

**THE EFFECT OF FINANCIAL PERFORMANCE, AUDIT OPINION AND  
CORRUPTION LEVEL OF SELECTION OF INCUMBENT REGIONAL  
HEADS IN ELECTIONS IN THE GOVERNMENT DISTRICT AND CITY  
IN ACEH**

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**ABSTRACT**

The purpose of this study is to determine the condition of Financial Performance, Audit Opinion and Corruption Level whether it effects the Election of the Incumbent Regional Head in the Regional Head Elections in Aceh, and then to find out the effect of Financial Performance on the selection of incumbent candidates in the Regional and Local Governments in Aceh. Then the Audit Opinion whether it effects the choice of incumbent candidates in the elections in the District and City Governments in Aceh and to see the extent of the effect of the level of corruption on the election of incumbent candidates in the elections in the District and City Governments in Aceh. Analysis of the data in this study uses multiple linear regression which aims to test and analyze, both jointly and partially the effect of Financial Performance, Audit Opinion and Corruption Levels on the Election of the Incumbent Regional Head in the Pilkada at the District and City Governments in Aceh processed with the SPSS (Statistical Package For Social Science) program 22. The results of the study indicate that financial performance, audit opinion and the level of corruption together have a significant effect on the electability of the incumbent regional head in the Aceh elections. Then the financial performance does not have a significant effect on the electability of the incumbent regional head in the regional elections in Aceh province, audit opinion does not have a significant effect on the electability of the incumbent regional head in the regional head elections in Aceh province and finally is that the level of corruption has a significant effect on the electability of the incumbent regional head in the Pilkada in Aceh province.

**Keywords:** Financial Performance, Audit Opinion, Corruption Level, Election of Incumbent Regional Head

## **INTRODUCTION**

Election of district and city government heads in Aceh province was held simultaneously on 15 February 2017. Election of regional heads was followed by 20 regencies and cities in Aceh province. Of the 20 regions participating in the simultaneous local elections in Aceh province 85 percent were followed by the incumbent regional head. The results released by the Independent Election Commission (KIP) of the Aceh Province from all pairs of incumbent candidates who took part in the local elections in district and city governments in Aceh province were only won by 5 incumbent pairs or 29% of all incumbent candidates.

The failure of incumbent regional head candidates is caused by many factors because the tendency of voter behavior in determining political choices is influenced by the performance factors and leadership capacity of a candidate in addition to issues about candidates. (Niluh: 2007). Performance can be interpreted as an achievement or measurable past achievement in accordance with the vision and mission or other targets determined. One incumbent performance that can be measured is Financial Performance (Ingram and Copeland: 1981). Furthermore, Ingram and Copeland (1981) stated that poor financial performance was one of the causes of the defeat of the incumbent regional head.

Research on the influence of financial performance has been done by Ingram and Copeland (1981), the results of his research indicate that financial information in the accounting reports of municipal governments in the United States can influence voter behavior in the selection of mayors. Mandiri Yatiu Own revenue / total revenue ratio. While Brender's research (2003) also proves that fiscal performance during the administration period of local government influences the results of the mayor's election. Furthermore Brender (2003) says that high budget deficits, high debt, high debt accumulation decreases the possibility of the mayor to be elected back. Research by Dharma and Martani (2016) states that the performance of local government and regional financial capacity affects the electability of incumbent regional heads in post-conflict local elections. Data from the Inspection Report (LKHP) of the Republic of Indonesia Supreme Audit Agency (BPK) shows the financial performance tested by the ratio of regional financial independence in districts and cities in Aceh Province during the 2012 to 2016 average regional financial independence level of 9%, which means the dependency of district governments and cities in Aceh province against the central government is still very high.

Audit findings also influence the incumbent selection of research conducted by Ferraz, C., & Finan, F. (2008) shows that the exposure of audit results has a significant impact on voter behavior in presidential elections in Brazil. While research conducted by Retno Yulisti et.al (2017) shows that the higher the audit findings on the weaknesses of the internal control system

will further reduce the chances of incumbent selection. In contrast, audit opinions, findings of non-compliance with regulations and legislation, and evaluation of performance accountability are not related to incumbent electability. Data from the Audit Report (LKHP) of the Republic of Indonesia Audit Board shows audit opinions obtained by districts and cities in Aceh Province during from 2012 to 2016, only three cities and one district received WTP opinion. This shows that the level of regional financial management has not been so good.

Corruption also influences the incumbent regional head's election because information on the level of corruption influences voter behavior (Mavutu Kalulu, 2014). Independent voters and supporters of the opposition's core report the level of perceived corruption affects the number of voters if the corruption scandal is clearly revealed (Elena Costa and Perez, 2013). Data from the Aceh High Prosecutor's Office released during the period of 2012 to 2016 showed the number of corruption cases that occurred as many as 181 corruption cases spread in the 17 districts and cities tested. This shows that the level of corruption is also still relatively high.

## **LITERATURE REVIEW**

### **Regional Government Financial Performance**

Measurement of financial activities can be measured in various ways, one of them using financial ratios. Sucipto (2003: 1), mentions financial performance is the result of many individual decisions made continuously by management. Therefore to assess financial performance, it is necessary to involve an analysis of the cumulative and economic financial impacts of decisions and consider them using a comparative measure.

Government Accounting Standard Board (GASB), in Concept Statements No. 2, dividing performance measurements into three categories of indicators, namely (1) service effort measurement indicators, (2) service accomplishment measurement indicators. Service efforts means how resources are used to carry out various programs or services that are diverse in terms of the administration of local governments, especially services for the benefit of the general public. And Service accomplishment is defined as the achievements obtained from the implementation of government programs.

Florida (2009: 15) defines performance as a measurable activity of an entity during a certain period as part of a measure of work success. In government agencies performance measurement cannot be measured with the ratios that are normally obtained from a financial statement in a company such as, Return of Investment. This is because actually in government performance there is no "Net Profit". The government's obligation to account for its performance is automatically fulfilled by conveying relevant information regarding the results of the program

carried out to the people's representatives and also community groups who really want to assess government performance .

Government financial reporting in general only emphasizes the responsibility whether the sources obtained are already used in accordance with the applicable budget or legislation. Thus the existing financial reporting only presents information relating to government revenue sources, how they are used and the government's current position.

Halim (2004: 110) mentions that one of the tools to analyze regional financial performance in managing regional finances is to analyze the ratio of regional finances to the APBD that has been established and implemented.

Financial ratio analysis in the regional budget is done by comparing the results achieved from one period compared to the previous period so that it can be seen how the trends occur. In addition, it can also be done by comparing the financial ratios of certain local governments with the financial ratios of the closest regions or the potential of the region is relatively similar to see how the financial position of the local government against other local governments. In Article 2 PP No. 108/2000 mentioned the parties that are interested in the financial ratios in this APBD are the DPRD (Regional People's Representative Council) and the executive body which is the governing body that receives the authorization of regional financial management from the DPRD.

### **Regional Financial Ratio Analysis**

Regional financial ratio analysis is a tool to measure how an entity's financial performance activities are. Halim said (2004: 128) the financial ratio tool used is ratio analysis developed based on financial data sourced from the regional expenditure budget, namely: (a) Financial Independence Ratio Regional namely the ratio of regional financial independence which shows the level of ability of a region in self-financing of government activities, development and services to the people who have paid taxes and levies as a source of income needed by the region. Widodo (2001: 262), said that the ratio of independence is shown by the amount of local own revenue compared to regional income originating from other sources (external parties), including: tax revenue sharing, non- natural resource revenue sharing, general allocation fund and allocation fund specifically, emergency funds and loan funds, (b) Ratio of Fiscal Decentralization Degree, Anita (2001: 22), states that the degree of fiscal decentralization is the ability of regional governments in order to increase local revenue to finance development, (c) Ratio of Routine Capability Index, Kuncoro (1997: 260) defines the routine capability index is the proportion between PAD and routine expenditure without transfers from the central government and (d) Growth Ratio, which is the growth ratio is a tool to analyze how the growth of regional government budget of each period. Widodo (2001: 270) , said the growth ratio illustrates

how much the ability of local governments in defense and increase the success achieved from period to period. APBD growth can be seen from the various components of the APBD consisting of Regional Original Revenue, total revenue, routine expenditure and development expenditure.

### **Audit Opinion**

Audit Opinion is the opinion of the auditor on the examination of local government financial statements. In this case the Supreme Audit Agency (BPK) in accordance with Law No. 15 of 2006 concerning BPK states that the BPK is the sole auditor who has the authority to examine the financial statements of the three layers of government in Indonesia consisting of the central government, the provincial government, and the district / city. Government Regulation No.58 of 2005 concerning regional financial management states that based on the 1945 Constitution an examination of financial statements is carried out by the Supreme Audit Board (BPK).

Furthermore, according to Article 1 of Law Number 15 Year 2006, an audit opinion is a professional statement as the examiner's conclusions regarding the level of reasonableness of financial information presented in the financial statements. Opinion is based on 4 criteria, namely: (1). Compliance with government accounting standards; (2). Adequacy of disclosures (adequate disclosures), (3). Compliance with laws and regulations; and (4) Effectiveness of the internal control system.

Based on the Decision of the Republic of Indonesia Financial Examination Agency Number 04 / K / I-XIII.2 / 5/2008 concerning the Guidelines for the Implementation of Financial Examination, there are 4 (four) types of opinions that can be given by the examiner in a financial audit. These opinions include: (1) Unqualified Opinion is given by the auditor if there are no limitations in the scope of the audit and there are no significant exceptions to the fairness and application of generally accepted accounting principles in the preparation of financial statements, consistency in the application of accepted accounting principles general, as well as adequate disclosures in financial statements; (2) Fair Opinion with Qualifications (Qualified Opinion). Fair Opinion With Exceptions "states that the financial statements are fairly presented in all material respects according to the Accounting Standards, except the impact of matters relating to those excluded; (3) Adverse Opinion "Unreasonable" states that the financial statements are not presented fairly financial position in accordance with Accounting Standards. Unreasonable opinion is the opposite of unqualified opinion. Auditor gives unfair opinion if the client's financial statements are not prepared based on generally accepted accounting principles so that they do not present fairly the financial position, results of operations, changes in equity and cash flow of the client. The auditor gives an unnatural opinion if he is not limited by the scope of his audit, so that he can gather sufficient competent evidence to support his opinion; and (4)

Statement of Opinion (Disclaimer of opinion Opinion Cannot Express Opinion states that financial statements cannot be believed to be reasonable or not in all material respects in accordance with Accounting Standards. Such uncertainty can be caused by limitations in the scope of the audit and / or there are doubts about survival of the entity. The reasons which cause the refusal or are unable to express an opinion must be disclosed in the Audit Report that contains the opinion.

### **Corruption**

Transparency International defines corruption as abusing public power and trust for personal interests. According to Worldbank, corruption is defined as "the abuse of public power for private benefits", the abuse of public power for personal gain (USAID, 1999). International Transparency (TI) provides a definition of corruption as the behavior of public officials, both politicians and civil servants, who improperly and illegally enrich themselves or enrich those close to them by abusing public power entrusted to them "(Lambsdorff, Graf. 1999)

Kumorotomo (1992: 175), argues that corruption is a diversion of responsibility to society, and in fact corruption can take the form of embezzlement, fraud or manipulation. Kumorotomo further stated that corruption has the characteristics of a crime that does not contain violence (non-violence) by involving elements of deception (guile), dishonesty (deceit) and the concealment of a reality (concealment). It can be concluded that corruption implicitly is abusing authority, position illegally to obtain personal benefits, other people and or certain groups that can harm the State finances.

## **RESEARCH METHOD**

### **Research sites**

This research was conducted in Regencies and Cities in Aceh province which carried out direct regional head elections in 2017 and were followed by the head of the Incumbent region.

### **Data Analysis Tools**

Data analysis tools were carried out to test hypotheses that had been formulated using logistic regression analysis methods. Data was processed using the SPSS version 21 program.

Hypothesis testing is done using logistic regression (logistic regression). Logistic regression is used to test whether the probability of the occurrence of a dependent variable can be predicted with its independent variable (Imam Ghozali, 2013: 333)

## **FINDING AND DISCUSSION**

### **The Effect of Financial Performance, Audit Opinion and Corruption Level Simultaneously on the Election of the Incumbent Regional Head.**

Significance value of 0.012 with a significance level of 10% is stated that the variables of financial performance, audit opinion and the level of corruption together have a significant effect on the electability of Incumbent regional heads in the Aceh elections in 2017.

It can be concluded that voters will consider financial performance factors by looking at the level of regional financial capacity in financing their own finances and reducing dependence on the central government in financing development in their regions. The issue of the independence of regional finance has been a topic in a variety of debate opportunities for the head of the region in Aceh because so far development funding in Aceh has been predominantly sourced from special autonomy funds.

### **The Effect of Financial Performance on the Election of the Incumbent Regional Head.**

Hypothesis testing obtained a significance level of 0.107 greater than 0.10 (a significance level of 10%) meaning that financial performance tested using the ratio of regional financial independence did not have a significant effect on the electability of the incumbent regional head in the Pilkada in Aceh province in 2017. The results of the study This is different from the results of research conducted by Ingram and Copelan (1981), Brender (2003), JR Happy (2009). The insignificant effect is caused by the problem of the financial performance of the local government tested by the ratio of the level of regional financial independence that is not yet understood. chooser.

### **The Effect of Audit Opinion on the Election of the Incumbent Regional Head.**

Hypothesis testing results show a significance level of 0.895 greater than 0.10 (a significance level of 10%) meaning that audit opinion does not have a significant effect on the electability of the incumbent regional head in the Pilkada in Aceh province in 2017. This shows that H<sub>0</sub> was rejected and H<sub>a</sub> was accepted The results of this study are in line with the findings of Retno Yulistiet.al (2017) which states that the results of the audit opinion do not have a significant effect on the electability of incumbent regional heads. And the results of this study differ from the findings of Ferraz and Finan (2008) which state that the audit results have an effect on electability incumbent regional heads.

### **The Effect of Corruption Level on Election of Incumbent Regional Heads.**



Hypothesis testing results of a significance level of 0.067 smaller than 0.10 (a significance level of 10%) means that the level of corruption has a significant effect on the electability of incumbent regional heads in regional elections in Aceh province in 2017. This shows that H<sub>0</sub> received and H<sub>a</sub> were rejected. The results of this study are in line with the findings of Costal and Perez (2013) and Krause and Méndez (2007) which state that corruption has a significant effect on the electability of incumbent regional heads.

## **CONCLUSION AND RECOMMENDATION**

### **Conclusions**

1. Financial performance, audit opinion and the level of corruption together have a significant effect on the electability of the incumbent regional head in the elections in Aceh in 2017.
2. Financial performance does not have a significant influence on the electability of Incumbent regional heads in the Pilkada in Aceh province in 2017.
3. Audit opinion does not have a significant influence on the electability of Incumbent regional heads in the Pilkada in Aceh province in 2017.
4. The level of corruption has a significant influence on the electability of Incumbent regional heads in the Pilkada in Aceh province in 2017.

### **Recommendations**

1. Future researchers can conduct research not only in Regencies and Cities in Aceh province, but can be added to the sample in other districts and cities in Indonesia.
2. For researchers, the incumbent's electability can be tested by adding other variables such as political variables that occur during the local elections.
3. For regional heads who wish to advance again in the regional election contestation can reduce the number of corruption cases in the regions they dream to be re-elected in the elections.
4. Regional financial practitioners can conduct evaluations and dissemination of financial performance factors, audit opinion and the level of corruption to the public so that voters can understand these issues and voters will be rational.



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