


**ANTECEDENTS OF THE ACCOUNTABILITY IN INDONESIAN LOCAL GOVERNMENT
FINANCIAL REPORTING**

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 26 September 2022</p> <p>Accepted 25 November 2022</p>	<p>Purpose: This study aims to analyze the role of the government’s budget supervision on financial accountability to reduce fraud against the local government budgets.</p>
<p>Keywords:</p> <p>Budget Supervision; Accountability; Financial Reports; Local Government; Indonesia.</p>	<p>Theoretical framework: The theoretical framework from Gabrini (2013) highlights the importance for organizations to design and manage financial reports and audits to maintain legitimacy, along with the increasing demands for transparency and accountability of public organizations today.</p>
	<p>Design/methodology/approach: To achieve this goal, the data used in this study is secondary data sourced from the central and regional government’s auditing board between 2016 to 2019.</p>
	<p>Findings: The results showed that budget supervision negatively affects the accountability of local government financial reports. Moreover, a follow-up audit has a negative effect on the fraud against the local government budget and has a positive effect on financial accountability. The results also demonstrated a negative effect of financial accountability on the fraud against local government budget.</p>
	<p>Research, Practical & Social implications: As the implication, the government is expected to draft an implementing regulation as a technical guideline to avoid fraud against the government budget. In order to encourage an increase in the target of unqualified opinions, it is expected that the central government can provide incentive funds to regional governments that get unqualified opinions to maximize their capacity to increase financial accountability.</p>
	<p>Originality/value: This research is among the first in empirically examining the full mediating effect of financial accountability in the relationship between budget supervision and the fraud against local government budget in Indonesia.</p>
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ANTECEDENTES DA PRESTAÇÃO DE CONTAS NOS RELATÓRIOS FINANCEIROS DO GOVERNO LOCAL INDONÉSIO

RESUMO

Objetivo: Este estudo visa analisar o papel da supervisão orçamentária do governo sobre a responsabilidade financeira para reduzir a fraude contra os orçamentos do governo local.

Estrutura teórica: A estrutura teórica de Gabrini (2013) destaca a importância para as organizações de elaborar e gerenciar relatórios financeiros e auditorias para manter a legitimidade, juntamente com as crescentes exigências de transparência e prestação de contas das organizações públicas de hoje.

Design/metodologia/abordagem: Para atingir este objetivo, os dados utilizados neste estudo são dados secundários provenientes do conselho de auditoria do governo central e regional entre 2016 e 2019.

Conclusões: Os resultados mostraram que a supervisão orçamentária afeta negativamente a prestação de contas dos relatórios financeiros do governo local. Além disso, uma auditoria de acompanhamento tem um efeito negativo sobre a fraude contra o orçamento do governo local e tem um efeito positivo sobre a prestação de contas financeira. Os resultados também demonstraram um efeito negativo da responsabilidade financeira sobre a fraude contra o orçamento do governo local.

Pesquisa, implicações práticas e sociais: Como implicação, espera-se que o governo elabore um regulamento de implementação como diretriz técnica para evitar fraudes contra o orçamento do governo. A fim de encorajar um aumento no alvo de opiniões não qualificadas, espera-se que o governo central possa fornecer fundos de incentivo aos governos regionais que obtêm opiniões não qualificadas para maximizar sua capacidade de aumentar a responsabilidade financeira.

Originalidade/valor: Esta pesquisa está entre as primeiras a examinar empiricamente o efeito mediador total da responsabilidade financeira na relação entre a supervisão do orçamento e a fraude contra o orçamento do governo local na Indonésia.

Palavras-chave: Supervisão Orçamentária, Prestação de Contas, Relatórios Financeiros, Governo Local, Indonésia.

ANTECEDENTES DE LA RENDICIÓN DE CUENTAS EN LOS INFORMES FINANCIEROS DE LOS GOBIERNOS LOCALES DE INDONESIA

RESUMEN

Objetivo: Este estudio pretende analizar el papel de la supervisión presupuestaria del gobierno en la responsabilidad financiera para reducir el fraude contra los presupuestos del gobierno local.

Marco teórico: El marco teórico de Gabrini (2013) destaca la importancia de que las organizaciones diseñen y gestionen informes financieros y auditorías para mantener la legitimidad, junto con las crecientes demandas de transparencia y rendición de cuentas de las organizaciones públicas en la actualidad.

Diseño/metodología/enfoque: Para lograr este objetivo, los datos utilizados en este estudio son datos secundarios obtenidos de la junta de auditoría del gobierno central y regional entre 2016 y 2019.

Resultados: Los resultados mostraron que la supervisión presupuestaria afecta negativamente a la rendición de cuentas de los informes financieros de los gobiernos locales. Además, una auditoría de seguimiento tiene un efecto negativo en el fraude contra el presupuesto del gobierno local y tiene un efecto positivo en la responsabilidad financiera. Los resultados también demostraron un efecto negativo de la responsabilidad financiera sobre el fraude contra el presupuesto del gobierno local.

Investigación, implicaciones prácticas y sociales: Como implicación, se espera que el gobierno redacte un reglamento de aplicación como directriz técnica para evitar el fraude contra el presupuesto del gobierno. Para fomentar el aumento del objetivo de los dictámenes sin reservas, se espera que el gobierno central pueda proporcionar fondos de incentivo a los gobiernos regionales que obtengan dictámenes sin reservas para maximizar su capacidad de aumentar la responsabilidad financiera.

Originalidad/valor: Esta investigación es una de las primeras en examinar empiricamente el efecto mediador completo de la responsabilidad financiera en la relación entre la supervisión presupuestaria y el fraude contra el presupuesto de los gobiernos locales en Indonesia.

Palabras clave: Supervisión Presupuestaria, Rendición de Cuentas, Informes Financieros, Gobierno Local, Indonesia.

INTRODUCTION

Accountability and transparency are important issues in governance (Sofyani et al., 2020); Schmidt & Wood, 2019; Brusca et al., 2018). The government must be transparent in the management and accountability of state finances by submitting periodic financial reports to the public. Financial statements are a monitoring tool to reduce information asymmetry in agency relationships (Setyaningrum, 2015; Habib et al., 2019; Raimo et al., 2021). Accountability is a form of accountability for managing the implementation of policies and resources entrusted to the reporting entity in achieving the objectives that have been set. Accountability is one of the main components of realizing good governance (Saputra et al., 2018). The auditor is responsible for assessing the fairness of the government's financial statements. While carrying out their duties, the auditor must be independent to maintain audit quality. Indonesia's Law No. 15 of 2006 mandated the supreme audit institution (BPK) as the government audit supreme board. BPK is an independent state institution tasked with examining the management and responsibility of state finances, both at the central and regional levels. BPK is a partner of representative institutions in supervisory functions, especially in terms of public financial governance (Din et al., 2022). BPK's audit results aimed at making governance in public sector finance by delivering audit opinions, audit findings, and recommendations on audit results.

Table 1. Summary of 2019 BPK's audit results

Items	Frequency	Percentage
Unqualified opinion	485	90%
Qualified opinion	50	9%
Disclaimer opinion	6	1%
Total dataset	541	100%

The Supreme Audit Agency (BPK) is important in eradicating corruption crimes. BPK can calculate, assess, and determine state losses in an entity's use of the budget. In 2020, BPK presented 541 auditor's reports in 2019, expressing unqualified opinion on 485 auditor's report (90%), qualified opinion on 50 (9%), and disclaimer opinion for 6 auditor's report (1%) (Table 1). Furthermore, the audit results in 2020 showed 5,175 weaknesses in internal control, consisting of 1,729 (33%) accounting and reporting issues, 2,338 (45%) budget execution issues, and 1,108 (22%) structural issues. The improved financial accountability demonstrates the commitment of local governments to carry out their obligations to follow up on audit recommendations. In this regard, this study aims to

analyze the role of the government's budget supervision on financial accountability to reduce fraud against the local government budgets.

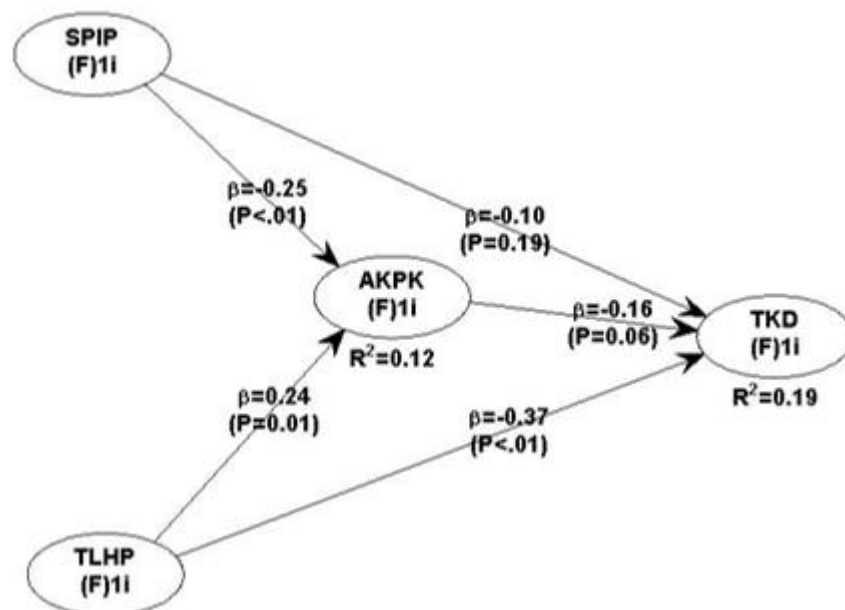
Literature Review

The basic explanation of the legitimacy hypothesis is Suchman (1995) asserting that the legitimacy of behavior is based on a high level of perceived public well-being. Legitimacy theory states that legitimacy is an important factor for the existence of an institution that relates to the public, either in order to develop the company in the future or evaluate past performance. Legitimacy is public support for the existence of an entity or system. In general, legitimacy is public acceptance and recognition of the moral right of a public institution to govern, make and implement certain decisions (Gabrini, 2013). Policy implementers in the public sector seek to gain or maintain legitimacy for their authority. Community recognition and support will create a stable existence for an institution to make and implement decisions that benefit the community. In addition, community recognition and support will reduce the use of means of physical coercion so that the budget can be diverted to meet community welfare and can make social changes (Power, 2003). In the case of public finances, audits are required by local governments as evidence of performance as well as to prove their achievements in serving and using public money.

The fraud triangle is a model commonly used in audits to find out the reasons or possibilities for fraud or fraud in the workplace. Fraud is usually related to financial statements. This idea was first coined by Cressey (1953) and later by Dorminey et al. (2012), which is called the fraud triangle or the fraud triangle. As a fraud, corruption is a significant problem detrimental to economic development and social stability in almost all countries (Dye, 2007; DiRienzo et al., 2007; Malagueño et al., 2010). According to the legal perspective in Indonesia, as stated in Law No. 20 of 2001 concerning the eradication of criminal acts of corruption, criminal acts of corruption can be grouped as fraud, bribes, embezzlement in office, extortion, cheating, conflict of interest in procurement, and gratification. In this regard, auditing ensures the fairness of the presentation of financial statements in describing the actual economic activity (Dye, 2007). Audits in the public sector are useful for ensuring public money is used appropriately and minimizing fraud. In addition, an audit of financial statements can identify all gaps before an institution presents its results to stakeholders. Thus, the reliability of the reported data becomes more accurate and reliable.

Each entity always needs an audit of financial statements to assess the fairness or appropriateness of the presentation of financial statements that have been made by an entity. The assessment will be reflected in an audit opinion. It includes government entities, both central and local governments, that require audits of financial statements made so that the public knows and can assess the credibility, truth, accuracy, and reliability of the information on the management and responsibility of state finances. For local government, the audit results as the analysis of the condition of regional government financial statements can be used to assess regional financial independence in financing the implementation of regional autonomy. In addition, to measure efficiency and effectiveness in realizing regional income, measure the extent to which local government activities spend their regional income. In addition, the examination of financial statements is to measure the contribution of each source of income in the formation of regional income. Economically, the audit analyzes economic growth, which is evaluated from the development of income and expenditure acquisitions carried out over a certain period. Government financial reporting should provide useful information for users in assessing accountability and making economic, social, and political decisions. Budget audits are relevant and important in local government circles. It is related to the budget's impact on government performance with the government's function in providing services to the community. The local government public sector budget is the output of the allocation of financial resources.

Figure 1. Conceptual Framework



H1: Budget supervision has a negative effect on fraud against the local government budgets.

H2: Budget supervision has a positive effect on the local government's financial accountability.

H3: Follow-up audit has a negative effect on the fraud against local government budget.

H4: Follow-up audit has a positive effect on the local government's financial accountability.

H5: Financial accountability has a negative effect on fraud against the local government budget.

H6: Financial accountability is able to mediate the effect of budget supervision fraud against local government budgets on fraud against local government budgets.

H7: Financial accountability is able to mediate the effect of follow-up audits on the fraud against local government budget.

Research Methods

The object of this research is budget supervision, the follow-up to the auditing results, fraud as an independent variable, and the accountability of local government financial reporting as the dependent variable. The analytical method used to test the hypothesis is path analysis using Partial Least Square (PLS) analysis tool with warpPLS software version 6.0. In addition to the path analysis method used to test the hypothesis, this study also tested the Mediation variable using the Sobel method with two steps, namely, estimating the magnitude of the direct and indirect effects on the empirical model previously presented (Baron & Kenny, 1986; Kock, 2011; Solihin & Ratmono, 2013).

RESULTS

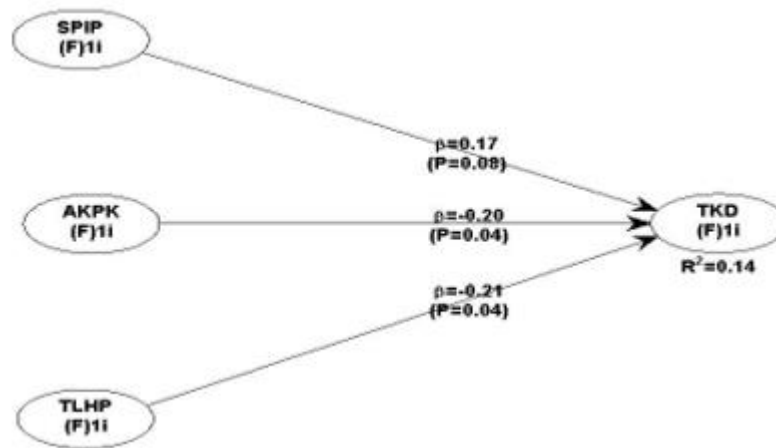
The results showed that the output of the fit model and the quality indices model has a value (p -value) for APC and ARS < 0.05 . Moreover, AVIF and AFVIF values as indicators of multicollinearity must be < 5 , and the provision for GoF values is 0.393. Based on the analysis as presented in Table 2, it can be revealed that the model is fit.

Table 2. Model Fit and Quality Indices

Parameter	Value	P Value	Limitation	Conclusion
APC	0.224	0.008	P < 0.05	Model fit
ARS	0.154	0.037	P < 0.05	Model fit
AARS	0.128	0.058	P < 0.05	Model fit
AVIF	1.040		Acceptable if ≤ 5 , ideally $\leq 3,3$	Model fit
AFVIF	1.118		Acceptable if ≤ 5 , ideally $\leq 3,3$	Model fit
GoF	0.393		Small ≥ 0.1 , medium ≥ 0.25 , large ≥ 0.36	Medium fit

Source: Data processed, 2021

Figure 2. WarpPLS 6.0-Direct Model Output



Furthermore, Table 3 shows the coefficient value and value of each relationship in the research model. Figure 5.6 and Table 5.4 show the path coefficient and value of each direct relationship in the research model. The budget supervision → fraud path shows a coefficient value of -0.097 and is significant at 0.185. The follow-up audit → fraud path shows a coefficient value of -0.368 and is significant with a value of <0.001. The budget supervision → accountability path shows a significant coefficient value of -0.251 with a value of 0.008. The follow-up audit → accountability path shows a coefficient value of 0.243 and is significant with a value of 0.010. The accountability → fraud path shows a coefficient value of -0.163 and is significant with a value of 0.062 (Figure 2).

Table 3. Path Coefficients and -Value

Variable	Full Model				Direct Model			
	Sign	Coeff.	ρ	VIF	Sign	Coeff.	ρ	VIF
Supervision → Fraud	-	(0.097)	0.185		+	0.166	0.079	
Supervision → Accountability	-	(0.251)	0.008					
Follow-up audit → Fraud	-	(0.368)	<0.001		-	0.207	0.038	
Follow-up audit → Accountability	+	(0.243)	0.010					
Accountability → Fraud	-	(0.163)	0.062		-	0.204	0.040	
Supervision				1.079				1.098
Follow-up audit				1.111				1.187
Fraud				1.105				1.139
Accountability				1.176				1.105

Source: Data processed, 2021

In addition, Table 4 presents R-Squared (R^2), Q-Squared (Q^2), and Full collinearity VIF. R^2 can be used to explain the effect of the exogenous latent variable on the endogenous latent variable and whether it has a substantive effect. Q^2 is used to determine whether the model has predictive relevance or not. The value of $Q^2 > 0$ indicates that the model has predictive relevance, while the value of $Q^2 < 0$ indicates that the model lacks predictive relevance. At the same time, Full collinearity VIF results from full collinearity testing, including vertical and lateral multicollinearity. The criteria for the full collinearity test are that the score is less than 5 or it must be lower than 3.3 (Kock & Lynn, 2012; Latan & Ghozali, 2017).

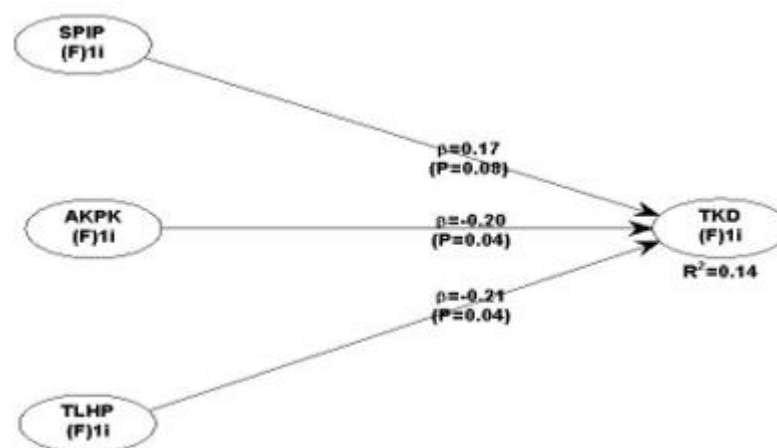
Table 4. R Square, Adjusted R Square, Q Square, and Full Collin VIF

Variable	Full Model			Direct Model		
	R Squared	Adj. Squared	Q Squared	R Squared	Adj. Squared	Q Squared
Fraud	0.191	0.159	0.195	0.137	0.096	0.152
Accountability	0.118	0.096	0.135			

Source: Data processed, 2021

The test results show that the R^2 value of the endogenous variable of fraud was 19.1%, and accountability was 11.8%. This research model has predictive relevance because it has a Q^2 value above 0, 0.191 and 0.118. Based on the Full collinearity VIF value, all values are below 3.3. so that in this research model, there is no multicollinearity.

Figure 2. WarpPLS 6.0-Full Model Output



The analysis showed that in testing the first hypothesis on the effect of budget supervision on fraud against local government budget, the results showed no significant effect, indicated by budget supervision → fraud path coefficient value of -0.097 and p-value of 0.185. Thus, the first hypothesis was rejected. The results showed a significant result in testing the

effect of budget supervision on financial accountability. It is indicated by the coefficient value of the budget supervision →accountability path of -0.251 and is significant with p-value of <0.01. Thus, the second hypothesis is accepted.

The third hypothesis states that a follow-up audit negatively affects fraud against the local government budget, meaning that the higher the level of follow-up to the auditing results will reduce fraud. The statistical output of WarpPLS 6.0 presented a significant result, indicated by a follow-up audit→fraud path coefficient value of -0.37 and p-value of <.01. Thus, the third hypothesis is accepted. Regarding the effect of follow-up audits on financial accountability, the fourth hypothesis examined it in a positive effect assumption. The results showed that the coefficient value of the follow-up audit→accountability path coefficient value of 0.24 and p-value of 0.01. Thus, it can be declared that the fourth hypothesis is accepted. It means that the higher the level of follow-up on audit results, the higher the level of financial accountability.

Moreover, the fifth hypothesis states that financial accountability has a negative effect on fraud against local government budgets. Based on the output of WarpPLS 7.0 as presented, the coefficient value of the accountability→fraud path shows a coefficient value of -0.16 and p-value of 0.06. Thus, the fifth hypothesis is accepted. It means that higher financial accountability is more likely to reduce fraud against the local government budget.

In examining the mediating effect of financial accountability in the relationship between budget supervision on fraud against local government budget, the results showed the coefficient value of the budget supervision →accountability→fraud path shows a coefficient value of -0.251 and -0.163 with p-value of <.010 and =0.062 while the direct model shows the path coefficient value of budget supervision→fraud 0.17 with a significant value of .8. The results showed financial accountability's ability to mediate the relationship in full mediation. Thus, the sixth hypothesis is accepted.

Furthermore, the seventh hypothesis aims to examine the mediating effect of follow-up audits in the relationship between budget supervision on fraud against local government budgets. The output of WarpPLS 7.0 revealed the coefficient value of the follow-up audit→accountability→fraud path of 0.243 with a significant value of 0.01. The results showed a partial mediation role of follow-up audit in the relationship between budget supervision on fraud against local government budget. Thus, it can be concluded that the seventh hypothesis is accepted.

DISCUSSION

The results showed a significant effect in the relationship between budget supervision on financial accountability, which means that budget supervision has a negative effect on the accountability of local government financial reporting. It is supported by previous research. Asare (2009) suggests that the government's financial statement accountability is consistent evidence to meet the established accounting standards. As an obligation and strengthening the accountability of a financial report, an accountable report is given to the internal organization and the general public. In carrying out this role, an internal audit not only evaluates the risks that will occur but can also play a crucial role in ensuring the quality of financial reporting (Holt & DeZoort, 2009). In line with these findings, Masdar et al. (2021) also found that leadership style, organizational commitment, and understanding of good governance are more likely to affect the performance of auditors.

In line with a significant result of the follow-up audit on fraud against the local government budget, this means that the follow-up audit had a negative effect on the fraud against the local government budget. Assakaf et al. (2018) state that audit entities have a critical position in the follow-up process to audit results (Zahra et al., 2021).

The results also showed a significant effect of follow-up audits on financial accountability. It highlighted the follow-up audit as one representation of the assessment of the effectiveness of the government's internal control system. The results are consistent with previous theories highlighting that the BPK examination aims to provide an opinion on the fairness of the presentation of financial statements by considering various aspects, including conformity with government accounting standards, the adequacy of disclosure, and compliance with laws and regulations. And the last aspect of the effectiveness of the internal control system (Furqan et al., 2020). The higher level of recommendation on the results of the audit being followed up, the better the accountability of local government financial reporting as indicated by the better audit opinion. In addition, the results also support the previous research findings on the effect of financial accountability on fraud. Ratmono & Darsono (2022) found that the efforts to improve the post-audit findings can reduce the level of corruption that occurs.

The results showed a full mediation in analyzing the mediating effect of financial accountability in the relationship between budget supervision on fraud against the local government budget. Moreover, the results demonstrated a partial mediation role of financial accountability in the relationship between follow-up audits on fraud against the local government budget. Liu & Lin (2012) found that the audit findings presented by the auditors have a positive effect on the level of corruption in China, where efforts to improve the post-

audit findings can reduce the level of corruption that occurs. In order to encourage an increase in the target of unqualified opinions, it is expected that the central government can provide incentive funds to regional governments that get unqualified opinions to maximize their capacity to increase financial accountability (Abdullah et al., 2020).

CONCLUSION

The results showed that budget supervision has a negative effect on the accountability of local government financial reporting. The results also showed follow-up audits had a negative effect on the fraud against the local government budget and had a positive effect on financial accountability. In testing the direct effect, the results showed that financial accountability has a negative effect on fraud against the local government budget. In addition, the empirical examination of the mediating effect of financial accountability showed that it has a full mediation role in the relationship between budget supervision on the fraud against local government budget and a partial mediation in the relationship between follow-up audit on the fraud against local government budget.

Theoretically, the results show that public financial audits, especially regarding local government financial reports, increase the transparency and accountability of state financial management. As one of the values that must exist in the Good Governance Principles, local governments need credible regional financial accountability as a basis for legitimacy. Practically, these findings encourage local financial management reforms, including reforms in government accounting. The implication of implementing fiscal decentralization for central and local governments, especially in the financial system, is the need for reforms in budgeting, financing, accounting, and auditing systems for local government financial statements and regional financial management systems. Thus, understanding the regional financial reporting system and how to compile reports based on an appropriate regional financial accounting system will improve the quality of presentation and accuracy of regional financial reports.

As an implication, the government is expected to draft an implementing regulation as a technical guideline to avoid fraud against the government budget. For local governments, they should take advantage of follow-up audits to improve accountability as well as to reduce fraud against the local government budget. In addition, a summary of information related to internal control policies and procedures, audit information on control deficiencies, and results of non-compliance. As to reveal the limitation, the research was conducted on local governments in Indonesia for a short period from 2016-2019. Thus, further studies are expected to empirically examine local government financial accountability in a longitudinal and broader dataset.

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