LOCAL GOVERNMENT’S REVENUE, AUDIT OPINION OF BPK AND FINANCIAL PERFORMANCE OF LOCAL GOVERNMENT: INDONESIA EVIDENCE

ADITYA INDRA PRAYITNO, NOVA NOVITA

Accounting Program, STIE Indonesia Banking School, Jakarta, Indonesia;
Accounting Program, STIE Indonesia Banking School, Jakarta, Indonesia;
Corresponding Author: msnsiapa@gmail.com, novanovita67@yahoo.com

ABSTRACT

Decentralization or local autonomy is directed to stimulate the equalization distribution of development, improve the people’s welfare, encourage initiative and active participation of the society in a real. This study focuses on the impact of local government revenues (PAD) and audit opinion of BPK in financial performance. The Local government revenue’s (PAD) components consist of local taxes, local retribution, separated local asset and the others legal local revenue. While BPK’s audit opinion is dummy variable. The sample used in this study are 31 local government were categorized high level fiscal capacity during the period 2011-2012. Samples obtained from the local government financial statements (LKPD) BPK RI. Research result indicates that audit opinion of BPK is statistically significant to the financial performance of the local governments. While the local taxes show the negatives effect on financial performance, which is contrary to existing theories. This result shows that the management of local revenue in local government in Indonesia still not optimal yet.

Keywords: Local Government revenues (PAD), audit opinion of BPK, financial performance, local governments

Introduction

Patterns of governance in the regions of regencies and cities will be strongly associated with the form, the structure and the distribution of authority that exist in the country. It means that the form and the structure of a country can reflect whether authority is delegated to the regions of regencies and cities or concentrated in the central government. The distribution of authority in a country can be a centralized or a decentralized system. This system directly affects the implementation of local governance. According to Mardiasmo (2002), too much intervention of central government raises the problem of low capability and effectiveness of the government in encouraging development process and democracy in the regions.

The local governments have the freedom to manage their own territories so that the economic growth can grow in their own regions. This condition triggers the birth of two laws that gives freedom to the regions in the form of autonomy and responsibility to manage their own interests without any further intervention from the central government. This condition makes the issuance of UU no. 22/1999 about Regional Government which is now updated into UU no. 32/2004 and UU no. 25/1999 about Fiscal Balance between Central and Local Government.

The purposes of this research are:
1. To prove and analyze empirically that Local Taxes, retributions, BUMD profits, Other legal revenue have a partial effect on the financial performance of local...
government
2. To prove and analyze empirically the influence of BPK audit opinion on the financial performance of local governments.

According to the purposes, the research questions are:
1. Do PAD components (Local Taxes, Levies, profit enterprises) and Other legal revenue have a partial effect on the financial performance of the local government?
2. Does the previous year audit Opinion of BPK affect the financial performance of local government?

Theory and Research Methodology
The Local Government revenues (PAD)

According to UU No. 17/2003, revenue is the right of regencies of local government recognized as a net wealth enhancer. UU No.12/2008 (1), verse 15 states that local revenue is the right recognized by the local governments as net wealth in the current budget year. One of sources of local revenue stated in UU No. 33/2004 (1), verse 18 is PAD, which is a revenue earned by the local governments based on regulations. PAD aims to give funds for the local governments to fund the implementation of local autonomy as an embodiment of decentralization.

UU No. 33/2004 states that when the needs of funding of a local government is obtained more from the subsidies or the assistance of the central government, the contribution of local government revenue for the funding is minor, which means the financial performance of that local government is poor. According to Ebit, et al. (2012) local government revenue is the heart of local funding, the ability of a local government to dig PAD will affect the growth and development of that local government, the greater the contribution of local government to APBD, the lower the dependence on the central government funding. Financial resources of Local government revenue is more important compared to those sources outside the local government revenue, the identification of local government revenue is to research, determine and prescribe the real sources of local government revenue by researching, opertaining and managing the sources of the appropriately in order to provide maximum results (Elita in Pratiwi, 2007).

The audit opinion of BPK

To reduce the asymmetry of information between the politicians and the people, the local government financial statements need to be audited independently. According to UU No.15/2004 about the Audit and State Financial Responsibility, financial examination includes audit, performance inspection and examination of the performance of a particular purpose. Audit Board of the Republic of Indonesia (BPK-RI) is the agency responsible for the conduct and management of state financial responsibility (Setyaningrum, 2012). The Audit Report of BPK (LHP) consists of opinions, findings, conclusions and recommendations depending on the scope of the audit.

The Audit of BPK-RI does not only generate opinions on the financial statements and the audited financial statements, but also gives notes on the findings. The findings explain the internal control weaknesses and the noncompliance on laws and regulations (Setyaningrum, 2012). Results of an audit conducted by The BPK also provide information on potential losses
found in the audit process from the misuse and the inefficiency of budget (APBN/APBD).

The financial performance of The local governments

According to Halim (2007:231) analysis of financial performance is an attempt to identify the characteristics of finance based on the available reports. The use of ratio analysis in the public sector particularly has not been overdone on the budget. Nevertheless, in the context of transparent, honest, democratic, effective, efficient and accountable local financial management, the use of the ratio on the budget needs to be implemented despite there are differences in the rules of accounting for APBD with the rules of accounting for private sector. The analysis of financial ratio is done by comparing the results achieved from a period to another so that the trend can be seen.

Zimmerman (1977) says that agency theory occurs in all types of organizations. In the private sector, it happens between shareholders and management. Meanwhile in the public sector, it happens between politicians and voters (the people). Politicians are assumed as the ones who prioritize their own personal interests and group, so that wealth maximization is determined whether they are elected or not. According to Scott (2003), Hendriksen (2005) and Jensen and Meckling (1976), the relationship between people and government is an agency relationship which is a relationship that arise from a contract stipulated by people (principal) that use government (agent) to provide services.

UU No.32/2004 (1) says that that the local Autonomy is an authority to regulate and manage the interests of the local community according to its own initiative based on people aspirations in accordance with the applicable legislation. There are two aspects of local autonomy claimed to be better in financial performance compared to the previous era before the era of local autonomy. The first aspect is that regions have their with major strength in Local government Revenue (PAD). The Presence of UU No. 34/2000 on Income Taxes and retributions triggers the management of local revenue sources in full (fiscal decentralization).

According to UU No. 34/2000, local tax is a mandatory contribution made by the regions for individuals or groups without direct benefits, which can be enforced by the regulations used to finance the regional administration and regional development. Retribution is the contribution of the people to the government under the regulations (which can be enforced) to get feedback or accomplishments (kontraprestasi) from the government which is directly appointed. UU No.18/1997 on taxes and retributions, and UU No. 34/2000 on resources and proceeds of locally-owned firms and resources and proceeds of wealth management owned by the regions separated or BUMD’s profits that come from resources and proceeds of locally owned firms and wealth management separated. UU No. 19/2003 states that BUMN consists of PERSERO and PERUM.

PP No. 33/2004 on Fiscal Balance between the Central and the Local Government, other PADs: Proceeds from sale of unseparated property, giro services, interest income, exchange gain from rupiah against foreign currencies, commission, discount, or other forms as a result of the sale and the supply of goods and services by the regions. To reduce the asymmetry in information between politicians and the people, the local government financial statements need to be audited independently. According to UU No. 15/2004 about Audit and State Financial Responsibility, financial examination includes audit, performance inspection and examination of the performance of a particular purpose. Audit Board of the Republic of Indonesia (BPK-RI) is the agency responsible for the conduct and management of state
financial responsibility (Setyaningrum, 2012).

**Sampling**

The data used in this study are secondary data. The data in this study are quantitative data and derived from the local government financial statements with fiscal years of 2010 and 2011 which have been audited by the Badan Pemeriksa Keuangan (BPK). The Sampling method uses purposive sampling, which is a method based on certain requirements, the requirements are as follows:

1. Local Government Finance Statements (LKPD) which have been audited by BPK and published in the form of Audit Reports (LHP) in fiscal year 2011,
2. Regencies / cities that have a very high level of fiscal capacity based on PMK/277/PMK07/2011 and PMK/266/PMK07/2010 consecutively from 2010-2011.

Data processing technique used in this study is a quantitative analysis method by using statistical data processing software, which is EViews7 program.

Table 1. These are a few ratios used in research to measure the accountability of local

<table>
<thead>
<tr>
<th>No.</th>
<th>Ratios</th>
<th>Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Autonomy</td>
<td>PAD/ External Revenue Sources</td>
</tr>
<tr>
<td>2</td>
<td>Effectiveness of PAD</td>
<td>Realisasi PAD/anggaran PAD</td>
</tr>
<tr>
<td>3</td>
<td>Efficiency</td>
<td>Total Spending Realization of Local Government / Total Revenue of Local Government</td>
</tr>
<tr>
<td>4</td>
<td>Fiscal Desentralization</td>
<td>PAD/ Total Revenue of Local Government</td>
</tr>
</tbody>
</table>

Figure 1. Research framework

Results and Discussion

Table 2. hypothesis testing and regression analysis with a probability value of $P < 0.05$ indicate that there is significant influence between the dependent and independent variables. The coefficient of determination in the table above, shows that the Adjusted $R^2$ is 0.088049 or 8.8049%. This value is very low. This shows that the Local Tax (LN_PJKD), Retribution (LN_RTDR), resources and proceeds of wealth management owned by the regions (LN_KAYA), other legal local revenues (LN_PADL), audit opinion (OP_AUD) can only explain the performance of the local government of regencies/cities that has a very high fiscal capacity (KIN_KEU) with the number of 8.8049%. The rest is 0.91951 or 91.951% can be explained by other variables that are not used in this research model.

(LN_PJKD) has a probability value of 0.0493 which is below the significance level of 5%, it means Ho is not accepted then the variable has a significant effect on the financial performance of local government. (LN_RTDR) has a probability value of 0.3342 which is above 5% significance level, meaning that the variable LN_RTDR accepts Ho then this variable does not have a significant effect on the financial performance of local governments that have a very high fiscal capacity in 2010-2011. (LN_KAYA) has a probability of 0.5179 which is greater than the significance level of 5%, meaning that HO is accepted, this result indicates that the wealth management (LN_KAYA) partially has no significant effect on the financial performance of the local governments of regencies / cities with a very high fiscal
capacity in 2010-2011. (LN_PADL) has a probability of 0.1654 which is above the significance level of 5%, meaning that the variable LN_PADL accepts Ho then this variable does not have a significant effect on the financial performance of local governments. (OP_AUD) has a probability value of 0.0346, it means (OP_AUD) partially has a significant effect on the financial performance of local governments.

The Probability value of Jarque-Berra test is 0.149321 which is greater than 0.05 thus Ho is accepted. It means that the data are normally distributed. Chow test probability of cross section F is 0.2896 (greater than 0.05) that means Ho is accepted, so that this research uses the Common Effect Model and does not proceed to the next test. The correlation between the independent variables is less than 0.85. From the multicollinearity test in the table, none of the independent variables have a correlation coefficient above 0.85, then the data are free from multicollinearity problems. Based on White Test in table 4.5, it can be concluded that there is no heteroscedasticity in regression. It can be seen that the probability of Chi-Square value of Obs * R-square is 0.6671 which is greater than the 5% significance (0.6671 > 0.05), thus Ho is accepted and the data have no heteroscedasticity problems. Based LM test on the above table, it can be concluded that there is no autocorrelation in the regression model. It can be seen that the probability of Obs * R-Square is 0.8820 which is greater than the 5% (0.8820 > 0.05), thus Ho is accepted and the data are free from autocorrelation problems.

KIN_KEU = -24.60356 - 1.117516LN_PJKD + 1.711593LN_RTDR - 0.203787LN_KAYA + 0.085158LN_PADL + 24.38988OP_AUD

<table>
<thead>
<tr>
<th>Variable</th>
<th>Prediction</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Probability</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td></td>
<td>-24.60356</td>
<td>-0.644650</td>
<td>0.5220</td>
<td></td>
</tr>
<tr>
<td>LN_PJKD</td>
<td>_</td>
<td>-1.117516</td>
<td>-2.012834</td>
<td>0.0493**</td>
<td>Not rejected</td>
</tr>
<tr>
<td>LN_RTDR</td>
<td>+</td>
<td>1.711593</td>
<td>0.974794</td>
<td>0.3342</td>
<td>Rejected</td>
</tr>
<tr>
<td>LN_KAYA</td>
<td>_</td>
<td>-0.203787</td>
<td>-0.651029</td>
<td>0.5179</td>
<td>Rejected</td>
</tr>
<tr>
<td>LN_PADL</td>
<td>+</td>
<td>0.085158</td>
<td>1.406987</td>
<td>0.1654</td>
<td>Rejected</td>
</tr>
<tr>
<td>OP_AUD</td>
<td>+</td>
<td>24.38988</td>
<td>2.170195</td>
<td>0.0346**</td>
<td>Not rejected</td>
</tr>
</tbody>
</table>

Adjusted R-squared = 0.088049

F-statistic = 2.100673
Prob F Stat = 0.080032

LN_PJKD : Local tax
LN_RTDR : Local retribution
LN_KAYA : BUMD profits
LN_PADL : Other legal revenue
OP_AUD : Audit opinion, Dummy variable

**Signifikat at $\alpha=5\%$

Conclusions

This study was conducted to prove that the components of local government revenues (PAD) and audit opinion have an effect on the financial performance of local governments through local government financial statements audited by BPK-RI. Results of this study prove that local government revenue (PAD) and audit opinion partially have a significant effect on the financial performance, while the local government retributions, resources and proceeds of wealth management owned by the regions (BUMD), other income legal local revenues have
no significant effect on the financial performance of local governments.

Results of this study have implications for local governments that:

1. Government that can realize the local government revenues should be able to improve the performance of local government finance, but in this study showed that:
   a. In partial test, local taxes have a significant impact on the financial performance of the government, considering that tax revenues are highly potential for local government income. The local governments that are able to collect local taxes have an impact on the financial performance, because the lower the ability of an area to collect the local taxes, the higher the dependency on the central government. In this study the results have a negative coefficient which means that the regions that can collect higher taxes will not always have a better financial performance.
   b. In this study retribution variable does not have a significant effect on the financial performance of local governments. This indicates that the implementation of retribution is still facing a lot of problems which makes the implementation of retribution is not coordinated well so that the collection of retribution is not in line with the targets set. Local governments should be able to manage the retribution so that the real benefits of retribution can be provided.
   c. Wealth variable in this study does not have a significant effect on the financial performance of local governments and the results of the study show a negative relationship in the area of wealth management variables, this is due to the lack of government creations to maximize the management local resources in order to generate both business entities and resources that exist in the regions. Local governments should continue to improve the quality of governance with the aim of improving welfare.
   d. In this research, other revenues variable has no significant impact on the financial performance of local government. This indicates that the income made from this variable is still low. Because it is caused by the lack of competency in human resources recruited by the local governments for managing and developing revenues through this income account. Other revenues are also a potential income that should be observed cautiously by the government according to the regulations.

2. In this research, audit opinion variable has a significant effect on the financial performance of the local governments. This indicates that the audit opinion should also be observed cautiously by the local governments because the opinion given by the BPK-RI is a reflection of the quality of financial reporting and the performance of the local governments. With the given opinion, the Local governments should be able to manage finances transparently, effectively and efficiently.

References
Darwanto & Yustikasari Y (2007) Influence of Economic Growth, Natural Revenue District, and General Allocation Funds Capital Expenses Against allow budget: *Simposium Nasional Akuntansi X*


Panggabean H.E.H (2009) Revenue can influence Against Shopping District District
Toba Samosir
_________________________Nomor 244/PML. 07/2011 Peta Kapasitas Fiskal Daerah. 27 Desember 2011.


Rinaldi U (2012), Financial Independence In Regional Autonomy, Jurnal EKSOS Volume 8, Nomor 2, Juni 2012, hal 105-113, ISSN 1693-9093


