

Corruption and Public Budgeting in The Local Government in Indonesia

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Abstract

The trend of corruption cases by regional heads and members of the Regional House of Representatives increased after the reform. In 2004-2017 there were 392 Regional Heads involved in legal issues, the largest number of corruption cases were 313 cases. Indonesia consists of 34 provinces with diverse demographic structures and also various public problems. The research objective was to analyze the effect of misuse of public budgets on the level of corruption in Indonesia. A large enough of public budget tends to trigger corruption in Indonesia. This research is useful for regional governments to be more transparent and accountable in the use of public budgets. In addition, this research is useful for policy makers to make better control tools. The data collection consisting of regional government financial reports that have been audited by the Supreme Audit Board in Indonesia. Reports LG financial reports will be analyzed to determine the amount of public budget in each region, the amount of regional loss from regulatory non-compliance and the level of corruption in Indonesia. This research applied panel data using the help of Eviews 8 application for data processing. The results of this research indicated that the public budgeting does not affect the level of corruption in the local government of Indonesiain. In this study the public budget is measured by the amount of funds or costs for the public, so it does not affect the level of corruption. The amount of funds budgeted to the public does not affect the level of corruption. corruption of public budgets is influenced by transparency and accountability in the use of public budgets.

Keywords: Public Budgeting, Corruption, Local Government.

INTRODUCTION

Reforms in 1998 brought changes to the economic, social, political and social systems, so that demands for accountability, transparency and effectiveness of governance have increased (Bastian, 2006: 4). Reforms should make governance better. However, Robinson (2006) revealed that after governance reforms were still not optimal, government institutions tended to shape corruption, collusion and nepotism in new ways.

Supervision, control and inspection are the three main pillars that can support the creation of accountability as a manifestation of good governance (Mardiasmo, 2009). Good governance is needed in the implementation of regional autonomy as mandated by the Law. The main foundation of regional autonomy is Law No. 32 of 2004 and Law No. 33 of 2004.

The main principles of autonomy and decentralized authority provide sufficient opportunities for regional governments (regional governments) to take responsibility for the welfare of their regional communities (Bahtiar, Nawawi and Rudi, 2014). Regional autonomy is expected to be able to shape regional governments more independently and be able to manage regional finances with clear, transparent and accountable directions (Sugiono, 2014). Regional autonomy should encourage the implementation of supervision and transparency rather than providing opportunities for regional officials to commit acts of corruption, collusion, nepotism (KKN) which previously tended to be centrally moved to the regions. Accountability in the public sector can be interpreted

that local government governance triggers information asymmetry with the potential for misuse due to agency relationships between local governments as agents and communities as principals. Agency theory can be implemented in the public sector, modern democracies have an agency relationship between the principal (the people) and the government as an agent (Lane, 2000).

Law No. 33 of 2004 concerning the financial balance between the central and regional governments states that the delegation of the delegated authority can be done in two ways, namely, utilizing the financial potential of the region itself and through the mechanism of financial balance between the regions and between regions. The authority to utilize its own financial resources is exercised in the Regional Original Revenue (PAD) container, whose main sources are regional taxes and regional user fees.

Regional financial management starts from budget planning to the preparation of LKPD (Local Government Financial Report). LKPD can reflect the financial accountability of regional governments that are needed in the implementation of regional autonomy. Local governments must be able to prepare financial reports properly as mandated in Law No. 17 of 2003 concerning State finance, Law No. 1 of 2004 concerning the State Treasury.

Accountability in public sector organizations means that in local government governance there is an agency relationship between the community as the principal and the government as the agent (Mardiasmo, 2009). Law No. 22 of 1999 which was replaced by Law No. 34 of 2004 concerning regional autonomy provides an overview of legislative, executive and people relations that will lead to conflicts of interest (Pratiwi, 2015). Agency conflict arises due to a contract between the authority and the authority (Jensen and Meckling, 1976). The executive and legislative branches are feared to commit acts of fraud in groups with regional autonomy (Sudana, 2006).

Public services carried out by regional governments are contained in regional government activities that use regional budgets (Pratiwi, 2015). According to Ahrens and Ferry (2014), the budget is influential in shaping public accountability. However, the public budget in Indonesia has not been effective in promoting increased prosperity in the regions (Komorotomo, 2010). Measurement of public budgets refers to Nurdiono's research (2014), public budgets are measured by the proportion of public budgets. Regional autonomy makes regional heads tend to utilize regional resources as deposits to political parties supporting their supporters for personal gain (Heriningsih and Marita, 2013). According to Ritonga and Arwan (2010), the great opportunity that regional heads have in politicizing the budget is by utilizing APBD shopping accounts. Misuse of grant expenditure and social assistance is a shopping post on the regional budget which is often misused by incumbent regional heads (Rahmawati, 2015).

The allocation of grant expenditure and social spending in the area is not accurate based on community needs, but is influenced by the political interests of regional heads (Rochmatullah and Probudono, 2014). Some public expenditure posts such as social spending are highly dependent on the policies of regional heads, so that some officials make the social expenditure budget a tactical fund for regional heads which indicates an incumbent covert campaign that wants to run again (Komorotomo, 2010).

The increase in corruption cases after the reform has given rise to a negative stigma against the regional political elite. Corruption cases are agency conflicts arising from a contract between the authority and the authority (Jensen and Meckling, 1976). The executive and legislative are feared to commit acts of fraud in groups with regional autonomy. Public budgets that should be used for the welfare of the people are often misused for personal and group interests.

The highest number of corruption cases and ranked first according to the Corruption Watch

Index (ICW) in 2017 is the misuse of the budget with 154 cases and the value of the state loss of Rp 1.2 trillion. The public service sector is very vulnerable to corruption, especially in the procurement of goods and services. In 2017, 84 cases of corruption processed were public service sector corruption cases. The public service sector monitored by Indonesia Corruption Watch (ICW) included 46 cases of transportation with a state loss of Rp912 billion, education of 25 cases with a value of state losses of IDR61.1 billion, and health in 18 cases with a state loss of IDR51 billion.

The regional budget used by the regional government should show the regional government's public services to the community. Local government budgets are a serious problem faced by local governments, spending that is not managed effectively will cause irregularities and have an impact on opinion acquisition. Effective budget management will reduce expenditure items that cannot be accounted for (Nurdiono, 2015).

Local government public services can be seen in the activities of the use of the regional budget. According to Ahrens and Ferry (2014), public accountability is formed from. The quality of LKPD is measured by proper budget management. Budget management is very important because the budget explains in detail the income and expenditure of the organization (Nurdiono, 2014). Local government budgets are the problems most often faced by regional governments. The budget must be managed properly so that it is efficient and effective and can be accounted for (Nurdiono, 2015).

Corruption in regional governments is mostly done in sectors related to public budgets. The amount of the misused public budget is interesting to be further analyzed. It is whether the amount of the public budgeting affects the level of corruption in Indonesia?

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Agency theory begins with the alleged manager who does not act in the interests of investors. The agency relationship as a contract that is binding between one or more parties (principal) with another party (agent), where the principal binds the agent to carry out business activities which is the delegation of authority by the principal (Jensen and Meckling 1976). Agency theory is the manager's actions to exploit investors, managers are considered opportunistic and act only in their own interests (Miller and Sardaist, 2011). In social interactions, conflicts of interest between agents and principals are very common problems. Examination of financial statements becomes one of the means in minimizing agency conflict while simultaneously implementing good public governance (Adzani and Martani, 2014). In the government sector, agents are the political elite and leaders who are responsible for carrying out the mandate of the people who are the principal. The funds collected from the public in the form of taxes must be accountable and managed by stakeholders and state financial managers. In social interactions, conflicts of interest between agents and principals are very common problems (Ross, 1973). Agency theory aims to learn how to solve agency problems (Eisenhart, 1989) in Pratiwi (2015). In the government sector, the legislature is the principal chosen by the people who delegates authority to the (government) agent to make new policies (Narulita 2015). The government sector is a very complex organization, so it must be managed well (Pratiwi, 2015). Good governance is a public demand for government officials. Regional autonomy is the granting of authority or power as much as the amount to the region to manage its own region. According to Scott (2009), agency conflict arises due to information asymmetry, agents are considered to have more information about the organization than the principal. There are two information asymmetries, namely adverse selection and moral hazard. Adverse selection is a condition where the government as the principal tends to be less aware of

the state of the organization than the agent, therefore, the agent tends to be selective in providing information to the principal. Moral hazard is the tendency of agents to make mistakes and try to cover up those mistakes because there is no continuous monitoring by the principal.

Public Budgeting

Public budgeting is a budget that can be spent whose benefits can be felt directly by the community. In the agency perspective the regional head is a stakeholder. In the context of budget planning, the agency has the authority to determine the budget proportion, but the agent's opportunistic nature is very possible to utilize projects contained in the public budget to maximize its utility. The public budget consists of capital expenditure, grant expenditure and social assistance expenditure (Nurdiono, 2014). According to PP No. 71 of 2010, capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Public budget consists of capital expenditure budget, grant expenditure and social assistance expenditure (Nurdiono, 2014).

Based on PP No. 71 of 2010, capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period. Based on Permendagri No. 32 of 2011, the definition of the grant is the provision of money / goods or services from the local government to the government or other regional governments, regional companies, communities and community organizations that have been specifically designated as intended, are not mandatory and not binding, and are not continuous aims to support the implementation of regional government affairs. Whereas the definition of social assistance expenditure is the provision of assistance in the form of money or goods from local governments to individuals, families, groups and / or communities that are not continuous and selective in nature that aims to protect against the possibility of social risks. Measurement of public budgets refers to Nurdiono's research (2014):
$$\text{Public Budgeting} / \text{total cost budget} \times 100\%$$

Corruption

Corruption from a legal point of view is explained in 13 articles of Law No. 31 of 1999 which was changed to become Law No. 20 of 2001 concerning combating corruption. Corruption based on the articles contained in the law is formulated into 30 types of criminal acts of corruption. In general, 30 criminal acts of corruption are grouped as follows, namely state financial losses, bribery, embezzlement in office, extortion, cheating, conflict of interest in procurement and gratuity. Understanding corruption according to Law No. 31 of 1999, corruption is any person who is categorized against the law, commits acts of enriching oneself, benefits oneself or another person or a corporation, abuses authority or opportunities or means available to him because of his position or position which can harm the country's finances. Corruption or corruption is an act of abuse of trust in an institution or organization to gain personal benefit. Measurement of corruption from the local governments listed corruption perceptions index which is derived from the results of the Transparency International Indonesia (TII) survey

Hypothesis Development

Agency conflict arises due to a contract between the authority and the authority (Jensen and Meckling, 1976). The executive and legislative branches are feared to commit acts of fraud in groups with regional autonomy (Sudana, 2006). According to Ahrens and Ferry (2014), the budget is influential in shaping public accountability. However, the public budget in Indonesia has not been effective in promoting increased prosperity in the regions (Komorotumo, 2010). According

to Ritonga and Arwan (2010), the great opportunity that regional heads have in politicizing the budget is by utilizing APBD shopping accounts. Misuse of grant expenditure and social assistance is a shopping post on the regional budget which is often misused by incumbent regional heads (Rahmawati, 2015). The regional budget used by the regional government should show the regional government's public services to the community. Local government budgets are a serious problem faced by local governments, spending that is not managed effectively will cause irregularities and have an impact on opinion acquisition. Effective budget management will reduce expenditure items that cannot be accounted for (Nurdiono, 2015).

H1: Public budgeting has positive effect on the level of corruption in Central Java

METHODOLOGY

Method of Collecting Data

The data used were secondary data Collection of data from all local government financial reports and data related to corruption in Indonesia from the year 2010-2017. The local governments that will be sampled are all local governments that have a complete financial report 2010-2017 and the local governments listed corruption perceptions index which is derived from the results of the Transparency International Indonesia (TII) survey. The number of samples taken through the purposive sampling method totaled 224 regional governments Data yang dipergunakan adalah data sekunder.

Research Method

The analytical tool uses the evIEWS application with the appropriate model testing stages using the Chow test, the Hausman test and the LM Test. Public sector research in Indonesia tends to be still in the first generation, methodological and theoretical issues such as endogeneity and measurement become sidelined problems (Sutaryo and Jakawinarna, 2013). Endogeneity is the correlation between independent variables and errors (Gujarati and Porter, 2012: 244). This study uses panel data with the help of EvIEWS 8 application for data processing. The model in the EvIEWS application can overcome the correlation between independent variables and errors (Gujarati and Porter, 2012: 244). Parameters of the research model for pannel data using regression with the help of evIEWS. The regression selection was chosen through the stages of model testing and passing the classical assumptions test.

DATA ANALYSIS AND RESULTS

Sampling

The data collection process begins by requesting LKPD data that has been audited by BPK through the BPK RI E-PPID application. The data the researcher obtained was then tabulated with the help of the data tabulation team for further processing with the EvIEWS tool. The number of research samples were 224 local governments with a observation period of 2010-2017. The total data of this study amounted to 1. 792.

The Stages of Model Testing

The choice of panel data testing method uses three approaches, namely Pooled Least Square or Common Effect Model, Fixed Effect Model or Least Square Dummy Variable and Random Effect Model. The first step in statistical testing in determining the model is the Chow test. Chow test was

carried out to determine the correct model selection between the Pooled Least Square model and the Fixed Effect Model that will be used in regression.

Panel data testing in the selection of the appropriate testing method was performed on all samples totaling 1,792. If the Chow test results are statistically significant F, then the Hausman test will be carried out. The Hausman test was carried out to determine the right model between Fixed Effects and Random Effects.

1. *Chow Test (Uji F Restricted)*

In estimating panel data, a more appropriate model must be determined in advance between Fixed Effect Model or Common Effect Model using the Chow test. The hypothesis in the research with the Chow test is as follows:

H_0 : *Common Effect Model*

H_1 : *Fixed Effect Model*

The comparison of F-table with F-count is the basis for rejecting the hypothesis. If the F-count is greater than the F-table, then H_0 is rejected. This means that the more appropriate model to use is the Fixed Effect Model. If the F-count is smaller than the F-table, then H_0 is accepted and the model used is the Common Effect Model. How to calculate the F-table with a sample of 1792 using the formula: $F_{INV}(\text{Probability}, \text{deg_freedom1}, \text{deg_freedom2})$. The following are the results of the Chow test conducted in this research:

Table.1 **Result of Chow Test**

<i>Cross Section Fixed Effect</i>		
F-Stat.	Prob.	Intsrpretation
45,73813	0,000000	<i>Fixed effect</i>

Chow test results from the table above shows the F-statistic probability value of 0.000000, smaller than 0.05. F-statistic value $45.3813 > F\text{-table value } 2.376028$. This value results in a decision that H_0 is rejected and H_1 is accepted. In this research the Pixed Effect model is the right method in regressing panel data. The Chow test results provide a decision that the Mixed Effect model is better and will be continued with the Hausman test.

2. Hausman Test

The statistics testing was done to choose the most appropriate model between Fixed Effect or Random Effect by using the Hausman test. Hausman test testing in this research was carried out with the following hypothesis:

H_0 = *Random Effect Model*

H_1 = *Fixed Effect Model*

The Hausman test applied was the Chi-Squares statistical distribution with the degree of freedom of freedom (df) as many as the number of independent variables (k). If the Hausman test statistic value is greater than the Chi-Square critical value, then H_0 is rejected and the more appropriate model is the Fixed Effect model. If the Hausman statistical value is smaller than the Chi-Square value, the most appropriate model is the Random Effect Model.

The results of the Hausman test statistical calculation are as follows:

Tabel. 2 **Result of Hausman Test**

<i>Cross Section Random Effect</i>		
Chi-Sq. Stat.	Prob.	Interpretation
15,961016	0,0031	<i>Fixed Effect</i>

The Hausman test results in the table above show that the Chi-Sq.stat 15.96016 is significant at 0.0031. The Chi-Sq value of Hausman test is greater than the critical value of Chi-Sq. with a significance of 0.05 and df 4. Hausman test value $15.96016 > 9.84773$ then H_0 is rejected and H_1 is accepted. Based on the Hausman test results, the selected model is the Fixed Effect Model.

Classical Assumptions

The formation of a regression model needs to be done by a classic assumption test to obtain a BLUE equation as explained earlier in the research methodology. The main tests of the classic assumptions of panel data are the heteroskedasias test, the multicollinearity test and the autocorrelation test. In this study no normality test was carried out because it refers to the Central Limit Theorem assumption (middle limit argument). The proposition states that a sample of more than 30 is considered normally distributed (Dielman, 1961). The number of samples in this study were more than 30 samples of 1790. Park's test results show that the probability of the dependent variable shows an insignificant value of $1,0000 > 0.05$. This shows that there is no heteroskedacity. This study uses an autocorrelation test with Durbin Watson (DW). DW test results in this study produced a value of 2.086855. The DW test statistic value is between 1.55 and 24.46, so it can be concluded that autocorrelation did not occur. Multicollinearity test aims to determine whether there is a correlation in the regression model between independent variables (Ghozali, 2011: 105). This research applied a correlation matrix to find out whether there are multicollinearity problems in the regression model. Based on the Correlation Matrix table the value of each dependent variable is below 90%, so it is free from multicollinearity problems.

Descriptive statistics

The average public budget of regional governments throughout Indonesia is 28, 81%, which illustrates that the average budget allocated for the public interest tends to be low. Based on the data, the largest public budget is in the Prov. Banten is 65% and the lowest public budget is in Kab. Purbalingga by 10%. The size of the public budget shows the attention of the local government to allocate its budget for the public interest.

Hypothesis testing

The hypothesis in this study was tested using multiple linear regression with the Fixed Effect Model that has been determined previously. The Fixed Effect regression model in this study is feasible because it passes the classic assumption test. The Fixed Effect regression model in this study is free from the problems of hetroskedacity, multicollinearatics and autocorrelation.

The following is the table of Fixed Effect Mode regression test results:

Table .3 **Result of Fixed Effect Model Test**

Variable	Coefficient	Std. Error	<i>t-Stat.</i>	<i>Prob.</i>
C	1,943275	0,800999	2,426063	0,0154
AP	0,329561	0,381887	0,862982	0,3883
Effect Specification				
Cross-section fixed (dummy variables)				
R-squared		0,549191		
Adusted R-squared		0,435447		
F-statistik		4,828330		
Probab(F-statistik)		0,000000		

Partial Regression Coefficient Test (t Test)

T test is a test of significance in hypothesis testing (Gujarati, 2006: 103). T test is performed to determine whether the independent variable partially affects the dependent variable. Based on the Fixed Effect Model test results obtained linear regression equation as follows:

$$\text{Corruption} = 1,943275 + 0,329561AP$$

Discussion

Based on the results of the Fxed Effcett Model statistical test, the discussion of this research hypothesis is as follows: the test results in this study indicate the value of the AP variable that is not significant, 0.3883. AP value which is not significant indicates that the public budget does not affect corruption. AP statistical test results that are not significant means rejecting the hypothesis that AP affects corruption. Budget management is very important because the budget explains in detail the income and expenditure of the organization (Nurdiono, 2014). Financing that is not managed effectively will cause irregularities (Pratiwi, 2015). The results of this research do not support the research of Nurdiono (2014). According to Nurdiono (2014), the size of the public budget has a negative effect on audit opinion. The higher the public budget, the tendency of acts of deviation will be greater so that it will influence opinion. The amount of the public budget does not affect the level of corruption. The level of corruption tends to be more influenced by clear and transparent public budget governance. Budget management is very important because it is able to explain in detail the organization's revenue and expenditure.

In this study the public budget is measured by the amount of funds or costs for the public budget, so it does not affect the level of corruption. the amount of funds or costs budgeted to the public does not affect the level of corruption. Corruption of public budgets is influenced by transparency and accountability in the use of public budgets.

CONCLUSION

Regional autonomy is expected to provide sufficient opportunities for regional governments to take responsibility for the welfare of their regional communities. Regional autonomy is expected to be able to shape regional governments more independently and be able to manage regional finances with clear, transparent and accountable directions. The amount of the public budget does not affect the level of corruption because the amount of the budget is only a nominal number that tends to be influenced by budget governance by local governments.

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