

The Impact of The Quality of Financial Statements on Local Revenue Using Examination Opinion Results as Moderating Variable

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Abstract

This study aimed to examine the influence of the financial statements on local revenue by using the results of the examination opinion as moderating variable. The study used Legitimacy Theory to explain and analyze the relationship between variables. The population in the study was all the districts and cities in Indonesia totaling 497 county and city governments. The sampling method used in the study was judgment sampling. Samples that met the criteria of the study were 116 local governments. The analytical tool used in this research was the analysis of MRA (Moderated Regression Analysis). The results showed that the effects of the partial test of the quality of financial reports to local revenues were not significant positive effects. While the partial test results stating the influence of audit opinion on local revenue having positive effects were not significant. Other results showed that the interaction between the results of the examination opinion to the quality of financial statements was insignificant on the quality of financial statements. In other words, the results of the examination opinions moderated (strengthened) the relationship between quality of financial report on local revenue of district and city governments in Indonesia.

Key Words: *Quality of Financial Statements, Local Revenue, Examination Opinion Results*

JEL classification: *G21; G28; G35*

Introduction

The governmental governance in Indonesia has experienced significant growth since the implementation of regional autonomy and fiscal decentralization. The development has some impacts, for example, the changing in financial management from centralized to decentralized system. In the term of responsibility, there is a shift from vertical accountability system to horizontal accountability systems, while for the recording system changes from a single entry accounting system and cash basis and heading into the double entry accrual basis (Mardiasmo, 2010; 67)

Good government governance is shown with a good quality of financial reporting. The influence of the quality of the financial statements that gets the stakeholders trust shown by their compliance of paying local taxes. This can be explained by using the argumentation of *legitimacy theory* derived of *political economy theory*. Legitimacy theory is a theory that explains the relationship between the organization and the community, Lindblom (1994). Legitimacy theory asserts that the organization continues to strive to ensure that the organization operates within the framework and norms that exist in the community or the environment where the organization is located and continues to strive to ensure that the organization's activities is accepted by outsiders as a legitimate activities (Deegan, 2004: 253). Dowling and Pfeffer (1975) provides a logical reason about the legitimacy of the organization. They stated that the organization seeks to create harmony between social values inherent in its activities with the norms that exist in the social system because the organization is a part of the system. Agency theory can also be applied in government entities, such as Banker and Patton (1987) describes the relationship between public relations agency as voters (principal) and the head of the region (the agent). The agency relationship has implications for conflict of interest, as described by Zimmerman (1977) regional leaders are assumed to act in the interests of self (self interest), namely to maximize their interests. Furthermore Eisenhardt (1989) states that the agency theory using three assumption of human nature, namely: (1) self-interest, (2) bounded rationality, and (3) risk averse.

The Government Accounting Standard No. 1 that deals with the Presentation of Financial Statements confirms that the users of financial statements of local government are the people, legislators, agency inspectors / supervisors, party grants or whoever plays a role in the process of donations, investments and loans, as well as the government. Stakeholders' trust in local government is reflected in economic, social, and political decision-making behavior. The results of the examination opinion is important information for stakeholders in assessing the transparency and accountability of the use of public funds. Good quality report supported by the results of the audit opinion will impact on boosting the confidence of stakeholders.

Law Number 15 Year 2004 concerns about Management Audit and Accountability of State Finance. In Article 16 (1) explains that opinion is a statement of professional inspectors on the fairness of the financial information presented in the financial statements that are based on the criteria of (a) compliance with government accounting standards, (b) the adequacy of disclosure, (c) compliance against the legislation, and (d) the effectiveness of internal control systems. Based on these criteria, it can be concluded that the level of compliance with mandatory disclosure of financial statements of the government is one of the important things in determining the outcome of the examination opinion.

Regional autonomy in Indonesia is conducted by giving the rights, powers and obligations to the regions to organize and manage the affairs of government in accordance with the legislation, including in terms of the management of regional financial (PP No. 58/2005). One of the critical success factors of local autonomy is the region's ability to finance its own implementation of the authority possessed by the region. The source of financing that is important in supporting the success of the decentralization policy is local revenue, in which the main components of their source are local taxes and levies.

In the era of regional autonomy, financial sources are expected to be dominated by local revenue. Therefore, in Law No. 33 Year 2004 the region's ability to obtain funds can be improved by optimizing all potential areas consisting of local taxes, levies, separated wealth management and other legitimate incomes. However, the regional autonomy policy is not matched with financial independence of each local government. Local governments have only average local revenues of 7%. It means that, the average of local government revenues is far from the original minimum threshold revenue defined by the World Bank that states 20% for the districts and 17.80% for cities. If the minimum acquisition of the local revenue of less than 20%, it can be said that the area will lose its credibility as an independent entity (Riduansyah, 2003). As a result, county and city governments do not have the freedom to carry out the community service program in accordance with the priority needs of the region.

The low proportion of local revenues sourced from local revenue caused by distrust among the public on the management of funds coming from taxes. Lewis (1982) explains that public attitudes towards the government will determine the excitement of paying taxes. The local government that is not able to ensure

that the organization operates within the framework and norms that exist in society encourages tax evasion by the public. Public tax payers have an expectation that the funds from the tax is used to pay attention to the concept of good governance. Theoretically, the conformity between the desire of taxpayers and the use of tax money they pay will increase the compliance in paying taxes.

The financial statements of local governments have a strategic role that is to show how the management of public funds has been used that would increase public trust. *Legitimacy theory* assumes that the disclosure of financial statements as a document of the social, political, and economic used as a tool to construct and legitimize the political and economic agreements for an institution (Guthrie and Parker, 1990). Disclosure of financial statements is the medium used by local governments to assure the public that the management of public funds have been used in a transparent and accountable. To protect the interests of stakeholders from misleading information of financial statements, the central government as the regulator requires all local government financial statements to be audited by the Supreme Audit Board of the Republic of Indonesia.

Literature Review

The quality of the financial statements is shown by the local government compliance with regulations governing the presentation of financial statements of local government. In Indonesia, regulation on mandatory disclosure of financial statements of local government stipulated in Government Regulation No. 71 Year 2010. The standard government accounting is defined as accounting principles applied in preparing and presenting the financial statements of the government. Government accounting standards expected to create transparency, participation and accountability of financial management of the country / region in order to realize good governance (good government governance).

The quality of the financial statements are measured by developing a list of disclosure items that refer to the accounts contained in Inventory Accounting, PSAP 06, PSAP 07, Accounting for Investments, Fixed Assets Accounting, PSAP 08, PSAP 09, Accounting for Construction In Workmanship, and PSAP 10, Obligation Accounting.

Local revenues are revenues received from the local taxes (for example; the restaurant tax, entertainment tax, hotel tax, advertisement tax, and public street lighting tax) and charges / levies (for example: health levy, levy of waste management services, and waste services levy). Local Revenue (fiscal autonomy) demonstrates the ability of local governments to finance its own activities, development, and service to the community which comes from the potential of the area. People have paid taxes and levies as sources of local revenue required by the local governments.

Local revenues also describe local dependency on external funding sources. The higher the level of local revenues means that the level of regional dependency on external assistance (particularly the central and provincial governments) are getting lower, and vice versa. Total local revenues also illustrates the level of community participation in local development. The higher regional income, the higher the participation of the community in paying taxes and levies. The higher the society to pay taxes and levies describes the higher level of social welfare.

Criteria for giving opinions stated on Law Number 15 Year 2004 concerning Management and Accountability of State Finance. In Article 16 paragraph (1) explained that the opinion is a statement of professional inspectors on the fairness of the financial information presented in the financial statements that are based on the criteria of (a) compliance with government accounting standards, (b) the adequacy of disclosure (adequate disclosures), (c) compliance against the legislation, and (d) the effectiveness of internal control systems. Based on these criteria, it can be concluded that the level of compliance with mandatory disclosure of financial statements of the government is one of the important determinants of audit opinion.

Based on Law No. 15 Year 2004 there were four (4) types of Opinions given by the Audit Board of the Republic of Indonesia on examination of a Government Financial Statements: Unqualified Opinion; Qualified opinion; Adversed Opinion and the statement refused to give an opinion (Disclaimer of Opinion).

Adversed opinion and disclaimer of opinion on the financial statements of local government show that the financial statements are likely to mislead readers and users of the report (Mahmudi, 2010). Thus users of the financial statements will not hesitate to make the report as a basis for decision making. This would be detrimental to the local government because it will have an impact on public mistrust of the content of the financial statements.

Legitimacy Theory: The Impact of the Quality of Financial statements on Local Revenue

The impact of the quality of financial report on local revenue proxied by the obedience of paying local taxes are described and analyzed using the legitimacy theory. Lindblom (1994) describes legitimacy is a condition when an entity value system is the same as the greater system of social values. Dowling and Pfeffer (1975) provides a logical reason about the legitimacy of the organization. They stated that the organization seeks to create harmony between social values inherent in its activities with the existing norms in the social system because the organization is a part of the system. The financial report is a medium that can be used to communicate the state of the organization to stakeholders and is a means to obtain a benefit or improve legitimacy (Campbell, et al. 2003; Lindbolm, 1994). The quality policy of the financial statements in term of the compliance with accounting standards is a strategy for local governments to obtain legitimacy in the form of community obedience in paying local taxes.

The Effect of the Results of Audit Opinion on Local Revenue

The influence of the results of the Audit Board of the Republic of Indonesia audit opinion on revenue proxied by the obedience of paying local taxes are described and analyzed using the legitimacy theory. Lindblom (1994) describes legitimacy is a condition when an entity value system is the same as the greater system of social values. Dowling and Pfeffer (1975) provides a logical reason about the legitimacy of the organization. They stated that the organization seeks to create harmony between social values inherent in its activities with the existing norms in the social system because the organization is a part of the system. The financial report is a medium that can be used to communicate the state of the organization to stakeholders and is a means to obtain benefits or improve the legitimacy (Campbell, et al. 2003; Lindbolm, 1994). The quality policy of the financial statements in term of compliance with accounting standards is a strategy of local governments to obtain legitimacy in the form of obedience of community to pay local taxes.

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The results of examination opinion identified as a reinforcing factor in the relationship between the quality of financial reports with the local revenue. The quality of the financial statements linked to the results of the examination opinion by arguing that one of the important criteria in determining the results of the examination opinion is compliance with the government accounting standards. The results of the examination opinion will affect the quality of financial report. The interaction between the quality of financial reports with the results of the examination opinion will be more positive on local revenue. The relationship occurs because of the good results of audit opinion that stakeholders gain confidence in the transparency and accountability of all public funds management and confidence in the information presented in the financial statements are free from material misstatement.

The Quality Impact of Financial statements on Local Revenue using the Results of Audit Opinion as Moderating Variable

The quality impact of financial report on local revenue proxied by the obedience of paying local taxes are described and analyzed using the legitimacy theory. Lindblom (1994) describes legitimacy is a condition when an entity value system is the same as the greater system of social values. Dowling and Pfeffer (1975) provides a logical reason about the legitimacy of the organization. They stated that the organization seeks

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Research and Methodology

Hypothesis

In this part of study, three major hypothesis have been developed based on literature review,

H1: The quality of local government financial statements effects the local revenue

H2: The Interaction of the quality of financial statements and the results of examination opinion has positive effect on local revenue.

H3: The interaction of the quality of financial statements and the results of examination opinion has positive effect on local revenue.

Population and Research Sample

The population in this study were all government districts and cities in Indonesia totaling 497 county and city governments, which consists of 399 districts and 98 cities. The unit of analysis is the government's financial statements of districts and cities in Indonesia in 2013 and 2014 which had been inspected by the Audit Board of the Republic of Indonesia. The samples used judgment sampling because not all elements of the population could provide information in accordance with the purpose of the study.

Hypotheses Testing

In this research, hypotheses testing used analysis of MRA (Moderated Regression Analysis), coefficient of determination, F test and t test. Test interaction is often called MRA is a special application of multiple linear regression where the regression equation contains elements of interaction (Ghozali, 2012). Regression analysis was used to see the dependence of the dependent variables by one or more independent variables, with the aim to estimate the average value of a variable based on the known value of the independent variable (Gujarati, 2003).

Sources and Data Collection Techniques

Sources of the data in this research were secondary data sources, namely a set of complete financial statements of local government in 2013 and 2014 consisting of balance sheet, budget realization, cash flows, and notes to the financial statements. The data collection obtained from each of the local governments of the research sample.

The Operational Definition and Measurement of the Variables

a. Independent Variables

In this study, there was one independent variable, the quality of financial reports. The quality of financial reports was proxied by disclosure index as measured by the percentage of compliance with the mandatory disclosure requirements. Financial statements disclosure index in 2013 was calculated using a checklist that lists items of mandatory disclosure of financial statements of local governments. A list of the items which must be disclosed by local governments were the items listed in the Government Regulation No. 71 Year 2010 concerning the Government Accounting Standards, which is contained in the SGAS No. 2 to SGAS No. 9.

b. Dependent variable

The dependent variable in this study was local revenues that was calculated by comparing the local revenue to the total revenue.

c. Moderating variable

In this study there was a moderating variable namely the result of the examination opinion. Type of opinion in this research was an opinion given by auditor in the audit report. Variable audit opinion was measured using a scale of 5 points with measurement details as follows: Type of opinions were variables which were divided into five groups, namely: Fair without Exception (5), Fair with Exception with An Explanatory Paragraph (4), Fair With Exceptions (3), Gives no opinions (2), Unreasonable (0).

Results And Discussion

Variable Descriptive Statistics

Descriptive statistics for the results of the examination opinion variable, the quality of financial report and local revenues were presented in Table 1. The number of city authorities in Indonesia used as the samples were 116. The results of descriptive statistics such as the lowest value, highest, average, and standard deviation were presented in Table 1 below.

Table 1: Descriptive Statistics of Research Variable

	N	Minimum	Maximum	Mean	Std Deviation
Quality of Financial Report	116	.810	.810	.554422	.082643
Local Revenue	116	.008	.298	.07934	.057790
Opinion	116	2.00	5.00	4.0690	.95757
Quality*Opinion	116	.98	3.50	2.2601	.64854

Source: SPSS Output

Description of the Quality of Financial Statements Variable

Mandatory disclosure is the disclosure required by the applicable regulations, which stipulated in Government Regulation No. 71 Year 2010 concerning the Government Accounting Standards. Government accounting standards are accounting principles used in preparing and presenting the financial statements of the government. The quality of financial reports is proxied by disclosure index as measured by the percentage of compliance with mandatory disclosure requirements. Therefore, local governments that have high disclosure index show high level of quality of financial reporting.

The average quality of the financial reports of local governments in Indonesia were selected as sample of 0.55422. The lowest quality of financial statements was 0.3900 the the highest was 0.810 with a standard deviation of 0.082643. In other words, the spread of variable data of the quality of financial reports was at an average rate of approximately 0.082643.

Description of Local Revenue Variable

Local Revenue (fiscal autonomy) is a reflection of the ability of local government in self-financing governmental activities, construction, and service to the community that is gotten from taxes and levies as a source of revenue required by the local government. The higher the society in paying taxes and levies will describe the higher level of social welfare. Welfare also illustrates the dependence of the local government on external funding sources. The higher welfare indicates the lower dependency of the local government to the central and the provincial government help, and vice versa.

The average of the local revenue of local governments in Indonesia selected as sample was of 0.07934. The lowest of the local revenue was 0.008 and the highest was 0.298 with the level of standard deviation of 0.057790. It means that, the spread of variable data of the local revenue was at an average rate of approximately 0.057790.

Description of the Results of Examination Opinion Variable

Opinion is a statement of professional inspectors on the fairness of the financial information presented in the financial statements that are based on the criteria of (a) compliance with government accounting standards, (b) the adequacy of disclosure, (c) compliance with laws and regulations, and (d) and the effectiveness of internal control systems.

Audit opinion variable was measured using a scale of 5 points with measurement details as follows: Type opinions are variables which are divided into five groups, namely: Fair without Exception (5), Fair with Exception with An Explanatory Paragraph (4), Fair With Exceptions (3), Gives no opinions (2), Unreasonable (0). The average results of the audit opinion of the financial statements of local governments in Indonesia selected as sample was 4.0690. The lowest result of the examination opinions was 2.00 and the highest was 5.00 with a standard deviation of 0.95757. It indicates that the outcome variable data of the result of audit opinion was at an average rate of less than 0.95757.

Description of the Interaction between the Quality Results of Financial Statements and the Results of Examination Opinion Variables

Moderating variable is the interaction between the quality of financial reports with the results of examination opinion obtained from the multiplication of the quality of the report with the results of the examination opinion. The average interaction between the quality of financial reports with the results of the examination opinions of local governments in Indonesia selected as sample was 2.2601. The lowest interaction of the quality of financial reports with the results of the examination opinions was 0.98 and the highest was 3.50 with level of standard deviation of 0.64854. It shows that the spread of variable data of the local revenue was at an average rate of less than 0.64854.

Classical Assumption test

In this study, the classical assumption test used the normality test, multicollinearity, and heteroscedasticity test. Of all the data and regression models were tested, all showing that there was no violation of the classical assumption test, except for the results of the examination opinion variable.

Hypotheses Testing

Testing the Quality Impact of Financial Statements Against the Local Revenue with the Results Examination Opinion as Moderating Variable.

This study aimed to test the hypothesis of the influence of the quality of financial reports to local revenues with the results of the examination opinion as moderating variable. The analysis technique used was moderating regression analysis techniques. The table below presents the results of the quality impact of financial reports to local revenues with the results of the examination opinion as moderating variable:

Table 2: Recapitulation Test Results Moderated Regression Analysis (MRA)

Independent Variabel	Coefficient Regression	Sig
Quality of Financial Reports	0.006	0.982
Results of Examination Opinion	0.021	0.533
Moderating (Interaction Quality of Financial Report and Result of Examination Opinion)	0.017	0.777
Constant - 0.356		
Sig F 0.000		
R 0.523		
R ² 0.274		

Source: SPSS Output

From the data on table 2 the equation regression obtained was:

$$Y = -0.356 + 0.006X_1 + 0.021X_2 + 0.017X_1 * X_2$$

From the regression equation above, it can be described as follows:

1. Constant (α) is the intercept of the regression line of Y if X = 0, which indicates that the magnitude of the independent variable used in the research model was the constant. The value of the constant was -0.356 indicates that if the independent variable that consists of the quality of financial statements, the results of the examination opinion, and the moderating variable (the interaction between the quality of financial statements and results of audit opinion) no change = 0, then the local revenues amounting to -0.356. This suggests that the lower local revenues was because the value of α was less than 1.
2. The regression coefficient of the quality of financial reports (b_1) = 0.006 showed a positive correlation direction (unidirectional) between the quality of financial statements with local revenue. These results showed that the higher the quality of the financial statements which was owned by the local government as indicated by conformity to government accounting standards would enhance public confidence in the local authorities to pay taxes and levies.
3. Regression coefficients (b_2) = 0.021 showed a positive correlation direction (unidirectional) between the results of the examination opinions with local revenue. These results showed the better results of audit opinion would be followed by the higher local revenues in local governments and cities in Indonesia.
4. The regression moderate coefficient (b_3) = 0.017 showed a positive correlation direction (unidirectional) between the moderate variable (the interaction between the quality of financial statements and the results of audit opinion) on local revenue of districts and cities in Indonesia. These results showed that the higher the quality of the government's financial statements and results of audit opinion of the district and city governments in Indonesia would be followed by further increasing of the local revenue of districts and cities in Indonesia.

Determination Coefficient of (R^2)

The coefficient of determination used to determine the percentage contribution of the variables of the quality of the financial statements, the results of the examination opinion and interaction between the quality of the report and the results of examination opinion simultaneous on local revenue of districts and cities in Indonesia.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	0.523	0.274	0.254	0.049911

Source: SPSS Output

Table 3 shows the value of R Square (R²) of 0.274, or 27.4%, showing a donation or contribution of the quality of financial statements, the results of the examination opinion and the interaction between the quality of financial statements and results of audit opinion together on local revenues in local governments and cities in Indonesia was 27.4%. While the rest (100% - 27.4% = 72.6%) influenced by other factors.

F Test

F test was used to examine the influence of the financial statements, the results of the examination opinion, and the interaction between the quality of financial reports and the results of the examination opinion on local revenue. The procedure used was as follows:

1. Determined alpha of 0.05
2. The hypothesis said the quality of financial statements, the results of the examination opinion and the interaction between the quality of financial reports with the results of the examination opinion simultaneously had significant impact on local revenue in the districts and cities in Indonesia.
3. Testing Criteria
 - a. If Sig F > 0.05, it indicates that the quality of the financial statements, the results of the examination opinions, as well as the interaction of the quality of the financial reports with the results of the examination opinions simultaneously had no significant effect on local revenue of districts and cities in Indonesia.
 - b. If Sig F < 0.05, it indicates that the variables of the quality of the financial statements, the results of the examination opinions, as well as the interaction of the quality of financial reports with the results of the examination opinion simultaneously had significant impact on local revenue of districts and cities in Indonesia. The results simultaneously revealed in the following anova table:

Table 4: Anova

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	0.105	3	0.035	14.059	0.000
Residual	0.279	112	0.002		
Total	0.384	115			

Source: SPSS Output

From the output results of a significant level which was less than 0.000 of $\alpha = 5\%$ showed the influence of the variable quality of the financial statements, the results of the examination opinion and the interaction between the quality of financial statements and the results of audit opinion on local revenue to the county and city governments in Indonesia was significant.

t Test

t tests were used to test the significance of the influence of the independent variables individually (partial) on the dependent variable. The testing criteria used were as follows:

1. If sig t > 0.05, it indicates that variables of the quality of the financial statements, the results of the examination opinion and interaction of the quality of financial reports and the results of the partial examination opinion had no significant effect on local revenue of districts and cities in Indonesia.
2. If sig t < 0.05, it indicates that variables of the quality of the financial statements, the results of the examination opinion and the interaction of the quality of financial reports and the results of the examination opinion had partially significant effect on local revenue of districts and cities in Indonesia.

The results of the t test of each of the variables of the quality of the financial statements, the results of examination opinion, as well as the interaction of the quality of financial statements and the results of audit opinion presented in the following table:

Table 5: Partial Test Results

Variable	Sig	Explanation
Quality of Financial Reports	0.982	Not Significant
Results of Examination Opinion	0.533	Not Significant
Quality of Financial Report Results of Examination Opinion	0.284	Not Significant

Source: SPSS Output

1. Partial test of the influence of variable the quality of financial reports on local revenues. Table 5 showed a significant level of variable of quality financial statements of $0.982 > \alpha = 0.05$. It indicates that the influence of the quality of financial reports on local revenue of districts and cities in Indonesia was not significant.
2. Partial test of the influence of variable of the results of the examination opinion on local revenue. Table 5 showed significant level of the variable of the results of examination opinion of $0.533 > \alpha = 0.05$. It indicates that the effect of the results of the examination opinion on local revenue of districts and cities in Indonesia was not significant.
3. Partial test of the effect of the interaction of the quality of financial statements and the results of audit opinion on local revenue. Table 5 showed significant level of $0.284 > \alpha = 0.05$. It indicates that the influence of the quality of financial statements was not significant reinforced by the results of the examination opinion as moderating variable.

Discussion

The Impact of the Quality of Financial Statements on Local Revenue

Based on the results of path analysis showed that the quality of financial statements had no effect on local revenue. It means that the hypothesis that said there was significant effect of the quality of financial report on revenue declined/rejected. The higher the level of quality of the financial statements did not increase public trust to pay taxes and levies.

These research findings showed that local governments in Indonesia which had a high level of quality of financial reports had not received a positive reaction from the public. This means that local governments had good governance (good government governance) shown by the good quality of financial reports had not been able to influence public perception to pay taxes and levies. It means, the compliance of the tax or retribution is not based on the trust factor against the government but it was much more influenced by the binding rules of the taxes itself. The characteristics of the tax is a levy that is governed by laws that are enforceable. Thus, the decision to pay the tax is not grounded by their beliefs, but more influenced by regulations that are binding. These research findings indicated that the theory of legitimacy had not been able to explain the motivation of local governments to be more transparent in providing information, despite being considered meets the frame norms and expectations of the society.

The Impact of the Quality of Financial Statements on Local Revenue Using the Results of Examination Opinion as Moderating Variable

The result of the examination opinion was identified as a reinforcing factor in the relationship between the quality of financial statements with local revenue. The quality of the financial statements linked to the results of the examination opinion by arguing that one of the important criteria in determining the results of the examination opinion is the compliance with the government accounting standards. The results of the examination opinion will affect the quality of financial report. The interaction between the quality of financial reports with the results of the examination opinion will be more positive on local revenue. The relationship occurs because of the good results of audit opinion so that stakeholders gain confidence in the transparency and accountability of each of the management of public funds and confidence in the information presented in the financial statements are free of material misstatement.

The results of this study were in line with legitimacy theory that explains that legitimacy is a condition when an entity value system is the same as the greater system of social values. Dowling and Pfeffer (1975)

provides a logical reason about the legitimacy of the organization. They stated that the organization seeks to create harmony between social values inherent in its activities with the existing norms in the social system because the organization is a part of the system.

Conclusion

Partial test showed that the quality of local government financial statements had no significant positive effect on local revenue of district and city governments in Indonesia. Partial test showed that the results of the examination opinion had no significant positive effect on local revenue in the districts and cities in Indonesia. Other result showed that the interaction of the result of audit opinion with the quality of the financial statements had no significant positive effect on local revenue. It means, the result of the examination opinion did not significantly moderate the relationship between the quality of financial reports and the local revenues.

The study used judgment sampling as the sampling technique, i.e. by using specified criteria for the study sample, as a result, not all elements of the population could be used as samples. This could affect the results of the study. Local revenue in this study was measured by comparing the total local revenues, which were comprised of local taxes and levies. On the other hand, the levy was a mandatory contribution to the users of public services.

Future research is recommended to use a sampling technique that represents each of the provinces proportionately. Future research is recommended to remove the levy in calculating local revenue.

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