Moderating Effect of Press Highlights on The Effect of the Quality of Internal Control Systems on Disclosure in Local Government Financial Reports

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Abstract - **Many factors are believed to affect government's financial voluntary disclosure. Among these are system endorsement and press coverage. The objective of this study is to investigate the effect of the quality of internal control systems on disclosure in the local government's financial report and the moderating effect of press highlights on the relationship between the quality of such systems and disclosure. This study also analyses the effect of the differences in some local characteristics on this relationship. This study applies the two-step moderated regression analysis method to 1,310 firm-year samples of local government in Indonesia during the period 2010 - 2013. The empirical findings show that for different sizes of local government, the quality of the internal control system affects financial disclosure in different ways. However, overall, we find no evidence to show that the quality of internal control systems affects financial disclosure. This study's findings also show that press highlights negatively moderate the relationship between the quality of internal control systems and financial disclosure. There are other studies that have investigated the direct effect of press on disclosure; thus, this study contributes to the existing literature by providing empirical evidence of the moderating effect of press highlights.**

Keywords - local government financial report, financial disclosure, internal control system quality, press highlight

I. INTRODUCTION

Disclosure of information by government bodies may vary depending on the objectives to be achieved and the expected benefits. Basically, disclosure in financial reports consists of mandatory disclosure which is aimed at fulfilling compulsory requirements and voluntary disclosure that is made if expected profits exceed the costs to be borne [1, 2].

There have been numerous studies on the disclosure of information in government financial reports and their determinants. Although these studies investigate the direct influence of various factors on disclosure, none of them use the quality of internal control systems as a variable capable of affecting disclosure.

The objective of this study is to analyze the influence of internal control systems on disclosure in local government financial reports and the moderating effect of press highlights on this influence in local government financial reports. This study also examines whether these effects differ based on different government characteristics.

Compared to previous studies, this study differs in terms of (1) using the quality of internal control systems as a variable with a possible effect on disclosure, (2) examining the moderating effect of press highlights on the relationship between the quality of internal control systems and disclosure, (3) treating the variables of local government size, regional prosperity, local government wealth, and local government type used in previous research, as characteristics that differentiate one local government from another. These characteristics reportedly affect the relationship between the quality of internal control systems and disclosure and the moderating effects of press highlights. We examine the effect of these differences between characteristics by using split files.

This study is important because to the best of our knowledge, no other study has examined the relationship between the quality of internal control systems and disclosure. In the context of Indonesia, in general, the quality of local government financial reports is poor. This can be seen from the number of such reports that were not deemed unqualified opinion. The lack of good financial reports is also marked by many findings of internal control system weaknesses. This study is also important to show to what extent the press influences local governments to deliver more public information through financial reporting. Some studies have shown a positive influence of the press on disclosure [3-5] while other have shown a negative effect [6].

This study does not support the hypothesis that the quality of internal control systems affects disclosure positively. However, it has been shown that the size of local government has an impact on how the quality of internal control systems affect disclosure. In a small local government, the effect is positive whereas in large local governments, the effect is negative. This study provides empirical evidence to show that press highlights moderate negatively the influence of the quality of internal control systems on disclosure. An analysis of the moderating influence of differences in various local conditions, shows mixed results. In small as well as in large local governments, press highlights strengthen existing relationships. Meanwhile, in low- and high-prosperity, and in rich and less rich local governments, and in regencies and cities, press highlights weaken existing relationships.

By providing empirical evidence, this study contributes to the existing literature in the following ways. First, it shows the effect of press highlights in moderating the influence of the quality of internal control systems on disclosure in local government financial reports. Previous studies have only explained the direct impact of press highlights on disclosure. Secondly, in contrast with studies examining the direct relationship of various variables to disclosure, this study examines how the effect of these variables, treated as local characteristics, vary from one government to another.

The remainder of this paper is organized as follows. Section 2 reviews the relevant literature and develops the hypotheses to be tested. Section 3 outlines the sample selection procedure, research model, and method to test the hypotheses. Section 4 reports the descriptive statistics and empirical results. Section 5 concludes this study.

II. LITERATURE REVIEW, THEORETICAL FRAMEWORK, AND HYPOTHESES DEVELOPMENT

From the government's point of view, despite the existence of information delivery regulation, governments may be reluctant to publicly disclose information that should be private information, unless there is a request for such information [7]. However, if there is attention to non-compliance with disclosure regulation, then disclosure will be affected [7]. The consistency or inconsistency of disclosure of information under existing regulations will affect the political sphere because disclosure is often associated with perceptions of corruption and good governance [7]. Therefore, governments will try to meet public disclosure requirements, to maintain the perception of good governance practices. On the other hand, governments with good news tend to deliver this to the public, through various signals [8].

It is the need for monitoring and signaling that will lead to differences in information disclosure in financial reports. Different need of effective monitoring of governments will result in different accounting and auditing needs, so that monitoring needs will affect quality of required financial report [9]. Meanwhile, signaling the needs can improve the quality of the financial information delivered because governments need to convey their good performance information to stakeholders [9]. Thus, the need for monitoring and signaling improves the quality of the financial information delivered [9].

Gibbins, Richardson, and Waterhouse [10] define financial disclosure as "any sort of deliberate release of financial (and non-financial) information, whether numerical or qualitative, required or voluntary, or via formal or informal channels." The full disclosure principle requires the disclosure of all circumstances and events that can make a difference to users of financial reports. Information in financial reports can be classified as mandatory disclosure and voluntary disclosure. Mandatory disclosure is about complying with existing regulations while voluntary disclosures are made by management to, among others, gain a competitive advantage [1]. The extent of disclosure in financial reports is reflected in how much information can be obtained from the report.

Disclosure through financial reporting not only overcomes agency problems between agents (governments) and principals (voters) through monitoring [11], but also influences decision-making by stakeholders of governments [12-18]. Despite these benefits, governments will not make voluntary disclosure if such disclosure does not provide greater benefits than its associated costs [2].

A. Effect of Internal Control Systems on Disclosure

In Indonesia, the Audit Board of the Republic of Indonesia (BPK) conducts the audit of government financial reports. To obtain reasonable assurance that financial statements are free from material misstatements, the examination includes testing of internal control systems and compliance with laws and regulations. The audit opinion is based on an assessment of conformity with Government Accounting Standards, adequacy of disclosure, compliance with laws and regulations, and effectiveness of the implementation of internal control systems.

An organization's internal control system is designed to provide reasonable assurance that the financial reporting is reliable [19-21]. Internal control systems evaluation reports provide information on the extent to which existing internal control systems adequately provide such guarantees. Although BPK's audit report does not offer an opinion on the effectiveness of internal control system implementation, findings of the system's weaknesses point to the quality of internal control systems.

If the system has weaknesses, the information in financial statements may not be reliable. Furthermore, if the existing internal control system is unable to provide reliable information, governments will not have much reliable information to be disclosed in their financial reports. Thus, a poor internal control system will prevent governments from making wider disclosures.

In relation to voluntary disclosure, governments may choose to suspend such disclosure if the internal control system audit report shows many weaknesses in the system. As Martani and Lestiani [22] state, many findings reflect poor quality of financial statements that will hinder more disclosures. Governments tend to reduce disclosure when they have problems in their financial accountability [22]. Owing to the belief that "quality audit opinion is bad news" [23], governments will suspend voluntary disclosure of bad news to avoid losing voter support. Based on the theoretical understanding as outlined above, this study proposes following hypotheses:

H1a: The quality of internal control systems has a positive effect on disclosure in the financial report.

B. Moderating Effect of Press Highlights

Increased media attention is believed to lead to increased public awareness of certain issues [24]. Therefore, the media can influence public perception and attention to certain issues [24]. Given such media capabilities, government is compelled to explain, answer, or refute specific issues related to government. Gandia [5] shows that public media play a role in encouraging government to inform the public about the programs and daily activities of government as well as government performance. This is in line with Zimmerman's [25] assertion that in terms of agency issues between voters and politicians, media acts as a driving force for government to disclose broader information to meet press requests for information and even as a rebuttal.

As mentioned above, government will deliver broader information when press highlights become more dominant. Since a reliable internal control system will generate reliable information, government will attempt to improve the quality of internal control systems. Thus, the presence of press highlights will affect the role of internal control systems in providing reliable financial information. This gives us our next hypothesis:

H2a: Press highlights moderate positively the influence of the quality of internal control system on disclosure in financial reports.

C. Effect of Differences in Local Characterictics

Since differences in local characteristic could lead to different influences, this study argues that such differences will result in different influences of the quality of internal control systems on disclosure in financial reports and in different moderating effects of press highlights. This study examines the differences of those effects based on regional characteristics such as size of local government, regional prosperity, local government wealth, and local government type.

Larger governments generally have more programs and services for their people and also spend more [26]. According to Styles and Tennyson [26], this increases stakeholder monitoring and thereby increases the demand for information on government performance, and resource use accountability. Laswad, Fisher, and Oyelere [4], Styles and Tennyson [26], Cinca, Tomás, and Tarragona [27], and Gandia [5] state that local prosperity affects disclosure. This is because an increase in such prosperity is usually accompanied by an increase in the demand for information [5, 27]. A community with a high level of prosperity will have stronger purchasing power, including for obtaining information. Therefore, in areas with high levels of prosperity, local governments will see more requests for monitoring and accountability [5, 26]. In addition, local prosperity has an effect on disclosure because prosperity can be associated with government performance, so governments will disclose such information as a signal of their success [4, 5].

Rich local governments will convey more information as a signal that the government has performed well [4, 5]. Delivering such signals is intended to increase the chances of current heads of the regency/the mayor to be re-elected [4, 5], as well as to decrease the probability of attracting negative opinion [28]. Besides, rich governments have the opportunity to convey more information because there are many resources available to produce such information [6]. Although governments will only provide voluntary information if it is perceived that its benefit exceeds its cost [2], for rich governments, the cost-benefit tolerance of disclosure will be more loose compared with governments with limited resources.

There are differences in the characteristics of city compared with regency, in terms of access to information and communication between the government and its community. Martani and Lestiani [22] argued that a city has stronger economic characteristics than a regency because most cities have better infrastructure and educational facilities, implying that people have better access to and use more channels of information than people outside the urban area. In addition, urban community interactions are more intensive than those outside urban areas [4]. According to Laswad, Fisher, and Oyelere [4], a high intensity of interaction among urban voters becomes an incentive for urban communities to come together to monitor and influence local government.

The direct influence of local government size, regional prosperity, local government wealth, and type of local government on disclosure, as proven by previous studies, explains why the different characteristics of local government can make for differences in disclosure. This study argues that local government characteristics also lead to different effects of the relationship between the quality of internal control systems and disclosure because to produce broader and reliable information, one needs the support of reliable internal control systems. Such differences in characteristics also has consequences for the moderating effects of press highlights. This gives us the following hypotheses:

H1b: The influence of the quality of internal control systems on disclosure in large local governments differs from that in small ones.

H2b: The moderating effect of press highlights on the influence of the quality of internal control systems on disclosure in large local governments differs from that in small ones.

H1c: The influence of the quality of internal control systems on disclosure in areas with high prosperity differs from those in areas with low prosperity.

H2c: The moderating effects of press highlights on the influence of the quality of internal control systems on disclosure in areas with high prosperity differs from those in areas with low prosperity.

H1d: The influence of the quality of internal control systems on disclosure in rich local governments differs from that in poor local governments.

H2d: The moderating effects of press highlights on the influence of the quality of internal control systems on disclosure in rich local governments differs from those in poor local governments.

H1e: The influence of the quality of internal control systems on disclosure in city governments differs from that in regencies.

H2e: The moderating effects of press highlight on the influence of the quality of internal control systems on disclosure in city governments differs from those in regencies.

III. RESEARCH METHODOLOGY

A. Sample and Data

This study uses data for the period 2010-2013. The population is all 491 city and regency governments in Indonesia. Thus, the total number of observation units is 1,964. Sample selection is done using the purposive sampling method and the criterion used is local government regency/city with complete data in each year. Table 1 gives details of the sample selection procedures.

The data have been collected from several data sources such as the local government's audited financial reports; Summary of Examination Results of The Audit Board; Region in Figures published by the Central Bureau of Statistics of Indonesia; and official mass media sites. For media sources, we looked at daily newspapers registered at the Indonesian Press Council in 2013 and which had official website. We searched for information about local governments on Google.

B. Research Model

Our model studied two main relationships: (1) the influence of the quality of internal control systems on disclosure in local government financial reports, and (2) the moderating effect of press highlights on the influence of the quality of internal control systems on disclosure. The first relationship was tested to prove Hypothesis 1a. The second relationship was tested to prove Hypothesis 2a. The research model used to test these relationships were as follows:

$$DISC_{it} = \gamma_0 + \gamma_1 ICQ_{it} + e_{it} \quad (1)$$

$$DISC_{it} = \gamma_0 + \gamma_1 ICQ_{it} + \gamma_2 PERS_{it} + \gamma_3 ICQ_{it}*PRESS_{it} + e_{it} \quad (2)$$

where:

DISC = disclosure score of local government financial report, measured by number of disclosure items

ICQ = quality of internal control sytems, measured by log of inverse of number of internal control weaknesses found

PRESS = press highlights, measured by the log of the number of news items in selected press websites in which the local government was mentioned.

Besides testing these two relationship, this study also investigated and analyzed the effect of differences arising from different characteristics of local government, such as size of local government, regional prosperity, local government wealth, and type of local government. To examine the effect of these differences on existing relationships, we performed tests using model 1 to prove Hypothesis 1b, 1c, 1d, and 1e, and model 2 to prove Hypothesis 2b, 2c, 2d, and 2e.

TABLE I. SAMPLE SELECTION PROCEDURES

Number of local governments in 2013	505
Number of local governments that did not prepare financial reports in 2012 and 2013 (newly established)	(14)
Number of local governments observed	491
Number of years (2010 to 2013)	4
Number of potential observations (491 x 4)	1,964
Missing values	(617)
Available data for observation	1,347
Outliers	(37)
Number of observations used	1,310

Local government characteristics were measured in the following way: (1) local government size was measured by log of total revenue, (2) prosperity was measured by log of per capita income, (3) local government wealth was measured by log of per capita local own-source revenue, and (4) local government type was categorized as regency and city.

C. Test of Hypotheses

To test the research model, we used the Moderated Regression Analysis (MRA) method. This is a two-step method, where the first step is to test the direct effect of the quality of internal control systems and the second is to test the impact of the moderating influence of press highlights on this effect. According to Hartman and Moers [29], the moderating effect of a variable can be seen from significant changes to the R-square value between a model that tests the effect of direct variables (model 1) and a model that tests the effect of a moderating variable (model 2). Meanwhile, to examine the effect of the different characteristics, we use the subgroup regression analysis test of the MRA method. Using this method, the presence or absence of the differences of the effects of the direct or moderating impact owing to different characteristics can be seen from the magnitude of the coefficient of the difference of influence [29], which in this case, is the influence of the quality of internal control systems on disclosure.

Data grouping based on local characteristics was done by using the split file. This allowed us to divide the data into two groups; the dataset that is smaller than the average was coded 0 and the one that greater than the average, 1. For region type, code 0 was assigned to regency and code 1 to city.

IV. RESULTS

A. Characteristics of Local Government

Table 2 provides an overview of the data and characteristics of the regency and city used in this study. In general, the level of disclosure lagged far behind expectations. The maximum number of voluntary disclosure points was 18 items of the 25 analyzed, while the minimum number was 5. On average, local government financial reports met 12 items of disclosure. This indicates that local governments have less effort to make broader disclosure. The average number of instances of internal control system weaknesses was high. The sample shows that the highest number of instances of such weaknesses in one year in one regency/ city was 33. Thus, the quality of implementation of internal control systems in local government remained poor. Some regencies almost escaped press attention. In one year, one regency appeared only once in the official online media, while other regencies/cities received a lot of press attention. The average regional revenue of a regency/city was Rp 968.21 billion. The highest regional revenue in one year

was Rp 6,119.24 billion and the lowest, Rp 282.56 billion. In one regency/city, the per capita income was well above the average of Rp 22.86 million per year. The maximum per capita income touched Rp 450.27 million per year. Meanwhile, some other regency/city had a per capita income that was far below the average. The lowest per capita income of people in a regency/city was Rp 3.04 million per year. The average per capita own-source revenue was Rp 209,824.99.

B. Correlation

Table 3 depicts the correlation among variables used in this study. The largest correlation value of 0.572 was in the relationship between disclosure (DISC) and quality of internal control systems (ICQ), but it was not significant. Only the relationship between disclosure (DISC) and press highlights (PRESS) was significant. The correlation value was 0.120, which gives some indication of the relationship among the variables.

C. Result of the Hypotheses Testing

1) The Effect of the Quality of Internal Control Systems on Disclosure

Table 4 shows the test results of the direct effect of the quality of internal control systems (ICQ) on disclosure (DISC) in model 1. The coefficient of this variable was 0.174 and was statistically insignificant. This result rejects Hypothesis 1a. This means that the existing internal control system does not support broader disclosure in government financial reports. Local governments are not more likely to do more disclosure when successful in efficiency and effectiveness of activities, asset security, regulatory compliance, and reliable reporting. This research also does not prove that instances of weaknesses are the basis of recommendations for better disclosure [22]. On the other hand, this study is also inconsistent with that of Martani and Lestiani [22] who found that local governments will reduce disclosure when faced with problems in their financial accountability.

TABLE II. CHARACTERISTICS OF LOCAL GOVERNMENT

Description	Minimum	Maximum	Mean
Number of Voluntary Disclosure Items	5	18	12
Number of Internal Control Weakneses	2	33	11
Number of News Items	1	2,441	191
Local Government' s Total Revenue (Rp 000,000)	282,565.20	6,119,246.75	968,218.82
Per Capita Gross Domectic Product (Rp 000)	3,035.27	450,273.42	22,857.48
Per Capita Own-Source Revenue (Rp)	19,445.42	5,486,724.64	209,824.99

TABLE III. MATRIX OF CORRELATION AMONG VARIABLES

		DISC	ICQ	PRESS
DISC	Pearson Correlation	1	0.016	0.120[**]
	Sig. (2-tailed)		0.572	0.000
	N	1,310	1,310	1,310
ICQ	Pearson Correlation	0.016	1	0.025
	Sig. (2-tailed)	0.572		0.365
	N	1,310	1,310	1,310
PRESS	Pearson Correlation	0.120[**]	0.025	1
	Sig. (2-tailed)	0.000	0.365	
	N	1,310	1,310	1,310

**. Correlation is significant at the 0.01 level (2-tailed).

DISC=disclosure score of local government financial report; *ICQ*=internal control quality; *PRESS*=press highlights.

TABLE IV. MODEL 1 TEST RESULT

	Expected Sign	Model 1	
		Coefficients	Sig.
Constant		11.530	0.000
ICQ	+	0.174	0.572
R Square		0.000	
F Test Sig.		0.572	

Dependent Variable: DISC

The results of this study raises a question about the number of instances of internal control system weaknesses as representative of the quality of internal control systems. If the suggestion by Martani and Lestiani [22] that the number of instances are more representative of the quality of auditors is correct, then the quality of internal control systems in local government cannot support the production of financial reports which contain richer information. That local governments have unreliable internal control systems is evident from an evaluation of the Financial and Development Supervisory Board (BPKP) [30]. The result shows that the maturity of internal control systems in 104 local governments in 2015 was generally low [30], as detailed in Table 5. In line with the result of BPKP's assessment, this study demonstrates that internal control systems in local governments have not been sufficiently supportive in providing reliable and broader information for local government financial reports.

1) The Effect of Differences in Local Characterictics on the Relationship between the Quality of Internal Control Systems and Disclosure

Table 6 shows the test results of the direct influence of the quality of internal control systems on disclosure for two groups of local governments with different sizes. The value of the constant in the relationship is 10.463 for small local governments and 12.838 for large ones. Meanwhile, the coefficient for the variable of direct influence is equal to 1.240 with significance level of 0.002 in small local governments, and (-1.098) with significance level of 0.019 in the large ones. Both significance values are smaller than 0.05, indicating that the coefficients are statistically significant. The result shows that in the group of small local governments, Hypothesis 1a is proven. The quality of internal control systems has a positive effect on disclosure in local government financial reports. On the other hand, in the group of large local governments, Hypothesis 1a is rejected. In large local governments, the quality of internal control systems affects disclosure negatively.

TABLE V. MATURITY OF LOCAL GOVERNMENT'S INTERNAL CONTROL SYSTEMS

No	Maturity Level	Number of Local Government
1.	Undefined	5
2.	Initial	54
3.	Developing	36
4.	Defined	4
5.	Managed	-
6.	Optimum	-

TABLE VI. TEST RESULT, DIFFERENCES IN EFFECTS OF LOCAL CHARACTERICTICS ON THE RELATIONSHIP BETWEEN THE QUALITY OF INTERNAL CONTROL SYSTEMS AND DISCLOSURE

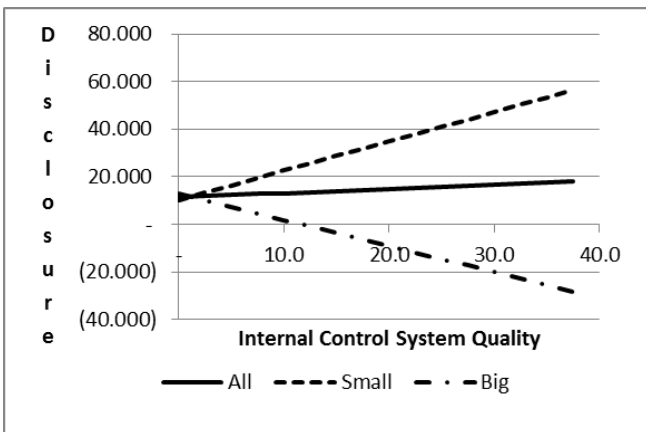|		Local Characterictics							
		Size		Prosperity		Government Wealth		Type	
		Coeff.	Sig. Coeff.	Coeff.	Sig. Coeff.	Coeff.	Sig. Coeff.	Coeff.	Sig. Coeff.
Small/Low/Regency	Constant	10.463	0.000	11.440	0.000	11.446	0.000	11.398	0.000
	ICQ	1.240	0.002	0.188	0.647	0.167	0.685	0.264	0.451
	R Square	0.013		0.000		0.000		0.001	
	F Test Sig.	0.002		0.647		0.685		0.451	
Big/High/City	Constant	12.838	0.000	11.580	0.000	11.551	0.000	12.009	0.000
	ICQ	-1.098	0.019	0.215	0.643	0.270	0.562	-.150	0.813
	R Square	0.009		0.000		0.001		0.000	
	F Test Sig.	0.019		0.643		0.562		0.813	
Dependent Variable: DISC									

Fig. 1. Differences in Effects of Local Characterictics on the Relationship between Quality of Internal Control Systems and Disclosure

The different effects of the quality of internal control systems on disclosure in the two groups of local governments of different sizes prove that there is an influence of size differences of local government on the relationship between the quality of internal control systems and disclosure. The effect of differences is illustrated in Figure 1. From the degree and direction of slope, the effect of differences between the two groups of local governments is very clear. Thus, Hypothesis 1b is proven.

To say that this result shows that there is no influence of the quality of internal control systems on disclosure is not entirely correct. Only in the group of small local governments, is disclosure positively influenced by the quality of internal control systems; it does not apply to the group of large local governments. The existence of different effects in the two different groups of government size shows that an increase in government size is not always accompanied by an increase in efforts to make boarder disclosure through the development of better internal control systems. In the group of small local governments, an improvement in internal control systems leads to more informative financial reports. Meanwhile, the opposite occurs in the group of large local governments. In the group of small local governments, the result is consistent with that of Martani and Lestiani [22], who state that instances of weaknesses in internal control can be the basis of recommendations for better disclosure. Meanwhile, in the group of large local governments, the local government may choose to suspend disclosure if the audit report shows many

instances of internal control weaknesses, to avoid losing voter support.

The difference between the two groups demontrated by this study is not in line with Styles and Tennyson [26]. According to them, larger governments will generally have more programs and services that will improve monitoring by stakeholders and increase demand for information about government performance and resource use accountability that will ultimately increase disclosure [26]. Evidence that in the group of small governments, improving the quality of internal control systems may encourage broader disclosure, and vice-versa in the group of large governments, improving the quality of internal control systems inhibits broader disclosure, is an interesting phenomenon that should be explored further.

The constant value of the influence of internal control quality on disclosure is 11.440 in the group with low prosperity and 11.580 in the group with high prosperity. The coefficient of the direct influence variable is 0.188 with a significance level of 0.647 in the group of low prosperity and 0.215 with a significance level of 0.643 in the group of high prosperity. Since the significance values are greater than 0.05, these coefficients are not statistically significant. These test results indicate that in groups of low or high prosperity, the quality of internal control systems has no effect on disclosure. Thus, Hypothesis 1c which states that differences in prosperity affect this relationship is rejected.

According to Gandia [5] and Styles and Tennyson [26], a community with a high level of prosperity will have strong purchasing power, including for obtaining information. This study does not support that opinion. In groups of high as well as low prosperity, the efforts of local governments to improve the quality of internal control systems which can support availability of broader financial information, is not seen. The absence of broader disclosure in local government financial reports may be an indication that wealthier people have sufficient information about local government performance through other media outside the local government financial report.

Similar to differences in regional prosperity, differences in local government wealth and regional types do not affect differences in the impact of the quality of internal control systems on disclosure. The test results show insignificant values of the coefficient. Thus, Hypothesis 1d and 1e are rejected. According to Ingram [6], rich local governments

have the opportunity to deliver more information because they have many resources to do that just as they do to build a reliable internal control system. However, this study does not support this view. Local governments with more resources are not proven to be desirous of building better internal control systems to generate reliably broader financial disclosure. The study also does not support Laswad, Fisher, and Oyelere [4] who suggested that urban voter communities have stronger incentives to form coalitions and to monitor government than rural societies. Cities have not been proven capable of influencing local governments to improve the quality of internal control systems to produce broader and more reliable financial information.

2) The Moderating Effect of Press Highlights on the Relationship between the Quality of Internal Control Systems and Disclosure

Effect of press highlights as a moderating variable statistically can be seen from a significant R-square change in the relationship between the quality of internal control systems and disclosure, as shown in Table 7. The table shows the R-square and R-square change values in the relationship before and after including the press highlights variable as a moderating variable. The R-square value in the initial model (model 1) is 0.000. After including the press highlights variable, the value is 0.015. The R-square change value is 0.014 with a significance level of 0.000. This indicates that the value of R-square change is significant. The significant value of R-square change indicates that the new variable has a moderating effect. The significant moderating effect of press highlights on the relationship between the quality of internal control systems and disclosure can be illustrated, as shown in Figure 2. The figure depicts a line showing this relationship before and after the presence of the moderating variable. A decline in the degree of the slope indicates that the presence of moderating variables weakens slightly the existing relationships. Thus, the results of the statistical test show that the presence of press highlights reduce slightly the influence of the quality of internal control systems on disclosure. This result does not support Hypothesis 2a.

Table 7 also shows the coefficient of the direct influence of press highlights on disclosure to be 0.390 with a significance level of 0.000. This indicates that press highlights influence disclosure. This result is in line with Smith [3], Laswad, Fisher and Oyelere [4], and Gandia [5].

TABLE VII.   MODERATION TEST RESULTS

| | Model | Coefficients | Sig. Coeff. | R Square | Change Statistics | |
					R-Square Change	Sig. Change
1	Constant	11.530	0.000	0.000	0.000	0.572
	ICQ	0.174	0.572			
2	Constant	10.823	0.000	0.015	0.014	0.000
	ICQ	0.140	0.646			
	PRESS	0.390	0.000			

Dependent Variable: DISC

The media has proven to play a role as a driving force for government to disclose more information [25, 3]. This evidence explains that on the one hand, the press encourages government to provide broader information to the public, but on the other hand, its role also weakens the role of internal control systems in producing more informative financial

reports. The presence of a stronger press will encourage local government to prioritize the disclosure of information to answer to the need for press information directly rather than through financial reports.
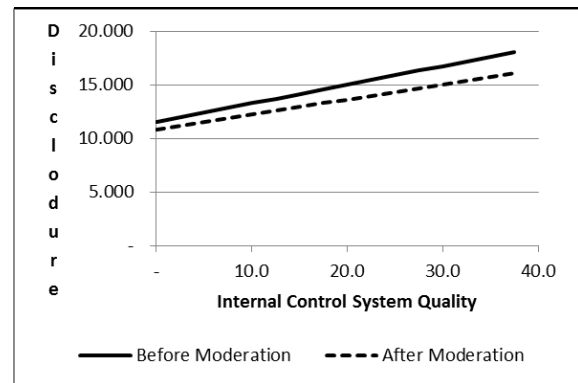

Fig. 2.   Moderating Effect of Press Highlights on the Relationship between the Quality of Internal Control Systems and Disclosure

3) Differences in the Effect of Local Characterictics on the Moderating Effect of Press Highlights

Table 8 shows values of R-square and R-square change in the model showing the relationship between the quality of internal control systems and disclosure before and after including press highlights in two groups with different regional characteristics. In the group of small government, the value of R-square in the initial model is 0.013. After including the press highlights variable, the value is 0.022. The value of R-square change is 0.009 with a significance level of 0.010. Meanwhile, in the group of large governments, the magnitude of R-square in the initial model is 0.009 and becomes 0.045 after the press highlight variable is included. The value of R-square changes is 0.036 with a significance level of 0.000. The test results in both groups indicate that press highlights moderate the relationship between the quality of internal control systems and disclosure.

In the group of small governments, the coefficient of the variable for the direct relationship of the quality of internal control systems and disclosure is 1.240 with a significance level of 0.002 whereas the coefficient of the variable for the influence of the quality of internal control system on disclosure in the presence of press highlights is 1.268 with a significance level of 0.002. In the group of large governments, the coefficient for the direct effect variable is (-1.098) with a significance level of 0.019 while the coefficient of the variable including the moderating effect of press highlight is (-1.123) with a significance level of 0.014. All coefficients of the variable for the influence of the quality of internal control systems on disclosure in the two different groups of government size are significant before and after taking account the moderating effect. The coefficient values change and the changes are significant (see significant changes in R-square values). A significant moderating effect and differences in coefficient values prove that the moderating effects between the two groups of government size are different. Thus, statistically, Hypothesis 2b is proven.

In both groups, press highlights strengthen the relationships between the quality of internal control systems and disclosure. However, in the group of small government, given the presence of press highlights, internal control

systems are instrumental in ensuring financial reports with broader disclosure. In the group with large governments, the presence of stronger press highlights reduces the role of internal control systems in generating broader disclosure. As explained earlier, this may be because of the presence of strong press highlights pushing governments to prioritize broader disclosure to respond to press information needs rather than to financial reporting needs. As can be seen from the test results, the direct effect of press highlights on disclosures in the group of large governments is stronger than in the group of small ones.

TABLE VIII.   TEST RESULTS OF THE DIFFERENCES IN THE EFFECTS OF LOCAL CHARACTERICTICS ON THE MODERATING EFFECTS OF PRESS HIGHLIGHTS

Model			Size			Change Statistics		Prosperity			Change Statistics	
			Coeff.	Sig. Coeff.	R Square	R-Square Change	Sig. Change	Coeff.	Sig. Coeff.	R Square	R-Square Change	Sig. Change
Small/ Low/ Regency	1	Constant	10.463	0.000	0.013	0.013	0.002	11.440	0.000	0.000	0.000	0.647
		ICQ	1.240	0.002				0.188	0.647			
	2	Constant	9.904	0.000	0.022	0.009	0.010	10.787	0.000	0.014	0.014	0.002
		ICQ	1.268	0.002				0.129	0.752			
		PRESS	0.322	0.010				0.402	0.002			
Big/ High/ City	1	Constant	12.838	0.000	0.009	0.009	0.019	11.580	0.000	0.000	0.000	0.643
		ICQ	-1.098	0.019				0.215	0.643			
	2	Constant	11.198	0.000	0.045	0.036	0.000	10.894	0.000	0.012	0.012	0.008
		ICQ	-1.123	0.014				0.178	0.700			
		PRESS	0.756	0.000				0.353	0.008			

Model			Government Wealth			Change Statistics		Type			Change Statistics	
			Coeff.	Sig. Coeff.	R Square	R-Square Change	Sig. Change	Coeff.	Sig. Coeff.	R Square	R-Square Change	Sig. Change
Small/ Low/ Regency	1	Constant	11.446	0.000	0.000	0.000	0.685	11.398	0.000	0.001	0.001	0.451
		ICQ	0.167	0.685				0.264	0.451			
	2	Constant	10.965	0.000	0.008	0.008	0.018	10.782	0.000	0.012	0.011	0.001
		ICQ	0.112	0.784				0.212	0.542			
		PRESS	0.301	0.018				0.371	0.001			
Big/ High/ City	1	Constant	11.551	0.000	0.001	0.001	0.562	12.009	0.000	0.000	0.000	0.813
		ICQ	0.270	0.562				-0.150	0.813			
	2	Constant	10.664	0.000	0.020	0.020	0.001	10.972	0.000	0.019	0.019	0.022
		ICQ	0.237	0.607				-0.108	0.865			
		PRESS	0.450	0.001				0.439	0.022			

Dependent Variable: DISC
Model1 Predictors: Constant, ICQ
Model2 Predictors: Constant, ICQ, PRESS

In the group with low prosperity, the R-square value in the initial model is 0.000. It becomes 0.014 after including press highlights. The change in R-square value is equal to 0.014 with a significance level of 0.002. This shows that press highlights moderate the existing relationship. In the group with high prosperity, the change of R-square value is 0.012 with a significance level of 0.008. This also indicates the presence of the influence of moderating variables. Thus, the statistical test result shows that in both groups, press highlights moderate the relationship between the quality of internal control systems and disclosure. The coefficient of the variable for the influence of the quality of internal control systems on disclosure with the moderation effect is 0,752 in groups of low prosperity while 0,700 in groups with high prosperity. Thus, it supports Hypothesis 2c. This result shows that press highlights weaken the influence of the quality of internal control systems on disclosure. The existence of press highlights makes the internal control system play a smaller role in ensuring financial reports with broader disclosure.

Similar to regional prosperity differences, differences in local government wealth and in types of government produce differences in the moderating effect of press highlights on the influence of the quality of internal control systems on disclosure. Test results in the group of wealthy local governments and in the group of poor ones show that the R-square change value is significant and the magnitude of the coefficient value between those groups is different. Similar results are seen when we test for differences in the effect in different groups by type of government. Thus, Hypothesis 2d and 2e are proven. In all groups, the result shows that press highlights weaken the influence of the quality of internal control systems on disclosure.

V. CONCLUSION

We can draw the following conclusions from this study: Firstly, this study does not provide supporting evidence to show that local governments tend to do more disclosures when the internal control system is successful in ensuring efficiency and effectiveness of activities, asset safeguards, regulatory compliance, and reliable reporting. The study does not prove that local governments reduce disclosure when faced with problems in financial accountability. However, an interesting phenomenon was observed when we conducted a test for different sizes of local government. In the group of small governments, the quality of internal control systems influenced disclosure positively while in the group of large governments, the effect was negative. Secondly, the moderating effect of press highlights on the influence of the quality of internal control system on disclosure is seen but is negative. This direction of influence is contrary to expectations. Testing for differences in the moderating influence on various conditions showed mixed results. In both groups of government size, the moderating effect of press highlights strengthened existing relationships.

Meanwhile, in groups of low and high prosperity, rich and less rich local governments, and in group of regencies and cities, press highlights weakened existing relationships. This indicates that in some local conditions, media weakened the role of better internal control systems in producing more informative financial reports. The presence of strong press highlights made local governments prioritize broader disclosure in order to be able to answer press information needs directly rather than make disclosures through financial statements.

This study has several limitations as follows: Firstly, data on disclosure and press highlights are obtained using content analysis techniques. Data thus obtained has the potential to produce differences among different studies. Secondly, the items of voluntary disclosure in this study are adopted from previous research at government agencies in Australia. In the Indonesian context, these items have not been tested as information needed to be disclosed in financial reports. Thirdly, some local mass media do not have official online sites. Thus, news about local government in such media are not included in this study.

This study brings some implications. This study provides a new understanding about the influence of press highlight. The press highlight not only has the power to directly influence disclosure, but also has the moderating effect on the influence of the quality of internal control system on disclosure. Press can be utilized to moderate the role of internal control system for broader disclosure in local government financial report. Such strategy can encourages local government to improve its internal control system as well as its financial accountability. However, it should be conducted selectively since the influence can be vary depend on characteristics of local government.

We offer the following suggestions for future research: firstly, to develop data collection techniques that can overcome the problem of ambiguity that may arise from the use of content analysis techniques, both for disclosure and for press news; secondly, to develop voluntary disclosure items that are relevant to the conditions in the country in which the study; thirdly, to develop a technique of settling the number of news items, for more accurate data of press highlights; fourthly, to conduct deep analysis to identify the factors that cause differences in the effect of the quality of internal control systems on disclosure in small and large local governments.

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