Seventh Asia Pacific Interdisciplinary Research in Accounting Conference, Kobe 26-28 July, 2013

Paper#: K159

FACTORS AFFECTING FINANCIAL CONDITION OF LOCAL GOVERNMENT IN INDONESIA

Irwan Taufiq Ritonga
Faculty of Economics and Business, Universitas Gadjah Mada, Indonesia
abangupi@yahoo.com

Colin Clark
College of Business, Victoria University, Melbourne, Australia
colin.clark@vu.edu.au

Guneratne Wickremasinghe
College of Business, Victoria University, Melbourne, Australia
guneratne.wickremasinghe@vu.edu.au

ABSTRACT

Fiscal decentralization causes variation in local governments (LGs) financial conditions. Such variation creates need for their stakeholders to know what factors affecting the variation. Therefore, the objective of this study is to determine factors affecting LGs financial conditions. The theory used to achieve the objective is supply and demand theory. This study utilises quantitative research method. There are seven factors examined as independent variables: population, population density, age profile of the community, wealth of the community, revenue-base of a LG, financial efficiency, and cost of services and goods provided by LG. Based on the multiple regression model, the results show that four factors (financial efficiency, cost of services and goods, population, and revenue-base) significantly influence the financial condition of LG, whereas other three factors (population density, age profile of community, and wealth of community) are not.

Findings of this study will contribute benefits to the stakeholders of LG. Based on findings, the central government, LG executives and legislators could utilise the evidence to make effective policy pertaining to the financial conditions of LG. As a result, the quality of decision-making regarding LG financial management would be improved in the future. For Indonesian scholars, this study will represent the first attempt to assess the financial condition of LG in Indonesia.

Keywords: local government, financial condition, law of supply and demand, short-term solvency, long-term solvency, budgetary solvency, service-level solvency, financial flexibility, financial independence