because regional heads who have higher education do not have a degree and proficiency in accounting, business, or economic education background, which makes them have a low level of understanding the preparation and presentation of correct financial statements. On this basis, regional heads who have higher educational backgrounds do not necessarily have a better understanding of the government administration, especially related to financial statements.

Based on institutional theory, the educational background of regional heads is classified as normative isomorphism pressure because regional heads' education is a professional role in the attempt of adoption standard practices as required. Logically, the regional heads play an essential role in influencing the preparation and presentation of local government financial statements, because a higher level of education will help them to know and understand the preparation of quality regional financial statements.

The results of this study are not in line with the researchers' expectations that regional heads who have higher education levels will be better at producing quality financial statements. A different result, however, was revealed by Jaenudin and Chairunisa (2015) who stated that the higher level of education of leaders is positively correlated with the quality of local government financial reports because they can improve the performance of the employees working in the financial section. In this way, the improvement in the performance of employees in the financial section can produce good quality financial statements.

Research by Wungow et al. (2016) demonstrated that not all employees who have a high level of education can understand and have the ability to solve problems in regional financial statements because many employees in each Regional Work Unit are placed not under their field of expertise, not to mention the lack of employees with the backgrounds of accounting as required for the position in the financial sectors. Employees with accounting backgrounds generally have a good understanding of accounting and financial reporting. A person is said to have a good understanding of accounting if he/she understands the process to carry out a good accounting to prepare for a proper financial statement that meets the principles and standards of financial statements as stipulated in the regulations (laws). The results of this study are in line with research by Hanifah et al. (2020) which states that the latest education of regional heads does not affect the quality of local government financial statements.

4.5.2. The Effect of the Number of Civil Servants on the Quality of Local Government Financial Statements

The statistical tests prove that the number of civil servants was positively correlated with the quality of local government financial statements based on the p-value of 0.030, which was smaller than the alpha value of 0.05. In addition, the regression coefficient value was 0.627 with a positive direction. The results of this test are in line with the expectation that a higher number of civil servants will result in better quality financial statements than local governments with fewer civil servants. According to Chen et al.

(2020), the preparation and arrangement of quality financial statements require a lot of human resources who master government accounting. Human resource is a key factor in creating quality financial statements because only those having the mastery of Government Accounting Standards shall compile government financial statements. Financial statements must be submitted by the regional government consisting of one or more accounting entities. In this process, the regional head as the highest level of authority shall administer the regional government and regional financial management, and delegate his authority to be carried out by each civil servant in each district/municipality area. In the government structure in Indonesia, civil servants are accounting entities that are required to record transactions that occur within the local government environment. This shows that civil servants have the coercive power of pressuring local governments to carry out activities under predetermined plans and applicable regulations. This pressure includes the pressure exerted by civil servants on local governments to produce better quality financial statements as an indication of public accountability.

4.5.3. The Effect of Comparative Studies on the Quality of Local Government Financial Statements

The hypothesis testing proves that conducting comparative studies was not positively correlated with the quality of local government financial statements based on the p-value of 0.913, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that a comparative study shall improve employee performance, including in their performance to prepare good quality financial statements. The ineffectiveness of this variable is probably because the materials provided in the comparative study to improve the quality of the preparation of financial statements has not been effective. After all, the comparative study participants have different scientific experiences and competencies. Another possibility is due to different situations and conditions found during the process of adopting comparative study materials as implemented in the local government conducting comparative studies.

There are some obstacles in the implementation of a comparative study by a local government with poor quality financial statements to local governments that are considered to have better quality management and financial reporting. These obstacles may be due to several factors including the quality of human resources, infrastructure facilities, regulatory systems, and local government policies (Ratnadila, 2018). Related to this, the local government needs to try to overcome these problems before deciding to conduct a comparative study in other regions.

In this regard, it is conclusive that there has not been a good process of mimetic pressure of isomorphism on the implementation of comparative studies between the local governments with poor financial reports to other local governments with better quality financial reports. There are no certain achievable positive outcomes of the local governments that have participated in comparative studies in the improvement in the quality of their financial statements because the comparative study activities do not cause a local government to take mimetic actions (imitate) the knowledge gained to make an optimal contribution to the region.

This study is in line with Trawardani et al. (2015) who demonstrated that comparative studies do not contribute positively to the quality of local government financial reports, because comparative studies have not been able to influence the work ability of employees which has an impact on improving government performance.

Therefore, it can be concluded that comparative studies conducted by local governments in Indonesia have not been able to improve the quality of local government financial statements.

4.5.4. The Effect of Urbanization Level on the Quality of Local Government Financial Statements

The hypothesis testing proves that the urbanization level was not positively correlated with the quality of local government financial reports based on the p-value of 0.822, which was greater than the alpha value of 0.05. The results of this test are not in line with the researchers' expectations that urban areas will produce good quality financial reports. It was assumed that the local governments with a higher level of urbanization would produce a better quality of financial reports given the higher level of political, social, and economic reform agendas and development programs as compared to non-urban areas (Bambang et al., 2020).

Based on the research, one possible factor to cause the lack of positive correlation between the level of urbanization and the quality of financial reports is the uneven distribution of the population with higher concentration in certain areas, which thus impedes the development of the whole community. The results of this study are in line with Huda (2015) which revealed that the level of urbanization did not contribute positively to the quality of local government financial statements. This finding does not support the institutional theory, since the level of urbanization does not cause an organization to be pressured by normative isomorphism to increase professionalism, especially related to improving the quality of local government financial statements.

4.5.5. The Effect of the Number of Local Parliamentarians on the Quality of Local Government Financial Statements

The hypothesis testing proves that the number of local parliamentarians was positively correlated with the quality of local government financial reports based on the p-value of 0.041, which was smaller than the alpha value of 0.05 and with the direction of the regression coefficient which was the same as the hypothesis. The results of this test are in line with the researcher's expectations that a greater number of local parliamentarians will result in better-quality financial statements. The local parliamentarian members are the people's representative who has a supervisory function and control the running of a government to ensure that it is by the aspirations of the people. In addition, they also have the task of supervising the implementation and reporting of local government financial information to create an accountable and transparent government. This shows that local parliamentarians have the power to pressure local governments to improve the quality of their financial statements. The institutional theory applies a coercive isomorphism pressure, as indicated by an external pressure given by local parliamentarians to local governments to improve the quality of their financial statements. Thus, it can be concluded that in this study the coercive pressure caused by the number of local parliamentarians can support the improvement in the quality of local government financial statements.

This is different from Madelia (2018), which revealed that a large number of local parliamentarians does not necessarily affect the better function and role in the supervisory process exercised by the local parliamentarians. Many issues regarding corruption committed by local parliamentarians have led to a decrease in government performance

which has a negative impact and results in a decrease in the performance of the quality of local government financial statements. Thus, it can be concluded that the quality of local parliamentarians is more important than the number of local parliamentarians to create a good supervisory function in government, resulting in the evidence that many local parliamentarians cannot improve the quality of local government financial statements.

4.5.6. The Effect of Intergovernmental Revenue on the Quality of Local Government Financial Statements

The results of statistical testing also prove that intergovernmental revenue (as a control variable) was not positively correlated with the quality of local government financial statements. This result is attributed to the fact that the central and local governments are no longer closely related during the decentralization, which may lead to a lack of special monitoring from the central government, especially regarding the quality of local government financial statements. There has been declining monitoring activity on local government financial performance because the result is not referred to in determining the regional fiscal imbalances. As a result, it does not encourage local governments to improve the quality of their financial statements. Thus, it can be concluded that the amount of intergovernmental revenue has not been able to improve the quality of local government financial statements.

5. CONCLUSION AND RECOMMENDATION

The research presented in this paper focuses on an empirical analysis of the veracity of isomorphic institutional theory to find factors that affect the quality of local government financial statements. In summary, from the three isomorphic components including coercive, mimetic, and normative, only coercive components have a significant effect on the quality of financial statements of Indonesian local governments. These components include the number of civil servants and the number of local parliamentarians. These coercive variables provide evidence that pressure from outside of the organization which includes the number of civil servants, and the number of local parliamentarian members are the dominant factor affecting the quality of local government financial statements in Indonesia. It has been proven in this study that the number of civil servants is positively correlated with the quality of local government financial statements. It means the quantity and competence of civil servants are indispensable in meeting various needs to ensure that the quality of financial statements is under applicable rules or regulations. This implies that the coercive pressure caused by a large number of civil servants can encourage the improvement of the quality of local government financial statements in Indonesia. In addition, this study also proves that the pressure arising from the number of local parliamentarians affects the quality of local government financial statements. This result shows that coercive pressure resulting from a large number of local parliamentarians has the power to pressure local governments to improve the quality of their financial statements.

[These \[JA1\]](#) findings can be used as input for the Indonesian government in formulating public policy taking into account the potential factors that are expected to increase the strength of coercive pressure, such as creating more effective regulations that encourage the practice of preparing quality financial statements, or applying law enforcement more consistently. The lack of regulation and effective law enforcement is likely to contribute to the indifferent impact of the coercive variables used in research

(civil servants and local parliamentarians), related to efforts to improve the quality of the Indonesian Regional Government Financial Report.

Moreover, empirical findings from this study are potentially important for regulatory bodies, professional accounting agencies, local governments, central governments, and users of local government financial statements. These findings can be applied to develop and improve public sector governance. In particular, these findings can be input for public policy making in calibrating the implementation of regulations on Government Accounting Standards in Indonesia (Government Regulation No. 71 of 2010) better in supporting the quality improvement of the Regional Government Financial Report in Indonesia.

Finally, from various previous discussions, the results of this study contribute to the public sector accounting literature in some important things. First, this research regarding the quality of financial statements in Indonesia which is one of the first studies known to examine the quality of financial statements in the context of the local government by using the principle of isomorphic institutional theory. In the Indonesian environment, it is often stated that the Indonesian local government has shown financial statements that tend to decline in quality. However, there are very few empirical studies that provide evidence to support or deny this view. Therefore, the findings of this thesis are expected to be the basis for subsequent studies that examine institutional key factors related to improving the quality of financial statements. While from theoretical perspective, this study provides evidence to support the use of isomorphic institutional theory as a useful framework for explaining the determinants of the quality of local government financial statements or other public sector entities, especially those related to the influence of coercive pressure.

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