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PERFORMANCE OF LOCAL GOVERNMENT DETERMINANTS IN INDONESIA: THE MODERATING ROLE OF GOVERNMENT INTERNAL CONTROL SYSTEM

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Abstract

The purpose of this research is to examine the impact of the level of corruption, the level of independence, and audit findings on local government achievement, by considering the maturity of the government internal control system (SPIP) as a moderating variable. This research uses a quantitative approach with ordinal logistic regression analysis techniques. The total research sample consists of 33 Indonesian provinces in the period 2018-2022. The results showed that the level of independence had a positive impact and audit findings had a negative impact on the performance of sub-national governments, while the level of corruption had no effect on local government performance. In addition, SPIP maturity does not moderate the association between the explanatory variables and the explained variable. This study suggests that the central government needs to fulfill periodic SPIP maturity assessments by local governments and conduct evaluations of the SPIP maturity assessment. Local governments are also advised to strengthen the role of the inspectorate and be more optimal in reviewing sources of revenue.

Keywords: Local Government Performance; Level of Corruption; Level of Independence; Audit Findings; SPIP maturity.

Abstrak

Penelitian ini dimaksudkan untuk mengkaji pengaruh tingkat korupsi, tingkat independensi, dan temuan audit terhadap kinerja pemerintah daerah, dengan mempertimbangkan kematangan Sistem Pengendalian Intern Pemerintah (SPIP) sebagai variabel moderasi. Pendekatan dalam penelitian ini adalah metode kuantitatif dengan teknik analisis regresi logistik ordinal. Sampel penelitian berjumlah 33 provinsi di Indonesia selama periode 2018-2022. Hasil penelitian menunjukkan bahwa tingkat independensi memiliki dampak positif, sedangkan temuan audit memiliki dampak negatif terhadap kinerja pemerintah daerah. Sementara itu, tingkat korupsi tidak memberikan pengaruh signifikan terhadap kinerja pemerintah daerah. Selain itu, kematangan SPIP tidak memoderasi pengaruh antara variabel bebas dan variabel terikat. Studi ini menyarankan agar pemerintah pusat melaksanakan penilaian kematangan SPIP secara berkala oleh pemerintah daerah dan melakukan evaluasi terhadap penilaian kematangan SPIP tersebut. Pemerintah daerah juga disarankan untuk memperkuat peran inspektorat dan lebih optimal dalam meninjau sumber-sumber pendapatan.

Kata Kunci: Kinerja Pemerintah Daerah; Tingkat Korupsi; Tingkat Independensi; Temuan Audit; Kematangan SPIP.



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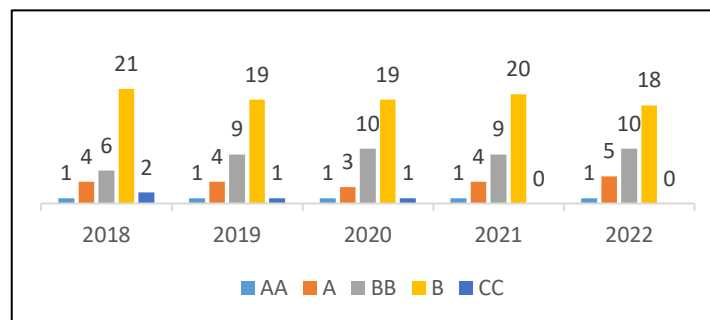
INTRODUCTION

The regional autonomy policy requires a local government to manage its performance. The regional autonomy policy causes the responsibility and authority of local governments to increase. This authority is realized through the management of regional resources as well as the fiscal balance between the local jurisdictions and the central government (Fathah, 2017). Increasing local government accountability and performance is a consequence of regional autonomy policies (Kusumasari & Kartika, 2022). The implementation of regional autonomy policies is anticipated to enhance efficiency and effectiveness so that development in the regions can boost the national economy (Dasmar *et al.*, 2020). In addition, regional autonomy is expected to accelerate development, promote public services quality, increase independence, and strengthen the decision-making process.

However, the existence of local government administration poses a risk of dissatisfaction from the community. Especially those related to the provision of public services. Based on Mardiasmo (2016) cited in Andani *et al.* (2019), the public will highlight the performance of lower level governments to assess the benefits obtained from local government administration. The execution of local government should be assessed to achieve optimal performance (Kusumasari & Kartika, 2022).

The preparation of performance reports following the implementation of the Government Agency Performance Accountability System (SAKIP) is a means of ensuring accountability in government administration in Indonesia. According to Presidential Regulation Number 29 of 2014 on the Government Agency Performance Accountability System, SAKIP is a structured set of activities designed to establish and assess performance, gather data, classify, summarize, and report performance within government agencies. The implementation of SAKIP is evaluated annually. Evaluation of government performance accountability will result in an evaluation rating (Ramadhania & Novianty, 2020). The level of government performance accountability assessment has a range from AA (very satisfactory) to D (very poor). This performance reporting obligation is carried out both in the central government and local governments.

Figure 1. AKIP Predicate of 34 Provincial Governments in Indonesia in 2018-



2022

Source: The Financial and Development Supervisory Agency (2023)

According to the Evaluation Results of SAKIP in 2022, there is a Provincial Government with the AA predicate, five Provincial Governments with the A predicate, and ten Provincial Governments with the BB predicate. The remaining 18 Provincial Governments still have a predicate of B and below. Based on Figure 1, the AKIP predicate in the Provincial Government in Indonesia is dominated by the B predicate, while the AA and A predicates are still obtained by a small number of local governments. This condition indicates that performance inequality still occurs in local governments in Indonesia.

Many studies have examined the determinants of sub-national government performance. Some of the determinants of government achievements include community participation (Hue & Sun, 2022) regional size (Christenson & Sachs, 1980; Noviyanti & Kiswanto, 2016) economic growth (Nurhayati & Hamzah, 2020); characteristics of the regional head (Tama & Adi, 2018); legislative size (Gustianra & Serly, 2019), leverage (Banunaek *et al.*, 2022), capital expenditure (Mulyani & Wibowo, 2017), intergovernmental revenue (Ilmiyyah *et al.*, 2017), local own revenue (PAD) (Sari & Mustanda, 2019), audit opinion (Siddi, 2016), audit findings (Nugraha, 2021), and the level of corruption (Nguyen *et al.*, 2017).

Corruption is an act that is considered detrimental. A high level of corruption can affect the effectiveness of planned program implementation (Rosikah & Listianingsih, 2022) and can reduce public trust in the government (Arwati & Latif, 2019). In addition, regional financial independence is also an important factor in long-term regional development (Nur'ainy *et al.*, 2013). Audit findings also provide an overview of the effectiveness, transparency, accountability, and efficiency of financial management at the regional level (Sir *et al.*, 2021). Hence, studying the impact of corruption levels, regional financial independence, and BPK audit findings on local government performance is highly relevant for enhancing governance.

Based on Modell (2005), the public sector has long been faced with accusations of waste and inefficiency. Thus, the performance of local governments still cannot meet public expectations. One of them is due to weak governance, which is indicated by the high level of corruption and the emergence of fiscal imbalances (fiscal gap) (Nurcahyo & Mahi, 2022), as well as a large number of audit findings (Furqan *et al.*, 2020).

The number of findings on the BPK examination shows the weakness of the internal control of the local government. Internal control is important in minimizing fraud and inefficiency in regional financial management (Suhartono, 2021). Government Regulation Number 60 of 2008 on the Government Internal Control System (SPIP) governs the implementation of internal control within government agencies. Based on the regulation, the implementation of SPIP is carried out to realize the efficiency, accountability, transparency, and effectiveness of state / regional financial management. The implementation of SPIP is generally conducted to ensure the effective achievement of local government objectives.

Effective SPIP can encourage better government performance (Kewo, 2017). However, based on the Overview of LKPD Audit Results Semester I Year 2022, there are still findings related to weaknesses in the internal control system. The results of BPK's examination of 541 LKPD in 2021 contained 5,366 internal control system problems. Weaknesses include internal control structures, control systems on revenue and expenditure budgets, and accounting and reporting. To deal with these

problems and findings, local governments need to improve the overall effectiveness of SPIP (Simangunsong, 2014).

The role of SPIP in reducing fraud can also have an impact on the level of corruption. Effective SPIP can mitigate risks that may occur, including the risk of fraud. In addition, effective SPIP can help local governments focus on the potential of their regions so that PAD can increase if managed properly. Therefore, the implementation of SPIP is very important in improving local government performance, not only in terms of financial management but also in fraud prevention.

To determine the effectiveness of SPIP, the thematurity level of SPIP implementation in each agency is measured (Rosaline *et al.*, 2021). The SPIP maturity level describes the extent to which SPIP has developed and is well implemented in government agencies (Sucitra & Supriatna, 2020). The higher the SPIP maturity level, the more capable the local government is of defining its performance well.

Several studies related to the effect of corruption level, level of independence, and BPK audit findings on local government performance show inconclusive results. There are still variations and differences in the results of these studies. For instance, Ahyaruddin & Azmi (2019) found there was no significant impact of corruption level on the performance of local governments while Brewer *et al.*, (2008) and Ahyaruddin & Amrillah (2018) showed that corruption matters in lowering the effectiveness of the governments. In the light of financial perspective, Permatasari & Trisnaningsih (2022) argue that independence level of local governments is favorable for performance. By contrast, Lestari *et al.* (2019) provide contradictory results. Meanwhile, the role of audit findings in affecting performance of local government shows various phenomena. Furqan *et al.*, (2020) and Qowi & Prabowo (2017) suggest that audit findings negatively influence achievements of lower level governments. However, Amalina & Sumardjo (2020) found a positive effect, while Wijayanti and Suryandari (2020) failed to provide significant impact of audit findings.

In addition, the role of SPIP maturity as a moderating variable in research that examines the effect of the level of independence, the level of risk, and BPK audit findings on local government performance have not been widely carried out. Previous studies have also not used the level of AKIP assessment/predicate as a proxy that describes performance of local governments. The level of AKIP assessment/predicate shows the performance management system as well as the performance achievements of the lower level governments so that the value shown is more comprehensive than the performance proxies that have been widely used by prior studies.

LITERATURE REVIEW

In the light of agency relationships, asymmetric information between the government and the society can lead to an agency conflict (Jensen & Meckling, 1976). Mahmudi (2007) cited in Ningsih (2016), stated that agency problems in government organizations arise when the interests of the government and the community are not aligned. In this situation, the risk of abuse of power or policies

that harm society becomes higher. This can have implications for corruption in government.

Corruption is a disease that people and governments in Indonesia and even throughout the world want to eradicate. The number of corruption crimes that occur in the government sector hurts a country or region. High levels of corruption can hinder effectiveness, efficiency, transparency, and accountability in public services delivery (Suhardjanto *et al.*, 2018). The government cannot perform optimally in utilizing the resources it manages. This can have an impact on hindering the growth and development of a country (Nguyen *et al.*, 2017).

From the perspective of stakeholder theory, acts of corruption committed by the government can affect its stakeholders Freeman (1984), including the community, business people, and other community actors. Communities and other stakeholders cannot experience optimal public services if government programs do not run effectively because the budget is corrupted. In addition, The presence of corruption can undermine public trust in local government (Arwati & Latif, 2019).

There have been many studies regarding the correlation between corruption levels and local government performance. Research by Fuadi & Maburur (2021); Heriningsih (2014); Heriningsih & Marita (2013) are some of these studies. The results of these studies found that district government financial outcome (Heriningsih & Marita, 2013), effectiveness of local government administration (Heriningsih, 2014), and performance accountability (Fuadi & Maburur, 2021) did not have substantial impact on the level of corruption. The direction of the association between the variable level of corruption and local government productivity is considered less precise when compared to research by Brewer *et al.*, (2008), which states that control over corruption has a significant positive effect on the effectiveness of the government in governance. In line with this, according to Ahyaruddin & Amrillah (2018), the higher the corruption cases in a region will actually deteriorate the effectiveness of local government.. Therefore, the first hypothesis is formulated as follows:

H₁: The level of corruption has a negative influence on local government performance.

The level of regional financial independence indicates the ability of local governments to collect revenue independently to finance their governance (Halim, 2007). Areas with limited financial autonomy are indicated by the high transfer funds they receive compared to the revenue generated independently. Revenue generated independently (PAD) by the local government is reflected in the PAD post. A high PAD will motivate local governments to optimize resource management in order to meet designated targets (Primadiva *et al.*, 2021). A high level of financial independence also shows that local governments have been able to reduce their dependence on the central government. The higher local financial independence indicates a decrease in the allocation of transfer funds as well as an increase in provincial government outcome.

From the perspective of stakeholder theory, the regional authority, as an entity, does not solely function to maximize its own benefits but rather operates to govern effectively in order to deliver services and promote the welfare of its stakeholders (Gibson, 2000). Local governments as agents of public servants are

expected to prioritize public welfare and ensure fair, equitable, and quality services. With high financial independence, PAD can be allocated to programs that are priorities and local needs. Thus, local governments can be more responsive in meeting the needs of their stakeholders, be it the community, business people, or other community actors.

The description above is following Permatasari & Trisnaningsih (2022) which suggests that local government performance from the financial side is positively influenced by regional financial independence. Therefore, the second hypothesis is proposed as follows:

H₂: The degree of regional financial independence has a positive influence on local government performance.

The implementation of NPM in public sector entities encourages the provision of effective, efficient, and accountable public services (O'Flynn, 2007). The provision of quality public services is impacted by the efficiency of funding (financial management) and the degree of accountability in service delivery (Furqan *et al.*, 2020). Therefore, supervision is needed to ensure that government actions and practices are following the principles of effectiveness, efficiency, and accountability.

According to Scott (2015), the agent's efforts to optimize the principal's interests are too complex for the principal to observe directly. Likewise, in government organizations, the limited information owned by the public causes the public to be less able to understand or directly monitor government actions. This can lead to moral hazard behavior, which is the action of agents who prioritize benefits for themselves over the interests of the principal (Pamungkas *et al.*, 2019). As a result, deviant behavior arises that can hinder the achievement of the principal's goals.

Supervision is one way to align the interests of agents and principals (Godfrey *et al.*, 2010). The difficulty of conducting direct supervision for the principal is overcome by using an independent third party to conduct supervision. In government organizations, supervision of government actions by an independent external party is carried out by an audit by BPK. The BPK audit is conducted to identify and reduce the risk of moral hazard within the government sector (Qowi & Prabowo, 2017). This examination produces outputs in the form of findings, conclusions, opinions and recommendations that can be accessed directly by the public to find out the actions of the government. Moral hazard behavior can be identified through non-compliance findings in the audit report (Pamungkas *et al.*, 2019).

BPK audit findings refer to the results of examinations conducted on local government financial statements (LKPD). Audit findings indicate weaknesses in the internal control system and/or non-compliance with laws and regulations in regional financial management. A lower number of audit findings reflects sound financial management, supported by an effective internal control system and adherence to legal regulations (Furqan *et al.*, 2020). Conversely, the increasing number of audit findings indicates poor regional financial management. This can affect the measurement of local government performance (Amalina & Sumardjo, 2020). Poor financial management means that local governments cannot manage their finances properly. As a result, waste increases and services provided to the

community decrease. Hence, a higher number of audit findings on LKPD correlates with lower local government performance. This explanation aligns with the research of Furqan *et al.* (2020) which suggests that BPK audit findings have a negative and significant effect on the performance of local government public services. Therefore, the third hypothesis is formulated as follows:

H₃: BPK audit findings have a negative influence on local government performance.

As previously stated, agency theory emphasizes the importance of supervision in aligning the interests of agents and principals (Godfrey *et al.*, 2010). Besides external audits, another method of oversight is implementing an internal control system. This system focuses on managing and regulating management behavior as an agent to ensure the organization achieves its goals. (Mcnally, 2013).

The goal of local government is to maximize the welfare of its people (Simangunsong, 2014). This objective is accomplished through the efficient, effective, accountable, and transparent management of state or regional finances (Government Regulation Number 60 of 2008). SPIP is organized to ensure that the objectives of the government are achieved. With SPIP, it is hoped that local governments can optimize their performance in achieving their main objectives.

Public sector organizations adopt NPM theory to enhance efficiency, effectiveness, and accountability (Christensen & Lægreid, 2015). This is in line with the objectives of SPIP implementation, namely The accuracy of financial statements, operational effectiveness and efficiency, adherence to laws and regulations, and protection of government assets (Government Regulation Number 60 of 2008). Thus, SPIP can be an instrument in improving the quality of public services (Hood, 1991) and realizing good governance (Reginato *et al.*, 2014), in accordance with the objectives of NPM adoption in government.

Effective and mature SPIP can assist local governments in minimizing the risk of fraud. With effective SPIP, local governments can reduce the occurrence of regional financial abuse, inefficiency in budget management, and even corruption. This is in line with the research (Suhartono, 2021), local governments that have a higher degree of SPIP maturity can enhance the corruption perception index in their regions.

Effective SPIP can also have a positive impact on regional financial independence. SPIP is designed to assist government entities in managing their finances efficiently and effectively. SPIP can have an impact on the capacity of local governments to identify and optimize their regional potential if implemented effectively and thoroughly. In addition, SPIP helps improve accountability and transparency in local financial management. With a structured, measurable, and comprehensive control system, it is expected to improve the quality of LKPD and reduce the number of audit findings. This explanation is aligned with the research of Karaeng *et al.* (2023) which states that there is a favorable impact of SPIP maturity on the quality of regional government financial reports.

This study adopts the research of Setiadi *et al.* (2021) which incorporates a moderating variable in the form of internal control's role. This study uses the research object in the form of local government. In addition, the difference in this study with that research is the use of independent variables which include the level

of corruption, the level of independence, and audit findings. Therefore, the fourth, fifth, and sixth hypotheses are formulated as follows:

H₄: SPIP maturity weakens the negative influence of the corruption level on local government performance.

H₅: SPIP maturity strengthens the positive impact of the degree of regional financial independence on local government performance.

H₆: SPIP maturity weakens the negative effect of BPK audit findings on local government performance.

RESEARCH METHODOLOGY

This research utilized a quantitative approach. The study's population comprises all provincial governments in Indonesia, consisting of 34 provincial governments in the 2018-2022 period. This study incorporates a sample that includes 33 provincial governments. Due to obstacles related to the availability of the required data, the Papua Provincial Government was excluded from this study.

This study utilizes secondary data, encompassing various indicators relevant to its objectives. Specifically, the data include the Provincial AKIP assessment scores for the period 2018–2022, sourced from the Ministry of Administrative and Bureaucratic Reform. Additionally, information on corruption cases with final legal rulings was derived from the annual reports of the Corruption Eradication Commission (KPK). Financial statement audit reports of provincial governments in Indonesia from 2018 to 2022 were obtained through the authorized website of the Financial Audit Body (BPK). Furthermore, data on the realization of the regional budget (APBD) for all Indonesian provinces during the same period were acquired from the Directorate General of Fiscal Balance under the Ministry of Finance. Lastly, the SPIP maturity levels of all provincial governments from 2018 to 2022 were sourced from the Financial and Development Supervisory Agency (BPKP).

In addition, additional procedures were carried out, namely interviews with related parties. Interviews were conducted to gain a deeper understanding of the data used and its implications for the test results. Thus, the information provided can support the interpretation and analysis of the test results. This study encompasses dependent, independent, moderating, and control variables. The following are operational definitions and proxies used in explaining each variable. The local government performance serves as the dependent variable in this study, which is represented using the AKIP rating/predicate as a proxy. According to Handayani *et al.* (2020), performance accountability encompasses performance indicators that measure the extent to which an entity achieves its predetermined objectives, both quantitatively and qualitatively. These indicators include input, output, process, outcome, benefit, and impact, all of which collectively determine the degree of target achievement. The AKIP rating/predicate is employed due to its ability to provide a comprehensive representation of local government performance. In accordance with Ministerial Regulation PAN-RB No. 88 of 2021, the AKIP evaluation assesses the effectiveness of performance management, encompassing dimensions such as planning, measuring, reporting, evaluating, and achieving performance. Consistent with the research by Fuadi & Maburur's (2021), local government performance is quantified on an ordinal scale ranging from 1 to 7,

reflecting the spectrum of AKIP ratings/predicates. These ratings are subsequently converted into a measurement scale as described in Table 1.

Table 1. Local Government Performance Measurement

| Government Agency Performance Accountability Score | | | Ordinal scale transformation |
|---|---------------|--------------------|-------------------------------------|
| Predicate | Number | Description | |
| AA | > 90 - 100 | Very Satisfactory | 7 |
| A | > 80 - 90 | Satisfactory | 6 |
| BB | > 70 - 80 | Very good | 5 |
| B | > 60 - 70 | Good | 4 |
| CC | > 50 - 60 | Fair (Adequate) | 3 |
| C | > 30 - 50 | Poor | 2 |
| D | > 0 - 30 | Very Poor | 1 |

Source: prepared by the author based on Ministerial Regulation PAN-RB No. 88 of 2021.

One of the independent variables in this research is the degree of corruption. The corruption level refers to the extent to which corruption occurs in an organization. Until now, the measurement of the Corruption Perception Index (CPI) in Indonesia still includes measuring the level of corruption nationally, while the measurement of CPI in each province has not been carried out routinely and completely for all provinces in Indonesia. Therefore, this study follows the research of Nurcahyo & Mahi (2022) in measuring the level of corruption. The level of corruption is measured using a ratio scale, which is based on the number of corruption cases that have been eintracht or legally binding on all local governments obtained from the Corruption Eradication Commission (KPK). Furthermore, Nurcahyo & Mahi (2022) added that the data on corruption cases that have been eintracht is considered the closest proxy to explain the variable degree of corruption in sub-national governments because the data explains real corruption cases that have occurred in Indonesia, not corruption cases that are still being suspected.

The next independent variable in our work is the level of financial independence of local governments. The level of financial independence of regional governments reflects the capacity of lower level governments to collect revenue to fund their government activities. Formulation of the variable level of regional financial independence is presented in the form of ratios. Referring to Halim (2007), the ratio of regional financial independence is PAD compared to transfers from the central government and loans.

$$\text{Independence Ratio} = \frac{\text{PAD}}{\text{Central government transfers and loans}}$$

The next independent variable in this study is audit findings. BPK audit findings come from the results of the assessment carried out by BPK on LKPD. In line with research by Furqan *et al.* (2020), a ratio scale is used to measure BPK audit findings, that is, based on the number of findings in LKPD audits.. Audit findings include findings related to internal control system weaknesses and non-compliance with legislation.

In this study, SPIP maturity served as a moderating variable. The SPIP maturity

variable comes from the SPIP maturity level whose data comes from BPKP. The SPIP maturity variable adopts Suhartono's research (2021) which is measured by ordinal scale data. Table III.2 presents the SPIP maturity level based on BPKP Regulation No. 5 of 2021 which is transformed into an ordinal scale. A higher SPIP maturity level indicates better SPIP implementation in the entity.

Table 2. SPIP Maturity Measurement

| SPIP Maturity Level | Score Intervals | Ordinal scale transformation |
|---|---------------------------------|-------------------------------------|
| Level 5 - Optimum | $\geq 4,50$ | 5 |
| Level 4 - Managed and measurable | $4,00 \leq \text{Score} < 4,50$ | 4 |
| Level 3 - Defined | $3,00 \leq \text{Score} < 4,00$ | 3 |
| Level 2 - Evolve | $2,00 \leq \text{Score} < 3,00$ | 2 |
| Level 1 - Stub | $1,00 \leq \text{Score} < 2,00$ | 1 |

Source: Compiled by the author from BPKP Regulation Number 5 of 2021

Control variables are utilized to minimize the influence of other independent variables not included in the model. Size and leverage are used as control variables in this study. The control variables in this study are presented in ratio form. Regional size variables (Waliyyani & Mahmud, 2015) and leverage (Sesotyaningtyas, 2020) use the following indicators.

$$\text{Size} = \text{Ln Total Assets}$$

$$\text{Leverage} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

This study applies ordinal logistic regression analysis to test the impact of independent variables on the dependent variable. Based on Ghozali (2021), the use of ordinal logistic regression analysis techniques is relevant when the dependent variable in the study is an ordinal scale that describes a ranking. The use of logistic regression analysis techniques in this study refers to the research of Sudarsana & Rahardjo (2013). The research uses ordinal logistic regression analysis techniques by converting local government performance scores into an ordinal scale. The steps taken in hypothesis testing are descriptive statistical analysis, multicollinearity test, overall fit model test, goodness of fit test, coefficient of determination test (McFadden R^2), parallel lines test, and Wald test (Ghozali, 2021).

This study uses independent variables in the form of the degree of corruption, the regional financial independence level, and BPK audit findings which are also tested with SPIP maturity as a moderating variable. Furthermore, local government performance is used as the explained variable proxied by the performance accountability predicate/rank. Regional size and leverage are also used as control variables in this study. This study employs two research models: Model 1 examines the impact of independent variables on the dependent variable (H1, H2, and H3), while Model 2 evaluates the moderating variables' role in influencing the relationship between independent and dependent variables. (H4, H5, and H6). Model 2 is divided into 2, namely model 2a and model 2b. In model 2a, it tests the role of moderating variables that directly interact with the predictor (independent)

variable or what is called a pure moderator. Meanwhile, model 2b tests the role of moderating variables as predictor variables while also interacting with other predictor variables or what is called quasi moderator. The following is a research model prepared based on the description above.

Model 1:

$$\text{Logit (p1+p2+...+pk)} = \alpha + \beta_1\text{Corruption}_i + \beta_2\text{Independence}_i + \beta_3\text{Findings}_i + \beta_4\text{Size}_i + \beta_5\text{Leverage}_i$$

Model 2a:

$$\text{Logit (p1+p2+...+pk)} = \alpha + \beta_1\text{Corruption}_i + \beta_2\text{Independence}_i + \beta_3\text{Findings}_i + \beta_4\text{Corruption}_i*\text{SPIP}_i + \beta_5\text{Independence}_i*\text{SPIP}_i + \beta_6\text{Findings}_i*\text{SPIP}_i + \beta_7\text{Size}_i + \beta_8\text{Leverage}_i$$

Model 2b:

$$\text{Logit (p1+p2+...+pk)} = \alpha + \beta_1\text{Corruption}_i + \beta_2\text{Independence}_i + \beta_3\text{Findings}_i + \beta_4\text{SPIP}_i + \beta_5\text{Corruption}_i*\text{SPIP}_i + \beta_6\text{Independence}_i*\text{SPIP}_i + \beta_7\text{Findings}_i*\text{SPIP}_i + \beta_8\text{Size}_i + \beta_9\text{Leverage}_i$$

Notes:

| | |
|----------------------|--|
| i | = Sample of Provincial Governments in Indonesia |
| Logit (p1+p2+...+pk) | = Government Agency Performance Accountability Predicate |
| Corruption | = Level of Corruption |
| Independence | = Level of Regional Financial Independence |
| Findings | = BPK Audit Findings |
| SPIP | = SPIP Maturity |
| Size | = Local Government Size |
| Leverage | = Local Government Leverage |

RESULT AND DISCUSSIONS

Before testing the research model, it is essential to conduct an analysis of descriptive statistics. Table 3 presents the descriptive statistics for all variables. The results indicate that the majority of regional governments in Indonesia over the period of 2018 to 2022 remained at the B predicate level. The average AKIP score during this period was 4, with the lowest predicate recorded at 3 (CC) and the highest at 7 (AA). These findings suggest a considerable disparity in AKIP predicate levels across Indonesian provinces.

The average number of corruption cases was below 0.3515, with the most frequently occurring value being 0, indicating that many provincial governments did not report corruption cases. The average level of financial independence was 0.7426, demonstrating that locally generated revenue (PAD) remained lower than transfer funds and loans. Additionally, there was a significant disparity in financial independence, with the minimum value recorded at 0.2041 and the maximum at 2.7573.

Furthermore, the highest average number of audit findings occurred in 2022, with a mean of 18. The maximum number of findings recorded was 70, while the minimum was 5

Table 3. Summary of Descriptive Statistics

| Variabel | Mean | Mode | Max | Min | Std. Dev | Obs |
|--------------------------|---------|--------|---------|---------|----------|-----|
| AKIP | 4,5758 | 4 | 7 | 3 | 0,0661 | 165 |
| Corruption | 0,3515 | 0 | 12 | 0 | 0,0998 | 165 |
| Independence | 0,7426 | 0,2041 | 2,7573 | 0,0446 | 0,0413 | 165 |
| Findings | 18 | 17 | 70 | 5 | 0,7495 | 165 |
| SPIP | 2,7939 | 3 | 3 | 1 | 0,0360 | 165 |
| Size (in Billion Rupiah) | 30,2578 | #N/A | 34,1604 | 28,4562 | 0,0763 | 165 |
| Leverage | 0,0541 | #N/A | 0,2060 | 0,0031 | 0,0034 | 165 |

Source: Compiled by the author

The Wald test was used to assess the partial impact of independent variables on the dependent variable. The test was conducted because this study used ordinal logistic regression analysis techniques. The Wald test results using the SPSS 26 application were realized with a significant level of $\alpha = 5\%$.

Table 4. Wald Test Results Model 1

| | | Estimate | Std. Error | Wald | df | Sig. |
|-----------|--------------|----------|------------|--------|----|--------|
| Threshold | [AKIP = 3] | 23,313 | 8,084 | 8,315 | 1 | ,004 |
| | [AKIP = 4] | 28,293 | 8,210 | 11,876 | 1 | ,001 |
| | [AKIP = 5] | 30,412 | 8,259 | 13,558 | 1 | ,000 |
| | [AKIP = 6] | 32,645 | 8,300 | 15,470 | 1 | ,000 |
| Location | Corruption | -,185 | ,148 | 1,556 | 1 | ,212 |
| | Independence | 1,294 | ,428 | 9,150 | 1 | ,002 * |
| | Findings | -,093 | ,021 | 19,256 | 1 | ,000 * |
| | Size | ,963 | ,282 | 11,658 | 1 | ,001 * |
| | Leverage | -7,767 | 4,046 | 3,685 | 1 | ,055 |

* $\alpha = 5\%$

Source: Compiled from SPSS 26

Table 4 shows that in the ordinal logistic regression test results for model 1, there are three explanatory variables that are considered significant with a significance value below 0.05, namely Independence (sig. = 0.002), Findings (sig. = 0.000), and Size (sig. = 0.001). In addition, Leverage (sig. = 0.055) and Corruption variables (sig. = 0.212) are considered to have no significant effect with a significance value above 0.05.

Based on Table 5, the results of ordinal logistic regression testing on model 2a show that two independent variables are considered significant with a significance value below 0.05, namely Findings (sig. = 0.027) and Size (sig. = 0.000) at a significant level of 5%. In addition, the Leverage variable (sig. = 0.057), Corruption variable (sig. = 0.212), Independence variable (sig. = 0.170), Corruption*SPIP variable (sig. = 0.937), Independence*SPIP variable (sig. = 0.239), and Findings*SPIP variable (sig. = 0.101) are considered to have insignificant effect with a p-value above 0.05.

Table 5. Wald Test Results Model 2a

| | | Estimate | Std. Error | Wald | df | Sig. |
|-----------|------------------|----------|------------|--------|----|--------|
| Threshold | [AKIP = 3] | 27,880 | 8,521 | 10,705 | 1 | ,001 |
| | [AKIP = 4] | 32,968 | 8,643 | 14,549 | 1 | ,000 |
| | [AKIP = 5] | 35,118 | 8,702 | 16,288 | 1 | ,000 |
| | [AKIP = 6] | 37,350 | 8,755 | 18,200 | 1 | ,000 |
| Location | Corruption | -,080 | 1,361 | ,003 | 1 | ,953 |
| | Independence | 7,332 | 5,343 | 1,883 | 1 | ,170 |
| | Findings | -,335 | ,152 | 4,889 | 1 | ,027 * |
| | Size | 1,129 | ,298 | 14,363 | 1 | ,000 * |
| | Leverage | -7,730 | 4,061 | 3,624 | 1 | ,057 |
| | Corruption*SPIP | -,037 | ,466 | ,006 | 1 | ,937 |
| | Independence*SPI | -2,141 | 1,818 | 1,386 | 1 | ,239 |
| | P | | | | | |
| | Findings*SPIP | ,082 | ,050 | 2,692 | 1 | ,101 |

* $\alpha = 5\%$

Source: Compiled from SPSS 26

Based on Table 6, the results of ordinal logistic regression testing on model 2b show that two independent variables are considered significant with a significance value below 0.05, namely Size (sig. = 0.000) and Leverage (sig. = 0.047). In addition, the SPIP variable (sig. = 0.075), Corruption variable (sig. = 0.834), Independence (sig. = 0.211), Findings variable (sig. = 0.318) Corruption*SPIP variable (sig. = 0.735), Independence*SPIP variable (sig. = 0.271), and Findings*SPIP variable (sig. = 0.662) are considered to be insignificant in explaining dependent variable since its p-value above 0.05.

Table 6. Wald Test Results Model 2b

| | | Estimate | Std. Error | Wald | df | Sig. |
|-----------|------------------|----------|------------|--------|----|--------|
| Threshold | [AKIP = 3] | 27,880 | 8,521 | 10,705 | 1 | ,001 |
| | [AKIP = 4] | 32,968 | 8,643 | 14,549 | 1 | ,000 |
| | [AKIP = 5] | 35,118 | 8,702 | 16,288 | 1 | ,000 |
| | [AKIP = 6] | 37,350 | 8,755 | 18,200 | 1 | ,000 |
| Location | Corruption | -,080 | 1,361 | ,003 | 1 | ,953 |
| | Independence | 7,332 | 5,343 | 1,883 | 1 | ,170 |
| | Findings | -,335 | ,152 | 4,889 | 1 | ,027 * |
| | Size | 1,129 | ,298 | 14,363 | 1 | ,000 * |
| | Leverage | -7,730 | 4,061 | 3,624 | 1 | ,057 |
| | Corruption*SPIP | -,037 | ,466 | ,006 | 1 | ,937 |
| | Independence*SPI | -2,141 | 1,818 | 1,386 | 1 | ,239 |
| | P | | | | | |
| | Findings*SPIP | ,082 | ,050 | 2,692 | 1 | ,101 |

* $\alpha = 5\%$

Source: Compiled from SPSS 26

Based on the Wald test of models 2a and 2b, the results obtained show that the SPIP maturity variable does not have a moderating role in the association between the corruption level, the degree of regional financial independence, and audit findings on local government performance. The interaction between the explanatory variables and the moderating variable in model 2a shows no significant effect on the dependent variable. Thus, the SPIP maturity variable is not a pure moderator variable. In addition, in model 2b, the results show that both partially and in interaction with the independent variable, the SPIP maturity variable has insignificant effect on the explained variable or is not a quasi moderator variable. So, it can be concluded that SPIP maturity is included in the type of potential moderating variable or homologizer moderator.

The Effect of Corruption Level on Local Government Performance

The study results indicate no significant impact of corruption levels on local government performance. Thus, the first hypothesis is not supported. This is allign with the research of Ahyaruddin & Azmi (2019). Based on that research, the level of corruption has no significant impact on local government performance. Good performance in local government does not guarantee that the local government is free from corruption (Ahyaruddin & Azmi, 2019).

The research results are also not in accordance with agency theory. In the agency relationship between district government and society, the existence of moral hazard that can trigger corrupt practices in local government does not always have a direct impact on the achievement of provincial government performance. The community as the principal does not necessarily feel the negative impact of corruption in the public services it receives.

This study also provided results that contradict stakeholder theory, which suggests that an organization's actions can influence its stakeholders. Corruption is an act of abuse of authority and policy to fulfill personal or other people's interests (Hartanti, 2007). In the context of stakeholder theory, the public, business people, and other community actors as stakeholders of local governments will consider corruption as a negative action, especially those related to the misuse of local budgets. However, from the results of the study, it is known that corruption that occurs has less effect on government achievements. This means that with or without corruption occurring in a local government, the public can still feel the performance produced by the local government.

This research also has results that are not in line with the study of Brewer *et al.* (2008), which shows that controlling corruption can increase the effectiveness of the government. According to Brewer *et al.* (2008), uncontrolled corruption can reduce the effectiveness of government administration. Based on the research, a low amount of corruption can increase the effectiveness of government performance, so corruption has a negative impact on performance. In the research of Brewer *et al.* (2008), the objects used are countries in Asia, while the objects in this study are provincial governments in Indonesia. The next difference is that the study uses the variable of corruption control in a country, while this study uses the variable level of corruption in local governments. This can be the reason for the differences in this study and the research of Brewer *et al.* (2008).

There are two implications of the results of this study. First, the determination of the law in corruption cases involves a long process and takes a long time. In addition, one of the characteristics of corruption is hidden activities, so the number of inkraht corruption cases is difficult to measure all incidents of corruption that occur in local governments. Second, AKIP reporting is a form of fulfilling obligations on mandates from laws and regulations (Ahyaruddin & Akbar, 2016). This can cause local governments to tend to report successful performance, while failed performance tends not to be reported (Nurkhamid, 2008, cited in Ahyaruddin & Amrillah, 2018).

The Impact of Regional Independence Level on District Government Performance

This study has a second hypothesis, namely the level of regional financial independence has a positive effect on the performance of a lower level governments. Based on the wald test in model 1, it is found that there is a significant influence with a positive direction of the level of regional financial independence on local government performance. Based on this description, the second hypothesis is accepted. This means that the more independent the local government is in terms of finance, the more the achievement of predetermined performance targets will increase.

This research is consistent with the results of Permatasari & Trisnaningsih (2022)'s research, which revealed that the degree of regional financial independence has a significant influence with a positive direction on the financial performance of local governments. In addition, based on Qowi & Prabowo (2017), similar results were obtained, namely the degree of regional wealth has a positive influence on the performance of regency/municipality governments in Indonesia in 2012.

When viewed from the perspective of agency theory, local governments are agents who are authorized to manage their regional resources independently for the public interest. Turning to the financial management, the performance of local governments as agents assigned by the community can be seen from the amount of revenue generated independently or what is called PAD (Qowi & Prabowo, 2017). The level of independence of a local government shows its ability to manage its regional resources. By increasing local financial independence, local governments can improve the achievement of predetermined performance targets. In the end, the predicate of local government performance accountability will be better-off along with the progress of regional independence.

In the perspective of stakeholder theory, the goal of sub-national government is to improve the welfare of the main stakeholders, namely the community. This is done by providing optimal services. The ability of district governments to achieve high PAD collection is useful for increasing the achievement of programs that have been planned annually in order to improve services to the community. The positive effect of the level of regional financial independence on performance illustrates that local governments with a high degree of financial independence have been able to utilize the results of managing their resources properly to improve optimal services to their communities.

A rise in the level of regional financial independence is indicated by an increase

in PAD or a decrease in transfer income and regional loans. The increase in PAD reflects that the lower level government has effectively optimized its economic power and resources. Based on Government Regulation No. 12/2019, the increase in PAD can come from local taxes and levies. By intensifying tax collection efforts, local governments can obtain more stable and reliable revenue. In addition, success in increasing local retribution also reflects the empowerment of local economic sectors, such as asset management and public services that provide direct benefits to the community. Local governments really need effective and efficient PAD management in regional economic development (Ahyaruddin & Amrillah, 2018). An increase in PAD also indicates that community participation in regional development is getting higher. In addition, high community participation can also be interpreted as an indicator of the success of the regional governments in conducting their programs/activities and communicating development policies well. As participation increases, it shows an increase in the welfare and quality of life of the community. Transparency and accountability in the use of PAD funds will strengthen public trust in their government.

The Effect of BPK Audit Findings on Local Government Performance

In this study, the third hypothesis is that audit findings have been unfavorable factors for sub-national government performance. Audit findings on financial statements illustrate irregularities in financial management. From the perspective of the local government, LKPD describes the responsibility for the use of APBD funds in order to carry out programs or activities to achieve the objectives of the lower level government. In line with this, audit findings on LKPD indicate irregularities in the implementation of the APBD. The existence of these deviations means that there are resources in the implementation of the APBD that are used not in accordance with predetermined goals / targets (Qowi & Prabowo, 2017). The high number of findings indicates high deviations in implementing predetermined performance targets. This may impact the downgrade of local government performance accountability.

Referring to the research results, the third hypothesis is accepted. The wald test results in model 1 show that there is a negative and significant effect of audit findings on local government performance. This study obtained results consistent with the research of Furqan *et al.* (2020); Qowi & Prabowo (2017); and Sudarsana & Rahardjo (2013). In these studies, it was found that the performance of district / city local governments was negatively affected by audit findings on LKPD. Although the use of objects in this study is not the same as previous studies, namely the provincial government, it shows similar results.

Information asymmetry arises because in agency relationships, agents have greater access to information about resources than the principal (Scott, 2015). In the perspective of the linkage between the public as the principal and the government as the agent, information regarding local financial management is more managed by the district government than by the public. The existence of information asymmetry between the government and the public can lead to irregularities that prioritize conflicts of interest (Primadiva *et al.*, 2021). Conflict of interest in local government is acting in accordance with personal interests rather than prioritizing the community.

The deviation that occurs is a form of moral hazard or opportunistic behavior that still often occurs in local government administration (Qowi & Prabowo, 2017). Examination of LKPD results in audit findings that illustrate the existence of these irregularities. This can cause the delivery of services to the community to not be carried out effectively. As a result, the outcome of provincial governments to maximize the welfare of their people may decrease as the number of irregularities increases.

This study also obtained results that are consistent with NPM theory, namely the application of NPM emphasizes effectiveness, efficiency, accountability, and organizational performance (Christensen & Læg Reid, 2015). With the examination of LKPD, ineffectiveness and inefficiency of financial management can be detected. Furthermore, the audit also provides an overview and recommendations on weaknesses in state financial management that need to be corrected in subsequent periods. If recommendations on audit findings are implemented effectively and in a timely manner, then in the future deviations will be reduced and performance will improve.

The Moderating Role of SPIP Maturity

In our research, SPIP maturity served as a moderating variable. In model 2 of the study, the SPIP maturity variable was added as a moderator in model 1 of the study. Model 2 testing was conducted to determine the moderating role of SPIP maturity in the influence of the corruption level, the degree of financial independence, and audit findings on the performance of a lower level government.

Referring to the research results in model 2, the level of corruption variable does not change its significance after the addition of the effect of the SPIP maturity moderating variable. Both before (model 1) and after the addition of SPIP moderating variables (models 2a and 2b), the significance value of the corruption level variable is above 0.05 or insignificant. There is no significant moderating effect of SPIP maturity on the effect of corruption level on local government achievement. Thus, the fourth hypothesis is not supported. These results are consistent with Pratiwi *et al.* (2020), there is no significant effect of the internal control system on fraud prevention.

Based on the research results, SPIP has not been able to weaken the negative impact of corruption on the performance of a local government. This means that in general in the period 2018 to 2022, the internal control system organized by local governments has not been able to reduce the negative impact of corruption on local government performance. In BPKP Head Regulation Number 4 of 2016, the SPIP maturity assessment only focuses on the elements of internal control and there is no specific assessment related to corruption control. On the other hand, in BPKP Regulation No. 5 of 2021, the focus of SPIP maturity assessment becomes more complex, which consists of assessments related to the maturity of SPIP implementation, corruption control effectiveness index, and risk management index. The addition of the corruption control effectiveness index shows that corruption control is a separate part that is assessed in the SPIP maturity assessment.

Based on interviews conducted with the Coordinator for the Implementation of the BPKP Internal Control System of the Local Government, the following

information was obtained. In 2018 to 2021, the local government SPIP maturity assessment still uses the BPKP Head Regulation Number 4 of 2016, while in 2022 the SPIP maturity assessment based on BPKP Regulation Number 5 of 2021 is still in the transition period. In 2022, there are still some local governments whose SPIP maturity is assessed using the previous regulation. BPKP Regulation Number 5 of 2021 will only be effectively used in all local governments in 2023.

The explanation above shows that until 2022, SPIP maturity has not maximally considered corruption-related controls. This can be the cause of the absence of the influence of the role of SPIP maturity in the relationship between the magnitude of corruption and sub-national government performance, in addition to the number of corruption cases that have been inkraht cannot describe the entire incidence of corruption in Indonesia.

In addition to the above reasons, the inability of SPIP maturity to moderate the effect of corruption levels on regional jurisdiction performance can be triggered by external factors. The perpetrators of corruption tend to get low sentences and do not provide a deterrent effect (Rasul, 2012). This can provide a sense of security when the perpetrators commit acts of corruption. If the law in Indonesia is still weak against corruption, mature SPIP in local governments cannot suppress the unfortunate impact of corruption on performance.

Based on the research results in models 2a and 2b, there is no significant effect of the interaction between the variables of the scale of regional financial independence and SPIP maturity on local government performance. Thus, it is concluded that the fifth hypothesis is rejected. This research is consistent with the research of Okidi *et al.* (2021) which suggests that there is no significant effect of the control environment and monitoring on revenue generation in the Lira District local government in Uganda.

Based on the results of the study, it is known that SPIP maturity is not able to moderate the effect of the layer of regional financial independence on district government performance. These results can be due to the majority of provincial governments sampled having a stagnant level of SPIP maturity in the period 2018-2022, while the level of regional financial independence tends to fluctuate for each year in each provincial government. The decrease or increase in SPIP maturity value from year to year tends to be small, so that the decrease or increase is not reflected in the SPIP maturity level. Therefore, SPIP maturity does not have a significant impact on the effect of the level of regional financial independence on local government performance. In model 1, the audit findings variable has a significance value below 0.05 or a significant effect on local government performance. However, the addition of the SPIP maturity moderating variable does not affect the significance of the impact of audit findings on lower level government performance.. This means that there is no significant effect of the interaction between audit findings and SPIP maturity on local government performance. These results are not in accordance with the sixth hypothesis in this study, namely that SPIP maturity weakens the negative influence of audit findings on regional government performance. Thus, the sixth hypothesis is rejected. Research by Setiadi *et al.* (2021) obtained similar results, namely internal control does not moderate the effect of internal audit on organizational performance.

Effective SPIP should be able to influence audit findings on local government

performance. This is because in the audit there is a test of the entity's internal control system. Audit findings themselves consist of weaknesses in the internal control system and non-compliance with laws and regulations. When viewed from the type of findings, an internal control system that has been adequately designed and runs effectively should be able to suppress irregularities that occur in the implementation of the APBD. However, the research results are not in line with this explanation.

Based on interviews with BPKP Associate Expert Auditors, the following information was obtained. Prior to the effective implementation of BPKP Regulation Number 5 of 2021 in 2023 in all local governments, quality assurance and evaluation of the SPIP maturity self-assessment were not carried out regularly every year. This results in the SPIP maturity assessment results given to local governments can come from the previous year's assessment.

If the SPIP maturity level is obtained from the preceding year's assessment, the SPIP maturity level of the regional government is not in accordance with the conditions in the relevant year. This can be the cause of the absence of a significant relationship between the interaction of SPIP maturity and audit findings on sub-national government performance or AKIP predicate which is routinely assessed annually.

CONCLUSION

This research suggests that the magnitude of corruption has no proven effect on local government performance. Meanwhile, the level of regional financial independence has a significant positive effect and audit findings have a significant negative effect on local government performance. By contrast, the interaction between SPIP maturity with the level of corruption, the level of regional independence, and audit findings is not proven to have a significant effect on local government outcome or there is no moderating role of SPIP maturity.

This study used the provincial government as the object of research. There is a possibility of different research results if district / city governments are used as research objects. In addition, the level of corruption is only measured using the number of corruption cases that have been inkraht in the provincial government. SPIP maturity is not measured based on maturity scores but is only measured using maturity levels and may be levels taken from the previous year. The data processing in this study also does not pay attention to the effect of changes in AKIP evaluation regulations and SPIP maturity assessment guidelines that occurred in 2021.

Based on our study, the central government needs to encourage the fulfillment of periodic SPIP maturity assessments by local governments and the implementation of evaluations of these SPIP maturity assessments. This is important so that the SPIP maturity level can reflect the actual state of local government SPIP, so that constructive recommendations can be given for SPIP improvement to achieve local government goals. In addition, detection of irregularities in the implementation of the APBD carried out early is important for local governments. Thus, strengthening the role of the inspectorate in local governments is an important component in overseeing the implementation of the APBD both in terms of finance and performance. This is done in order to become an early warning for local government work units, so that deviations and problems can

be minimized. In addition, local governments also need to strengthen the role of the inspectorate in monitoring the follow-up of recommendations on BPK findings. That way, repeated findings can be eliminated. Local governments also need to examine sources of revenue to increase PAD. This can lower dependence on the central government and improve performance. Local governments can focus on potential sectors in the region either by being managed independently or involving Regional-Owned Enterprises (BUMD) and cooperation with the private sector. In addition to increasing revenue, it can also improve development and services to the community.

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