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THE EFFECT OF GOVERNMENTAL ACCOUNTING REPORTS ON INCUMBENTS SUCCESS: A STUDY OF INDONESIA LOCAL ELECTION

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ABSTRACT

This research wants to predict the incumbents' success in an electoral situation using the governmental accounting disclosure. The disclosure is covering financial and non-financial performance. The research sample is 1566 local elections in Indonesia, between 2005 and 2018. The research result shows that internal control weakness and performance score are significant for the incumbents' success. Meanwhile, the audit opinion, non-compliance finding, and accountability score are insignificant. The result shows that less of internal control weakness and greater performance can predict the incumbents' success. However, this research has limitations that assuming the voters are rational.

INTRODUCTION

Economic voting studies around the world have shown that macroeconomics is the main factor to success in the election process (Gélineau 2007; Hellwig & Samuels 2007; Johnson & Ryu 2007; Boyne et al. 2009; Elinder 2010; Costas-pérez et al. 2012; Lippényi et al. 2013; Martinsson 2013; Masyitoh et al. 2015). The success and failures of the candidates, especially incumbents, will be determined by several factors such as competitiveness, corruption scandals, unemployment program, accountability, and economic growth. The issues on accountability and incumbents success rise in the recent years as shown on public sector accounting textbooks and reports (Jones & Pendlebury 2010; Freeman et al. 2012; Gauthier 2012; Bogui 2014; IPSASB 2014; Budding et al. 2015; CCC 2015). Previous textbooks and reports mentioned that accounting tools are

beneficial in predicting the success of a leader in an election. The use of accounting as disclosure tools in Government are important for showing leaders' stewardship and motives (Giroux 1989; Gauthier 2012; Ribeiro et al. 2013). The stewardship is referring to financial planning of Government budget. It can express the leaders' motives, which is for-profit or for service. For that reason, this research aims to investigate the use of Governmental Accounting Disclosure in the electoral situation. In this research, Governmental Accounting Disclosure refers to the use of financial and non-financial tools to predict the candidates' success in Local Election. Moreover, this topic is worth investigating because there is a lack of studies that focus on financial and non-financial tools, especially in Indonesia.

Indonesia reforms its political and economic aspect, under the Suharto era, the second President, in 1998. Since then, the Central Government decides to spread its political power into Local Government (LG), called decentralization (Act 32 2004). Every LG has its autonomous political and economic power, including voting their local leaders. The electoral process is monitored by the General Election Commission. However, the administration process is managed by the Local Election Commission (Act 3 1999). The first Local Election started in 2005. Until now, the Local Election Commission holds electoral process for LG. Indonesia Local Election is held every four years. When voters make a decision, most Indonesian voters consider several factors such as candidates achievements, corruption scandals, and financial planning (Asraf et al., 2020; Abbas et al., 2020; Arshad et al., 2020; Martani&Lestiani 2012; Basri&Nabiha 2014; Mangkunegara 2015; Masyitoh et al. 2015; Noviyanti&Kiswanto 2016; Ramakrishnan et al., 2020; Shabbir et al., 2020). Lack of studies that discuss the role of Governmental Accounting Disclosure in voting leaders indicates that Governmental Accounting Disclosure has not been promoted and appreciated widely as a potential factor in making a voting decision. Being audited and validated by the Audit Board of Republic Indonesia, the benefits of Governmental Accounting Disclosure is verifiable and accountable. Proven to be an important factor in choosing local leaders in Latin America, Europe, Asia-Oceania, and Africa continents (James & John 2006; G lineau 2007; Hellwig& Samuels 2007; Johnson &Ryu 2007; Ferraz&Finan 2008; Hasnain 2008; Boyne et al. 2009; Elinder 2010; Fraile& Lewis-beck 2010; Costas-p rez et al. 2012; Lipp nyi et al. 2013; Shabbir et al., 2020; Yuliati et al. 2015), Governmental Accounting Disclosure certainly should not be overlooked by Indonesian voters. Therefore, in the present study, I want to promote the role of Governmental Accounting Disclosure in Indonesia Local Election.

This research wants to promote the use of Governmental Accounting Disclosure in Indonesia Local Election, especially for incumbents' candidates. According to Public-choice theory, public leaders will manage their public image and public accountability to be reelected (Zimmerman 1977; Giroux 1989; Cheng 1992; Pete 2007; Elinder 2010; Martani&Lestiani2012; Yuliati et al. 2015). In line with those

researches, textbooks and reports mentioned issues such as the roles of accountability and performances on incumbents success (Jones &Pendlebury 2010; Freeman et al. 2012; Gauthier 2012; Bogui 2014; IPSASB 2014; Budding et al. 2015; CCC 2015). To show factors that influence incumbents' success, Governmental Accounting Disclosure can be one of the alternatives which unfortunately have not been explored greatly. In the present study, Governmental Accounting Disclosure refers to financial and non-financial tools to predict the success in Local Election. Financial performance shows financial integrity, disclosure, obedience to rules and regulations (Jones &Pendlebury 2010; Freeman et al. 2012; Budding et al. 2015). While non-financial performance shows the success of bureaucratic systems (Lapsley 1988; Mayston 1993; Curristine et al. 2007; Gailmard 2012; Gauthier 2012).

In Indonesia Local Election, candidates can consist of incumbents, political party, and independent (Act 3 1999; Act 32 2004). Previous researchers found that influential factors for incumbents to be reelected are showing their financial and non-financial performance to voters (Johnson &Ryu 2007; Ferraz&Finan 2008; Hasnain 2008; Boyne et al. 2009; Elinder 2010; Fraile& Lewis-beck 2010; Costas-pérez et al. 2012; Lippényi et al. 2013; Shabbir et al., 2020; Yuliati et al. 2015). Adequate information about incumbents' performance determines voters' trust and decision. Exposing Governmental Accounting Disclosure in previous leading period is important so as to help voters make a better decision. Therefore, my proposed research questions are: (1) Is there a relationship between financial performance and incumbents' success? and (2) Is there a relationship between non-financial performance and incumbents' success?

This research has empirical and practical contributions. Reviewing recent studies, I found that there is a lack of researches evaluating political behavior using accounting and accountability. This research will provide the empirical contribution to public choice theory, especially the use of accounting tools in the electoral situation (Jones &Pendlebury 2010; Freeman et al. 2012; Gauthier 2012; Bogui 2014; IPSASB 2014; Budding et al. 2015; CCC 2015). For practical contribution, to voters, the research result will promote the use of Governmental Accounting tools to evaluate political behavior. This research finding will be essential not only to predict the probability of incumbents, in the electoral situation but also to promote the Governmental Accounting Disclosure as an essential aspect for voters before they make a decision.

LITERATURE REVIEW

Public-choice theory and principal-agent theory

The economic approach to studying political behavior is called Public-choice theory (Giroux 1989; James & John 2006; Martani&Lestiani 2012; Yuliati et al. 2015). The theory respects any information affecting the distributions of public

goods from the Government, based on demand and supply approach. This research assumes that incumbents have the interest to be reelected. The rules and political regulations in Indonesia allow the current leaders to be reelected, with a maximum of two periods (Act 3 1999). Therefore, the incumbents will provide public goods demanded by society (voters) to promote their accountability. The framework of Public-choice theory places public-sector accounting as an accountability tool for incumbents' candidates.

Public accountability, a core of the principal-agent theory, requires a specification of who is responsible and accountable for whom (Nyamori 2009; Barrett et al. 2010; Kitschelt 2011; Gailmard 2012; Yuliati et al. 2015; Noviyanti&Kiswanto 2016). Elected leaders are an agent given mandate from his voters. This relationship is based on a rational assumption. Elected leaders will maximize their individual capacities. The desire to obtain and continue the political power is the common motivation hold by most elected leaders. On the other side, voters are motivated by economic self-interest (Zimmerman 1977; Martinsson 2013; Yuliati et al. 2015). There are dependencies in a relationship between voters and the agent's action. It makes voters have an incentive to monitor the agent's decision. The application of principal-agent theory is the way to control elected leaders through the electoral situation in Local Election.

The association between financial performance and incumbents' success

The audit opinion is a tool to reflect the quality of financial management. The Central Government takes into account to assess the performance of LG (Ferraz&Finan 2008; Jesus &Eirado 2012; Masyitoh et al. 2015; Yuliati et al. 2015). When LG gets Unqualified Audit Opinion, the highest level of the audit opinion, the incumbent leaders receive the positive image in managing their financial performance in their leading period. Thus, Unqualified Audit Opinion is a key factor to build strong voters' trust. Considering the different time frame of the electoral process in different regions in Indonesia, the present study will use the Audit Report published one year before the election year in each region. Reports published one year before election year can be easily accessed by voters. In this study, the first hypothesis is Audit Opinions published one year before the Local Election is positively associated with Incumbents' success.

The poor of compliance, fraud, and corruption are the major cause of internal control weakness in LG. Many kinds of research prove that audit findings in internal control weakness are positively associated with poor performance and the higher level of corruption in LG (Lapsley 1988; Ferraz&Finan 2008; Kristanto 2009; Costas-pérez et al. 2012; Gani&Kristanto 2013; Shabbir et al., 2020). Incumbent's vote loss is the implications when fraud and corruption issue arise on media. Similar to the first hypothesis, accessibility for voters is the reason why the present study uses audit findings of internal control weakness published a year before the election date. In this study, the second hypothesis is Audit findings of

Internal Control Weakness published one year before the Local Election is negatively associated with Incumbents' success.

The audit findings of non-compliance to regulations are negatively associated with LG performance. A large number of audit findings of non-compliance to regulations show the poor performance of LG finance (Lapsley 1988; Lawson & Rakner 2005; Shabbir et al., 2020; Yuliati et al. 2015). The poor performance will lower public trust and voters' decision. Globally, the corruption scandal is the most common finding in non-compliance aspect. Corruption scandal represents the poor administration. Based on previous researches findings (Ferraz & Finan 2008; Costas-pérez et al. 2012; Basri & Nabiha 2014), the audit outcomes have a significant effect on the incumbent's electoral performance. When voters question the accountability of incumbents, it may reduce the possibility of the incumbent's success. Similar to previous hypotheses, accessibility for voters is the reason why the present study uses audit findings of non-compliance to the regulation published a year before the election date. In this study, the third hypothesis is Audit findings of Non-compliance to Regulation published one year before the Local Election is negatively associated with Incumbents' success.

The association between non-financial performance and incumbents' success

The performance of LG is significant for incumbents' electoral support. Some researches prove that LG performance gives a high probability of incumbents to success in the second election process (James & John 2006; Johnson & Ryu 2007; Hasnain 2008; Boyne et al. 2009). Previous researchers have shown that voters' behavior is influenced by a positive performance. This research uses performance score one year before Local Election to maintain the comparability data between each hypothesis. Voters can access that information directly from LG performance score, released by the Ministry of Home Affairs. Therefore, the fourth hypothesis is Performance Score of LG published one year before the Local Election is positively associated with Incumbents' Success.

Good accountability of LG will result in increased voters' trust. The high evaluation score of accountability means that LG has good management (Gélineau 2007; Hellwig & Samuels 2007; Barrett et al. 2010; Fraile & Lewis-beck 2010; Shabbir et al., 2020). LG needs to achieve the minimum standard of public service, so the public trust will remain. The incumbents' candidates need to achieve a higher standard to get support from voters. Because it will help them gain success in the next election. Similar to the fourth hypothesis, this study uses accountability score one year before Local Election. Voters can access that information directly from LG Accountability Report, released by the Ministry of Administrative and Bureaucratic Reform. Therefore, the fifth hypothesis is Accountability Score of LG one year before Local Election is positively associated with incumbents' success.

RESEARCH METHODOLOGY

Data for this research are gathered from all Provinces, Districts, and Cities in Indonesia which hold Local Election from 2005 to the writing process of the dissertation. The Local Election data started from 2005, the starting years for LG to open their Local Election (Act 3 1999; Act 32 2004). There are four kinds of data used in this research. The first data is Local Election data released from the Local Election Commission. Based on my preliminary study, there are 1566 Local Election held between 2005 and 2018. They consist of 97 Local Election in Provinces, 1191 local election in Districts, and 278 local elections in Cities. The second data is the LG Audit Report released from The Audit Board of Republic Indonesia. The third data is Performance Score gathers from the Ministry of Home Affairs. And the last data is Accountability Score gathered from Ministry of Administrative and Bureaucratic Reform.

In this study, I use two kinds of variable, the dependent variable and independent variable. This study use incumbents' success as the dependent variable. Incumbents' success means leaders who win in the second Local Election. This variable is expressed by dummy scores: 1 for incumbents' success and 0 for incumbents fail. The incumbents refer to the position of Governor, Mayor, and Regent. The independent variables in this research are (1) Audit Opinion, (2) Audit findings of Internal Control Weakness, (3) Audit findings of Non-compliance to Regulations, (4) Performance Score, and (5) Accountability Score. All of the independent variables use data one year before the election year. The first independent variable used is the audit opinion. This variable is expressed in the nominal scale from Disclaimer (score 1), Adverse (score 2), Qualified opinion (score 3), and Unqualified opinion (score 4). The second and third variables used are Audit findings of Internal Control Weakness and Audit finding of Non-compliance Regulations. These variables are expressed in ratio scale by the number of audit findings, stated in LG Audit report. The fourth variables use Performance Score released by the Ministry of Home Affairs. The Performance Score is expressed in a ratio scale from 0 to 4. The last variable uses Accountability Score released by the Ministry of Administrative and Bureaucratic Reform. The Accountability score is expressed in a ratio scale from 0 to 100. To answer the research questions, research data will be analyzed using Probit Regression.

FINDINGS

The first result is this part is the descriptive statistics. According to the total of local elections, 1566 elections between 2005 and 2018, we found that 950 times (60.66%) of incumbents' success in re-election. On the other fact, there are 616 times (39.34%) of incumbents' fail in the re-election. The main factor that make the incumbent's win is their good performance during they lead the region (Jones & Pendlebury 2010; Freeman et al. 2012; Gauthier 2012; Bogui 2014). The descriptive statistics of Audit Opinion variable is shown in table 1 and the other variables are shown in table 2:

Table 1. Statistics descriptive of Audit Opinion

Audit opinion	Incumbent's success	Incumbents' fail	Total	%
Unqualified	55	55	110	7.02
Qualified	782	476	1258	80.33
Adverse	0	27	27	1.72
Disclaim	113	58	171	10.93
Total	950	616	1566	100

Table 2. Descriptive statistics for independent variables

Variables	N	Mean	Median	Max.	Min.	Std. Dev.
Internal Control Weakness	1566	9.37	9	21	2	4.37
Non-compliance regulations	1566	13.53	13	35	2	6.81
Performance Score	1566	2.44	2.45	3.21	1.24	0.36
Accountability Score	1566	37.05	37.32	57.11	14.13	11.42

The second result is the normality test. This test ensuring the residual of data are consistent with the value of Probability Jarque-Bera test over than 0.05. Table 3 shows that the residual data are normally distributed.

Table 3. The Normality tests

	N	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.
Residual	1156	0.36	0.24	3.35	0.86	0.64

The Probit regression result (Table 4) showed the association between financial performance and non-financial performance towards the incumbents' success. The Mc-Fadden R-Squared (0.39) indicates that this model is better for prediction. The good value for Mc-Fadden R-Squared is between 0.2 and 0.4. Table 4 shows that the Internal Control Weakness negatively associated with incumbents' success and the Performance Score positively associated with incumbents' success. The other variables (Audit Opinion, Non-compliance regulation, and Accountability score) are statistically insignificant.

Table 4. The result of Probit Regression

Variable	Coefficient	z-statistic	Prob.
Audit Opinion (Dummy)	-1.08	-1.32	0.18
Internal Control Weakness	-0.13	-1.95	0.05*
Non-compliance regulation	0.03	0.73	0.45
Performance Score	2.12	2.02	0.04*
Accountability Score	-0.02	-0.79	0.42

Mc-Fadden R-Squared	0.39
Prob (LR Statistic)	0.00
N	1566

* **Significance at 5%**

This research does not prove that Audit Opinion is one of indicator for incumbents' success. The voters think that financial accountability is lack of assessment. This is the sign for The Audit Board of Republic Indonesia to increase their audit quality and promote them to the public. The Internal Control Weakness is negatively associated with the incumbents' success. The greater weakness findings will lead the incumbents' fail. This finding is similar to the previous research (Lapsley 1988; Ferraz&Finan 2008; Kristanto 2009; Costas-pérez et al. 2012; Gani&Kristanto 2013). The non-compliance regulation findings are insignificant for incumbents' success. It means that voters do not use this information in the voting decision. This is the sign that publishing media are not intense in election condition. The Performance score is positively associated with incumbents' success. This finding is similar to previous research (James & John 2006; Johnson &Ryu 2007; Hasnain 2008; Boyne et al. 2009). The Performance assessment is one of consideration factor in the voting decision. In the opposite, the Accountability Score is insignificant. It means the voters are not interested with accountability report. In overall, this research finding has managerial implications for a local leader to win the election. The incumbents' need to improve their performance score and reducing their internal control weakness.

CONCLUSION

This research examines the financial performance and non-financial performance to predict the incumbents' success. The result shows that the less of internal control weakness and higher performance can increase the probability of incumbent to success in re-election. On the contrary, the audit opinion, non-compliance finding, and accountability have no association with the probability of incumbents' success. This research has limitations that assuming the voters are rational. In Indonesia reality, voters need more time to observe and manage the negative issue in electoral situation.

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