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REGIONAL FINANCIAL PERFORMANCE, AUDIT FINDINGS, AND CORRUPTION LEVELS IN INDONESIA

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A B S T R A C T

This study aims to examine the effect of financial performance on the level of corruption of the provincial government in Indonesia is moderated by audit findings. This research is motivated by Indonesia's efforts to fight corruption as an extraordinary crime. The development of corrupt practices has also increased since the implementation of the decentralization program. The phenomenon of increasing the level of regional corruption since the implementation of regional autonomy is the reason that observing the level of regional corruption is still necessary. This research was conducted in all 34 provincial governments in Indonesia, with an observation period of 2011-2015. The sample of this study was 156 sample data, obtained from financial data of 34 provinces for 5 years, and outlier data were 14 sample data. Analysis of the data in this study uses moderated regression analysis (MRA). The research concept was developed to predict the level of audit findings in moderating the effect of financial performance on the level of corruption in Indonesia. Test results in this study indicate that the audit findings moderate the effect of the ratio of operating expenses and the ratio of capital expenditure to the level of corruption. While other results indicate that the audit findings do not moderate the effect of the level of independence of a region on the level of corruption.
Keyword: *local government, corruptions, audit findings, financial performance*

Penelitian ini bertujuan untuk menguji pengaruh kinerja keuangan terhadap tingkat korupsi pemerintah daerah provinsi di Indonesia dimoderasi dengan temuan audit. Penelitian ini dilatarbelakangi oleh upaya Indonesia untuk memerangi korupsi sebagai kejahatan luar biasa. Perkembangan praktik korupsi semakin meningkat juga sejak diterapkannya program desentralisasi. Fenomena peningkatan tingkat korupsi daerah sejak diimplementasikannya otonomi daerah ini menjadi alasan bahwa pengamatan terhadap tingkat korupsi daerah masih merupakan hal perlu untuk dilakukan. Penelitian ini dilakukan di seluruh 34 pemerintah daerah provinsi di Indonesia, dengan periode pengamatan tahun 2011-2015. Sampel penelitian ini sebesar 156 data sampel, yang diperoleh dari data keuangan 34 propinsi selama 5 tahun, dan data outlier sebanyak 14 data sampel. Analisis data penelitian ini menggunakan *moderated regression analysis* (MRA). Konsep penelitian dikembangkan untuk memrediksi tingkat temuan audit dalam memoderasi pengaruh kinerja keuangan terhadap tingkat korupsi di Indonesia. Hasil pengujian dalam penelitian ini menunjukan bahwa temuan audit memoderasi pengaruh rasio pengeluaran operasional dan rasio belanja modal terhadap tingkat korupsi. Sementara hasil lainnya menunjukkan bahwa temuan audit tidak memoderasi pengaruh tingkat independensi suatu daerah terhadap tingkat korupsi.
Kata kunci: pemerintah daerah, korupsi, temuan audit, kinerja keuangan

INTRODUCTION

Corruption practices in Indonesia are still a difficult problem for many parties to unravel, and this continues despite various improvements in regulations and law enforcement. The development of corrupt practices has also increased since the implementation of the decentralization program This condition is in sharp contrast to the initial objectives of the decentralization program. De Asis (2006) argues that regional autonomy aims to manage its resources independently more efficiently and effectively.

The implementation of regional autonomy encourages the potential for corruption in the regions (Indonesia Corruption Watch, 2016). It was also further stated that in 2013-2014 there was a very significant increase in the level of corruption. This is also reinforced from data for the period 2011-2015 which shows the level of corruption in local governments experiencing an upward trend. This is strong evidence that in 2016, a total of 515 State Civil Apparatuses were named as corruption suspects (www.antaranews.com, 2017). The phenomenon of increasing the level of regional corruption since the implementation of regional autonomy is the reason that observing the level of regional corruption is still necessary.

The system of regional autonomy-based governance raises demands for government accountability. One of the main dimensions of public accountability is financial accountability. Financial accountability is a form of accountability regarding financial integrity, disclosure, and compliance with laws and regulations. Accountability of regional finances can be known through the accountability of regional financial reports prepared by local governments, which include receipts, deposits, and financial expenditure of government institutions (Financial and Development Supervisory Agency, in Indonesia it is called Badan Pengawasan Keuangan dan Pembangunan/BPKP, 2001). Through financial accountability can be known the effectiveness of financial management of an area, where the better the level of financial management of an area, it is expected to anticipate the level of corruption.

Lack of supervision or administrative processes can trigger the emergence of a shift in public resources and even a high level of corruption within the government (Olken, 2007). So we need an institution tasked with conducting surveillance and detecting fraud. The audit findings can also be used as a means of detecting corrupt behavior at the local government level (Liu and Lin, 2012).

Research on the effect of financial performance on the level of corruption has been carried out by previous researchers. Fisman and Gatti (1999) suggest that if the level of government spending is optimal then the level of corruption is low, and vice versa. While related to the income of a region, Tumennasan (2005) states that a country with high income will reduce the level of corruption. The results of Tarek and Ahmed's research (2013) conducted with a sample of 30 developing countries, obtained the result that the level of corruption increased due to a weak legal system and low level of landings.

This encourages researchers to include audit findings as a factor that is suspected to be able to moderate the level of expenditure and income of an area to the level of corruption that occurs, as well as being renewed in this study.

Researchers considerations in incorporating these audit findings factors because audit findings are one indicator of the weakness of the control system applied. Audit findings consist of findings on internal control systems and findings on non-compliance with laws and regulations. This shows that the audit body function checks financial information to prevent financial abuse (Huefner (2011) suggests that to avoid fraud, a strong internal control system is needed. This is because the internal control system is a benchmark of the level of accountability. Thus it can be concluded that the audit findings are an indication of the weakness of the control system and non-compliance with regulations, and this is an indicator in assessing the level of accountability.

The level of accountability of many reports is associated with the existence of irregularities. Research related to audit findings and the level of corruption was conducted by Liu and Lin (2012), with the result that the audit findings had a positive effect on the level of corruption. The study was conducted in China, where the results of the study are empirical evidence that more and more violations of regulations committed by local governments in China have led to increased levels of corruption so that the quality of financial statements is low. Thus this study will examine the relationship between financial performance as measured by the level of income and the level of expenditure with the level of corruption that occurs in the area, which is moderated with and the level of audit findings. This was done as an effort to test the model proposed in this study.

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LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corruption is an act that violates the law to obtain benefits for themselves. Corruption is an illustration related to conflicts of interest, bribery, gifts (illegal gratuities), and economic extortion (Association of Certified Fraud Examiners (ACFE) in Tuanakota 2012). Another definition stated by Karyono (2013) that corruption is an act that harms the interests of the public/publicity or the wider community for personal or group interests. These acts of corruption can occur in the government sector, as well as in private organizations.

The development of corruption at this time, not only done by individuals but also has been done in groups in an agency. This action can occur because of the power possessed by someone, without being followed by supervision of that power. As stated by Klitgaard (1997) that corruption goes hand in hand with power, it also states the Klitgaard Theory which states a formulation (1) as follows.

Corrupt = Monopoly+Decrestism - Accountability……………………………(1)

Mugarura (2016) suggested that the level of corruption in the public sector is more common in developing countries. Because of the various factors and opportunities that drive this. MacDonald and Majeed (2011) and Mungiu-Pippidi (2013) suggest that there are strong phenomena related to the cultural roots, social conditions, political systems, and legislatures of a country.

Developing countries are countries that are prone to corruption. Indonesia is a developing country with a very high level of corruption. This act of corruption has become increasingly rampant since the change in the concept of decentralization in government. This is because, with this decentralized system, local governments have continuous discretion in managing their finances. A high level of discretion is expected to increase productivity in public services, but on the other hand, it can also increase corruption. Kwon (2012) suggests that strong performance can reduce the adverse effects of discretion on corruption, which makes governments use their policies more productively in public services.

Regional Financial Performance

Regional Finance is all the rights and obligations of the region in the context of the administration of regional government which can be valued in money including all forms of wealth related to the rights and obligations of the region (PP No.58 of 2005 concerning Regional Financial Management). The success of regional financial management can be done through the measurement of regional financial performance. Boix and Posner (1998) suggested that local government financial reports are one of the performances of local governments. The measurement of regional financial performance is carried out to fulfill three objectives namely (a) to help improve government performance, (b) to allocate resources and make decisions and (c) to realize public accountability and improve institutional communication.

Measurement of regional financial performance can be done through the Budget Realization Report published by the local government (Mahmudi, 2007). Budget Realization Report is used as a basis for making income analysis and expenditure analysis. Revenue analysis can be done by calculating the growth of regional independence ratio, while expenditure analysis can be done by calculating the ratio of operating expenditure and capital expenditure ratio (Mahmudi, 2007). This research will analyze both ratios by using the ratio of independence as a form of income ratio analysis, and the ratio of capital expenditure and operational expenditure as a form of expenditure ratio.

Regional financial independence shows the ability of the Regional Government in self-financing government activities, development and services to the people who have paid taxes and levies as a source of revenue needed by the region

(Halim and Kusufi, 2014) The higher the contribution of local revenue, the higher the ability of a region in meeting their needs. Such conditions indicate positive regional financial performance (Halim and Damayanti, 2007) so that the region can provide higher quality public services, make long-term development investments, and so on (Mahmudi, 2007) The original income of an area is a picture of community participation, as indicated in order in paying taxes and levies.

The operational expenditure ratio is an illustration of the portion of regional expenditure allocated for operating expenditure (Mahmudi, 2007). Operational expenditure is budget expenditure for daily activities of local governments that provide short-term benefits (Halim and Kusufi, 2014). The benefits of operating expenditure will be consumed in one fiscal year. Local governments with high-income levels tend to have a higher share of operating expenditure compared to local governments with low-income levels (Mahmudi, 2007).

Capital expenditure ratio is a ratio that shows the portion of regional expenditure allocated for investment in the form of capital expenditure in the relevant fiscal year (Mahmudi, 2007). Capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period (Halim and Kusufi, 2014). Capital expenditure is provided to finance the change process, which is an improvement and development towards the progress to be achieved.

Accountability

Regional financial management requires accountability and transparency. Accountability is a manifestation of the obligation to account for the management of resources and the implementation of policies entrusted to him in the context of achieving the goals set through accountability media in the form of periodic performance accountability reports. Accountability can be carried out through financial reports consisting of periodic financial statements, interim financial reports, and financial reports (Wilson and Kattelus, 2002).

Accountability is an action taken to account for the mandate. Abubakar, Dibal, Amade, and Joyce (2017) states that the concept of financial accountability in public organizations is the ability of management to explain what is being managed to the community in its area. Referring to agency theory, accountability in this context is expected to overcome the information asymmetry between the principal (community) and the agent (government) (Rose-Ackerman, 2013). Accountability is carried out through regional financial reports, is expected to minimize corruption. The presentation of regional financial statements is one form of implementing accountability (Mahmudi, 2007), which is believed to be able to contribute to reducing corrupt practices that occur in local governments. Klitgaard (1997) states that increasing accountability will contribute to controlling corruption. One of the elements needed in increasing the accountability of government financial management is the regional government auditor. This is also supported in the results of Neu, Everett, Rahaman and Martinez (2013), Sargiacomo, Ianni, D'Andreamatteo and Servalli (2015), and Perry and Christensen (2015), Inayatulloh and Siswantoro (2019), Utami and Sulardi (2019).

Regional financial auditors in Indonesia's bodies are financial audits. The audit results issued by BPK on the Regional Government Financial Reports are outlined in the Audit Reports (LHP) which can describe the level of accountability of Local Government Financial Reports which is summarized as a whole in the Audit Results Summary issued each semester (Audit Board of the Republic of Indonesia in Indonesia called Badan Pemeriksa Keuangan Republic of Indonesia/ BPK RI, 2009). In the audit report, besides the opinion issued by BPK RI, there are also audit findings. Audit findings are grouped into two, namely audit findings on internal control systems and audit findings on non-compliance with laws and regulations. Audit findings will show accountability.

The inspection report contains the opinion of BPK RI and also the audit findings. Audit findings are grouped into two, namely audit findings on the internal control system and audit findings on non-compliance with laws and regulations. The audit findings indicate the level of accountability of a financial statement. The more audit findings, the lower the level of accountability. Liu and Lin (2012) stated that more and more violations of regulations committed by local governments in China caused the level of corruption to increase so that the quality of financial statements was low. Another impact of the audit findings is the level of financial statement disclosure. Agustiningsih, Murni and Putri (2017) suggest that the level of audit findings reinforces the influence of local government wealth on the level of disclosure of local government financial statements. This relates to the local government's feedback on control by the government audit agency.

This study examines the effect of regional financial performance on the level of corruption moderated by the level of audit findings. Financial performance in this study was measured using three measurements: level of independence, level of operational expenditure, and level of capital expenditure. So the hypothesis in this study will be broken down into three hypotheses. This study included audit findings in testing. Audit findings are the result of an examination of what should be delivered with the reality in the field. Audit findings are based on the following considerations: criteria, conditions, causes, and results, besides the auditor, may include some recommendations, results achieved by the company, and other information not written in other parts (Tuanakota, 2009).

The ratio of regional independence shows the region's ability to self-finance government activities, development, and services to the community. Tumennasan (2005) states that for countries with high incomes, the level of corruption in these countries is getting smaller. But researchers have different assumptions, where high incomes, will trigger a level of corruption in a country. So the higher the level of independence of an area, the higher the level of corruption that occurs. Thus the hypothesis proposed is:

H_1: The level of audit findings moderates the level of independence on the level of corruption

Regarding the level of operating expenditure, when the regional government can make good use of operational expenditure, the level of corruption in the area is getting smaller. Fisman and Gatti (1999) state that if the level of government spending is small then the level of corruption is high, and vice versa. The same thing also happens with capital expenditure, where when local governments can make good use of capital expenditure, the level of corruption in the area is getting smaller.

The level of corruption in an area can be identified using the assumption of audit findings. The higher the level of audit findings, the higher is the indication of the level of corruption. So when financial performance, as measured by the level of operating expenditure, and the level of capital expenditure, is moderated by audit findings, it is assumed that the level of corruption will be even higher. Thus the hypothesis proposed is:

H_2: The level of audit findings moderates the level of operating expenditure on the level of corruption.

H_3: The level of audit findings moderates the level of capital expenditure on the level of corruption.

RESEARCH METHODS

This research was conducted in all 34 provincial governments in Indonesia. The year that was used as the basis for data collection was the 2011-2015 fiscal year. This research was conducted from 2011 to 2015 this is because during the last five years the level of corruption that occurred in Indonesia tended to experience an upward trend and was dominated by an increase in corruption cases that occurred in local governments in Indonesia. This research uses a sample at the provincial level because researchers have a consideration that management at the provincial level is a reflection of financial management at the district or city level below. Another consideration is the high level of financial dependence of district or city-regions on the central government. as it is known that in a unitary state, essentially all government affairs lie with the Central Government, but these government affairs can be delegated or delegated to lower government units through the power of law. This shows that the provincial government is an extension of the central government in channeling aid to the regions. Given these conditions, then at the provincial level is also still vulnerable to acts of corruption.

This study uses secondary data obtained from the annual report of the Attorney General's Office of the Republic of Indonesia, which is downloaded directly from the official website of the Attorney General's Office of the Republic of Indonesia www.kejaksaan.go.id and Overview of BPK RI Inspection Results obtained by downloading through the BPK RI official website www.bpk.go.id. Data analysis of this study uses multiple linear regression. The dependent variable in this study is the level of corruption. The level of corruption is measured by counting the number of corruption cases handled by the High Procuratorate in each province (Liu and Lin, 2012).

The independent variable consists of financial performance, which includes: independence ratio, operational expense ratio, and capital expenditure ratio. while the moderating variable uses the audit findings variable.

The independence ratio describes shows the ability of the Regional Government in self-financing government activities, development, and services to the people who have paid taxes and levies as a source of revenue needed by the region (Halim and Kusufi, 2014). The regional independence ratio can be formulated as follow:

$$IR = \frac{\text{Local Own Revenue (PAD)}}{\text{Central Transfer + Loans}} \quad (2)$$

Operating Expense Ratio informs the portion of regional expenditure allocated for operating expenditure (Mahmudi, 2007). The operating expenditure ratio can be formulated as follows:

$$OER = \frac{\text{Realization Of Operating Expenditures}}{\text{The Regional Expenditures}} \quad (3)$$

Capital Expenditures Ratio informs the portion of regional expenditure allocated for investment in the form of capital expenditure in the relevant fiscal year (Mahmudi, 2007). The capital expenditure ratio can be formulated as follows:

$$CER = \frac{\text{Realized Capital Expenditures}}{\text{The Regional Expenditures}} \quad (4)$$

The moderating variable in this study is the audit findings obtained from the audit results of the Indonesian Audit Board (BPK) divided into findings on weaknesses in internal control and findings of non-compliance with legislation. Audit findings are measured by the total number of findings obtained in the examination by BPK RI.

The analytical tool in this study is moderated regression analysis (MRA), which can explain the effect of the independent variable on the dependent variable and moderation variable. According to Ghozali (2013), the goodness of fit criteria of the model are as follows: (1) adjusted coefficient R^2, (2) simultaneous significance test (statistical test F), (3) test of the significance of individual parameters (statistical test t). While the regression equation model used is:

$CR = \alpha + \beta_1 IR + \beta_2 OER + \beta_3 CER + + e$.........(5)

$CR = \alpha + \beta_1 IR + \beta_2 OER + \beta_3 CER + \beta_4$ FIND_AUDIT + e....................................(6)

Table 1.
Statistical Description

Var.	Min.	Max.	Mean	Std. Dev
IR	0,06	3,88	0,96	0,74
OER	0,35	0,84	0,65	0,10
CER	0,05	0,41	0,19	0,07
FIND_ AUDIT	1,00	4,00	3,46	0,80
CR	29	402	131,52	88,58

IR= independence ratio; OER= operating expense ratio; CER= capital expenditures ratio; FIND_AUDIT= number of audit findings; CR= level of corruption

$$CR = \alpha + \beta_1 IR + \beta_2 OER + \beta_3 CER + \beta_4 FIND + \beta_5 IR^* FIND\_AUDIT + \beta_6 OER^* FIND\_AUDIT + \beta_7 CER^* FIND\_AUDIT + e \quad ...(7)$$

Furthermore, from the results of the significance of the individual parameter test (t statistical test), a mediation equation model will be made between equation (1) and the audit findings variable (FIND_AUDIT). The focus of research is on the interaction variable, if it strengthens, the coefficient and the t-statistic value on the positive interaction variable with a significance level <5% or <10%, and vice versa.

ANALYSIS AND DISCUSSION

Data processing was performed on 156 sample data, obtained from financial data of 34 provinces for 5 years, and outlier data were 14 sample data. The static description of the data of this study includes the minimum, maximum, average, and standard deviation values. This statistical description consists of statistical descriptions of the dependent, independent, and moderation variables. Table 1. is a statistical description of the sample data. Through the minimum value, maximum value, and the mean value can be obtained from the distribution of data used in this study.

Testing the effect of regional financial performance on the level of corruption obtained the results as presented in Table 2. Based on the test results obtained the

Table 2.
Test Result

R^2	Adjusted R^2	F_{hitung}	Sig. F Change	Sig.	R^2 Change	Sig. F
0,57	0,31	23,70	0,00	0,00	0,32	0,00
0,57	0,31	18,05	0,30	0,00	0,33	0,00
0,63	0,37	13,71	0,00	0,00	0,40	0,00

Variable	*Exp Sign*	*Reg Coeff.*	*t_{hitung}*	*Sig*	
(Constant)		306,49	5,13	0,00	
IR	-	28,86	3,19	0,00	
OER	-	-151,38	-2,22	0,03	
CER	-	-563,36	-5,78	0,00	
(Constant)		264,88	3,69	0,00	
IR	-	29,02	3,21	0,00	
OER	-	-136,99	-1,97	0,05	
CER	-	-540,09	-5,40	0,00	
FIND_AUDIT	-	8,03	1,04	0,30	
(Constant)		-736,25	-1,92	0,06	
IR	-	47,90	0,91	0,36	
OER	-	998,21	2,47	0,02	
CER	-	530,59	0,99	0,32	
FIND_AUDIT	-	291,02	2,67	0,01	
IR FIND_AUDIT*	-	-4,65	-0,30	0,77	
OER FIND_AUDIT*	-	-324,70	-2,83	0,01	**
CER FIND_AUDIT*	-	-300,72	-1,97	0,05	*

**** = sig 1%, ** = sig 5%, * = sig 10%*

coefficient of determination (adjusted R2) of the research equation model that explains the effect of the independent variables studied on the dependent variable. Also, the value of goodness of fit in the 3 equation models in the study showed a significance value of under 5%.

This study uses moderated regression analysis (MRA) testing, which is done by using three similarity models, namely the equation model before entering the moderating variable (1), after entering the moderating variable (2), and subsequently after the interaction between the independent variable and the moderating variable (3). Based on the adjusted R2 value indicating an increase in value in each of the equation models, it can be concluded that the audit finding structure variable is a moderating variable, which can strengthen the relationship between regional financial performance and the level of corruption. So it can be concluded that the level of audit findings is not able to strengthen the effect of regional financial performance on the level of corruption. Thus based on Table 2. then the research hypothesis is supported.

This test aims to identify audit findings in moderating the effect of financial performance on the level of corruption of an area. Audit findings as measured by the total number of audit findings on weaknesses in the internal control system and non-compliance with legislation. Klitgaard (1997) argues that audit opinion shows the level of fairness in the financial reporting accountability that affects corruption. This shows that the lower the auditor evaluates the financial statements, the lower the reliability of the financial statements so that when such conditions occur, it will further reduce the financial performance of a region.

The test results show that hypothesis 1 was rejected, while hypothesis 2 and hypothesis 3 were accepted. The condition of a region's financial performance is strongly influenced by the quality of its management. When there is a violation in management, then the financial performance is not optimal, this is shown through the realization of expenditures that are also not optimal. This can be proven in testing in Model 1. As has been expected that the level of independence of an area will be in line with the level of corruption, so the higher the level of independence, the higher the level of corruption. While the same thing also happens at the level of operational expenditure and the level of capital expenditure is low, then the level of corruption will be high, and vice versa.

Testing in Model 2, which has included the audit findings variable as an independent variable shows the results that the audit findings do not affect the level of corruption. This condition is suspected because not all audit findings will always end in a decision on fraud. To arrive at allegations of corruption, the level of audit findings is a supporting factor of the financial performance of local governments.

Hypothesis testing in this study can be shown from testing in Model 3. The result of moderation testing conducted is that there is an interaction between the financial performance of the region with the level of audit findings showing that (1) the interaction of the level of independence with audit findings shows insignificant results, this indicates that the high or low level of audit findings does not affect the level of corruption that occurs when an area has a high level of independence; (2) the interaction of operational expenditure and capital expenditure with audit findings, shows significant results, this shows that the inability of an area to manage its expenditure coupled with the many audit findings, the level of corruption that occurs will certainly be high.

The results of this test support the results of tests conducted by Liu and Lin (2012), stating that the more audit findings, in this case, violations of regulations carried out by local governments in China, the level of corruption also increases. Similar research was also carried out by Avis, Ferraz dan Finan (2016) in Brazil, related to the role of audits in reducing corruption, where the results of his research found that audit measures can reduce the level of corruption. Based on the test results it can be concluded that the high level of audit findings will further reduce the optimization of operational and capital expenditure so that it will increase the level of corruption that occurs.

CONCLUSION

This study aims to obtain empirical evidence related to audit findings in moderating the effect of regional financial performance on the level of corruption. The test results show that hypothesis 1 was rejected, while hypothesis 2 and hypothesis 3 were accepted. Based on the test results in this study, it was concluded that audit findings moderate the effect of the ratio of operating expenditure and the ratio of capital expenditure to the level of corruption. While other results show those audit findings do not moderate the effect of the level of independence of a region on the level of corruption.

LIMITATION AND SUGGESTIONS

This study has several limitations that researchers cannot avoid relating to the measurement of the variable level of corruption, which only looks at the number of investigations, investigations, and prosecutions. The researcher does not consider further the results of the investigation, whether the investigation and investigation are at the completion stage. Another suggestion that is not related to the limitations of the research is to conduct testing in a different period so that the level of consistency of research results can be seen. This is important to be used as an illustration in confirming and corroborating research results.

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