

ACCOUNTABILITY AND FINANCIAL PERFORMANCE of LOCAL GOVERNMENT in INDONESIA

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Abstract

This study aims to determine the relationship of accountability for the performance of LKPD as reflected by WTP opinion given by the Supreme Audit Agency (BPK). The sample used in this study is as much as 1,238 local government financial data in Indonesia during the period of 2009-2011. Statistical tool used in the testing of hypothesis is logistic regression analysis. Results of this study indicate that accountability (measured using the budget variance) is positively related to the performance of the financial statements. This result indicates that the smaller the difference in the budget with the realization organized by local government in the early years, the better the performance of the local government finance.

Keywords: Accountability, Financial performance, Budgetary variance.

1. PRELIMINARY

1.1 BACKGROUND

Since the Board of Audit imposes audit to the regional financial statements, as a form of local accountability over autonomy of local financial management, the creation of the performance along with the measurement in the public sector is a priority in Indonesia. Currently, local governments must demonstrate their ability in preparing the financial statements as well as the fulfillment of article 18 of Act no. 15 year 2004 on control and accountability of State Finance. In accordance with the act no. 17 year 2003, act no. 1 year 2004, act no. 17 year 2003 and act no. 1 year 2004 states that the Governor / Regent / Mayor submit a draft of local regulations concerning the implementation of budget accountability to Parliament in the form of financial statements, audited by the Supreme Audit Agency (BPK), no later than six (6) months after the fiscal year ends.

Semester Examination Results Overview (IHPS) of BPK RI shows that an increase in the quality of local government financial statements (LKPD) in all parts of Indonesia is slow. Table 1.1 shows the results of audit opinion for the year 2006-2011 which shows the number of local governments to obtain an unqualified opinion (WTP), an opinion which indicates the compliance of local government with administrative and financial reporting in accordance with the procedures and standards of reporting.

Table 1.1 Opinion result of BPK for the year 2006-2011

LKPD	WTP	%	WDP	%	TW	%	TMP	%	Total
2006	3	1	327	70	28	6	105	23	463
2007	4	1	283	60	59	13	123	26	469
2008	12	3	323	66	32	7	118	24	485
2009	15	3	330	65	48	10	111	22	504
2010	34	7	341	66	26	5	119	22	520
2011	66	15.5	319	75	5	1	36	8.5	426

Source: www.bpk.go.id

Based on the table above in the columns of number it is visible that LKPD number is fluctuating. This indicates that there are districts / cities that have not been audited completely by the audit examination board (BPK).

Essentially, regulation of Home affairs minister no. 13 of 2006 on Regional Financial Management Guidelines as amended by Regulation of the Minister of Home Affairs no. 59 of 2007 concerning the Amendment to the Regulation of the Minister of Home Affairs No. 13 of 2006 on Regional Financial Management Guidelines, there is a need of accountability in a local financial management. Opinion given on the Performance of Local Government Finance is the opinion from the Supreme Audit Agency (BPK) to LKPD. There are four rank of opinions given to the local government; unqualified opinion (WTP), a qualified opinion (WDP), Not Giving Opinions opinion (TMP), and Improper opinion (TW). This study will classify BPK opinion into two types namely WTP and non-WTP. Parts that belong to the group of Non WTP is WDP, TMP and TW.

This study aims to give an outcome related to the accountability that has been done by any local government in Indonesia. This is important because local governments should be able to apply the principles of good governance in terms of accountability. Meanwhile, the contribution that can be given of this study is related to the readiness of the district / city and province in realizing the good governance. On the other hand, the empirical findings of this study are also expected to provide input to the government and the public about the extent of the accountability that has been done by the city and county governments.

2. LITERATURE STUDY AND HYPOTHESIS DEVELOPMENT

2.1 *The theory underlying the research*

A research conducted in the public sector in Indonesia currently does not have a strong and diverse theoretical foundation. However, some theories that are commonly used are agency theory and the theory of organizational change. So in this study, the two theories will be used as the theory underlying the research thinking framework. Agency theory is to explain the interaction (often expressed as conflict) between the owner (principal) and management (agent). In agency theory which was introduced by Jensen and Meckling (1976) it is stated that among the interested parties, the owner and manager, since a public company does the separation between the two, there is asymmetric information between the two parties.

On the issue of the accountability of a local government, agency theory explains that the government (as an agent) is accountable for the funds they manage for the local development and the community (as the principal). Asymmetric information can also be explained in this relationship because the government has more information than the public.

2.2 *The Previous Research*

Local finance is all rights and obligations in the area of local governance framework that can be valued in money including all forms of wealth associated with the rights and obligations of the area (Article 1 point 5, PP no.58 of 2005). Accountability is accountable for the management of resources and the implementation of policy that is entrusted to the reporting entity in achieving the goals that has been set periodically (KK, SAP., 2005).

Mulyana (2006) studied the effect of the balance sheet presentation of the area and the accessibility of the financial statements to the accountability of financial management of the area. Mulyana research found that the accessibility of financial statements has a positive and significant effect on local financial accountability.

Sopanah et.al (2004) studied the effect of public accountability, public participation and transparency in public policy on the relationship between knowledge of the budget under the supervision of local finance (APBD). The research results show that the interaction of budget knowledge with public accountability has a significant effect on the APBD supervision according to either sample of the representatives or sample of the society, and the interaction of budget knowledge with the transparency of public policy has no significant effect on the APBD supervision either according to the representatives or the community.

Previously, Steccolini (2002) investigated the relationship of presentation of the local government annual report with the accountability: whether the annual report is a medium for accountability. The result is that the annual report appears to be used for the implementation of accountability to internal users. Meanwhile, the report does not have a significant role in communicating to the external users, so that the role of the financial reports and the actual degree of accountability in Italian local governments should be questioned. On the

other hand, Anondo (2004) made a research on local government accountability report as the embodiment of public accountability. The research results concluded that the local financial report and the accountability performance of the regional heads has a positive effect on public accountability of governments / city of the districts.

2.3 Local Government Financial Reports

Financial report of SKPD consists of three namely the Budget Statement, Balance Sheet, and Notes to the Financial Statements. To ensure the achievement of accountability, the submitted SKPD's financial report is enclosed with the statement letter of the head of SKPD. The letter contains a statement that the financial report is his responsibility and has been held by an adequate system of internal control and government accounting standards in accordance with the legislation.

The regional financial budget is fully poured into APBD. APBD according to the Indonesian Government Regulation No.58 of 2005 on the management of the Regional Finance Revenue and Expenditure Budgets is hereinafter referred to as APBD is the local government's annual financial plan that is discussed and agreed upon by the Local Government and Regional Representatives Council (DPRD) and is set with local regulations.

2.4 Accountability of Local Government Financial Reports

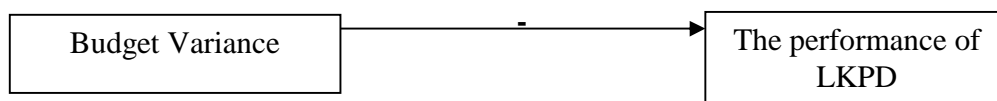
Public accountability can be achieved if the monitoring done by the council and the community works effectively. It is also supported by the opinion of Rubin (1996) in Sopanah (2004) which states that in order to create public accountability, the participation of agency leader and community members is required in the preparation and supervision of local finance (APBD), so that high public accountability would strengthen the supervision function performed by the board. This accountability is seen from the budget variance; there is difference between budget and actual expenditures as the higher variance, the lower level of accountability. This also shows that the local governments in the management of the budget has not done well.

2.5 Hypothesis

From the description above, the research hypothesis is formulated:

Ha: budget variance is negatively related to the performance of LKPD

A model that describes the research hypothesis of this study is shown as follows:



3. RESEARCH METHODOLOGY

3.1 Types and Sources of Data

Type of data used is a secondary data obtained from the BPK on local government financial information in each of the district / city in Indonesia.

Data variables are described as follows:

(i) Accountability. This data will be traced through the budget realization report (LRA) along with the initial budget year. Accountability data is obtained by comparing the state local budget with the realization. The greater the variance of each point, the lower the accountability of local government financial reports.

(ii) The performance of local governments' financial reports. This data is determined based on BPK opinion on the financial statements of local governments. The better performance of local government financial statements, the closer opinion of BPK to LKPD to the WTP.

3.2 Method of Sample Selection

The sample used in this study is the Regencies / Cities throughout Indonesia. The sample selection method used is *purposive sampling* with the following criteria:

1. Districts / cities throughout Indonesia
2. Districts / cities that have issued financial statements and Actual Expenditure Budget in a row during the observation period 2009-2011.

3.2 Variable Observation and Definitions of Operational Variable

In this study, the dependent variable (Y) that is used is the quality of local government financial statements while the independent variable is the accountability. For the accountability viewed from an accounting perspective, according to the *American Accounting Association* in Sadjarto (2000), it states that the accountability of a government entity can be divided into four groups, namely the accountability for:

- 1 . Financial resources
- 2 . Adherence to the rule of law and administrative discretion
- 3 . efficiency and economically of an activity
- 4 . The results of government programs and activities reflected in the achievement of goals, benefits, and effectiveness .

Meanwhile, according to sources of www.bpk.go.id accountability measure includes five aspects namely performance planning, performance measurement, performance reporting, performance evaluation, and performance achievements. So far, the research in the area of the local government accountability is found in a descriptive way only. This study offers a proxy for new accountability measures that are equal to the actual budget that can be achieved by the local government in the period of certain fiscal year. This study uses a measure of accountability by comparing the actual local state budget with a predetermined budget. The lower variance between the budget and the realization is an indication to the more accountable of that local government.

3.3 Statistical Model

The hypothesis testing is performed using logistic regression analysis model. This test aims to predict how strong the effect of independent variables on the dependent variable is, so that the regression equation is as follows:

$$Y = \beta_0 + \beta_1 X_1 + e_i$$

Whereby:

Y = Opinion of BPK

X₁ = Accountability

Meanwhile, the value of testing for the effect of independent variables on the dependent (accountability for the quality of local government financial statements) is the value of determination (R²) and the significance of the regression results.

4. RESULTS AND DISCUSSION

4.1 The research sample

The sample used in this study is a local government financial reports with the hypothesis that the variance budget is negatively related to the performance of LKPD as shown in Table 4.1. The sample of local governments for accountability measurements taken from 2009, 2010, and 2011 of the LRA in 2012 shows that most local governments in Indonesia obtain non-WTP opinion during the observation period.

Table 4.1 The Sample of Local Governments for Accountability Measurement Periods of 2009, 2010, dan 2011

The identified Local Governments in total,		1.238
The explanation is as follow:		
a.	Local Governments that get Non-WTP opinion from BPK	1.149
b.	Local Governments with financial report obtaining WTP opinion from BPK	89

Source: Budget Realization Report, BPK 2012.

4.2 Descriptive Statistics

Explanations related to descriptive statistics provide a snapshot of the data used in this study. Table 4.2 shows the maximum value, minimum value, average value, and standard deviation values associated with the accountability data.

Tabel 4.2 Descriptive Statistics for Accountability

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
Opinion	1238	0,00	1,00	0,0719	0,25841
Variance	1238	0,00	55,00	10,1502	6,26523

Source: IHPS BPK-RI (data processed)

BPK opinion for observation years 2009, 2010, and 2011 of 1,238 local governments in Indonesia has an average value (*mean*) of 0.0719. This *mean* value shows that for three consecutive years the majority of local governments in Indonesia obtain non - WTP opinion. On the average, local governments throughout Indonesia to obtain BPK opinion in the period of 2009-2011 is 7.2% (89 of 1238). Minimum number set for BPK Opinion is 0 which represents non - WTP opinion while 1 represents the maximum number of WTP opinion. Meanwhile the value of the standard deviation of 0.25841 indicates that the deviation of each observation data is relatively small.

Descriptive statistics for accountability variable (proxied by budget variance) shows the average value (mean) of 10.1502. This shows that the value of the local government budget variance averages 10 % of local government in 1238 observed. Standard deviation variable value of accountability at 6.26523 indicates that the deviation of each observation data is relatively small. The data are distributed well and normal.

4.3 Testing the Hypothesis

The hypothesis testing of this study which states that the budget variance has a negative relationship to the performance of LKPD is using logistic regression. The result of logistic regression testing to the models built in this second hypothesis indicates the significance at the level of 0.018 with the value of *Cox & Snell R Square* at 0.04 and *Nagelkerke R Square* at 0.11. The test results of this model indicate that the research models have a good relationship. This also gives the sense that the research model for the second hypothesis of this study is a good model. To test this hypothesis the reversal of values is done because the data owned is the variance data between the budget and the budget realization. The next is to identify whether the variance of the budget has a negative relationship with the given opinion of BPK on the financial statements of the concerned local government.

Statistical test results show a negative relationship between the budget variance with WTP opinion values given by BPK to the financial statements of the concerned local government. *Wald* value represents the value of the relationship power between the independent and dependent variables at 540.489, the value of $B = -2.558$ with a significance of 0.029, giving a signal that the lower the margin of the local government budget realization, the higher the possibility of local government financial reports performance gaining WTP opinion. Furthermore, the coefficient of variance of -0.04832 means that when the variance of the local government budget is increasing by 1 point, the possibility of the local government to obtain BPK opinion is decreasing by 0.39688 point. These results well conclude that the budget variance is negatively related to the performance of local government financial statements and accept the research hypothesis.

Accountability is an ethical concept that is close to public administration rule that has several meanings. It is often used synonymously with such concepts that can be accounted for (Dykstra, 1939). So that the analogy of the explanation and the results of this study is that local governments that can realize the budget that has been agreed with the representatives of the people at the beginning of the fiscal year is the local government that can meet the concept of accountability. The higher the accountability of local governments, the higher the possibility of local governments in obtaining WTP opinion. Statistical test results of this study are shown in Table 4.3.

Table 4.3 Logistic Regression Testing Results

Independent Variable	Coefficients	B	Wald	Sig.
Accountability	-0,04832	-2,558	540,489	0,0285*

*) Significant to the level of <1%; **) Significant to the level of <5%

Dependent variable: Opinion of BPK

5. CONCLUSIONS, IMPLICATIONS, SUGGESTIONS AND RESEARCH LIMITATIONS

5.1 Conclusions

This study found that accountability has a positive relationship to the performance of LKPD as reflected from WTP opinion given by BPK. These findings also suggest that the regional governments that disclosure of government activities that is relatively large is the local government that has a good performance of the financial statements. This condition is in accordance with that predicted by the *signaling theory*.

Furthermore, statistical test results show that there is a negative relationship between the budget variance with WTP values given by BPK to the financial statements of the concerned local government. Statistical value provides a signal that the lower the margin of the local government budget realization, the better the likely performance of financial report of the local government gaining WTP opinion. These results well conclude that the budget variance is negatively related to the performance of local government financial statements, and this accepts the second hypothesis of this study.

5.2 Research Implications

The implications of the results of the accountability testing issues as a concept of ethics say that accountability occurs when local governments can realize the budget that has been agreed by the representatives of the people at the beginning of the fiscal year. Accountable local government is local government that can fulfill its responsibility in the budget because it is becoming one of the values of accountability.

5.3 Limitations and Suggestions

Other accountability measurements of this study are strongly advised to use so that accountability research topics can grow quantitatively in the future. BPK opinion data used is the real BPK data, whose information can be obtained from various sources such as from the information office of BPK itself through the local government website, from the LRA, and from other sources. However in this study, the opinion data is obtained from BPK Semester Examination Results Overview I year 2012 - Book II Examination of Financial Statements released by BPK. For further research it is recommended to obtain additional data of BPK opinion on Semester Examination Results Overview II year 2012 and the subsequent semester. The more information you obtain, the better the generalization you get.

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