

Regional financial characteristics and public transparency towards frequency of fraud in the local government

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ABSTRACT

It has been noted that Corruption in Indonesia today has become a crucial problem that cannot be underestimated. Some news about the occurrence of corruption in the local government is quite concerned. This study aims to look at the influence of both financial characteristics and regional public transparency towards fraud frequency in local governments at the provincial level. This research was carried out by quantitative descriptive method by looking at local government financial report data and reports from ACCH (Anti Corruption Clearing House). This study used secondary data, namely in the form of Indonesia Provincial Government's financial statements and the results of the ACCH report in 2017. The results of this study are expected to provide advice and input in regional financial governance in all the province to be able to reduce frequency fraud in local governments.

ABSTRAK

Telah menjadi kenyataan bahwa korupsi di Indonesia saat ini menjadi masalah krusial yang tidak bisa dianggap sesuatu yang remeh. Beberapa pemberitaan tentang terjadinya korupsi di pemerintahan daerah cukup memprihatinkan. Penelitian ini bertujuan untuk melihat pengaruh karakteristik keuangan dan transparansi publik regional terhadap frekuensi penipuan di pemerintah daerah di tingkat provinsi. Penelitian ini dilakukan dengan metode deskriptif kuantitatif dengan melihat data laporan keuangan pemerintah daerah dan laporan dari ACCH (Anti Corruption Clearing House). Penelitian ini menggunakan data sekunder, yaitu dalam bentuk laporan keuangan Pemerintah Provinsi Indonesia dan hasil laporan ACCH pada tahun 2017. Hasil penelitian ini diharapkan dapat memberikan saran dan masukan dalam tata kelola keuangan daerah di semua provinsi untuk dapat mengurangi frekuensi penipuan di pemerintah daerah.

1. INTRODUCTION

On various entities in both the public and private sectors, fraud has been the researchers' concern. So far, research on fraud has been widely carried out, including those on fraud-in relation to other factors carried out by Yang, Jiao and Buckland in 2017 (Yang, Jiao and Buckland, 2017). Chen *et al.*, (2016) with their study also detected the fraud as well as those by Amara, Amar and Jarboui (2013) or Liao and Chen, (2014). All of these studies have been carried out both from the private and public sector.

Corruption in Indonesia today has become a crucial problem that cannot be underestimated. Some news about the occurrence of corruption in the local government is quite phenomenal. Among them were 18 regional heads in Indonesia who were only 17 months as head of the region due to having the case of corruption (Gabrillin, 2018). The more concerned is the statement delivered by the Minister of Home Affairs, that during 2014 until 2017 there were 313 Regional Heads affected by corruption cases (Kuswandi, 2017).

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According to Chairman of the Republic of Indonesia BPK, Harry Aziz, through *Republika Online*, the fraud included assets, assistance issues, and official travel warrants (SPPD). These actions of fraud have a direct impact on the state's losses. In the research by Stalebrink and Sacco (2007), they also summarized some forms of accounting fraud in the public sector which include misuse of assets, deliberately misstating financial statements, hiding budget realization surpluses, and misapplying accounting principles. They were done by shifting the current salary liability that happened to be used as a salary liability in the next period to fulfill the mandate of the stipulated budget.

Fraud is understood to be harmful for entity or State finances and damage the joints of the social culture. Even if fraud occurs in the government sector, it becomes a serious problem because with resources originating from limited public taxes not being used for public services. Even, the worse will have an impact on the loss of public confidence in the leadership capabilities of government agencies (Ziegenfuss, 1996).

Characteristics of Regional Finance

For detecting the possibility of fraud problems, various tools have been designed to assist financial report users in analyzing financial statements. One of the most common methods for financial analysis is ratio analysis (Dalnial *et al.*, 2014); (Kaminski, Sterling Wetzel and Guan, 2004). One of the tools to analyze the performance of local governments in managing their regional finances is by analyzing financial ratios on the APBD that have been established and implemented (Heriningsih, 2013).

The characteristics of regional finance to be examined in this study are regional financial independence and the level of public investment from each local government:

Regional Financial Independence

The level of regional financial independence is one of the regional financial characteristics that can be used as the regional financial ratio analysis. Law No. 32 of 2004 states that the definition of regional financial independence is "Regional financial independence means that the government can carry out financing and financial accountability independently, implementing framework of the principle of decentralization by itself".

Yunanto (2010) stated that the level of regional financial independence has a positive effect towards level of local governments' accountability disclosure. (Puspita dan Martani, 2013) also argued that the level of regional dependency has a positive effect towards level of local government financial statements disclosure. It is expected that the better of local government disclosure level, it will be a sign of the decreasing level of local government fraud. From some of the studies mentioned above, it will be seen the consequences of the regional financial independence influence towards level of fraud in the Local government.

The regional financial independence ratio is calculated by comparing the total revenue of Regional Original Revenue divided by the total Regional Revenue itself. The higher the ratio number shows that the local government has higher financial independence in the region. The higher regional financial independence, it will increase regional disclosure and reduce fraud (Yunanto, 2010).

Level of Optimization of Public Investment

The ratio of optimizing public expenditure or public investment level illustrates how local governments prioritize their allocation of funds in apparatus spending and public spending optimally. The higher the allocation of funds provided for routine expenditure or shopping for regional apparatus means the percentage of capital expenditure or public expenditure to provide economic infrastructure for the community tends to be smaller (Halim, 2008). In this study, the level of public investment is proxied by the level of public expenditure towards total expenditure in local governments.

Regional expenditures can be defined as all expenditures from the Regional General Cash Account that reduce current fund equity within the period of the relevant budget year which will not be repaid by the local government (Mahmudi, 2016). High capital expenditures are expected to lead to community prosperity, where the level of prosperity can have an impact on the reduction of fraud in the local government.

Local Government Financial Reporting Transparency

Law No. 28 of 1999 concerning the Implementation of a Clean and Free Country of Corruption, Collusion and Nepotism states that transparency and accountability are two of several principles that must be filled by the

government including the local government. To realize a clean and free state administration from corruption, collusion and nepotism must fulfil one of the principles of openness. The principle of openness is the principle that opens itself to the right of the community to obtain correct, honest and non-discriminatory information about the administration of the state while paying attention to the protection of personal rights, groups and state secrets (Law Number 21 of 1999). Likewise, Law No. 14 of 2018 concerning the Public Information Disclosure Act requires each government entity to publish its financial statements through their respective websites.

The Relationship of Transparency and Fraud

According to the study by Oktaviani, Herawati and Tungga (2017) transparency has a negative effect on the level of fraud. On the contrary, accountability has a positive influence towards level of fraud in the local government. Based on the results of the research the researchers concluded that transparency had a negative and did not effect significantly towards level of corruption. The results of the study also indicate that increasing accountability in the financial statements of local governments cannot reduce the level of corruption of local governments. Based on the results of these studies.

The Relationship both Regional Financial Characteristics and Fraud Levels

To measure the government's ability in mobilizing revenue according can be done by looking at the financial characteristics of local governments (Heriningsih, 2013). According to Heriningsih, (2013) the GPA (perception index between 0- 10) is an illustration of the community's assumptions about corruption in their area as based on the result of a survey conducted by Indonesian transparency agencies. From the GPA number, it can be stated that the higher the GPA, the better government performance, or a little level of corruption. The independence ratio is negatively related to the corruption level of local government represented by the corruption perception index (Heriningsih, 2013) whereas according to (Wulandari, 2015) the regional financial independence ratio is positively related to the corruption level of local government.

Research Problems

Research on local government fraud was also carried out by Heriningsih, (2013). This study

examined the effect of Audit Opinion and Local Government Financial Performance towards Local government Corruption Level seen by the corruption perception index. The results of this study stated that the audit opinion variables and financial performance (independence ratio, activity ratio, and growth ratio) did not affect towards local government corruption level.

One of the principles of good governance government is the existence of transparency. Research by Khairudin and Erlanda (2016) showed the results that transparency level had a negative effect on the local governments corruption level. This can be interpreted that the higher level of transparency will be able to reduce local government corruption level.

Previous Research

Fraud in the public sector or government is a scourge, because it has a significant impact on economic growth (J.Adebisi and D.Gbegi, 2015). Therefore, there were several previous studies that had been carried out with the theme of fraud in the government sector

In developing countries, it is common for public sector auditors to report invalid expenditure findings, waste of state finances, violations of procedures that cause losses to state finances, etc (Dye, 2007). In a research by Fitzsimons (2011), it was found that countries that reform their public sector economies in transition, such as in Indonesia, had a significant increase in the number of corruption (one form of frauds).

Therefore, this study examines the characteristics of regional finance which is currently still a contradiction among intermediate researchers (Heriningsih, 2013) which according to Heriningsih the results of the tests statistically proved that audit opinion and financial performance variables (independence ratio, activity ratio, and ratio growth) did not affect the level of corruption contrary to the results of the study according to (Wulandari, 2015) and the level of public transparency in the form of financial statement presentation in the local government website according to Minister of Home Affairs Regulation Number 59 of 2007 concerning Amendment to the Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management and Law No. 14 of 2008 concerning Public Information Openness that had never been examined by previous researchers.

Another novelty in this study is that the researchers will examine the level of local government fraud with data sources from each Provincial Government financial report and fraudulent data obtained from ACCH (Anti Corruption Clearing House) data. Data from the local government financial statements in the form of Regional Financial Independence Levels, Public Investment Optimization level, while the disclosure data of government Public financial statements are obtained from each of the provincial government websites.

Research Contributions

This research is expected to be able to contribute positively to the study of fraud that occurred in the Local government. Especially related to regional financial conditions and the level of public transparency that must be carried out by the local government. Whereas practically, this research will be useful for local governments which currently have corruption cases in their area.

Since the significant impact that will be obtained from the existence of fraudulent financial reporting impact, in this study, the researcher proposed the title "The Effect of Regional Financial Characteristics and Levels of Public Transparency towards Fraud Frequency in Local Governments"

Problem Formulation

The formulation of the problem in this study are.

Does the Factor of Regional Financial Independence Level affect fraud frequency of Local Government?

Does the Factor of Public Investment Optimization Level affect fraud frequency of the Local government?

Does public transparency level affecting fraud frequency of local government?

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

THEORY OF FRAUD TRIANGLE

The concept of the fraud triangle was introduced by Skousen, Smith and Wright, (2009). They concluded that cheating generally has three general characteristics. The Fraud triangle consists of three conditions that are generally present when fraud occurs, namely *pressure, opportunity, and rationalization*.

Pressure. According to SAS no. 99, there are four types of conditions that commonly occur at pressures that can lead to fraud. This condition is related to the financial stability,

external pressure, individual financial needs, and financial targets. According to Loebbecke, (1988). if the company is below the industry average, the management is likely to be able to manipulate financial statements to improve company performance. Moeller, (2009) argues that situational pressure has the potential to arise because of financial obligations that exceed the limits of ability. This must be resolved by employees/ management, and the occurrence of failure of work relations both company and its employees in terms of regarding to access towards the use of company assets, compensation which is not in line with expectations, as well as career / promotion including unclear future of employees at the company.

The pressure referred to this study is the presence of external pressure from the local government in the form of political pressure, namely the people expectation of improvement towards community prosperity level. One of them is an increasing local revenue amount. This causes pressure on the local government to always improve its performance. This also raises the opportunity to commit fraud if it cannot fill the demands of the community.

Opportunities (Opportunity).

Opportunities are chances that allow to occur fraud. Fraudsters believe that their activities will not be detected. Opportunities can occur because of weak internal control, poor supervision management, and / or through the use of positions. Failure to establish adequate procedures for detecting fraud activities also increases the chance of fraud.

In this study, opportunity is the existence of regional autonomy which gives greater space to the regions and local political institutions to grow and dynamize political life (Bappenas, 2014). Regional autonomy also provides flexibility for regions to organize and manage financial conditions in each region. With the existence of high capital expenditure, there will be more opportunities to conduct work contracts with the private sector which creates opportunities for fraud. As stated in the report of the UGM Anti-Corruption Study Center (UGM Pukat) in the 2014 Trend Corruption Report :

"The emergence of local government officials/ employees as perpetrators of corruption is almost always together with the private sector. This means that there is a high probability that local government

officials/ employees often collaborate with the private sector to commit corruption. Local governments must deal with the private sector to fulfill facilities and infrastructure within the local government "(PukatUGM, 2014).

Rationalization (Rationalization) is an important element in the occurrence of fraud, where the perpetrator seeks justification for his actions. Rationalization is part of the fraud triangle that is the most difficult to measure (Skousen, Smith dan Wright, 2009).

The characteristics of rationalization according to Cressey are consistent with research (Hollinger dan Clark, 1983) with the conclusion that employees who commit fraud are caused primarily by poor working conditions. Employees find it easier to rationalize their theft as compensation for unfavourable working conditions. '

In this study, the researchers took the proxy rationalization as indicated by the existence of public transparency carried out by the local government with reporting through the local government website. With the existence of Law No. 14 of 2008 concerning public information disclosure, each local government is required to publish their financial statements on their respective provincial websites. With the existing local government conditions, this can be a rationalization for the local government that after they make publications, the local government will get a legitimacy that their financial administration has been running well.

Characteristics of Regional Finance

The regional financial characteristics that will be seen in this study are :

Regional Financial Independence

The definition of regional financial independence as stated in Act No. 32 of 2004 is "Regional financial independence means that the government can carry out financing and financial accountability by themselves, implementing in the framework of decentralization principles by themselves".

The regional financial independence ratio is calculated by comparing the total revenue of Regional Original Revenue divided by the total Regional Revenue itself. The higher ratio number shows that the local government has higher financial independence in the region. According to the higher independence of regional finance, the disclosure will increase further.

Regional Financial Independence Ratio = $(\text{Regional Income} / \text{Total Regional Income}) \times 100\%$.

Level of Public Investment

Expenditures for public investment should receive greater attention than routine expenditure, because investment / capital expenditures have a long-term effect, while routine expenditures have more short-term effects. Mistakes in making investment decisions will not only have an impact on the current budget, but will also burden the budget for the following years.

The analysis of capital expenditures towards total expenditure is a comparison between the total capital expenditure and total regional expenditure. This ratio informs the reader of the report regarding the portion of regional expenditure allocated for capital expenditure. Governments with low regional income generally have a higher proportion of capital expenditure compared to high income local governments. This is because low-income local governments are oriented to capital expenditure as part of long-term capital investment.

Public Investment Level = $(\text{Realization of Capital Expenditures} / \text{Total Regional Expenditures}) \times 100\%$.

Public Transparency Level

Transparency by local government is very important because it is one form of accountability of local government as an entity that manages and is responsible for the use of regional wealth (Setiawan, 2012).

Public sector financial reports are an important component to create public sector accountability. The growing demand for the implementation of public accountability has implications for public sector management to provide information to the public, one of which is accounting information in the form of financial statements.

In his research (Scott WR, 1997) it was found that the permanence of an organization is determined by the ability to create information that is open, balanced and equitable for all stakeholders. Thus the extent to which the level of disclosure of local government performance through government accountability is important for the sustainability of local government.

Law No. 14 of 2008 concerning Public Information Openness requires every

government entity to disclose financial statements along with other mandatory information on each organization's website. The presence or absence of financial statements in reporting through the internet is one indication that a public sector entity has the potential to cause fraud or not.

In his research Kothari revealed that managers have a preference for delaying disclosure of bad news compared to good news, as procrastinators of bad news can help protect them from personal negative results, terminations, demotion and small bonuses (Kothari, Shu dan Wysocki, 2009). In addition, Moehrle's research also states the same thing, namely that companies with losses experiences will have more potential to increase revenue compared to companies with positive net income. Managers who postpone bad news, usually the manager has more opportunity to convey misreporting (Moehrle, 2011).

With this research, researchers assume that the presentation of financial statement disclosures on the local government website can be used as an indication of local governments to commit fraud by not displaying the financial statements on the local government website.

Fraud

Fraud (cheating) is an illegal act carried out by one person or group of people intentionally or planned that causes people or groups to benefit, and harm other people or groups. According to (Tuanakota, 2012), *fraud* is:

"Any illegal act characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threats of violence or physical force. Fraud are perpetrated by individuals, and organization to obtain money, property or service; to avoid payment or loss of services; or to secure personal to business advantage."

According to the Association of Certified Fraud Examiners in Report to The Nations (Dorris, 2018), *fraud* is an unlawful act carried out intentionally for certain purposes (manipulation or giving false reports to other parties) carried out by people from inside or outside the organization to get personal or group benefits that directly or indirectly harm the other party. ACFE divides fraud into three types or types of deeds.

Association of Certified Fraud Examiners (ACFE), one of the associations in the USA that has major activities in the prevention and eradication of fraud, categorizes fraud in three groups, namely: financial statement

fraud, asset misappropriation, and corruption (*corruption*).

Frequency Fraud in Local government

The type of *fraud* that often occurs in the government sector is corruption. According to Sahetapy, (2013) corruption has plagued Indonesia, rampant in almost all public agencies, all echelons of government, both at the center and in the regions. Almost without shame again if the person concerned is involved in a corruption case. Even private/non-government parties take part and cooperate with government employees in acts of corruption. Corruption scandals in Indonesia are even considered normal. Cases of corruption in government agencies not only involve people who have high positions, but also people who are under them, both in the central and local governments. Corruption actions that are often carried out include bribery, manipulation of financial statements, destruction/destruction of documentary evidence, and mark-ups that are detrimental to state finances. This fraudulent action is usually triggered by the opportunity to commit fraud.

Frequency of the fraud in local government is not yet widely known. This concept is to find out how many corruption cases occur in each local government. Frequency fraud data in this study were accessed from KPK data, namely in the KPK sub-organization named ACCH (Anti Corruption Clearing House).

Variable Relationship

The existence of political pressure that comes from the expectations of the voters in regional elections can result in changes to the organization. (Scott WR, 1997) explains that the permanence of an organization is determined by the ability to create information that is open, balanced and evenly distributed to all stakeholders. Thus the extent to which the level of disclosure of local government performance through government accountability is important for the sustainability of local government.

The regional financial characteristics in this study are proxied by the Level of Regional Financial Independence and the Level of Optimization of Public Expenditure, as well as the existence of the level of Public Accountability demonstrated by the presentation of financial statements on each Local Government website are variables that influence the level of corruption in the local government.

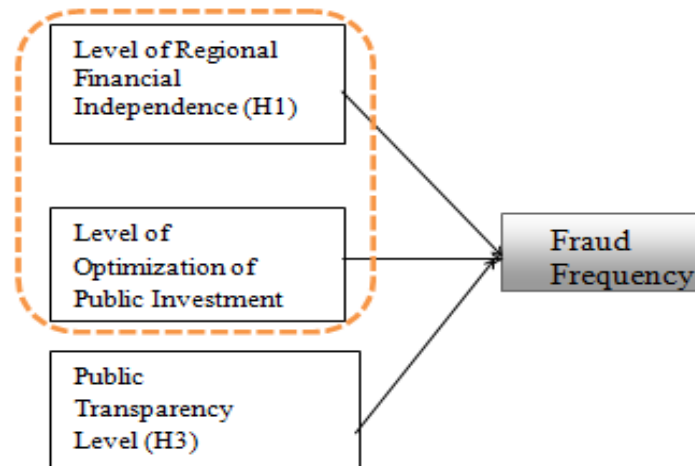


Figure 1
Framework of the Research

Flow of Research Design

The following is the framework of this study: Independent Variable Dependent Variable Characteristics of Regional Finance.

Hypothesis

H1: *There is an influence both level of regional financial independence towards the level of fraud in the local government*

Regional Financial Characteristic is the level of regional financial independence indicated by the regional financial independence ratio calculated by comparing the total revenue of Regional Original Revenue divided by the total Regional Revenue itself. The higher the ratio number shows that the local government has higher financial independence in the region. The level of regional financial independence is one sign of regional prosperity. By using the theory of fraud triangle where the presence of external pressure is the hope of the community where the level of prosperity is higher, it is expected that the level of fraud in the local government will decrease.

H2: *There is an Influence both Level of Public Investment towards level of fraud in the Local government.*

The level of public investment is seen from the analysis of capital expenditure towards total expenditure. It is a comparison both total capital expenditure and total regional expenditure. This ratio informs the reader of the report regarding the portion of regional expenditure allocated for capital expenditure. Governments with low regional income generally have a higher proportion of capital expenditure compared to high income local governments. According to Heriningsih

(2013), the percentage of funds allocated for development expenditure (capital) means an increase in the sources of income spent on public welfare which is to increase the assets or wealth of the country so that it will cause corruption. Therefore, it can be hypothesized that a high level of public investment is likely to increase the level of fraud in the local government.

H3: *There is an influence both level of public transparency towards level of fraud in the local government.*

According to Soepriyanto's research in Soepriyanto and Aristiani (2011) the level of disclosure of financial statements of local governments in Indonesia is still very low. Yet, in the research by Khairudin and Erlanda (2016) the level of transparency of the financial statements of local governments affects the declining level of fraud in the local government. Likewise, the research conducted by Nurrizkiana (2017) stated that financial report transparency and accessibility have a significant impact on the accountability and financial management of local governments. In this study, the researchers see what the level of transparency is.

3. RESEARCH METHOD

RESEARCH VARIABLES AND OPERATIONAL DEFINITIONS

Population and Sample

The population in this study is the provincial level local government in Indonesia and the sample was selected using census techniques, namely 34 provincial governments in Indonesia

Types and Data Sources

The data were secondary data consisting of

provincial government financial statements throughout Indonesia and those on the number of corruption cases obtained from ACCH (*Anti Corruption Clearing House*). The data were taken from the provincial government financial statements accessed from the Audit Report of the Indonesian Audit Board. Each provincial government website in Indonesia, as well as data on the level of corruption were also accessed from the ACCH website.

Method of Collecting the Data

The data used in this research was secondary data. Data collection in this study was carried out by means of documentation and literature. Documentation is the process of obtaining documents by collecting and studying the document. The document acquisition process was carried out through electronic communication (e-mail) of the Supreme Audit Board of the Republic of Indonesia (BPK RI) to retrieve data that requires it to be taken directly (data on the Audit Result Report of the 2017 by BPK RI). The provincial government financial report data was directly accessed by researchers at each provincial government website in Indonesia in November 2018. The literature study to complete the information in this study is conducted by studying the literature and previous relevant research to this research.

Analysis Method

Descriptive statistics

Descriptive statistics provides a general description of the research variable character.

The parameters were the average value, standard deviation and range of scores (maximum and minimum) displayed in the descriptive statistics table.

Classic assumption test

Normality Test

Data Normality Test aims to test whether the regression model between the dependent variable and the independent variable has a normal distribution or not. The process of data normality testing was done by the Kolmogorov-Smirnov.

Multicollinearity Test The multicollinearity test aims to determine whether each independent variable is related linearly. Multicollinearity occurs when there are significant relationships between independent variables test.

Heterocedasticity is the occurrence of unequal variances for different independent variables. Heterocedasticity can be detected by looking at the plot between the predictive value of the dependent variable (ZPRED) and the residual (SRESID).

Research Model / Statistical Equation

The analysis technique used was multiple regression test as a method to test the influence of independent variables on the dependent variable. The regression models tested in this study are:

$$FF = \alpha + b_1 KKD + b_2 TIP + b_3 TAP + \epsilon$$

FF : Government Fraud Frequency

KKD : Regional Financial Independence

TIP : Public Investment Level

Table 1
Operational Definition of Research

Variable	Type	Scale	Category	Description	Exp. Sign
FF (Fraud Frequency) (Lukfiarini, 2018)	Depend- ence	Ratio	Fraud Fre- quency	Number of criminal cases of corruption at district level	
KKD (Regional Financial Inde- pendency) (Heriningsih, 2013)	Independ- ence	Ratio	Regional financial Independence ratio	Level of regional finan- cial independence	-
TIP (public investment level (Amaliah and Haryanto, 2019)	Independ- ence	Ratio	Public invest- ment level	Capital expenditure/To- tal Local expenditure	-
TTP (Public Transparency Level) (Khairudin and Erlanda, 2016)	Independ- ence	Dum- my	Transparency of public	Disclosure of financial statements on PEMDA website	-

Source: Data processed, (2018)

TTP : Public Transparency Level
 α : Constant
 ε : Error term

4. DATA ANALYSIS AND DISCUSSION

From the results of the descriptive statistics on Table 2, it can be seen that the average level of regional financial independence

of the entire province, the average level of financial independence is 34% of total regional income. This shows that the average provincial government income is still dominated by transfers from the central government. While the lowest value of the level of regional financial independence is 7% and the highest is 68%. It can be interpreted that there is a provincial

Table 2
Data of the Variables

No	Province	The level of regional financial independence	Public Investment Level	TAP	Frequency of Corruption
1	Aceh	0,159	0,221	1	14
2	Sumatera Utara	0,432	0,183	0	57
3	Sumatera Barat	0,352	0,151	0	1
4	Riau	0,425	0,263	1	0
5	Jambi	0,367	0,259	1	7
6	Sumatera Selatan	0,370	0,238	1	18
7	Bengkulu	0,287	0,248	1	22
8	Lampung	0,404	0,248	1	12
9	Kepulauan Bangka Belitung	0,315	0,193	0	0
10	Kepulauan Riau	0,337	0,179	0	40
11	DKI Jakarta	0,677	0,218	0	54
12	Jawa Barat	0,562	0,107	1	66
13	Jawa Tengah	0,529	0,090	1	39
14	DI Yogyakarta	0,364	0,250	1	0
15	Jawa Timur	0,580	0,143	0	75
16	Banten	0,593	0,197	1	0
17	Bali	0,567	0,151	1	5
18	Nusa Tenggara Barat	0,312	0,246	0	9
19	Nusa Tenggara Timur	0,223	0,104	0	5
20	Kalimantan Barat	0,361	0,210	0	0
21	Kalimantan Tengah	0,328	0,181	1	0
22	Kalimantan Selatan	0,507	0,290	1	10
23	Kalimantan Timur	0,562	0,172	1	17
24	Kalimantan Utara	0,216	0,308	0	0
25	Sulawesi Utara	0,307	0,244	0	7
26	Sulawesi Tengah	0,263	0,153	1	0
27	Sulawesi Selatan	0,406	0,147	0	5
28	Sulawesi Tenggara	0,228	0,280	0	5
29	Gorontalo	0,196	0,160	0	0
30	Sulawesi Barat	0,162	0,263	1	0
31	Maluku	0,153	0,205	1	4
32	Maluku Utara	0,144	0,263	0	0
33	Papua	0,078	0,294	1	17
34	Papua Barat	0,067	0,197	0	0

Source: secondary data processed (2018)

government that has the highest level of financial independence, namely 68%, namely DKI Jakarta and provincial governments with the lowest level of independence, namely 7%, namely the Government of West Papua Province.

From the level of public investment, it can be seen that the average level of public investment from each provincial government is at 20.75%, which means that the provincial government is still a little in spending capital in its financial management. Capital expenditure which is still at the level of 20.75% means that the remaining 79.25% is the routine or operational costs of the Local government, which includes spending on personnel expenditure. Likewise, from descriptive statistics, it can be seen that the highest level of public investment was carried out by the Government of North Kalimantan Province and the lowest level of public investment was carried out by the Central Java Provincial Government.

From the level of public transparency can be seen if the level of transparency carried out by the Provincial Government has now reached more than 50%, which is equal to 52.94%. This shows that the Provincial Government has more than a few who have implemented Law No. 14 of 2008 concerning public information disclosure. The provincial government has published local government financial reports on each of the local government websites.

Classical Assumption Test Results

Normality testing was done by using a test of each unstandardized residual normality. Test the normality of data through statistical analysis using the One-Sample Kolmogorov-Smirnov non-parametric statistical test. Data that is normally distributed is indicated by a significance value greater than 0.05 (Ghozali, 2012). The test results are presented in Table 2. The results of the tests show that the Kolmogorov-Smirnov value is significant at 0.195. This shows that the residual data is normally distributed, because the significance value is more than 0.05.

From the results of multicollinearity test shows the results of the independence of the youth, Public Investment level, TAP against the level of Corruption tolerance value <1.0 or equal to VIF value> 1.0, Thus, it can be concluded that there is no multicollinearity between the independent variables in the regression model.

Autocorrelation testing is done using

the Run Test method. The results of the autocorrelation test in the table below carried out using the Run Test show an Z value of -0.703 with the value of Asymp. Sig. (2-tailed) 0.482. Because the value of Asymp. Sig is greater than the 0.05 significance level, it can be concluded that the regression does not occur autocorrelation.

Hypothesis Testing Results

Regression Analysis

The following are the results of the regression analysis that has been carried out (Table 3).

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + \dots + b_nX_n$$

Tk Corruption Frequency = 8.261+61.679TKK-71.199TIP - 5.608TTP

Based on the above equation, it can be explained as follows.

The value of the regression constant is 8.261 with a positive sign which means that if all independent variables (the level of regional financial independence, The Level of Public Investment, TTP) are assumed to be constant, the Corruption Rate Frequency variable will increase by 8,261 units.

Variable regression coefficient (The level of regional financial independence) is 61,679, which means that each increase (the level of regional financial independence) is 1 unit then it will increase the Fraud Frequency Level by 61,679 units

Variable regression coefficient (the level of Public Investment) is equal to - 71,199 which means that each independent increase (the level of Public Investment) of 1 unit will reduce the Corruption Frequency Rate by - 71,199 units

The variable regression coefficient (TTP) is equal to - 5,608 which means that each independent increase (TTP) of 1 unit will decrease the level of Corruption Frequency by - 5,608 units.

Simultaneous Significance Test

From the results of the F test (simultaneous), it shows the results of the variable that the variable of level regional financial independence, level of Public Investment, TAP is 0.002 smaller than the significance level of 0.05 (5%). This shows that the variable of the level of independence of regional financial, level of Public Investment, TAP has an effect simultaneously and has a significant effect on the Corruption Level.

Partial Significant Test (t)

From the results of the t test (partial) shows the results of variables that the level of independence of the youth is 0,000 smaller

Table 3
Regression Analysis Results

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5454.906	3	1818.302	6.218	.002 ^b
	Residual	8480.730	31	292.439		
	Total	13935.636	34			

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.261	10.454		.790	.436
	Tk Independence The second, Level of Public Invetsment	61.679	15.410	.582	4.003	.000
	TTP	-71.199	44.681	-.231	-1.593	.122
		-5.608	6.004	-.136	-.934	.358

Source: secondary data processed (2018)

than the significance level of 0.05, it can be concluded that the level of independence of the youth has a significant effect on The level of Corruption. Yet, the Public Investment and Public Transparency Level are greater than the 0.05 significance level. It can be concluded that the Public Investment Level and Public Transparency Level have no significant effect on Corruption Level.

Research Results and Discussion

The results of this study indicate that from all variables assumed to influence the level of corruption, it turns out that only the level of regional financial independence has a significant influence on the level of corruption. The level of regional financial independence affects the level of corruption or fraud in local governments in line with research from Wulandari (2015). The study stated that the higher level of regional financial independence as seen from the level of public awareness to pay taxes was also higher, but this did not reduce the opportunity for fraud or corruption in the Local government. It is different from the research by Heriningsih (2013) which states that the level of regional financial independence does not affect the level of fraud at the local government.

Other variables, namely the level of public investment as indicated by the amount of capital expenditures incurred by local governments on total regional expenditures, apparently did not affect the level of fraud at the local government. The results of this study

are in line with the results of the study by Heriningsih (2013) that examined the influence of audit opinion and financial performance of local governments (empirical studies on district and city governments on the island of Java). From this study it can be seen that the size of the level of regional expenditure does not have an impact on the increase or decrease in the number of corruption cases in local governments.

The variables that have never been examined by previous researchers are the variable financial statement presentation on the local government website which is a mandatory disclosure according to Law No. 14 of 2008 concerning public information disclosure and one of the characteristics of good government governance also does not affect the level of fraud that occurs in Local government. The presence or absence of financial reports that are displayed on the local government website does not affect the amount of fraud in the Local government. For example, some provincial governments have financial statement presentations on local government websites but there is still fraud of local government can be seen in Table 3.

5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

This study concludes that the level of prosperity of the people—as seen from the level of regional financial independence—turned out to have a positive effect on the occurrence of fraud in the local government. This shows that

the greater the original income of a region and the more people are aware of paying taxes so that it raises local revenue, this does not reduce the occurrence of corruption by both local government officials and the private sector that conduct transactions with local governments. Even when the higher local revenue has an impact on the increasing fraud of the local government. The results of this study are in line with the research by Wulandari (2015) and in contrast to research by Heriningsih, (2013).

Likewise, the higher level of public investment made by the government to provide welfare to the people with high capital expenditure will not affect corruption. The results of this study are in line with the research by Heriningsih (2013) stating that the activity ratio consisting of operational expenditure and capital expenditure does not affect the level of corruption of the local government. This study shows that the opportunity for increased capital expenditure or the presence of increasingly large opportunities does not affect the level of fraud in the local government. This has also been proven by (Dorminey *et al.*, 2012) which states that income levels do not affect the occurrence of fraud. This research proves that the opportunity in the form of high capital expenditure does not affect the presence or absence of fraud in the local government.

The hope of an increasing public transparency by presenting financial reports that can be accessed by the public does not affect the occurrence of corruption or fraud in the Local government. This is contrary to the research conducted by Khairudin and Erlanda (2016) and research by Nurrizkiana (2017) stating that the presentation of financial statements can increase transparency and accountability of local governments. This research proves that the presence or absence of the presentation of local government financial statements on the website does not affect the existence of fraudulent local government.

This study suggests that further study can explore more deeply other variables that significantly affect the existence of fraud in the local government. Besides that, they should also explore more deeply the perpetrators of fraud that most often occur to the local government, whether because of regional heads private actors who commit fraud against local government officials relating to government affairs that are being carried out. In addition, it is also necessary to develop the potential for fraud committed by financial

administrators and budget users. Therefore, a supervisory mechanism can be obtained as well as a formula for prevention and detection of fraud at a reliable local government level. Besides that, it is necessary to develop aspects of transparency assessment that can be done in each local government not only by looking at the existence of financial statement presentation.

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