



Performance Assessment and Opportunities for Incumbent Regional Heads

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ABSTRACT: The purpose of this research was to prove the existence of the relationship between performance appraisal proxied by audit opinion and the Evaluation of the Performance of Regional Government Operations (EPRGO) on the chances of the re-election of incumbents. This research used a quantitative approach with a purposive sampling method; the data used were summary reports on the results of the BPK audit and ERGI results from the Ministry of Internal Affairs two years before elections in 2017 and 2018 that meet the requirements. The results of the research showed that the performance appraisal with the audit opinion proxy and EPRGO, both were significantly influence the re-election of incumbents.

KEYWORDS: audit opinion, performance assessment, incumbent, regional government.

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I. INTRODUCTION

The accountability statement contains information on the implementation of regional government activities mandated by the Regional Budget (Indonesian abbreviated as APBD) for one fiscal year. Work programs in the APBD must be approved by Regional People's Representative Assembly (Indonesian abbreviated as DPRD). That will serve as a guideline for government work and only activities that is in the APBD, it can be implemented, so that there are violations of the rules. According to Mahmudi (2010), LKPJ is information on financial performance and program performance information.

Financial performance information is generated from the accounting process. Accounting has the role of conveying information to users who need it and, it generally aims to communicate knowledge about events that have occurred in the past (Ross, 2016: 3), which are outlined in financial statements. The reports of financial are generated from accounting, generally having predictive and prospective roles. We obtain information that can be used to predict the number of resource requirements needed in sustainable operations, resources resulting from ongoing operations, as well as the risks and uncertainties related to the implementation of these activities from the financial statements (PP 71 of 2010: 24).

Accurate, transparent and accountable financial statements the government sets rules to standardize government financial reports by issuing Government Regulation Number 24 of 2005 concerning Government Accounting Standards. This regulation is the basis for making updated reports with PP No. 71 of 2010 requires that each regional government entity presents financial statements. Furthermore, PP No. 108 of 2000 concerning to the accountability procedures of regional heads, requiring regional governments to present accountability reports for the implementation of regional government as a form of regional government accountability in the Statement of Accountability and PP No.6 of 2008 concerning Guidelines for Evaluation of Regional Government Implementation. The Assessment of the performance of government administration and reported in the Regional Government Implementation Report. The Ministry of Home Affairs has carried out performance appraisals related to the administration of the government and presents ranking based on the performance results of each province, city, and district. The value score illustrates how well the government performs in administering the government. Accounting information has developed in the realm of the election of leaders (governors/mayors/regents) in government (Darmawati, et.al, 2019).

The purpose of research was to determine the effect of government performance on the re-election of incumbents. Performance appraisal is proxied in two research variables, namely the opinion of the local government financial statements generated from the results of the financial report audit and proxied from the

Evaluation of the Performance of Regional Government Operations (EPRGO). The results of research are expected to provide information to the public, academics and government officials regarding factors that can affect the return of defense. This research model was developed from several previous researchers such as Jensen & Meckling (1976) and Zimmerman (1977), Ingram and Copeland (1981), Virgasari (2009), Jesus and Eirado (2012) Mustikarini & Fitriasari (2012), Sudarsana & Rahardjo (2013).

II. THEORETICAL CONCEPT

This research uses the main agency theory, performance accountability evaluation information, audit assessment of local government financial statements, and evaluates the performance of local government performance.

Principal- Agent Theory

In the public sector, agency relations are contracts between the government selected as, agents and the people as principals. Principals give authority to agents who carry out the government for the public interest. The chosen leader is an agent who given the mandate from his voters. Principals are people who submit mandates to other parties. The party is an agent who carries out all activities that they are carried out by the principal in his authority as a decision. Agency relationships show there are different interests between agents and principals who need agency costs. Transfer costs are produced by the principal and connection costs (Jensen & Meckling, 1976) because principals and agents maximize their utility. Both of them are the roles that are rational, selfish, and act for selfishness, Jensen & Meckling (1976) and Zimmerman (1977) believe that agents are not always in accordance with the principal.

The chosen leader is motivated to gain and maintain strength. That is the reason that they need to share voices. Voters are motivated by economic benefits. The basic assumption of this relationship Based on agency theory, voters are the voters of authority (voters) and agents who receive delegated power to represent the main interests when the head of the region is elected. Officially the agent wants to maximize their interests (Jensen and Meckling, 1976; Zimmerman, 1977).

Performance Accountability Evaluation Information

Performance can be interpreted as prest work. Performance in an organization that is successful or not achieved by a determined organization. The work plan or success is a description of the completion of the implementation of a program in achieving the goals, objectives, and vision of the mission contained in the Strategic Plan (Indonesian abbreviated as Renstra) of the organization (Mahsun, 2012).

Mardiasmo (2009) explains that public accountability is a matter that must be done by the trustee (agent) in terms of accountability, presentation, report, and disclosure of activities that are the responsibility of the trustee. Trustees or principals have the right and authority to hold these responsibilities (Darmawati, 2018). Accountability approved Ross (2016) discusses information as part of changing knowledge about users about variables of interest that will be assumed in the future.

Accountability is divided into several types, (Ulum in Putri, 2015) categorizes accountability into two, namely: 1) Internal accountability applies to every environment in an internal organization involving the government 2) External accountability, responsible externally, mandates that have been approved and carried out to be communicated to beyond users and surrounding.

Audit Opinions on Local Government Financial Reports

The final results of Audit Board of Republic of Indonesia (Indonesian abbreviated as BPK) examines the financial statements of the regional government contain opinions. BPK Opinion provides evidence of whether the regional government has managed regional financial resources properly or not. If the advanced local government chooses the next regional head as a potential incumbent, the results of this opinion will be used by voters in determining their choice. Voters can decide whether they punish incumbents if their opinions are bad and give gifts if their opinions are good.

The opinion is a professional argument that carried out as an auditor about the level of fairness of information relating to the financial statements of regional governments. Furthermore, the results of regional government audits are also used by the central government in Indonesia for local government assessments (Mustikarini & Fitriasari, 2012; Sudarsana & Rahardjo, 2013; Yulianti, 2017). In contrast to the results of research conducted by Jesus and Eirado (2012) and Marfiana (2013) who provide audit opinions that are not relevant to explain performance. Research of Jesus and Eirado (2012) in finding useful accounting information and audit findings in terms of the audit opinion. An audit shows that assessment qualifications are irrelevant to explain performance.

The existence of qualifications is almost all audit opinions and gaps decrease the ability to assess the management performance of Federal Universities in Brazil. Conversely, Virgasari (2009) Jesus and Eirado

(2012) prove positive relationship between audit opinion and financial performance of local government. It means that it is better the audit opinion obtained by the local government, it can show good financial performance allowing incumbents to be re-elected but high audit findings and weak internal control systems reduce the possibility of incumbents to be re-elected.

Evaluation of Performance of Local Government Operations (EPRGO)

Law No. 32 of 2004 concerning to Regional Governments has given authority to regional governments to carry out government affairs based on the principle of autonomy and requires regional governments to make performance accountability through the Local Government Implementation Report. Responsibility for performance was challenged with the issuance of Government Regulation No. 6 of 2008 concerning to Guidelines for Evaluating the Implementation of Regional Government and Minister of Home Affairs Regulation No. 73 of 2009 concerning to the Procedure for Evaluating the Implementation of Regional Government, it is stated that one of the performance evaluations carried out by the government towards the Regional Government is in the form of Evaluation of Regional Government Implementation Performance that uses the Local Government Reports (LPPD) as the main information source (Darmawati, 2019). The regional head must account for the performance of government transfers to the people through the DPRD.

Article 2 Government Regulation No. 3 of 2007 states that the scope of the LPPD includes the implementation of decentralization affairs (mandatory and optional affairs), co-administration tasks and general tasks of government. Therefore, the LPPD of the district/city government depends on each of the responsibilities and characteristics of the local government. Article 2 Minister of Home Affairs Regulation No. 73 of 2009, mentioning the EPRGO must be carried out based on the principles: Specific; Objective; continuous; measurable; comparable; and they can be justified. Hence, the accountability report of the regional government must be evaluated to determine the level of success of the regional government. The assessment shows that the results listed in the evaluation report on the performance rating of the implementation of the regional government based on the National Level LPPD with a value range of 0-4. Evaluation is carried out based on portfolio evaluation desk evaluation. The assessment is based on the data contained in the LPPD and field evaluations on the quality of work achieved by each government agency. The evaluation or performance evaluation of the Regional Government was carried out for the first time in Indonesia in 2007 budget LPPD. The report was published in Jakarta on August 14, 2009, by the Ministry of Home Affairs.

The strong relationship between accounting information and election results means that accounting information systems are willing to capture the actions of politicians, which are included by constituents in the decision to choose (Ingram and Copeland, 1981). In addition, Feroz and Wilson (1994) add that 'the greater the amount of information produced, the higher the probability that voters will confiscate this information the decision to vote. There is a connection between the electoral results and the accounting numbers available to voters before the election for them. So, if financial statements are publicly available and accounting numbers play an important role in monitoring political actions, voters tend to link information to their vote decisions (Fernades, 2012). While Yulianti's (2017) research shows that higher performance scores increase the likelihood of re-election and audit findings that are higher than the weaknesses of the internal control system reducing the possibility of re-election. Conversely, poor audit opinions with audit findings are non-compliance with regulations and legislation, evaluation of performance accountability has no relationship with the probability of re-election.

Based on the explanation above, the hypothesis in this research is:

H1: Audit opinion has a significant effect on the re-election of incumbents.

H2: Evaluation of the Performance of Regional Government Operations has a significant effect on the re-election of incumbents.

III. RESEARCH METHOD

This research used a quantitative approach. This research was a descriptive correlation research that explained the effect of independent and dependent variables. The purpose of this research was to test hypotheses (hypothesis testing) that explain the nature of certain relationships or determine differences between two factors (groups) independent or more in a situation (Sekaran, 2016). The analysis technique used multiple regression analysis stated in a mathematical relationship that is about the influence of audit opinion and EKPPD on the re-election of defense. The unit of analysis in this research was public sector organizations, namely Regency or City Governments in Indonesia. The research data used the financial statements of municipal or regional governments that had conducted elections in 2018. Regional financial reports were collected from 2016 to 2017. The mathematical equations of this research are as follows:

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + e$$

Explanation:

- Y1 : Re-election
- α0 : Constant
- α1-α2 : Regression direction coefficient
- X1 : Audit Opinion
- X2 : EPRGO
- e : error

IV. RESULTS AND DISCUSSIONS

There were several steps of analysis that had been carried out in this research, namely: testing the classical assumptions on research data to avoid data bias. The results of testing classic assumptions with 4 tests (the test results were in the appendix). The first, the results of testing for normality indicated that the data was normally distributed using a One-Sample Kolmogorov-Smirnov Test where the asymp. value was sig. worth $0.200 > 0.05$. The second, the results of multicollinearity testing showed a VIF value of $1,212 < 10$ for both variables, so it could be concluded that multicollinearity did not occur. The third, the results of heteroscedasticity tests displayed from scatterplot images showed that the points in the image were scattered below and above zero values and did not show special patterns, so it can be concluded that this research fulfilled the assumption of heteroscedasticity. The fourth, the results of the autocorrelation test used a run test, obtained asymp. Sig (2-tailed). This research amounted to 0.362 which showed that in this research there was no problem with autocorrelation due to the value of $0.362 > 0.05$.

The results of hypothesis testing in this research can be seen clearly in the table below:

Table: 1. Hypothesis Testing Results

		Unstandardized Coefficients	Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
1 (Constant)	7.583	2.454		3.090	.002
X1	2.368	1.130	.157	2.095	.037
X2	-5.632	1.389	-.303	-4.054	.000

The table above clearly shows that the constant value for the incumbent re-elected variable (Y) is 7,538, for Audit Opinion (X1) 2,368 and EPRGO (X2) worth -5,632, so the equation of the results of this research is:.

$$Y = 7,538 + 2,368X1 - 5,632X2$$

The results of the regression analysis for the relationship between Opinion (X2) and Re-election had a probability value of 0.037 (< 0.05). The value indicated that the relationship between audit opinion and re-election had significant effect. It means that the higher audit opinion was obtained by the regional government on the results of the examination of government financial reports, the higher the possibility of the re-election of defense. Meanwhile, the results of the regression analysis for the relationship between EPRGO (X2) and re-election had a probability value of 0,000 (< 0.05). This value indicated that the relationship between EPRGO and re-election had a significant effect. In addition, the EPRGO variable coefficient value of -5,632 indicated that the direction of the relationship between EPRGO and re-election was negative. The coefficient value which was negative, it indicated an opposite direction. It means that the higher the EPRGO the lower level of re-election.

The performance assessment was proxied by an audit opinion and EKPPD significantly influenced the re-election of incumbents. It can be stated that government financial reports that had been audited and received by good research, in this case, the highest research, namely Fair Without Exception. Increasing the community as voters to assess the performance of public officials and it can be used to communicate the economic effects inherent in decisions made by politicians (Ingram & Copeland, 1981). According to Zimmerman (1977), citizens/voters must be seen as the main users of accounting information. So voters should use accounting information before making a choice. The same results Brusca and Montesinos (2006) state that citizens are very relevant to government financial reports.

The results of this research supported several previous studies, namely, the regional government audit opinion was used as a consideration by the central government in Indonesia to assess local government performance (Mustikarini & Fitriyani, 2012; Sudarsana & Rahardjo, 2013) and Yulianti (2017). In contrast to the results of research conducted by Jesus and Eirado (2012) and Marfiana (2013) which provide evidence of audit opinions that are irrelevant to explain performance. Research Jesus and Eirado (2012) in evaluating useful

accounting information and audit findings in terms of the audit opinion. They showed the qualification of an audit opinion that was irrelevant to explain performance. The existence of general qualifications in audit opinions and gaps reduced the ability to assess the management performance of Federal Universities in Brazil. In contrast, Virgasari (2009) proved a positive relationship between audit opinion and the financial performance of local government. It means that better the audit opinion obtained by the local government showed good financial performance.

V. CONCLUSIONS

The government performance assessment is proxied by an audit opinion and EPRGO has a significant effect on the re-election of incumbents. Government officials who are carrying out for re-election in the election get a good opinion from the results of the Audit opinion of the Financial Audit Board that can increase public confidence in re-choosing incumbents. The implementation of the results of this research provides an overview of incumbents when nominating them; they need to consider the results of their performance in their previous government. The next researcher can develop this research by considering other variables that can influence the re-election of incumbents and the scope of expanded research area.

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APPENDIX

1. Normality

One-Sample Kolmogorov-Smirnov Test

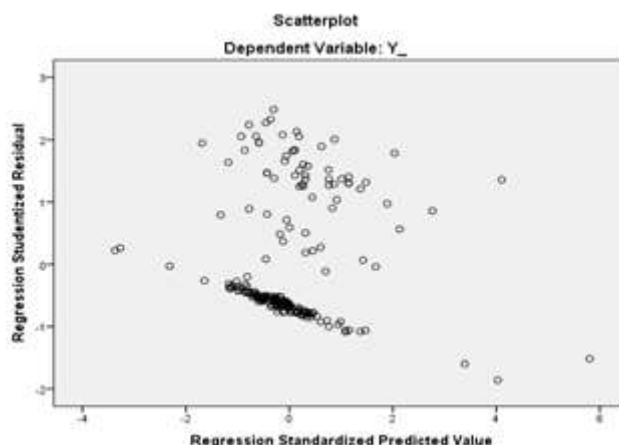
		Unstandardized Residual
N		203
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.30965976
Most Extreme Differences	Absolute	.065
	Positive	.047
	Negative	-.065
Test Statistic		.065
Asymp. Sig. (2-tailed)		.200 ^{c,d}

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

2. Multicollinearity

Variable	VIF	Info.
Audit Opinion (X1)	1.212	Non Multicollinearity
EPRGO (X2)	1.212	Non Multicollinearity

3. Heteroscedasticity



4. Autocorrelation

Runs Test

		Unstandardized Residual
Test Value ^a		.04204
Cases < Test Value		100
Cases >= Test Value		103
Total Cases		203
Number of Runs		96
Z		-.912
Asymp. Sig. (2-tailed)		.362

a. Median

Hypothesis Test Results

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	X2, X1 ^b	.	Enter

a. Dependent Variable: Y₋

b. All requested variables entered.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.277 ^a	.077	.068	2.79392

a. Predictors: (Constant), X2, X1

b. Dependent Variable: Y₋

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	129.769	2	64.885	8.312	.000 ^b
	Residual	1561.194	200	7.806		
	Total	1690.963	202			

a. Dependent Variable: Y₋

b. Predictors: (Constant), X2, X1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	7.583	2.454		3.090	.002
	X1	2.368	1.130	.157	2.095	.037
	X2	-5.632	1.389	-.303	-4.054	.000

a. Dependent Variable: Y₋

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