



Financial Reporting Quality and Accrual Accounting Disclosures: An Empirical Study on Regional Governments in Indonesia

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Abstract

Objective –This research aims to investigate the quality of financial reporting and the extent of accrual accounting disclosure in Indonesia. Additionally, it examines the influence of capital expenditure budget, size, and age on the quality of financial reporting, with accrual accounting disclosure acting as a mediator.

Design/Methodology –The study was conducted by performing a textual analysis of 380 regional government financial reports in Indonesia. Data analysis was executed using the SEM-PLS method, facilitated by SmartPLS version 3.

Results – Although no LGFS achieved a perfect score for reporting quality, there was a notable improvement in the quality of financial reporting and accrual-based accounting disclosures in the LGFS from 2017 to 2021. The capital expenditure budget, the age of the local government and accrual accounting disclosures significantly affect the quality of financial reporting. Furthermore, accrual accounting disclosures mediate the effect of local government size on the quality of financial reporting.

Research limitations/implications –This research does not yet fully capture the quality of financial reporting and accrual accounting disclosures in Indonesia, as the study is limited to regional governments established in 2007. However, these findings can serve as a reference for local administrations striving to enhance the quality of their financial reporting and accrual accounting practices.

Novelty/Originality –This study complements existing research on the progression of accrual accounting in Indonesia through textual analysis and further examines how accrual accounting disclosures affect the quality of financial reporting, while mediating key factors within local Indonesian governments.

Keywords: Public Sector, Accrual Accounting Disclosures, Quality of Financial Reporting.

1. Introduction

Decentralization leads local governments to manage funds, facilities, and infrastructure in accordance with regional rights and obligations. Regional financial management needs to be carried out efficiently, effectively, transparently, accountably, orderly, fairly, appropriately, and in compliance with statutory regulations (Mukhlis & Makhya, 2019; Law Number 32 of 2004 Concerning Regional Government, 2004). To maintain regional financial accountability, comprehensive financial reporting is essential. To meet the informational needs of financial report users, local government financial statements (LGFS) must possess four qualitative characteristics: relevance, reliability, comparability, and understandability (Law Number 17 of 2003 Concerning State Finance, 2003).

Based on the Summary of Examination Results for the first semester of 2022, out of the 541 reports examined in 2021, 500 received unqualified opinions (WTP), 38 earned qualified opinions (WDP), and three obtained disclaimer opinions (TMP). Even

though there is an improvement in reports' opinions every year, 23 reports have never received an unqualified opinion until the first semester of 2022 (BPK RI, n.d.). Apart from that, the unqualified opinion also does not necessarily ensure the absence of misrepresentation within the report. Problems related to weak accounting and reporting control systems resulting in unimplemented and inaccurate recording and reporting processes that do not comply with regulations occurred in 506 local governments (BPK RI, 2022). The benefits of decentralization will be challenging to reach if accounting and reporting controls remain weak (Changwony & Paterson, 2019). The accuracy and reliability of information in financial statements demonstrate the effectiveness of accounting control and financial reporting. The higher the quality of reporting in local governments, the greater the benefits derived from LGFS, particularly in terms of making informed and long-term decisions (Herath & Albarqi, 2017; Kiryanto et al., 2020).

Since 2015, Indonesia has implemented accrual-based accounting in accordance with SAP in Government Regulation No. 71 of 2010. Nonetheless, the adoption of accrual accounting in the public sector continues to be a subject of ongoing discussion. The implementation of accrual-based accounting enhances the quality of financial reports (Nurlinda et al., 2021), with the disclosure of accrual accounting practices being a crucial factor influencing this quality (Anggriawan & Yudianto, 2018; Gamayuni, 2018). Accrual accounting disclosures produce more transparent and detailed information in LGFS. The enhancement in the quality of financial reports can be credited to local governments' commitment to adhering to accounting standards and ensuring compliance with relevant regulations. Unfortunately, the implementation of accrual accounting often remains largely ceremonial, merely fulfilling administrative requirements. As a result, information from accrual-based reporting is sometimes considered less valuable to policymakers (Azhar et al., 2022; Fahlevi et al., 2022).

While numerous studies have explored the quality of financial reports, most have relied on questionnaires (Anggriawan & Yudianto, 2018; Dewi et al., 2019; Gamayuni, 2018; Hastutik & Riduwan, 2018; Ibrahim & Al-Matari, 2022; Julita & Susilatri, 2018; Latjandu et al., 2016; Meinarsih et al., 2020; Nurlinda et al., 2020; Suwanda, 2015; Yassin & Harnovinsah, 2021). Using secondary data from BPK opinions (Rakhman & Wijayana, 2019) and content analysis of financial reports, referencing the work of Beest & Boelens (2009) and adapted to SAP (Agustina & Setyaningrum, 2020).

There is a notable lack of research using secondary data to assess the effect of accrual accounting disclosures on the financial reporting quality. This represents a significant gap, as understanding the role of detailed disclosures could provide deeper insights into improving financial management practices. This study addresses this gap by examining the progression of accrual accounting implementation from the third year in 2017 to the seventh year in 2021 and investigating whether accrual accounting disclosure enhances the quality of financial reporting. Additionally, this research explores how accrual accounting disclosure mediates the influence of capital expenditure budget, size, and age on the quality of financial reporting in Indonesia. By integrating these elements, this study offers a novel approach to understanding and improving the financial reporting landscape in local governments.

The article is structured into five sections. The second section is the Literature Review, Theoretical Framework, and Hypotheses Development to explore prior literature and develop the hypotheses for this research. The third section is the Research Method, explaining the sampling method, operationalization of variables, and the study's analytical model. The fourth section presents the findings derived from the descriptive statistics and hypotheses testing. The final section delves into the study's implications, conclusions, along with its limitations and recommendations.

2. Literature Review, Theoretical Framework and Hypothesis Development

2.1 Literature Review

Stewardship theory states that A steward is a pro-social and organizationally collectivistic actor whose behavior is aimed at promoting and ensuring the welfare and benefits of others (Contrafatto, 2014). Improving organizational performance is vital for stewards, as they consider organizational goals to be aligned with their own personal goals (Keay, 2017). Stewards' achievements are measured by the satisfaction obtained from the success of the organization's performance. Intrinsic rewards serve as motivations for stewards (Kluvers & Tippet, 2011; Van Slyke, 2007).

Stewardship theory pertains to the quality of financial reporting and accrual accounting disclosures. This theory explains how stewards, in this case, the government, are motivated to provide quality services to gain the trust of the public as principals. Local governments are trusted to act in the public interest in managing local government revenues and economic resources. To fulfill their roles and responsibilities effectively and efficiently, governments must provide quality financial reporting that reflects their financial condition and performance. Quality financial reporting is a form of accountability and transparency in the management of local government income and economic resources.

2.2 Research Hypothesis

2.2.1 The Capital Expenditure Budget Affects Accrual Accounting Disclosures

Capital expenditure budgeting is a process related to decision-making regarding the selection of specific projects and the total amount of capital expenditure that needs to be made (Warren & Jack, 2018). The larger the amount of expenditure in local government, the greater and more complex the activities become, requiring more adequate control (Rumihin et al., 2019). Not adhering closely to administrative guidelines for capital expenditures may lead to audit findings, which could then be deemed irregularities (Rakhman & Wijayana, 2019). Fixed assets and other assets have a limited useful life and capacity. In accrual-based accounting, it is mandatory to present depreciation or amortization values to ensure that the financial reports accurately reflect the economic benefits or estimated services derived from these assets (Firmansyah et al., 2020). One obstacle in implementing accrual-based accounting is the difficulty in comprehending how to account for depreciation or amortization expenses of fixed assets and other assets (Kristiawati, 2021). Most local governments have not recorded asset values properly due to asset transfers and errors that occurred in the past asset recording. The misstatements of these assets impede the adoption of accrual-based accounting (Yuliati et al., 2019).

H1. The capital expenditure budget affects accrual accounting disclosures.

2.2.2 The Size of Local Government Affects Accrual Accounting Disclosures

Local governments with substantial economic resources will leverage these resources to enhance their equipment and information technology, thereby supporting the adoption of accrual-based accounting. Larger local governments must demonstrate superior performance, including financial reporting (Ansar & Ohorela, 2022). It encourages local governments to enhance the competency of human resources involved in financial reporting and internal auditing. With good human resources competency and strong internal controls, accrual accounting disclosures in local governments can be implemented and aligned with SAP. This is closely related to stewardship theory, where local governments aim to increase their resources for the benefit of stakeholders, communities, and society at large.

H2. The size of local government affects accrual accounting disclosures.

2.2.3 *The Age of Local Government Affects Accrual Accounting Disclosures*

Local governments with an extended administrative age experience more audits than newly established local governments. Along with audit findings, accrual accounting disclosures in financial reports will continue to develop (Mahmud dan Waliyyani, 2015; Setyaningrum & Syafitri, 2012; Widayat & Probohudono, 2016). Accrual accounting disclosure is influenced by mimetic isomorphism (Boolaky et al., 2020). Mimetic isomorphism is the tendency of an organization to imitate other organizations to increase the legitimacy of their organization. In implementing accrual-based accounting, local governments of the same age tend to imitate the success of other local governments.

H3. The age of local government affects accrual accounting disclosures.

2.2.4 *The Capital Expenditure Budget Affects the Quality of Financial Reporting*

The government is responsible to the community for managing the budget and rendering an account of its stewardship, which is reflected in the financial report (Mukah, 2021). The use of the capital expenditure budget must be reported transparently to ensure efficient use of public funds. However, in practice, capital expenditures influence audit opinions as irregularities still exist in expenditure management. The greater the expenditure on a local government, the more difficult it will be to process expenditure accountability, which can impact the opinions of the Audit Board of the Republic of Indonesia (BPK) (Rumihin et al., 2019). Praptiningsih & Khoirunnisa (2020) found that inaccuracies in the recording of capital expenditures significantly impact the level of disclosure in local government financial reports.

H4. The capital expenditure budget affects the quality of financial reporting.

2.2.5 *The Size of Local Government Affects the Quality of Financial Reporting*

Larger local governments are characterized by a greater abundance of rules and regulations compared to their smaller counterparts (Mahmud dan Waliyyani, 2015; Setyaningrum & Syafitri, 2012). In addition, larger local governments tend to utilize their economic resources to improve human resources and information technology equipment. This is driven by the attention of many parties to the financial condition of local governments, especially regarding the high value of assets and the government's responsibility as a good steward of regional assets to achieve intrinsic satisfaction. With more binding regulations, sufficient human resources and information technology, it is anticipated that the quality of reporting in larger local governments will be enhanced.

H5. The size of local government affects the quality of financial reporting.

2.2.6 *The Age of Local Government Affects the Quality of Financial Reporting*

Local governments with longer administrative age have more experience in financial reporting. Local governments that have been in operation for a longer period age are likely to face audits by the BPK more frequently. The findings from the audit are utilized to enhance the financial reports of the local government in the subsequent fiscal year (Mahmud dan Waliyyani, 2015; Naopal et al., 2017; Setyaningrum & Syafitri, 2012). The longer the administrative life of a local government, the more policies will be prepared to support the improvement of local government performance, including financial reporting. Longer local governments have more exposure to presenting financial reports that adhere to applicable regulations (Naopal et al., 2017). Budiarto & Indarti (2019) state that disclosures in local government financial reports will be broader in local governments with longer administrative ages.

H6. The age of local government affects the quality of financial reporting.

2.2.7 *Accrual Accounting Disclosures Affect the Quality of Financial Reporting*

From a stewardship perspective, the government seeks to improve accrual disclosure to minimize errors in financial reporting (Kristiana et al., 2024). Information in financial reports on an accrual basis can provide an overview of funding capacity and

be more accountable, transparent, and easy to evaluate (Agriyanto, 2018; Nakmahachalasint & Narktabtee, 2019). With the disclosure of accrual accounting, government financial reports have become more transparent and detailed (Anggriawan & Yudianto, 2018; Bergmann, 2012). The quality of financial reports is improving as local governments are increasingly motivated to adhere to SAP guidelines to ensure compliance (Nurlinda et al., 2021).

H7. Accrual accounting disclosures affect the quality of financial reporting.

2.2.8 Accrual Accounting Disclosures Serves as a Mediator for the Influence of the Capital Expenditure Budget on Financial Reporting Quality

The larger the capital expenditure budget, the greater the fixed assets and other assets generated from this expenditure. The value of fixed assets and other assets needs to be presented in the financial statements. By implementing accrual-based accounting, the value of these assets needs to be adjusted through depreciation and amortization calculations. This value adjustment aims to describe the economic benefits or estimated services from asset utilization. Kristiawati (2021) remarks that recording the value of fixed assets and other assets is an obstacle in disclosing accrual accounting. Some local governments have still not recorded asset values properly. Soleman et al., (2019) affirm that as capital expenditure rises, the level of information disclosed in financial reports correspondingly increases. Increasing capital expenditure provides opportunities for local governments to procure superior accounting equipment and information systems, thereby enhancing the quality of financial reports (Rakhman & Wijayana, 2019). Accrual-based accounting standards hold the promise of elevating the caliber of information depicted in financial reports (Jati, 2019). Adopting accrual-based accounting can enhance the efficiency and effectiveness of financial reporting (Kiryanto et al., 2020).

H8. Accrual accounting disclosures serve as a mediator for the influence of the capital expenditure budget on financial reporting quality.

2.2.9 Accrual Accounting Disclosures Serve as a Mediator for the Influence of the Local Government Size on Financial Reporting Quality

Total assets reflect the government's economic resources to obtain economic benefits. Local governments with more significant economic resources generally have quite large funding allocations in terms of increasing human resource competency, equipment, and information technology (Syarienda et al., 2019). With skilled human resources and ample technological support, accrual accounting disclosures in local governments can run suitably in line with SAP. Adequate accrual accounting disclosure can improve the quality of reporting, making financial reports more informative, transparent, truthful, and comprehensive for users (Hastutik & Riduwan, 2018; Nelvia et al., 2023).

H9. Accrual accounting disclosures serve as a mediator for the influence of the local government size on financial reporting quality.

2.2.10 Accrual Accounting Disclosures Serve as a Mediator for the Influence Local Government Age on Financial Reporting Quality

A longer lifespan encourages a local government to imitate other local governments that are better at implementing accrual-based accounting to increase legitimacy (Boolaky et al., 2020). Local governments established earlier have more experience and better abilities in accrual accounting disclosures. Anggriawan & Yudianto, (2018) suggest that the adoption of accrual-based accounting influences the quality of financial reports. Based on a study by Yulianto & Hariwibowo, (2019) on regional work units (SKPD) in the Wonosobo Regency, government accounting standards mediate the influence of human resources, Government Internal Control Systems (SPIP), and the utilization of information technology on the financial reporting

quality. The enhancement of financial report quality also depends on SKPD implementing BPK recommendations in previous years and following up on BPK findings in fixed asset management.

H10. Accrual accounting disclosures serve as a mediator for the influence local government age on financial reporting quality.

3. Research Method

The research relied on secondary data gathered from the financial reports of local governments across Indonesia and pertinent local formation statutes. This research was conducted on local governments that prepare local government financial reports starting in 2017. The sample selection procedure is presented in Table 1. Due to time constraints of the research, the sample consists of local governments established since 2007, as the issuance of opinions by the BPK on LGFS began in that year. Based on predetermined criteria, a sample of 380 was obtained for the five years (2017-2021). Purposive sampling was the selected methodology for sampling in this research.

Criteria	Number
Total local government in Indonesia for the 2017-2021 period	542
Provincial government for the 2017-2021 period	-34
Local governments established before 2007	-432
Total sample	76
Total sample for the five years (2017-2021)	380

Table 1.
Research
Sample

The assessment of financial reporting quality in this study was measured by conducting textual analysis referring to research by Agustina & Setyaningrum (2020). The quality of financial reporting is tested using 11 measurement items adopted from the 21 measurement items of financial reporting attributes proposed by Beest & Boelens (2009), which have been adapted to SAP. Each item shall be assigned a rating ranging from 1 to 5 points, with 1 denoting the lowest score and 5 representing the highest. Financial reporting quality was measured by adding up the points for each item for each qualitative characteristic of financial reporting quality. The maximum score that can be achieved is 55, with the value of each qualitative characteristic of financial reporting quality as follows: relevance, worth 15 points; reliability, at 20 points; comparability, at 10 points; and understanding, at 10 points.

Accrual accounting disclosures were measured by conducting textual analysis based on 12 measurement items consisting of income recognition, expense recognition, assessment and presentation of receivables, inventory expense recognition, fixed asset valuation, liability recognition, operational reports and changes in equity reports. The calculation of items used a dichotomy approach, in which each item measuring accrual accounting disclosures is given one point if disclosed and zero if not disclosed. Accrual accounting disclosure was measured by adding up the points from each measurement item (Riyani et al., 2017).

The capital expenditure budget was determined through the division of the capital expenditure budget by the total local government budget (Rakhman & Wijayana, 2019). The magnitude of the local government may be approximated by the natural logarithm of its aggregate assets (Hoesada & Pradika, 2019; Priharjanto & Wardani, 2017; Rumihin et al., 2019). Area size values were transformed in natural logarithmic form due to their high variability. The age of a local government was calculated by subtracting the local government financial report year from the year the local government was established based on the Law or Decree on the establishment of the local government (Budiarto & Indarti, 2019). To examine the hypothesis, this study utilized Structural Equation Model-Partial Least Square (SEM-PLS) analysis using SmartPLS software version 3.

4. Results and Discussions

4.1 Result

The study analyzed 380 local government financial reports from 2017 to 2021. As shown in Table 2, the highest score for financial reporting quality was 47, indicating that no local government financial report achieved the full score of 55 points. The average score for accrual accounting disclosure, which served as the mediating variable, was 10.039 out of a possible 12. Based on textual analysis, of the 380 LGFSs, only 50 received a perfect score of 12, while 330 scored below 12. This indicates that 86.84% of the 380 LGFSs have not fully complied with the accrual-based disclosure provisions set by SAP.

Table 2.
Research
Descriptive
Statistics

Indicator	N	Min	Max	Mean	Standard Deviation
The Quality of Financial Reporting	380	24.000	47.000	35.616	1.847
Accrual Accounting Disclosures	380	5.000	12.000	10.039	1.357
Capital Expenditure Budget	380	0.104	0.588	0.284	0.086
Size of Local Government	380	27.095	30.817	28.179	0.568
Age of Local Government	380	3.000	14.000	10.145	2.742

The following table presents the average values of the quality of financial reporting and accrual disclosures for the period from 2017 to 2021.

Table 3.
Average Values
of the Quality of
Financial
Reporting and
Accrual
Disclosures

Year	Quality of Financial Reporting	Accrual Disclosures
2017	32.829	9.658
2018	33.763	9.855
2019	36.368	10.066
2020	37.132	10.224
2021	37.986	10.395

Table 3 shows that from 2017 to 2021, there was a consistent increase in the average quality of financial reporting, rising from 32.829 in 2017 to 37.986 in 2021, although it remains significantly below the maximum score of 55. Accrual accounting disclosures also increased, from 9.658 in 2017 to 10.395 in 2021, approaching the maximum value of 12.

4.1.1 Measurement

Smart PLS 3.0 carried out a measurement model test by looking at the results of the convergent validity test, discriminant validity test, and reliability test.

Table 4.
Convergent
Validity Test
Results Prior to
Elimination of
Invalid
Indicators

Variable	Indicator	Outer Loading	Explanation
Quality of Financial Reporting	Relevant	0.772	Valid
	Reliable	0.542	Valid
	Comparable	0.323	Invalid
	Understandable	0.732	Valid
Accrual Accounting Disclosures	Accrual Accounting Disclosures	1	Valid
Capital Expenditure Budget	Capital Expenditure Budget	1	Valid
Size	Size	1	Valid
Age	Age	1	Valid

The convergent validity value for determining the outer loading value is presented in Tables 4. Table 4 depicts that the loading factor value of the comparable indicator is 0.323, which is less than 0.5, meaning the indicator is invalid. Therefore, the comparable indicator is eliminated. The results of the measurement model evaluation after the invalid indicators were eliminated are presented in Table 5.

Variable	Indicator	Outer Loading	AVE	Cronbach's Alpha	Composite Reliability
Quality of Financial Reporting	Relevant Reliable Understandable	0.819 0.554 0.748	0.512	0.516	0.755
Accrual Accounting Disclosures	Accrual Accounting Disclosures	1	1.000	1.000	1.000
Capital Expenditure Budget	Capital Expenditure Budget	1	1.000	1.000	1.000
Size	Size	1	1.000	1.000	1.000
Age	Age	1	1.000	1.000	1.000

Table 5.
Convergent
Validity Test
Results After
Eliminating
Invalid
Indicators

Table 5 demonstrates that all AVE values exceed 0.5 and a Composite Reliability value above 0.7, indicating the validity of the measurement model. It also reveals that Cronbach's Alpha values surpass 0.7, with the exception of the quality of financial reporting, which is 0.516. Nevertheless, since Cronbach's Alpha values derived from Partial Least Squares (PLS) are slightly underestimated, it is more appropriate to rely on the Composite Reliability value (Ghozali, 2021).

Table 6 presents that the intervening variable accrual accounting disclosure can be influenced by all independent variables, including capital expenditure budget, size, and age of local government by 0.072 units or 7.2%. The dependent variable of financial reporting quality is affected by all independent and mediating variables by 0.126 units, or 12.6%.

Variable	R Square	R Square Adjusted
Accrual Accounting Disclosures	0.072	0.064
Quality of Financial Reporting	0.126	0.117

Table 6.
R-Squares
Value

4.1.2 Hypothesis Test

The basis used in hypothesis testing consists of Original Sample values, T-Statistic values, and P Values. The T-statistic exceeds 1.96 and the P value is below 0.05, indicating that the independent variable significantly affects the dependent variable. The direction of influence is determined by the original sample values. A positive value for the original sample suggests that the independent variable positively affects the dependent variable, whereas a negative value indicates a negative impact of the independent variable on the dependent variable. Table 7 presents the findings from the hypothesis tests.

Notation	Research Hypothesis	Original Sample	T-Statistics	P-Values	Result
H1	Capital expenditure budget -> accrual accounting disclosures	-0.112	2.215	0.027	Accepted
H2	Size -> accrual accounting disclosures	0.201	2.764	0.006	Accepted

Table 7.
Hypotheses
Testing Results

H3	Age -> accrual accounting disclosures	0.063	1.220	0.223	Rejected
H4	Capital expenditure budget -> quality of financial reporting	-0.157	2.696	0.007	Accepted
H5	Size -> quality of financial reporting	-0.024	0.543	0.587	Rejected
H6	Age -> quality of financial reporting	0.110	2.344	0.019	Accepted
H7	Accrual accounting disclosure -> financial reporting quality	0.240	3.943	0.000	Accepted
H8	Capital expenditure budget -> accrual accounting disclosure -> quality of financial reporting	-0.027	1.823	0.069	Rejected
H9	Size -> accrual accounting disclosure -> quality of financial reporting	0.048	2.304	0.022	Accepted
H10	Age -> accrual accounting disclosure -> quality of financial reporting	0.015	1.081	0.280	Rejected

4.2 Discussion

Several previous studies have used stewardship theory to explain the quality of financial reporting (Idris & Syachbrani, 2022; Mahmud dan Waliyyani, 2015; Yassin & Harnovinsah, 2021; Yulyanto & Kiswanto, 2020). Stewardship theory emphasizes the importance of optimizing economic wealth to maximize long-term economic and social welfare (Contrafatto, 2014). This optimization is achieved by maintaining regional financial accountability. Stewards are driven to report financial information accurately and transparently, which reflects effective asset management, appropriate budget utilization, and consistent financial practices aimed at enhancing long-term welfare.

As accrual accounting disclosures increased from 2017 to 2021, the quality of financial reporting also improved. Although the annual increase was relatively small, it still reflects progress in both accrual disclosure and financial reporting quality. However, by 2021, no LGFS had achieved a perfect score for reporting quality. The study results indicated that 86.84% of LGFSs had not fully complied with the accrual-based disclosure provisions set by SAP, despite the implementation of accrual-based accounting in Indonesia since 2015.

The results of hypothesis testing suggest that the capital expenditure budget has a negative effect on the transparency of accrual accounting disclosures. In implementing accrual accounting, preparation is needed to avoid errors in recording and assessing fixed assets (Rosana & Bharata, 2023). The outcomes of this study are pertinent to the earlier work done by, pointing out that One of the problems that hinders the disclosure of accrual accounting is the evaluation and recording of fixed assets Yuliati et al. (2019).

The size of the local government positively influences the extent of accrual accounting disclosure. The larger the total assets, the more substantial the economic resources available for the region to foster new innovations, including the mandatory adoption of accrual-based accounting. The results of this study are consistent with prior research (Boolaky et al., 2020; Riyani et al., 2017), revealing that size influences the implementation of accruals.

The age of local government has no impact on accrual accounting disclosures. The commencement of accrual-based accounting was initiated in 2015, consequently prompting simultaneous preparations for its integration within local government entities in Indonesia during that period. In this research, the latest established local government was in 2014, and in the same year, none of the local governments in Indonesia had adopted accrual-based accounting. The findings of this study are corroborated by Widayat & Probohudono (2016), which concluded that age does not influence the implementation of an accrual-based accounting system.

It was found that the capital expenditure budget has a negative effect on the quality of financial reporting. The value of fixed assets or other assets often sparks problems due to difficulties in recording, resulting in misstatement of fixed assets or other assets and noncompliance of the presentation with SAP. The findings of this investigation are buttressed by a multitude of antecedent studies, including those conducted by Naopal et al., (2017), Praptiningsih & Khoirunnisa (2020), Rakhman & Wijayana (2019), and Rumihin et al., (2019). Irregularities in expenditure management remain to happen, influencing the auditor's opinion. As such, adequate control is needed in expenditure administration.

Referring to the results of testing Hypothesis, the scale of local government has no impact on the quality of financial reporting. Budiarto & Indarti (2019) assert that despite the substantial magnitude of governmental entities, heightened disclosure levels are not assured, given the correlation between the expansive scale of government, as indicated by total assets, and the increased intricacies in financial reporting processes. The outcomes of this research correspond closely with the research conducted by Priharjanto & Wardani (2017) and Rumihin et al., (2019), both of whom concluded that government size does not affect financial statement disclosure.

The age of local government positively influences the quality of financial reporting. Local governments with longer administrative lives have faced audits by the BPK more frequently. The audit results are used as a reference for improving the clarity of financial reports in the following fiscal year. These findings are pertinent to past studies, e.g., Budiarto & Indarti (2019), Naopal et al., (2017), Setyaningrum & Syafitri (2012). The comprehensive disclosure of financial reports by longer-established local governments enhances the quality of financial reporting.

Accrual accounting disclosure Influences the quality of financial reporting. Financial reporting produced on an accrual basis can be used to predict long-term financial conditions (Hastutik & Riduwan, 2018; Hidayah & Zarkasyi, 2017). Implementing accrual-based accounting will afford quality accounting information for stakeholders. Adequate accrual accounting disclosure promotes government accountability to the public. Accrual accounting disclosure also mediates the effect of local government size on the quality of financial reporting. Implementing accrual-based accounting requires a large allocation of funds for training human resources and improving information technology. Significant municipal authorities will deploy their financial assets to enhance the execution of accrual-based accounting procedures, in accordance with SAP standards (Syarienda et al., 2019). The results are aligned with Nadir & Hasyim (2017) and Sudiarianti et al., (2015) mentioning that the application of SAP mediates the influence of independent variables in their study on the quality of financial reports.

The hypothesis testing results show that accrual accounting disclosure cannot mediate the impact of the capital expenditure budget and the age of the local government on the quality of financial reporting. Adequate accrual accounting disclosure produces more reliable, accurate, comprehensive, and relevant reports (Hatijh & Yuhertiana, 2020). Nonetheless, not all local governments are capable of adopting accrual-based accounting, as mentioned in SAP (Rosana & Bharata, 2023). Consequently, the quality of LGFS has not reached its optimal level.

5. Conclusion, Implication and Limitation

This research aims to investigate the quality of financial reporting and the development of accrual accounting implementation from the third year in 2017 to the seventh year in 2021. It also examines the influence of capital expenditure budget, size, and age on the quality of financial reporting, with accrual accounting disclosure acting as a mediator. Among the 380 LGFSs studied, textual analysis shows that no local government financial report received a perfect score, and 86.84% have not yet fully complied with the accrual disclosure standards as defined by SAP. Despite this, accrual accounting disclosures in Indonesia have been increasing annually and the quality of LGFS has also shown improvement.

According to hypothesis testing, the capital expenditure budget negatively affects accrual accounting disclosures and the quality of financial reporting. The size of the local government positively impacts accrual accounting disclosures but does not impact financial reporting quality. Additionally, the age of local governments does not influence accrual accounting disclosures but positively impacts the quality of financial reporting. Moreover, accrual accounting disclosures are a positive instrument to enhance the quality of financial reporting. Regarding the mediation hypothesis, it was found that accrual accounting disclosure mediates the effect of local government size on the quality of financial reporting, while it does not mediate the effect of capital expenditure budget and the age of local government on the quality of financial reporting.

The suboptimal quality of financial reporting and the lack of accrual disclosure, especially concerning depreciation and amortization expenses, as identified by textual analysis, are expected to encourage local governments to develop better financial reporting guidelines. To address these issues, regional governments need to prioritize the enhancement of capital expenditure oversight, diligently manage fixed assets from inception through inventory, and rigorously evaluate and document both fixed and other assets.

The findings from the textual analysis indicate that the quality of financial reporting is suboptimal, and the absence of accrual disclosure suggests that local governments should strengthen financial reporting standards. Local governments need to prioritize improving supervision of capital expenditures, carefully managing fixed assets from acquisition to inventory, strictly evaluating and documenting fixed assets and other assets, and formulating policies related to asset depreciation and amortization.

This research examines only local governments established in 2007. Thus, the result is not able to fully describe the quality of accrual accounting reporting and disclosure. It is advisable for forthcoming research to utilize the entirety of local government populations across Indonesia. Moreover, the contribution of the independent variable in this research is considered low. Therefore, it is hoped that the independent and mediating variables will be replaced with other variables, for example, follow-up to recommendations from examination results, level of dependency, political competition, and so on. In addition, the method of this research is limited to hypothesis testing. We suggest that future research on the quality of financial reporting and accrual accounting disclosures apply mixed methods to get more comprehensive findings.

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