

THE RELEVANCE OF ACCOUNTING INFORMATION AND FINANCIAL DISTRESS OF LOCAL GOVERNMENT IN EAST JAVA

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ABSTRACT

Financial distress is an inability of local government to give public services appropriate with minimum standards of service caused by lack of funds. This condition is a negative signal of local government because reflects bad government's performance. The aim of this research is examining accounting information relevance to financial distress of local government in East Java. Accounting information relevance is measured by ROA, POSGW, PERGW, CLGW, CL and DTR. Whereas, local government's financial distress is measured by DSCR based on the decree issued by the government No. 54 year 2005 concerning regional loans. The sample of this research is local government in East Java both counties and cities. Census method is used to collect the samples because every element in the population is used as samples. Pearson's correlation product is used to analyze the data. The statistical test result shows that POSGW, CLGW, CL and DTR have a strong enough relationship and unidirectional to DSCR. This result is in line with agency theory which states that local government will seek to minimize financial distress condition by optimizing their financial performance. It can be concluded that accounting information relevance has a relationship to local government's financial distress.

Key words: *Accounting Information Relevance, Financial Distress, Local Government, East Java, Financial Ratio.*

HUBUNGAN RELEVANSI INFORMASI AKUNTANSI TERHADAP FINANCIAL DISTRESS PEMERINTAH DAERAH JAWA TIMUR

ABSTRAK

Financial distress adalah ketidakmampuan pemerintah daerah untuk memberikan pelayanan publik yang sesuai dengan standar pelayanan minimum karena kekurangan dana. Kondisi ini merupakan sinyal negatif pemerintah daerah karena mencerminkan kinerja pemerintah yang buruk. Tujuan dari penelitian ini adalah memeriksa relevansi informasi akuntansi kepada financial distress pemerintah daerah di Jawa Timur. Relevansi informasi akuntansi diukur dengan ROA, POSGW, PERGW, CLGW, CL, dan DTR. Padahal, financial distress pemerintah daerah diukur dengan DSCR berdasarkan keputusan yang dikeluarkan oleh pemerintah Nomor 54 tahun 2005 tentang pinjaman daerah. Populasi dan sampel penelitian adalah pemerintah daerah di Jawa Timur baik kabupaten dan kota. Metode sensus digunakan karena semua elemen dalam populasi digunakan sebagai sampel. Produk korelasi Pearson digunakan untuk menganalisis data. Hasil uji statistik menunjukkan bahwa POSGW, CLGW, CL dan DTR memiliki hubungan cukup kuat dan searah DSCR. Hasil ini sejalan dengan teori keagenan yang menyatakan bahwa pemerintah daerah akan berusaha untuk meminimalkan kondisi financial distress dengan mengoptimalkan kinerja keuangan mereka. Dapat disimpulkan bahwa relevansi informasi akuntansi memiliki hubungan dengan financial distress pemerintah daerah.

Kata Kunci: *Relevansi Informasi Akuntansi, Financial Distress, Pemerintahan Daerah, Jawa Timur, Rasio Keuangan.*

INTRODUCTION

East Java has been well-known as a region with rapid economic development. For example, in 2011, its economic development reached by 7.2% (Choirul 2011). This is an outstanding achievement since it is higher than the national economic development rate such as at 6.4%. Based on the condition, It can be generalized that the financial report of Local Government of East Java has been properly managed (appropriate with accounting reporting standard of the government) (Dinas Kominfo Provinsi Jawa Timur 2012).

One of the realizations of transparency and accountability of Local Government is to arrange financial report. The financial report (including budget allocation, cash flows, and financial performance) would be the platform for stakeholders to evaluate resources allocation for Local Government. Thus, financial report made by Local Government should meet relevance requirements, reliable, as well as comparable and comprehensive.

Local Government financial report could be considered as relevant when the information loaded within is able to influence users' economical decision in evaluating past activities, present activities and future ones and also correcting their evaluation results in the past (IAI 2007). Sutaryo et al. (2010) presented that Local Government financial report is relevant when it meets four requirements. First, it has feedback value. Second, it should have predictive value, third is timeliness and the fourth is completeness.

Financial distress reflects an inability of Local Government to provide fund due to the lack of fund to allocate in public services provision according to the established minimum standard of service quality (Jones and Walker 2007). Regarding the difficulties of Local Government financial, in Government Regulation (Peraturan Pemerintah) No. 54 year 2005) concerning Local Debt has provided requirements for Local Government to have a loan aimed to overcome the financial problem, with the debt service coverage ratio value (DSCR), at least 2.5 (Presiden RI 2005). Ingram et al. (1987) concluded that

the relevance of accounting information in government financial report related to financial distress measured by bond rating and yield on government obligation.

This study is aimed to test the relevance of accounting information on financial report of Local Government in East Java with financial distress. The result of study is expected to obtain empirical evidence concerning the impacts of financial distress experienced by Local Government toward public service in municipalities/ districts in East Java. Local Government can use this empirical evidence to find strategic steps to arrange and implement for both RPJMD (The Regional Medium-Term Development Plan) and RPJPD (The regional Long Term Development Plan) in order to improve public services.

THEORETICAL FRAMEWORK AND HYPOTHESIS

Agency Theory

Based on agency theory (Jensen and Meckling 1976), Local Government of East Java acts as the agent, while the House of Representatives (DPRD) would be the principal. Local Government as the agency is obliged to implement budget according to working contract established by DPR. Local Government is also obliged to arrange financial statement as a means of responsibility to public (Indra 2010:230). DPRD as the principal should represent constituent to conduct monitoring on budget implementation to prevent from asymmetric information and dysfunctional behavior of the agent (Indrawati 2003).

Financial distress regarded as negative indicator of local government, because it depicts the inability of local government to provide fund needed to improve public services. Local Government as the agent which experience financial distress will try to overcome the condition, either by using debit or by increasing local income (PAD). Government Regulation Number 54 Year 2005 concerning Local Debt, Local government can obtain the debt if they have debt service coverage ratio of more than 2.5. However, if the condition is not fulfilled, then the Local Government is

not allowed to propose a debt. Thus, the solution is to optimize local income through Local Revenue (PAD). One of the ways is to optimize PAD by increasing SILPA post (the remaining of budget spent) in its financial statement. Agus (2010) suggest that SILPA would be included in the Financial Allocation Changes (Perubahan Alokasi Keuangan/PAK) for the next year Regional Budget and Revenues (APBD). It will cause the increasing more on Original Regional Income (PAD) because SILPA would be admitted as one of the PADs in the next budgeting period.

Higher PAD will increase fund availability for Local Government to optimize public services. However, higher SILPA (The Remaining Budget Spent) might be one indicator of Local Government inefficiency. SILPA could be resulted from not fully implemented budget planning. As a party knowing more information concerning its local financial condition, Local Government tends to make quasi budget planning in order to increase its periodic SILPA (Agus 2012).

Relevance of Accounting Information

Local Government financial report could be said as relevant when the information loaded within is able to influence economic decision of the users by helping them evaluate past, present and future actions, as well as correcting the evaluation results in the past (IAI 2007). Sutaryo et al. (2010) also suggested that Local Government financial report could be said as relevant by fulfilling four criteria: First, it has feedback value. Second, it has predictive value. Third, it should be timeliness. Fourth, is provided with completeness.

Indicators on Measuring Relevance of Accounting Information in Local Government

Cohen (2006) has conducted study using ratio of ROA, ROE, *Profit Margin*, CL, CLGW, LTDA, and DTR. Plammer et al. (2007) used ration of PER_{GW} , PER_{FUND} , POS_{GW} and POS_{FUND} in their study. Meanwhile Sutaryo et al. (2010) has conducted study on relevance of accounting information by using ratio of

ROA, POS_{GW} , CL_{GW} , LQ, CL, LTDA, PER_{GW} , LCO and DTR. The ratios used in this study consist of: ROA, POS_{GW} , PER_{GW} , CL_{GW} , CL, LTDA and DTR. Those ratios were chosen because they have strongest relation compared to other ratios.

Financial Distress of Local Government

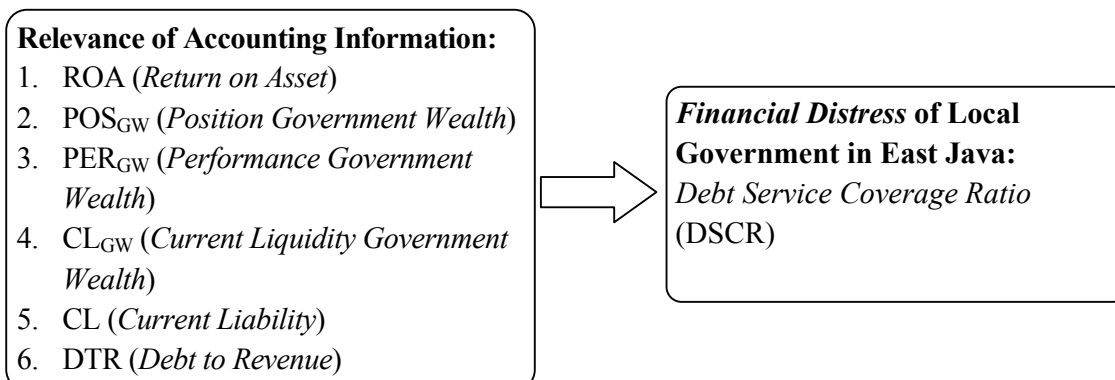
Jones and Walker (2007) stated that financial distress could be defined as the inability of government to provide fund used to prepare properly standardized quality of public services. This inability is due to the lack of fund to be invested in infrastructures useful for public services availability. Besides, concerning the difficulties of Local Government finance, the decree by the government (or Peraturan Pemerintah No. 54/2005) regarding Local Debt has stated requirement for Local Government to have debt service coverage ration value at least 2.5 so that they can make a loan.

Relation between Relevance of Accounting Information with Financial Distress of Local Government

Studies on financial distress have been conducted in major. Plammer et al. (2007) presented their result of study that total net asset in financial report using accrual basic provides improvement of information in the balance sheet. However, for revenues minus expenses and current liabilities, they do not provide improvement on information in the balance sheet. This study results also concluded that the total net asset measurement by using accrual basic in balance sheet and accrual based modification for revenues minus expenses can provide information in explaining risk of failure in a company (School district failure).

Sutaryo et al. (2010) succeeded to prove that Return on Asset (ROA) and Performance Government Wealth (PER_{GW}) have relevance with probability of financial distress of Local Government. Plammer et al. (2007) explained that current liquidity government wealth (CL_{GW}) and *position government wealth* (POS_{GW}) related to the failure of Local Gov-

Figure 1
Theoretical Framework



ernment's finance. This study was conducted by Cohen (2006) proving that ratio of current liability (CL) and debt to revenue (DTR) affects probability of Local Government's financial distress. Meanwhile, the financial distress of Local Government could be measured by using debt service coverage ratio (DSCR) according to PP No. 54 Year 2005 concerning Local Debt.

According to the study conducted by Sutaryo et al. (2010), Plammer et al. (2007), and Cohen (2006), the theoretical framework in this study could be depicted as in Figure 1.

Based on the background and research question proposed in this study, the study hypotheses could be arranged as follows:

H0: There is no relevance between accounting information and financial distress of Local Government in East Java

H1: There is relevance between accounting information and financial distress of Local Government in East Java

RESEARCH METHOD

Research Design

This research is aimed to test the hypotheses through theory validation in a particular condition. This research will test the correlation between independent variable (X) and the dependent variable (Y), by using Pearson's Correlation Product.

Variable Identification

Variables used in this research are the relevance of accounting information as the inde-

pendent variable (X) and financial distress of Local Government in east Java as the dependent variable (Y).

Operational Definition and Variable Assessment

Dependent Variable

In this research, the dependent variable is financial distress of Local Government in East Java. This is measured by using debt service coverage ratio (DSCR) as based on the decree No. 54/ 2005 concerning Local Debt. Debt Service Coverage Ratio is assessed based on the comparison between annual projection of local revenue, profit-share revenue excluding revenue sharing of reboisation fund, and general allocation fund after being deducted with expenditures and divided by the projection of total amount of principal installments, interest, and other costs annually in the period of withdrawal.

Independent Variable

Independent variable used in this research is the relevance of accounting information assessed by using particular financial ratios such as: ROA, POS_{GW}, PER_{GW}, CL_{GW}, CL and DTR.

Return on Asset (ROA) means the comparison between *net surpluses (deficit)* with *total assets*. It is used to measure the ability of Local Government to optimize assets owned to gain revenue. Local Government who has high ROA Ration is indicated to experience financial distress.

Position Government Wealth (POS_{GW}) depicts the comparison between amount of net asset and that of total revenue. High value of POS_{GW} indicates that the Local Government has adequate infrastructure to provide public services, and the infrastructure was funded by local PAD. Thus the higher the ratio value, the smaller the probability of Local Government to experience financial distress.

Performance Government Wealth (PER_{GW}) comprises the comparison between *total revenues minus total expenditures* with *total revenues*. A high PER_{GW} value would indicate that the government has higher surplus and high probability to experience financial distress. (Plammer et al. 2007)

Current Liquidity Government Wealth (CL_{GW}) comprises the comparison between current liabilities with total revenues. The higher CL_{GW} ratio means the smaller the probability of Local Government to suffer from financial distress. High CL_{GW} ratio shows relatively high amount of debt of Local Government which contributes to adequate fund to facilitate public services to society.

CL (Current Liability) is the result of comparison between current liabilities with the net operational income. The higher CL ratio means the smaller the probability of Local Government to suffer financial distress. High ratio of CL shows the relatively high amount of Local Government's debt which contributes to adequate fund owned by the government to facilitate public services activities.

Debt to Revenue (DTR) is the ratio obtained from the comparison between total debt and total revenues. DTR ratio could give information concerning the high amount of debt owned by Local Government, particularly long-term debt. The higher the debt, the smaller will the probability of Local Government suffer from financial distress. Thus, the higher DTR ratio means the smaller the probability of Local Government to experience financial distress.

Population, Sample and Sampling Method

Population used in this research is the whole districts and municipalities in East Java. The sample consists of the whole districts and municipalities in East Java and their financial report published in www.bpk.co.id website for the period of 2004 – 2007. Sampling method used here is the census method because all elements in the population are used as research samples. Census is the most appropriate method in this research due to the willing of researcher to explain the characteristics of each element in the defined population (Nur & Bambang 2002: 117)

Normality Test

Data of the normal test was conducted by using SPSS 19. This test is useful to obtain the distribution of research data. The more homogenous the data tested the better to provide no significant deviation. The condition of a data to be concluded as normally distributed is when the probability of significance resulted is higher than 0.05 (Imam 2006:28). This test used *One Sample Kolmogorov-Smirnov*.

Hypothesis Testing

Data analysis was conducted by using correlation testing aided by SPSS 19 program to test the correlation between relevance of accounting information with financial distress of Local Government in East Java. Testing tool used in this is *Pearson's Correlation Product*. It required normally distributed research data (Sugiyono 2007).

According to Imam (2006: 82) correlation test is aimed to measure the strength of linear association between two variables. Besides, analysis also could be used to observe the direction of correlation between two variables. This research was designed to test correlation between relevance of accounting information with the financial distress of Local Government in East Java. Because each variable has its own indicators on relevance of accounting information (ROA, POS_{GW} , PER_{GW} , CL_{GW} , CL and DTR) as

Table 1
Normality Test Results

| No. | Ratio | K – S Value | Significance | Notes |
|-----|-------|-------------|--------------|--------|
| 1. | DSCR | 0.659 | 0.778 | Normal |
| 2. | ROA | 0.584 | 0.885 | Normal |
| 3. | POSGW | 0.64 | 0.807 | Normal |
| 4. | PERGW | 0.659 | 0.778 | Normal |
| 5. | CLGW | 0.951 | 0.327 | Normal |
| 6. | CL | 0.800 | 0.544 | Normal |
| 7. | DTR | 0.847 | 0.470 | Normal |

Sources: Output of SPSS.

well as indicator of *financial distress* of Local Government (DSCR).

According to data collecting results, it can be obtained that the samples in this research contain of thirty eight regions. All 38 regions comprise of 29 districts (76%) and 9 municipalities (24%). The amount of analyzed financial reports are 114 consist of 38 financial report on 2005, 2006, and 2007.

Results of *debt service coverage ratio* (DSCR) assessment either for annual data or average of three years period data shows the value less than 2.5 (< 2.5). According to PP No. 54 Year 2005, regions undergoing a financial distress are the ones with DSCR value < 2.5 . The information shows that all districts and municipalities in East Java between 2005 – 2007 have experienced financial distress.

DATA ANALYSIS AND DISCUSSION

Normality Test

Normal test results by using SPSS 19 Program are provided in Table 1. Based on Table 1, information obtained indicated that DSCR has *Kolmogorov-Smirnov* (K-S) value of 0.659 and the significance is above 0.05 (0.778) which means that the DSCR data is normally distributed. Ratio *return on asset* (ROA) has K-S value of 0.584 and the significance probability is 0.885 (> 0.05). Ratio POS_{GW} generates K-S value of 0.640 and the significance is > 0.05 (0.807). Ratio PER_{GW} shows K-S value of 0.659 with significance level of 0.778 (> 0.05). Ratio CL_{GW} has K-S value of 0.951 with significance value of 0.327 (> 0.05). Ratio CL has K-S value 0.800 and its significance probability is

0.544 (> 0.05). Ratio DTR has K-S value 0.847 and the significance is 0.470 (> 0.05). Thus, it can be concluded that the research data used in this research is normally distributed (homogenous) provided that the significance level is more than 0.05.

Hypothesis Testing

Research hypothesis was tested by using correlation test. The results of test using Pearson's Correlation Product provided in Table 2. As shown in Table 2, it provides the ratio ROA produced Pearson correlation value of -0.249 with its significance level of 0.116 (> 0.10) which means that ROA ratio has weak and inverted correlation with DSCR, but it is insignificant in 10% standard of error. Ratio POS_{GW} has Pearson value of 0.464 and the significance of 0.003 (< 0.10) means that it has strong and linear correlation with DSCR. Statistic test result on PER_{GW} ratio shows that the Pearson value of -0.004 with significance probability 0.983 (> 0.10) represents that the PER_{GW} ratio has weak and inverted correlation with DSCR, but the correlation is insignificant on 10%.

CL_{GW} ratio has 0.459 Pearson value with significance level of 0.004 (< 0.10) means that it has strong and linear correlation with DSCR. Test on CL ratio produced Pearson value of 0.458 and smaller significance level than standard of error (0.004) means that this ratio has strong correlation with DSCR and linear. DTR ratio has Pearson value of 0.459 and significance level on 0.10 (0.004) representing its strong and linear correlation with DSCR ratio. Based on the information, it is known that the measurement ratios of rele-

Table 2
Normality Test Results

| No. | Ratio | Pearson | Significance | Notes | Type of Corelation |
|-----|-------|---------|--------------|---------------|--------------------------|
| 1. | ROA | -0.249 | 0.116 | Insignificant | Weak (negative) |
| 2. | POSGW | 0.464 | 0.003 | Significant | Strong enough (positive) |
| 3. | PERGW | -0.004 | 0.983 | Insignificant | Weak (negative) |
| 4. | CLGW | 0.459 | 0.004 | Significant | Strong enough (positive) |
| 5. | CL | 0.458 | 0.004 | Significant | Strong enough (positive) |
| 6. | DTR | 0.459 | 0.004 | Significant | Strong enough (positive) |

vance of accounting information which is correlates with DSCR ratio are as followings: POS_{GW}, CL_{GW}, CL, and DTR.

Discussion

Financial distress is the inability of Local Government to provide public services according to minimum standardized service due to the lack of fund. Financial distress is a negative sign for Local Government since it reflects low standard performance during the period. Therefore, Local Government will try to minimize its region's financial distress condition. According to the decree (PP No. 54 Year 2005) concerning Local Debt, Local Government is indicated to suffer financial distress when its debt service coverage ratio is less than 2.5. DSCR ratio could be optimized through increasing the Local/Regional Original Revenue (PAD) and financial boosts from Central Government in the form of general allocation.

Perceived from Agency Theory, Local Government acts as the agent will always optimizes local revenues to increase its financial performance ratio. One of the ways is to increase PAD in next period as referred to the Act or UU Republik Indonesia No. 32 Year 2004 concerning Local Government. High PAD value will increase DSCR ratio. Besides, surplus obtained during the period will increase ROA ratio and *performance government wealth* (PER_{GW}) because the surplus from budget realization will be used as numerator in measuring those two ratios. Based on this explanation, means that the higher the ROA and PER_{GW} ratio will reflect fund availability to fund public services activities. Thus, the higher the ROA and PER_{GW} ratios,

the lower will the probability of Local Government undergo financial distress.

Empirical results on ROA ratio and PER_{GW} ratio show that both ratios have weak inverted correlation toward debts service coverage ratio (DSCR). The empirical results reflect that the higher ROA and PER_{GW} ratios, the lower the DSCR ratio value, which means that the probability of Local Government to experience financial distress will be higher. This result is contrast to agency theory which defines that the higher the ROA and PER_{GW} ratios, the smaller the probability of Local Government to undergo financial distress. Researcher also conducted correlation test by separating between regions with negative and positive ratios, but the results show consistency that ROA and PER_{GW} ratios could not explain correlation between relevance of accounting information toward financial distress of Local Government in East Java.

Empirical result on ROA ratio is not linear with research by Sutaryo et al. (2010) which suggested that ROA has correlation with financial distress of Local Government. However, the empirical result on PER_{GW} is linear with explanation by Plammer et al. (2007) and Sutaryo et al. (2010) that PER_{GW} ratio does not have any correlation with financial distress of Local Government. Incompatibility obtained from assessment of ROA and PER_{GW} ratios with agency theory is due to the surplus experienced by Local Government which is not gained from efficiency, but mostly obtained from unimplemented budget allocation.

Besides the above, the inability of ROA and PER_{GW} ratios to explain the relevance of

accounting information toward financial distress of Local Government in East Java was also due to the surplus/ deficit of budget allocation was included in SILPA (The Remaining Budget Spent) or SIKPA (The Remaining Deficit Budget Spent) (The Act or UU Republik Indonesia No. 32 Year 2004 concerning Local Government). This is different from Sutaryo et al., (2010) and Plummer et al. (2007) which defined that surplus should be returned to state treasury. On the contrary, Local Governments in Indonesia were authorized to manage the budget residual to be added in PAD by putting it in Financial Allocation Change (Perubahan Alokasi Keuangan - PAK) of APBD (Agus, 2012). It is expected that the budget residual could be optimized to build infrastructure supporting public services.

Surplus fund sourced from unimplemented Local Government's budget, is not merely because Local Government did not implement the budget in purpose. But, it might be caused by unclear and weak legal protection. Nova (2011) stated that the implementer (Local Government) tends to be hesitance in making adjustments in budget realization during the period, due to the concern that the matter would be inspected by inspectorate or the Audit Board of Republic of Indonesia (BPK) for inexpediency with proposed budget plan.

Tardiness in budget authorization might be one cause of unimplemented work plan by Local Government. Ahmad (2012) defined that the lateness of Local Budget Income and Expenditures (Anggaran Pendapatan dan Belanja Daerah/ APBD) by legislatures will affect local development which might influence the obstructed public services. For instance, new APBD should be authorized by legislatures in the second month of the period, while there are some work plans should be conducted on the first month. Lack of fund to realize the programs in the first month will lead to piling of unfinished jobs, which later on generates an idle budget for the first month's work plan and creates surplus by the end of the period.

Agung in Ahmad (2012) argued that the slow process of Legislatures' authorization was regarded due to the involvement of political interests within Local Government and the Local Legislatures or the House of Representative (DPRD). This condition was reflected by the complicated bureaucratically process should be gone through. APBD should obtain Legislatures' (DPRD) authorization, while there are differences of condition in each region compared to others. Besides, APBD is not only technical problem, but also involved in political dimension. It causes unfinished work plans inappropriate with planning due to the lack of adequate fund (Ahmad 2012).

Position government wealth (POS_{GW}) ratio depicts the ability of Local Government to use its income to facilitate infrastructure development to optimize public services activities. Observed from agency theory, Local Government will endlessly try to optimize the resources of income to minimize financial distress condition which might occur. Agency theory also explains that POS_{GW} ratio is proportional and linear to DSCR ratio. Thus, the higher the POS_{GW} ratio means the higher the DSCR ratio. In which it will reduce the probability of Local Government to undergo financial distress.

Empirical result shows that Position Government Wealth (POS_{GW}) ratio has strong and linear correlation with agency theory which suggests that the higher POS_{GW} ratio, the higher the DSCR ratio too, and the lower the probability of Local Government to suffer financial distress condition.

CL_{GW} ratio depicts the ability of Local Government to optimize the income to pay the liabilities. The higher the income means that Local Government has higher ability to pay current liabilities. According to agency theory, it is known that Local Government will attempt to pay liabilities due. Based on the explanation, it is believed that CL_{GW} ratio has linear correlation with DSCR ratio. It means that the higher the CL_{GW} ratio, the higher the DSCR ratio too which contributes to a lower level of financial distress probability.

Empirical result on Current Liquidity

Government Wealth (CL_{GW}) ratio shows that this ratio has strong and linear correlation too with DSCR ratio. The result in this test is in accordance with Sutaryo et al. (2010) and Plammer et al. (2007). Besides, the test result is also linear with agency theory, suggests that the higher CL_{GW} ratio, the higher the DSCR ratio too, and the lower probability of Financial Distress.

Current Liability Ratio shows the ability of Local Government to make use of Local Revenues (Regional Original Income/PAD) to cover short-term debt. From the agency theory point of view, Local Government tends to do any means to increase its local revenues from year to year. Based on this theory, CL ratio has linear correlation with DSCR ratio. It means that the higher the CL ratio, the higher the DSCR ratio too, and the lower probability of Local Government to suffer from financial distress.

Empirically, it shows that Current Liability ratio (CL) correlates with DSCR ratio. It supports the researches conducted by Plammer et al. (2007) and Sutaryo et al. (2010) which also proved that CL ratio has correlation with financial distress condition of Local Government. In other hand, it is also linear with agency theory suggested that the higher the CL ratio means the higher the DSCR ratio too, and finally the lower probability of Local Government to undergo financial distress. Referring to Agency Theory, it is known that each Local Government will attempt to optimize its income resources to fund operational activities including covering up the debts owned.

DTR Ratio reflects the ability of Local Government to optimize its total revenues to pay back the debts, either short-term debts or long-term debts. This ratio has linear correlation with DSCR ratio. It means that the higher the DTR ratio, the higher the DSCR ratio too, and the lower the financial distress might occur.

The result is in accordance with agency theory showing that the higher the DTR ratio, the higher the DSCR ratio and thus the lower the financial distress of Local Gov-

ernment. However, the result of this research is not in line with research conducted by Cohen (2006) stating that DTR has no correlation with financial distress.

Again, empirically, it can be seen that four out of six ratios used to measure the correlation of relevance of accounting information toward financial distress of Local Government in East Java are significant in the level of 0.01. According to the information, it can be concluded that the relevance of accounting information provided in financial report of Local Government in East Java correlates with financial distress of Local Government in East Java.

CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

In general, it can be asserted that the relevance of accounting information has correlation with financial distress of Local Government in East Java. There are four out of six indicator ratios of relevance of accounting information (POS_{GW} , CL_{GW} , CL and DTR) have quite strong and linear correlation with financial distress.

The limitation is due to limited references related to correlation of relevance of accounting information toward financial distress of Local Government available. Besides, in this research the indicators and assessment on financial distress as well as relevance of accounting information are still limited on constructed definition used in this research, there are still many other indicators and measurements might be used in the same concept. Population in this research was limited in districts/ municipalities in East Java only.

Several suggestions might be conveyed for future researchers are: 1) Using influence test to produce more beneficial results of research to be applied in strategic decision making for the users; 2) Taking non-financial factors into account to obtain more complex analysis result, as usually non-financial factors give big impact to the success of governance, and 3) Expanding the research subjects, since this research was only limited on Local Government in East Java.

Suggestions objected to Local Government concern on the importance of local economic empowerment as the strength to increase economic independence to provide fund for a better public service. It is also necessary for the regional House of Representatives (DPR) to enhance budget authorization process which might affect the faster budget realization, because it will strongly influence the providing of public services. In addition, with faster authorization on budget will provide clear legal protection for Local Government in realizing budget, thus it can press down the accumulation of SILPA due to the hesitance of Local Government in realizing the budget, after the late budget authorization.

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