

УДК 332.143:330.53

JEL Classification H70, H75

DOI [https://doi.org/10.33146/2307-9878-2024-4\(106\)-150-158](https://doi.org/10.33146/2307-9878-2024-4(106)-150-158)**Margaretha Anggreni Loi¹**

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Transparency of Financial Reports of Local Government Hospitals in Indonesia

Abstract. Due to factors such as conflict of interest, high levels of corruption, high political competition, and lack of open access to financial reports, the transparency of local government hospitals' financial reports remains low. This study aims to analyze the factors that influence the transparency of financial reports of local government hospitals in Indonesia. The study's population is the Local Public Service Agency (BLUD) Hospitals in Indonesia, registered on the Ministry of Health's Hospital Information System's official website for 2019-2021. The data used for analyses is secondary data obtained from the official website of each local government hospital. The study's dependent variable is the transparency of financial statements of local government hospitals in Indonesia as measured by the disclosure of financial statements to the public through their respective websites. Transparency is assessed based on Government Regulation No. 71 of 2010 concerning Government Accounting Standards, which requires local governments to present seven financial reports. The independent variables in this study are the quality of financial statements, hospital size, hospital type, gender of hospital head, and gender of the supervisory board. This study uses the logistic regression analysis method. The results of this study indicate that the quality of financial statements and hospital size significantly improve the transparency of financial reports of local government hospitals in Indonesia. At the same time, factors such as the type of hospital and the gender of the supervisory board did not show a significant effect. In addition, the gender of the hospital head has a significant negative effect on the transparency of financial reports of local government hospitals in Indonesia. Local governments can use this study's findings to improve supervision and help local government hospitals comply with regulations related to financial statement disclosure.

Keywords: transparency, local government hospitals, financial statements, gender diversity, agency theory, legitimacy theory.

Suggested Citation

Loi, M. A., Pujiningsih, S., Andayani, E. S. (2024). Transparency of Financial Reports of Local Government Hospitals in Indonesia. *Oblik i finansi*, 4(106), 150-158. [https://doi.org/10.33146/2307-9878-2024-4\(106\)-150-158](https://doi.org/10.33146/2307-9878-2024-4(106)-150-158)

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Прозорість фінансових звітів місцевих державних лікарень в Індонезії

Анотація. Внаслідок таких факторів, як конфлікт інтересів, високий рівень корупції, висока політична конкуренція та відсутність відкритого доступу до звітів, прозорість фінансових звітів місцевих державних лікарень залишається низькою. Метою цього дослідження є аналіз факторів, які впливають на прозорість фінансових звітів місцевих державних лікарень в Індонезії. Дослідження охоплює лікарні місцевого агентства державного обслуговування (BLUD) в Індонезії, які зареєстровані на офіційному веб-сайті інформаційної системи лікарень Міністерства охорони здоров'я протягом 2019-2021 рр. Дані, які використовуються для аналізу, є вторинними даними, отриманими з офіційного веб-сайту кожної місцевої державної лікарні. Залежною змінною дослідження є прозорість фінансових звітів місцевих державних лікарень в Індонезії, виміряна розкриттям фінансових звітів для громадськості через відповідні веб-сайти. Прозорість оцінюється на підставі Постанови Уряду № 71 від 2010 року про державні стандарти бухгалтерського обліку, яка вимагає від органів місцевого самоврядування подання семи фінансових звітів. Незалежними змінними в цьому дослідженні є якість фінансової звітності, розмір лікарні, тип лікарні, стать керівника лікарні та стать членів наглядової ради. Для аналізу даних у цьому дослідженні використовується метод логістичної регресії. Результати цього дослідження свідчать про те, що якість фінансової звітності та розмір лікарень значно підвищують прозорість фінансових звітів місцевих державних лікарень в Індонезії. Водночас такі фактори, як тип лікарні та стать членів наглядової ради, не показали істотного впливу. Крім того, стать керівника лікарні має значний негативний вплив на прозорість фінансових звітів місцевих державних лікарень в Індонезії. Органи місцевого самоврядування можуть використати результати цього дослідження, щоб покращити нагляд і допомогти місцевим державним лікарням дотримуватися нормативних актів щодо розкриття фінансової звітності.

Ключові слова: прозорість, місцеві державні лікарні, фінансова звітність, гендерне різноманіття, агентська теорія, теорія легітимності.

INTRODUCTION

Hospitals are public service institutions in the health sector owned by the government, so they need to be accountable for all their activities in the form of financial reports (Adiputra et al., 2018) because accountability to the public is a form of (Widajatun & Kristiastuti, 2020). To build public trust, local governments must provide accurate and transparent information about using funds (Vian, 2020) because transparency and access to information are basic principles of democratic government (Wickersham & Yehl, 2018). Lack of transparency in presenting financial reports leads to information asymmetry (Muraina & Dandago, 2020). Efforts to improve financial transparency in the government sector are through e-governance policies (Krah & Mertens, 2020). The electronic government uses information technology in the government sector to improve public services' efficiency, effectiveness, transparency, and accountability, including local government hospitals (Sofyani et al., 2020). Financial reports can be published through the official website of local government hospitals (Pina & Torres, 2019).

In Indonesia, the financial statements of local government hospitals are still not very transparent

because of conflicts of interest (Waluyo, 2014), high corruption (Adiputra et al., 2018), high political competition (Ritonga & Suyanto, 2022), and lack of open access to financial reports (Hidayat et al., 2022). This phenomenon has attracted attention and still needs research related to transparency, especially in financial reporting.

Factors affecting the transparency of financial reports of local government hospitals in Indonesia include financial reports' quality (Adiputra et al., 2018), hospital size (Adiputra et al., 2018), hospital type (Ningsih et al., 2023), gender of the hospital head (Tejedo-Romero & de Araujo, 2018) and gender of the hospital supervisory board (Liu, 2018). This study analyzes transparency from various perspectives because transparency in the financial reporting of local government hospitals is essential to ensure accountability, as stated in Government Regulation of the Republic of Indonesia No.71 of 2010. However, regarding financial disclosure on the website, many local government hospitals still publish their financial reports voluntarily, so many local government hospitals do not upload them to the website (Ningsih et al., 2023). This is an obstacle in efforts to increase local government transparency. Therefore, this study fills the

existing gaps and makes several contributions. First, previous studies have examined the transparency of local government financial reports in the government sector with the target object of city or district-level government. In contrast, this study examines the transparency of financial reports in the health sector at local public service agency (BLUD) hospitals throughout Indonesia. Second, this study investigates the use of the supervisory board gender variable on transparency. Until now, there has been no research on an Indonesian scale regarding the effect of the gender of the supervisory board on financial data disclosure of local government hospitals in Indonesia. Thus, this study aims to understand how the quality of financial statements, hospital size, hospital type, gender of hospital head and hospital supervisory board, and other factors affect the transparency of financial statements of local government hospitals in Indonesia.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency Theory

According to agency theory, there is a connection between two parties, namely the agent and the principal. The link between the two is in a contractual relationship; the principal delegates tasks to the agent by performing some services for their benefit, and the agent acts on behalf of the principal (Jensen & Meckling, 1976). Based on the agency principle, hospitals must provide accountability to the public regarding the performance carried out through public disclosure of financial information by applicable regulations to reduce information asymmetry (Marsela & Aswar, 2019; Kamau et al., 2017).

Legitimacy Theory

Legitimacy theory explains the relationship between organizations and society, which is a social contract (Dowling & Pfeffer, 1975). Legitimacy theory states that information disclosure can be used to increase citizens' trust in the activities and actions of public organizations (Tejedo-Romero & Araujo, 2023). Legitimacy theory explains why hospitals must provide open financial reports on their respective official websites (Adiputra et al., 2018). This can improve the government's image through good governance in fulfilling the public interest (Tejedo-Romero & de Araujo, 2018).

Transparency of Financial Statements of Local Government Hospitals in Indonesia

Transparency provides easy access to information about governance, including laws, policies, planning, implementation, and other related information (Alcaide Muñoz et al., 2017). Information provided in the form of financial reports must be transparent and accountable and support decision-making (Van Helden & Reichard, 2019). Based on agency theory, the government and society have a social contract relationship and work together to reduce information asymmetry related to financial management (Muraina & Dandago, 2020).

Therefore, higher transparency within an institution can help reduce agency problems related to information asymmetry.

Quality of Financial Statements

Based on agency theory, the public will demand that the government show a form of accountability regarding financial reports through audit checks (Saputri & Yuliantoro, 2016). Local governments that receive an unqualified opinion tend to publish financial reports through the website to show the quality of financial reports that are good and accountable. Nor et al. (2019) found that a good audit opinion encourages local governments to disclose financial statements. Empirical studies by Masdar et al. (2021), Krah and Mertens (2020), Nor et al. (2019), and Adiputra et al. (2018) show that audit opinion affects financial disclosure. In contrast to Setyaningrum (2017) and Nosihana and Yaya (2016), audit opinion does not affect financial disclosure.

So, H_1 : The quality of financial statements has a positive effect on the transparency of local government hospitals' financial reports.

Hospital Size

Legitimacy theory explains that hospitals will try to ensure that their actions are by values to improve the hospital's image. Therefore, hospitals with large sizes certainly feel higher demands to meet reporting and transparency standards (Solikhah & Maulina, 2021). Larger local governments face increasing public demands regarding information disclosure and greater expectations for performance measurement through website information (Rodríguez Bolívar et al., 2013). Yuniarta and Purnamawati (2020), Nadir and Arsyad, 2019), and Aronmawn and Asiriwuwa (2018) did not find how local government size affects transparency. Ningsih et al. (2023) stated that the size of the hospitals significantly influences the disclosure of their financial statements.

So, H_2 : Hospital size affects the transparency of local government hospitals' financial reports.

Hospital Type

Based on agency theory, principals delegate tasks to *agents* for various public services for the common welfare (Jensen & Meckling, 1976). Hospital characteristics are determined by facilities, service capabilities, and the number of beds (Listiyono, 2015). Ningsih et al. (2023) show that hospital type does not contribute to the transparency of financial information. Research by Trisnawati and Komarudin (2014) and Nosihana and Yaya (2016) shows that financial disclosure is negatively affected by the type of public sector organization.

So, H_3 : Hospital type has a positive effect on the transparency of local government hospitals' financial reports.

Gender of Hospital Head

The influence of women on organizational transparency has not been widely studied and is still widely debated (Tejedo-Romero & de Araujo, 2018).

The increase in the number of women on boards influences the degree of openness and reduces information asymmetry based on agency theory. Gender diversity on the board is one factor that increases public organizations' effectiveness (Liu, 2018). Some research results show the effect of gender on local government transparency (Sergeant et al., 2022; Pina & Torres, 2019; Tejedo-Romero & de Araujo, 2018; Da Cruz et al., 2016). However, research by Araujo and Tejedo-Romero (2016) did not show any effect of women's participation on transparency.

So, **H₄**: The gender of the hospital head positively affects the transparency of local government hospitals' financial reports.

Gender of Hospital Supervisory Board

Based on agency theory, the supervisory board monitors hospital performance and acts following the interests of society to reduce conflicts (Sergeant et al., 2022). Gender-diverse boards tend to act socially responsibly, producing quality financial reporting (Liu, 2018). The presence of a female board increases effectiveness and reduces the level of conflict to reduce asymmetric information and promote transparency (Abad et al., 2017). A study by Rahmadani et al. (2020), Solikhah and Maulina (2021), and Zhang (2018) claims that the board of commissioners significantly impacts transparency.

So, **H₅**: The gender of the hospital supervisory board has a positive effect on the transparency of local government hospitals' financial reports.

RESEARCH METHODOLOGY

The study's population is the Local Public Service Agency (Badan Layanan Umum Daerah or BLUD) Hospitals in Indonesia, registered on the Ministry of Health's Hospital Information System's official website for 2019-2021. The sampling technique applied in this study is the saturated sampling technique, where all population members are sampled. So, a sample size of 652 was obtained. However, after data collection, it was found that only 65 local government hospitals published complete financial reports. The data used for analyses is secondary data obtained from the official website of each local government hospital in Indonesia in 2019-2021. The dependent variable in this study is dichotomous, so panel regression with the binary logit method is used (Agus Widarjono, 2018).

The Operationalization of Variables

The study's **dependent variable** is the *transparency of financial statements of local government hospitals* in Indonesia as measured by the disclosure of financial statements to the public through their respective websites. Transparency is assessed based on Government Regulation No.71 of 2010 concerning Government Accounting Standards, which requires local governments to present seven financial reports. Transparency is measured using a dummy variable, with a value of 1 if the local government website publishes all seven financial statements in full accordance with SAP and 0 if it is incomplete.

The **independent variables** in this study are the quality of financial statements, hospital size, hospital type, gender of hospital head, and gender of the supervisory board.

The quality of financial statements illustrates that the regional head is responsible based on the authority given while carrying out the obligation to care for the government (Golmohammadi Shuraki et al., 2021). The measurement scale of the variable quality of financial statements through audit opinion uses a dummy variable with a score of 1 for WTP (Unqualified) opinion and 0 for non-WTP opinion.

Hospital size is an indicator used to measure the financial resources under the control of the local government. The hospital size variable is measured using total assets (Indarti & Extaliyus, 2013).

$$\text{Hospital Size (SIZE)} = \text{Ln (Total Asset)}$$

According to standards and service levels, public hospitals are classified into types A, B, C and D. *Hospital type* is measured utilizing *dummy* variables by assigning a type A score of 1, a score of 2, type B, score 3 type C and score 4 type D (Ningsih et al., 2023).

Gender diversity in this study refers to the *gender of each local government hospital director*. Gender diversity is measured using a *dummy* variable, scoring 1 if the hospital director is female and 0 if the hospital director is male (Tejedo-Romero & de Araujo, 2018).

Gender diversity represents individuals of different genders, referring to the differences between men and women. *Gender diversity in the supervisory board* is seen from the percentage of the number of female supervisory boards with the following formula (Pramesti & Nita, 2022).

$$GDPP = \frac{\text{Number of Female Supervisory Board Members}}{\text{Total Number of Supervisors}}$$

RESULTS

Descriptive Statistics

Descriptive statistics provide a summary view of the research data profile while explaining the research variables regarding the maximum, minimum, average, and standard deviation values. The research data includes 195 financial reports from 65 regional government hospitals in Indonesia from 2019 to 2021.

Table 1. Descriptive Statistics

	TRANS_Y1	KLK_X1	URS_X2	TRS_X3	GKRS_X4	GDPRS_X5
Mean	0.676923	0.707692	-0.061082	2.169231	0.338462	0.226231
Median	1.000000	1.000000	0.000000	2.000000	0.000000	0.000000
Maximum	1.000000	1.000000	0.978000	3.000000	1.000000	1.000000
Minimum	0.000000	0.000000	-1.181000	1.000000	0.000000	0.000000
Std. Dev.	0.468856	0.455994	0.284979	0.777968	0.474404	0.314523
Skewness	-0.756644	-0.913289	-0.079362	-0.302444	0.682769	1.252662
Kurtosis	1.572511	1.834096	5.991469	1.715961	1.466173	3.430178
Jarque-Bera	35.16312	38.15270	72.91440	16.36900	34.26571	52.50130
Probability	0.000000	0.000000	0.000000	0.000279	0.000000	0.000000
Sum	132.0000	138.0000	-11.91100	423.0000	66.00000	44.11500
Sum Sq. Dev.	42.64615	40.33846	15.75535	117.4154	43.66154	19.19144
Observations	195	195	195	195	195	195

Classical Assumption Test

Table 2. Multicollinearity Test

	TRANS_Y1	KLK_X1	URS_X2	TRS_X3	GKRS_X4	DPRS_X5
TRANS_Y1	1.000000	0.134646	0.174021	-0.061310	-0.270607	0.035113
KLK_X1	0.134646	1.000000	-0.056116	-0.164976	0.102278	0.039397
URS_X2	0.174021	-0.056116	1.000000	0.139889	-0.066326	0.002194
TRS_X3	-0.061310	-0.164976	0.139889	1.000000	-0.072196	-0.201194
GKRS_X4	-0.270607	0.102278	-0.066326	-0.072196	1.000000	0.071502
GDPRS_X5	0.035113	0.039397	0.002194	-0.201194	0.071502	1.000000

Based on the table above, the correlation value is less than 0.8, meaning no variables have a correlation value of more than 0.8. So, there is no multicollinearity problem with the research model.

Model Feasibility Test

Table 3. Hosmer and Lemeshow Test

H-L Statistic	8.1459	Prob. Chi-Sq(8)	0.4193

The test results show a chi-square probability value of $0.4193 > 0.05$, meaning that this model can predict the observed value of the variables of financial report quality, hospital size, hospital type, gender of the hospital head, and gender of the hospital supervisory board on the transparency of local government hospital financial reports.

Model Accuracy Test

Table 4. Model Accuracy Test

	Estimated Equation			Constant Probability		
	Dep=0	Dep=1	Total	Dep=0	Dep=1	Total
E(# of Dep=0)	26.05	36.69	62.74	20.35	42.65	63.00
E(# of Dep=1)	36.95	95.31	132.26	42.65	89.35	132.00
Total	63.00	132.00	195.00	63.00	132.00	195.00
Correct	26.05	95.31	121.36	20.35	89.35	109.71
% Correct	41.35	72.21	62.24	32.31	67.69	56.26

This classification test results table compares the performance of the logistic regression model (*Estimated Equation*) with the constant probability model (*Constant Probability*) in predicting the target category (Dep=0 or Dep=1). In the first part, the results show that the logistic regression model could classify the Dep=1 category by 91.67%, while for Dep=0, it was only 36.51%. Overall, the logistic regression model has an accuracy rate of 73.85%, higher than the constant probability model, which only has an accuracy of 67.69%. The results of the model accuracy test show that the prediction accuracy value obtained is 41.35%. The accuracy of the model shows the number 41.35, "correct".

Table 5. Hypothesis Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
KLK_X1	0.518538	0.211326	2.453733	0.0141
URS_X2	0.850739	0.347430	2.448666	0.0143
TRS_X3	-0.150768	0.131798	-1.143933	0.2527
GKRS_X4	-0.829335	0.207182	-4.002928	0.0001
DPRS_X5	0.244819	0.346705	0.706130	0.4801
C	0.759280	0.374821	2.025712	0.0428

Decision-making based on hypothesis testing refers to the p-value generated by each variable, provided that if the p-value < 0.05, the decision taken by the hypothesis is accepted; if the p-value > 0.05, it means that the hypothesis is rejected. The test results in the following table provide information about the statistical significance of the studied variables. Based on the Table 5, the logistic regression equation can be formulated as follows:

$$\ln\left(\frac{p(y = 1)}{1 - p(y = 1)}\right) = 0.759 + 0.519X1 + 0.851X2 - 0.151X3 - 0.829X4 + 0.245X5$$

DISCUSSION

The Effect of Financial Reports Quality on Financial Reports Transparency of Local Government Hospitals in Indonesia

The test results show that the disclosure of financial statements by local government hospitals in Indonesia significantly improves the quality of financial statements. The results of this study support the research of Adiputra et al. (2018), who state that the BPK audit opinion has a significant positive effect on the transparency of local governments in Indonesia. This shows that audit opinion has a significant effect on the performance of local governments in presenting financial reports as a form of government accountability to the public to increase public confidence that financial management is truly used for the benefit of the community (Masdar et al., 2021). Nurrizkiana et al. (2017) explain that presenting higher-quality financial reports can affect the government's financial transparency. Research findings from Nirwana and Haliah (2018), Karunia et al. (2019), Nor et al. (2019), Masdar et al. (2021), Kraha and Mertens (2020), Marfuah et al. (2023) show that the quality of financial statements affects financial disclosure. The results support agency theory that principals delegate tasks to agents for various public services for the common welfare.

The Effect of Hospital Size on Financial Reports Transparency of Local Government Hospitals in Indonesia

The results of the study state that the size of local government hospitals has a significant positive effect on the transparency of financial reports of local government hospitals in Indonesia. This finding suggests that local government size is measured by considering the total assets owned by local government hospitals. This indicates that assets are maximally optimized for transparency of local government's financial and non-financial realization hospitals in Indonesia (Yudistira & Rohman, 2022). The large size of the hospital indicates a greater amount of wealth, and as a result, public supervision of hospital activities will become stricter due to concerns about potential fraud (Giancotti et al., 2017).

This finding is supported by Ningsih et al. (2023), who show that the transparency of financial information of regional public hospitals is positively influenced by hospital size. Studies by Trisnawati and Achmad (2014), Nosihana and Yaya (2016), Nadir and Arsyad (2019), Kraha and Mertens (2020), Yuniarta and Purnamawati (2020) show that the size of public sector organizations affects financial disclosure. This finding strengthens the legitimacy theory statement that local government hospitals with large sizes tend to have greater pressure, so they will publish their financial reports transparently to gain legitimacy from external parties (Rodríguez Bolívar et al., 2013).

The Effect of Hospital Type on Financial Reports Transparency of Local Government Hospitals in Indonesia

Our finding indicates that hospital type does not significantly impact the transparency of financial reports of local government hospitals in Indonesia. This suggests that the hospital's capacity to implement financial information disclosure is not determined by whether the hospital is type A or not (Ningsih et al., 2023). Although type A hospitals are better than other types, it does not mean they will always provide financial information online (Abor & Tetteh, 2023). This is due to the hospital's sense of responsibility to implement financial information transparency and comply with applicable laws and regulations related to the transparency of financial information (Gu & Itoh, 2016). The results do not support the agency theory statement because the type of hospital does not increase or decrease the agency conflict between the community and hospital management, so it does not affect transparency.

The Effect of Hospital Head Gender on Financial Reports Transparency of Local Government Hospitals in Indonesia

This study's findings revealed that the hospital head's gender had a significant negative impact on the financial transparency of local government hospitals in Indonesia. However, this factor plays only a minor role in influencing the transparency of financial statements, as

the gender of the hospital head is not a key determinant in the openness of these institutions (Araujo & Tejedo-Romero, 2016). The male gender still dominates heads of local government hospitals in Indonesia compared to women. This proves that regional heads of the male gender are more active and involved in politics (Sutaryo & Amanu, 2020). With better information disclosure, the public can easily evaluate government performance to minimize agency problems. This finding is in line with Araujo and Tejedo-Romero (2016), stating that gender does not affect the transparency of regional financial reports. This finding contradicts Ramírez et al. (2022), Farida (2019), Pina and Torres (2019), and Moreno-Enguix et al. (2019), that the supervisory board's female commissioners positively impact financial disclosure.

The Effect of Gender of the Hospital Supervisory Board on Financial Reports Transparency of Local Government Hospitals in Indonesia

This study's findings indicate that the gender of the hospital supervisory board has no significant impact on the transparency of financial reporting of local government hospitals in Indonesia. This demonstrates that the low proportion of female supervisor boards results in less than optimal supervision of hospitals, which impacts the low disclosure of hospital financial reports. The presence of women in the organization is only considered a symbol of gender diversity without considering their competence, which is harmful to the organization (Yasser et al., 2017). This study's findings contradict agency theory in that the gender of the

supervisory board is not a factor in increasing or decreasing agency conflicts between the public and hospital managers, so it has no effect on transparency. Empirical studies by Elghuweel et al. (2017) and Yasser et al. (2017) show that the gender of the female board of commissioners does not affect the performance of public organizations. However, Rahmadani et al. (2020), Prasetyo and Dewayanto (2019), and Zhang (2018) found that the supervisory board of female commissioners has a positive impact on financial disclosure.

CONCLUSION

The results of this study indicate that the quality of financial statements and hospital size significantly improve the transparency of financial reports of local government hospitals in Indonesia. At the same time, factors such as the type of hospital and the gender of the supervisory board did not show a significant effect. In addition, the gender of the hospital head has a significant negative effect on the transparency of financial reports of local government hospitals in Indonesia.

Study Limitations

This study covers only BLUD hospitals in Indonesia, so other researchers can examine a broader range of objects to obtain more accurate data.

The measurement of the level of transparency only uses standard financial statements based on the Government Regulation of the Republic of Indonesia No.71 of 2010. It is advisable to expand the criteria for measuring the level of transparency in future studies.

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