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Journal of Government & Civil Society

JGCS

Transparency of Local Financial Management: Evidence from Local Governments in Indonesia

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ABSTRACT

This study aims to provide empirical evidence about the influence of political competition, local independence, level of human development, and Supreme Audit Board (BPK) audit opinion on increasing transparency in local financial management in Indonesia. The research sample consisted of 436 local governments in Indonesia in 2016. The analytical method used to test the hypothesis is multiple linear regression. This study shows that local independence, level of human development, and BPK audit opinion have been proven to have a positive effect on increasing transparency in local financial management in Indonesia. On the other hand, political competition does not affect increasing transparency in local financial management in Indonesia. The results indicate that future studies should consider other factors to obtain more complete results,. These include local government size, local expenditure, local government wealth, legislative size, local government complexity, level of dependence, local government financial capacity, press visibility, and local government administrative age. The findings contribute to the fundamental idea and recommendation for the government to improve Indonesia's local financial management transparency.

Keywords: Transparency, local financial management, local government

ABSTRAK

Penelitian ini bertujuan untuk memberikan bukti empiris tentang pengaruh persaingan politik, kemandirian daerah, tingkat pembangunan manusia, dan opini audit Badan Pemeriksa Keuangan (BPK) terhadap peningkatan transparansi pengelolaan keuangan daerah di Indonesia. Sampel penelitian terdiri dari 436 pemerintah daerah di Indonesia pada tahun 2016. Metode analisis yang digunakan untuk menguji hipotesis adalah regresi linier berganda. Hasil penelitian ini menunjukkan bahwa kemandirian daerah, tingkat pembangunan manusia, dan opini audit BPK terbukti berpengaruh positif terhadap peningkatan transparansi pengelolaan keuangan daerah di Indonesia. Di sisi lain, persaingan politik tidak mempengaruhi peningkatan transparansi pengelolaan keuangan daerah di Indonesia. Temuan penelitian ini berkontribusi dijadikan sebagai gagasan dan rekomendasi mendasar bagi pemerintah untuk meningkatkan transparansi pengelolaan keuangan daerah di Indonesia.

Kata Kunci: Transparansi, tatakelola keuangan daerah, pemerintah daerah

INTRODUCTION

In the era of technological development, the issue of public information disclosure has been highlighted by various parties. This is because information disclosure can measure accountability, community service, and efforts to prevent corrupt practices. The phenomenon of public information disclosure is marked by general dissatisfaction with

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the government, which is caused by the many corrupt practices carried out by public officials in the government sector.

Ministry of Home Affairs (Kemendagri) recorded that 361 corruption cases involved District Heads during the period 2010 to August 2016 (Tirto. id, September 29, 2016), while Indonesian Corruption Watch (ICW) reported that 183 were suspected from 2010 to 2015 (Antikorupsi.org, August 28, 2016). The consequence of this phenomenon is that the community demands that the government can be transparent regarding all information related to the public interest, one of which is a local financial management information. Folscher (2000) revealed that some of the advantages of transparency are preventing corruption, collusion, and nepotism.

The Government of the Republic of Indonesia responded to public demands by issuing several regulations, such as Law Number 32 of 2004 concerning Local Government, Law Number 33 of 2004 concerning Fiscal Balance between Local Government and Central Government, and Government Regulation Number 58 of 2005 concerning local financial management. Those regulations provide the rights, authorities, and obligations of regional autonomy to self-mobilize government affairs related to local financial management and the interests of local communities by rules. The formation of regional autonomy is expected to create efficiency and effectiveness in managing local resources, improving the quality of public services and community welfare, and cultivating and creating space for the community to participate in the development process (Mardiasmo, 2006).

Community participation in development can be reflected by monitoring government performance related to local financial management. The monitoring carried out by the community is to see and analyze the level of transparency of local governments in presenting information about local financial management.

Minister of Home Affairs Regulation Number 13 of 2006 concerning Local Financial Management defined transparency as a principle of disclosure that allows the community to know and obtain access to information extensively regarding local financial management. The level of transparency indicates records, processes, available data and not available (Abubakar et al., 2017). To attain financial management transparency, the government enacted Law Number 14 of 2008 concerning Public Information Disclosure which obliges every public agency to provide and serve requests for public information quickly, timely, cost-efficiently, and efficiently.

Along with technological developments, Styles & Tennyson (2007) argue that the government can use the internet to disseminate information to the publcost-efficiently and effectively. In Indonesia, the government enacted Minister of Home Affairs Instruction Number 188.52/1797/SC/2012 concerning Transparency of Local Budget Management (TPAD). This instruction mandates Local Governments to prepare the content of "Local

Budget Management Transparency" on the official government website and publish data or documents as a form of local government responsibility regarding local financial transparency.

The use of websites and information technology in government has been established along with the issuance of Presidential Instruction Number 3 of 2003 concerning Strategy and Policy of E-Government Development in local governments in Indonesia. It instructed Central and District/City governments to implement E-Government development nationally. The implementation of E-Government in local government was confirmed by the issuance of Presidential Instruction Number 7 of 2015 concerning Prevention and Eradication of Corruption, which mandates increased transparency in local financial management through the implementation of E-Government and public information disclosure. In addition, Moon (2002) stated that e-government plays a vital role in government performance in the future.

The Indonesian government has issued several regulations and laws related to the transparency of local governments as a form of specific attention to the implementation of transparency in the ranks of local governments in Indonesia. However, several previous studies have shown that the regulations and laws issued are not accompanied by an increase in the transparency of local financial management itself, where the level of transparency in local financial management is still shallow (Hermana et al., 2012; Martani et al., 2014; Ritonga & Syahrir, 2016; Shopia and Husen, 2013; Fitra, 2013; Syamsul, 2017; Adriana, 2017; Insani, 2017; Setyaningrum, 2017; Julisa, 2017; Rokhimah, 2017; Suwarsih, 2017).

In 2017, the Master of Accounting, Faculty of Economics and Business, Universitas Gadjah Mada, launched the financial condition index and financial transparency index (Maksigama Indeks Keuda). The research results related to the financial transparency index of 542 Local Governments in Indonesia reveal that the transparency of local financial management in Indonesia is still in the insufficient category. However, there has been no empirical test of the factors that influence the index's high or low level of transparency. Based on the issues previously described and to overcome the limitations of previous studies, it is essential to conduct research related to the factors that affect the transparency of financial management in local governments.

Several studies have conducted research related to the transparency of local financial management, but it is limited to measuring the high and low levels of transparency of local governments in Indonesia (Adriana, 2017; Insani, 2017; Setyaningrum, 2017; Julisa, 2017; Rokhimah, 2017; Suwarsih, 2017. In addition, this study provides several factors that may affect the transparency of local financial management, namely the size of the local government, local expenditure, local government wealth, legislative size, local government complexity, level of dependence, local government financial capacity, press

visibility, ages local administration, political competition, local independence, Human Development Index (IPM) and BPK audit opinion.

We used four factors as independent variables. Political competition, regional independence, Human Development Index (HDI) and Supreme Audit Board (BPK) audit opinion. These four factors were chosen allegedly because they affect the transparency of local financial management and become the government's big homework in improving good governance and optimizing services to the public. When these factors become the focus of improvement for the government, it will increase transparency.

Previous research such as García & García-García (2010) and García-Sánchez et al. (2013) revealed that political competition affects the disclosure of financial information on local government websites. Laswad et al. (2005) and Sari (2010) found that the genuine wealth of local governments has a positive effect on the disclosure of financial information on websites. Rajkumar & Swaroop (2008) explain that the community (principal) who has a high level of progress will tend to monitor the performance of the government (agent). Rahim and Martani (2016) support a positive relationship between BPK audit opinion and disclosure of financial information.

This study examines the factors that influence financial management transparency in 542 local governments in Indonesia. This study uses Agency Theory and Signaling Theory as grant theories. This study uses 436 local governments as a sample and the tests used are classical assumption and multiple regression. The result shows that political competition is not proven to affect the local financial management's transparency positively. The local independence, Human Development Index and audit opinion positively impact the transparency of local financial management. The contributions of this study are providing input and motivation to improve the implementation of transparency in local financial management and becoming a reference for the factors that affect the transparency of local financial management. In addition, this study is expected to become a reference for regulators to formulate policies and provide guidance that can increase the transparency of local financial management in the future.

The remaining sections of this paper are organized as follows. Section 2 discusses the research method. Section 3 reports results, discussion, and analysis. Section 4 concludes the study by focusing on the implications for practice and theory.

RESEARCH METHOD

This study used secondary data. The data used in this study are data on political competition, local independence, human development index and BPK audit opinion as well as data on transparency of local financial management. Political competition data is obtained from BPS in political statistics and local security documents. Local independence data is obtained from the Local Government Financial Reports (LKPD), which proxied

using a total of PAD. The Human Development Index is acquired in the form of documents that discuss related explicitly to the human development index. Audit opinion data was obtained from a record of reports published periodically on the official website of BPK. Transparency in local financial management data was obtained from the financial transparency index published by the Master of Accounting, Faculty of Economic and Business, Universitas Gadjah Mada. Data collection was conducted using the documentation technique. Documentationtypesa is are types of data in invoices, journals, minutes of meeting letters, memos, or program reports. Document data in this study is from statistical information, regulations, policies, and statements regarding local financial management.

The population is local governments in Indonesia. The samples consist of 542 Provinces, Districts, and Cities in Indonesia. Samples selections are based on local governments with complete data related to this research. The sampling technique was conducted with non-probability sampling with a purposive sampling method. Hartono (2011) stated that purposive sampling took samples from a population based on specific criteria. The criteria used are as follows:

1. Provinces, Districts, and Cities Government in Indonesia in 2016

2. Local governments that have complete data related to research variables.

Research Variables Measurements

According to Rahim and Martiani (2006), political competition is shown by the number of competitions for the head of local government. The more rivals in the head of local government election, the greater the political contest. Nosihana & Yaya (2016) also explained that the existence of political competition would increase the supervision of officials' performance by other parties. It will encourage local governments to show their performance to the public. Regional House of Representatives (DPRD), as a principal whose position is equal to the executive, can represent the community to oversee and ensure that the local government as an agent has performed in the community's interests. The number of DPRD members from the higher non-supportive head of local government is expected to make the monitoring more effective. Nosihana and Yaya (2016) measured the level of political competition by calculating the ratio between the number of non-supporting (opposition) members of he hd of local government with th total number of DPR membsupportinglitica

$$\text{Competition} \quad = \frac{\text{Number of DPR members non-supporting parties}}{\text{Number of DPR members}}$$

Local independence shows the ability of a region to finance all local operational expenditures to realize the development and improvement of services to the community by using PAD sources. Martani et al. (2014) revealed that the proxy used to calculate the level of local independence is calculated at the percentage between PAD and the amount of local revenue. Information regarding the amount of PAD is obtained from LKPD 2016 that BPK has audited. The high value shows a higher level of independence because heIndependenceget PAD that does not come from central government transfer.

$$\text{Local Independence Level} = \frac{\text{Total of PAD}}{\text{Total of Revenue}} \text{ X } 100\%$$

Sen (1989) defined human development as expanding the absolute freedom enjoyed by every human being. Sen (1989) added that the real freedom enjoyed by every human being refers to several socio-economic factors such as access to education, health, employment, and politics. The human development index (HDI) is measured using three indicators first introduced by the United Nations Development Program (UNDP) in 1990, namely by looking at longevity and healthy living, knowledge, and a decent standard of living. The HDI was obtained from the Indonesian BPS in 2016 in the form of a document that examines specifically the human development index.

Bastian (2014) defined public sector audits as a systematic process for testing the accuracy and completeness of the information presented in a financial report of public sector organizations. An audit opinion issued by BPK can be used as a proxy to measure the fairness of a financial report. The audit opinion is obtained from the opinion published by the BPK on the 2016 local government finance al. reports. Martani et al (2014) explained that audit opinion is measured using an ordinal scale, meaning that the values that rank are different. A higher value indicates a higher rank. This audit opinion is rated as follows:

1. Score 1 for Disclaimer of Opinion (TMP).
2. Score 2 for Adverse Opinion (TW).
3. Score 3 for Qualified Opinion (WDP).
4. Score 4 for Unqualified Opinion (WTP).

Haryanto (2005) explained that one of the foundations to develop good governance is to make government open (transparent) to the public. A government that is open to information can be material for the public to conduct surveillance (Birskinshaw, 2006). In addition, Hirsch & Osborne (2000) revealed that transparency is used to improve policy, administrative and managerial effectiveness. Other research, such as Chalid (2005), defined

transparency as the openness of the government to the public regarding the information on public resource management, especially financial information. Financial information in government is essential to disclose because the funds managed are funds from the crowd. Thus, the government needs to be encouraged to provide financial management information that is accurate, relevant, timely and reliable.

Transparency of local financial management is measured using an instrument developed by Huwae (2016). Huwae compiled 29 indicators for measuring local financitrymtransparency's tra,nsparency, divided into three stages of financial management : planning, implementation, reporting, and accountability. There are four disclosure criteria used in formulating transparency (Magister Akuntansi FEB UGM, 2017): availability, accessibility, timeliness of disclosure, and frequency.

The local financial management transparency index will be assessed using the following methods:

1. The measurement of transparency in this study uses a dichotomy score. A score of 1 is given for available, accessible, and timely information. A score of 0 is provided for information that is not available, cannot be accessed (downloaded), and is not timely. Specifically for the frequency of disclosure, if not available is given a score of 0, if available in one year will be given 1/3, items available in two years will be given a score of 2/3. So on, if the information is disclosed, the whole will be given a score of 1. The score obtained for each criterion is multiplied by a weight of 0,25. 0,25 refers to previous research conducted by Syamsul (2017). He considered that each measure was equally essential and had to be complementary to be able to reflect the characteristics of transparency itself.

2. The level of transparency is calculated by dividing the total score obtained by the total score expected to be received by each indicator, then multiplying by one hundred.

Data Analysis Technique

The classical assumption test is carried out to see whether the data used in the study have met the assumptions needed to produce accurate research. Gujarati (2003) explained that the classical assumption test is carried out so that the regression model is not biased, or the regression model is BLUE (Best Linear Unbiased Estimator).

This study uses multiple regression models. Gudono (2014) explained that in using multiple regression, it is necessary to consider the distribution nature of the processed data. Multiple regression techniques are flexible enough to test the relationship between several independent variables on the dependent variable. With various regression techniques, a researcher can immediately see the impact of changes in the value of the independent variables on the dependent variable.

$$Y = \alpha + \beta 1\ PC + \beta 2\ LI + \beta 3\ HDI + \beta 4\ BPKAO + e$$

Y   : The transparency of local financial management
α   : Constant
β   : Coefficient
PC   : Political Competition
LI   : Local Independence
HDI   : Human Development Index
BPKAO : BPK Audit Opinion
e   : Error

RESULTS, DISCUSSION, AND ANALYSIS

The population in this study were all local governments in Indonesia in 2016. The sample used was 542 local governments including provincial, district and city governments in Indonesia 2016. Samples that do not have complete data related to research variables will be excluded from the model. The final number of samples that meet the criteria are 436 from 542 local governments. Table 1 shows the details of the sample selection used in this study.

Table 1. Sample Selection Procedure

No	Criteria	Number
1	The number of Indonesian local governments in 2016	542
2	Local governments do not have complete data regarding research variables.	106
	Final samples	436

The Analysis of Research Descriptive Statistics

Descriptive statistics analysis describes the phenomena or characteristics (distribution) of the available data. The following are the results of descriptive statistics processed using the IBM SPSS 21 software, which is presented in table 2:

Table 2. Descriptive Statistics

Variables	N	Min	Max	Average	Deviation Standard
Transparency of Local Financial Management	436	0.31	58.02	11.32	9.14
Political Competition	436	0.07	1.00	0.65	0.19
Local Independence	436	0.76	76.64	12.11	12.17
Human Development Index	436	41.90	85.32	68.69	5.62
BPK Audit Opinion	436	1	4	3.72	0.55

Based on the results of descriptive statistics in table 2, the transparency of local financial management variable has a minimum value of 0.31, a maximum value of 58.02, and an average value of 11.32. This shows that local financial management transparency in Indonesia in 2016 is still not sufficient. The political competition variable has a minimum value of 0.07, a maximum value of 1.00, and an average of 0.65. These data show that political competition in Indonesia in 2916 is relatively high. The local independence variable has a minimum value of 0.76, a maximum value of 76.64, and an average value of 12.11. This shows that the level of local independence in Indonesia is proxied as the level of PAD is still quite low.

The human development index variable has a minimum value of 41.90, a maximum value of 85.32, and an average of 68.69. This shows that human development in Indonesia proxied by three indicators, namely a long life and healthy life, knowledge, and a decent standard of living, are pretty high. The last BPK audit opinion variable has a minimum value of 1, a maximum weight of 4, and an average of 3.72. Those data reveal that the audit opinion issued by BPK, on average, gets an unqualified opinion (WTP).

Table 2 shows that the average level of transparency in local financial management in Indonesia is 11.32, which shows that it is still relatively low. Similar results are shown for local independence with an average value of 12.11; this indicates that Indonesia's level of regional autonomy is still relatively low. It differs from research variables such as political competition, human development index and audit opinion, which show a relatively high average value.

The Analysis of Classical Assumption Test

The normality test to out to determine whether the residual value in regression model is usually distributed. A good regression model is that the owned data must be normally distributed. The following are the results of the normality test presented in table 3:

Table 3. Normality Test Result

	Kolmogorov-smirnov Z	P.Sig	Result
Unstandardised Residual	1.191	0.117	Normal

Based on the normality test results in table 3 it shows that the Kolmogorov-Smirnov value is 1.191, and the significance value is 0.117. The test results show that the residuals in the regression model are normally distributed because the significance value of 0.117 is more significant than 0.05. So, the results obtained indicate that the data in the regression model in this study have been normally distributed.

The multicollinearity test was conducted to determine the correlation or relationship between the independent variables in the multiple regression model. A good regression model is a model that does not occur multicollinearity, which means that there is no relationship between the independent variables. Nonmuliticollinearity is determined by a tolerance value greater than 0.1 and a Variance Inflation Factor (VIF) value less than 10.

Table 4. Multicollinearity Test Result

Variables	Tolerance	VIF	Results
Political Competition	0.974	1.027	Multicollinearity Free
Local Independence	0.780	1.282	Multicollinearity Free
Human Development Index	0.753	1.328	Multicollinearity Free
BPK Audit Opinion	0.901	1.110	Multicollinearity Free

From table 4 of the multicollinearity test above, the political competition variable shows a VIF value less than 10 (1.027 < 10) and a tolerance value greater than 0.10 (0.974 > 0.10) so it can be concluded that the political competition variable is free from multicollinearity symptoms. Furthermore, the local independence variable shows a VIF value less than 10 (1.282 <10) and a tolerance value greater than 0.10 (0.780> 0.10) so it can be concluded that the local independence variable is free from multicollinearity symptoms. The Human Development Index variable shows that the VIF value is less than 10 (1.328 < 10) and a tolerance value is more significant than 0.10 (0.753 > 0.10), so it can be concluded that the Human Development Index variable is free from multicollinearity symptoms. Whereas for the BPK audit opinion index variable, the VIF value is less than 10 (1.110 <10), and the tolerance value is more significant than 0.10 (0.901> 0.10), so it

can be concluded that the BPK audit opinion variable is free from multicollinearity symptoms.

Heteroscedasticity test is used to test whether there is an inequality of variance from one residual or observation to another in the regression model. A model that meets the classical assumptions is a model that has the same (homo) variance and scedasticity from the residuals of the observations to other observations. If the significance value is more significant than 0.05, it can be concluded that heteroscedasticity does not occur.

Table 5. Heteroscedasticity Test Result

Variables	T-Statistics	Significance Value	Results
Political Competition	0.828	0.408	Heteroscedasticity Free
Local Independence	0.123	0.902	Heteroscedasticity Free
Human Development Index	-0.600	0.549	Heteroscedasticity Free
BPK Audit Opinion	1.421	0.156	Heteroscedasticity Free

The results of the Glejser test in table 5 show that all independent variables have a p-value above the significant value set at 0.05. The political competition variable has a value of 0.408 greater than 0.05 (0.408> 0.05), the local independence variable has a value of 0.902 greater than 0.05 (0.902> 0.05), the Human Development Index variable has a value of 0.549 greater than 0.05 (0.549> 0.05), while the BPK audit opinion variable has a value of 0.156 which is greater than 0.05 (0.156> 0.05). From these data, it can be concluded that the regression model in this study is free from heteroscedasticity problems.

Regression Analysis

Regression analysis aims to examine the effect of the independent variable on the dependent variable. In this study, the regression analysis used was multiple linear regression. The hypothesis in this study was tested using the R2, F test, and t-test. Hypothesis testing aims to determine whether all the variables in the research model have a significant effect.

The coefficient of determination (R square) measures how far the model's ability to explain variations in the dependent variable (Ghozali, 2011). The following are the results of the coefficient of determination (R square) presented in table 6.

Table 6. Coefficient of Determination Test Result (R²)

Model	R	R Square	Adjusted R Square	Std. The error of the Estimate
1 (TPKD)*	0.561ᵃ	0.315	0.309	0.62951

*TPKD = Transparency of Local Financial Management

Table 6 above shows that the value of R² in this study is 0.315, which means that the variables of political competition, local independence, Human Development Index and BPK audit opinion can only explain 31.5% of the transparency of local financial management. This indicates that the remaining 68.5% is explained by other variables not included in the model.

The F test (Fisher's test) aims to see whether an independent variable included in the regression model has a significant effect on the dependent variable simultaneously. The decision-making criteria are if F statistic> F table (0.05) or probability <significance level (significance <0.05).

Table 7. Simultaneous F Statistical Test Result

Model	F Statistic	Significance	Result
Regression	49.542	0.000	Significant

Simultaneous F statistical test obtained an F statistic of 49.542 and a significance level of 0.000. This shows that the independent variables simultaneously or jointly affect the dependent variable.

The significance test of individual parameters (t statistical test) is used to test how far the influence of each independent variable individually explains the variation of the dependent variable (Ghozali, 2011). The following are the results of the t-test, which are presented in Table 8.

Table 8. Significance Test of Individual Parameters Results (t Statistical Test)

Variables	Unstandardized coefficient	Standardized Coefficients	t Value	Significance	Results
	B	Beta			
Political Competition	-0.167	-0.081	-2.003	0.046	Not supported
Local Independence	2.661	0.428	9.473	0.000	Supported
Human Development Index	0.018	0.131	2.849	0.005	Supported
BPK Audit Opinion	0.006	0.131	3.128	0.002	Supported

In the individual parameter significance test (t statistical test) above, it can be concluded that the first hypothesis, namely political competition, has a significance value of 0.046 which is less than 0.05 (0.046 <0.05) and with a beta value of -0.167 which means that political competition is not has a positive effect on the transparency of local financial management. So, hypothesis 1 (H1) is not supported. The second hypothesis is that local independence has a significance value of 0.000 less than 0.05 (0.000 <0.05) and a beta value of 2.661, which means that local independence positively influences the transparency of local financial management. So, hypothesis 2 (H2) is supported.

The third hypothesis is that the Human Development Index (HDI) has a significance value of 0.005 less than 0.05 (0.005 <0.05) and a beta value of 0.018, which means that the Human Development Index (HDI) has a positive effect on the transparency of local financial management. So, hypothesis 3 (H3) is supported. The last hypothesis is that the BPK audit opinion has a significance value of 0.002 less than 0.05 (0.002 <0.05) and a beta value of 0.006 which means that the BPK audit opinion has a positive effect on the transparency of local financial management. So, hypothesis 4 (H4) is supported.

The test results using multiple linear regression indicate that there is one independent variable that does not have a positive effect on the transparency of local financial management in Indonesia. This variable is political competition. Meanwhile, the other three independent variables, namely regional independence, Human Development Index and BPK audit opinion, have a positive effect in increasing the transparency of local financial management in Indonesia.

The statistical tests show that the first hypothesis, namely the political competition variable has a positive effect on the transparency of local financial management, is not supported. This can be seen from the significance value of 0.046 which is less than 0.05 (0.046 <0.05) and the beta value -0.167. Thus, the results of this study do not provide evidence that political competition has a positive effect on the transparency of local financial management. This is consistent with the research of Laswad et al., (2005), Afryansyah and Haryanto (2013) and Rahim and Martani (2016) who found that political competition has no positive effect on local financial transparency.

Statistical tests show that political competition has a negative effect on the transparency of local financial management. The higher the political competition in a region, the local government will tend not to be transparent regarding its local financial management. This condition occurs because local governments tend to avoid oversight by parliamentarians from supporting parties. When local governments have poor financial management, local governments will tend to omit the information as a form of minimizing supervision.

The results of statistical tests show that the second hypothesis, namely the variable of local independence, has a positive effect on the transparency of local financial management. This can be seen from the significance value of 0.000 less than 0.05 (0.000 <0.05) and the beta value of 2.661. This is in line with previous researches Laswad et al., (2005) and Sari (2010) conducted research with the same variable.

Local governments with a high PAD level are more likely to finance and support all their activities to develop and promote their regions. This form of great support can be in the form of development in various aspects, one of which is the development of technology and information to improve services related to providing information on local financial management to the public. This is in line with the efforts of local governments to minimize the more considerable monitoring costs. One way that agents minimize these costs is to convey the results of organizational performance to the principal periodically. From the results of statistical tests, it is stated that the agency theory can explain the relationship between local independence and increased transparency in local financial management.

The results of statistical tests show that the third hypothesis, namely the Human Development Index variable, has a positive effect on the transparency of local financial management. This can be seen from the significance value of 0.005 less than 0.05 (0.005 <0.05) and the beta value of 0.018. In line with Harnowati's (2017) previous research which revealed that the Human Development Index has a positive influence on the disclosure of local government financial information on the website.

The level of human development is described as a level of advancement achieved by a group of people. Rajkumar and Swaroop (2008) revealed that the high progress of society

as seen from three indicators of human development, namely education, health and a decent standard of living tends to supervise the government and can create good public governance in the region.

Jensen and Meckling (1976) revealed that monitoring is one of the principal efforts to control the agent's actions to act by the principal's interests. Delivering complete financial management information to the public is one way for local governments to minimize monitoring costs imposed on local governments. Then, the results of statistical tests state that this agency theory can explain the relationship between the Human Development Index and the increase in transparency of local financial management.

The results of statistical tests show that the final hypothesis, namely the BPK audit opinion variable, has a positive effect on the transparency of local financial management. This can be seen from the significance value of 0.002 which is less than 0.05 (0.002 <0.05) and the beta value of 0.006. This is in line with previous research by Liestiani (2008), Rahim and Martani (2016) state that the BPK audit findings can influence the level of financial information disclosure.

The audit opinion issued by BPK is an indicator of the quality of financial accountability, as seen from the disclosure of the LKPD. According to Rahim and Martani (2016), the audit opinion provided by the BPK shows the fairness level of the LKPD. A reasonable audit opinion indicates that the financial reports have been presented by statutory provisions related to local financial reporting, and the BPK obtains no findings. The audit opinion provided by the BPK according to Law Number 15 of 2004 concerning the Audit of the Management and Accountability of State Finances generally has four statements. Namely, Adverse Opinion (TW), Disclaimer of Opinion (TMP), Qualified Opinion (WDP), and the best opinion is Unqualified Opinion (WTP). Local governments that receive a WTP opinion will tend to disclose more information related to financial reports to the public as a positive signal. This shows that local governments have the good and accountable quality of financial management. Then, the statistical test results state that this signalling theory can explain the relationship between BPK audit opinion on increasing the transparency of local financial management.

CONCLUSION

This research is motivated by the existence of information states that the low level of transparency of regional financial management in Indonesia. The Master of Accounting FEB UGM expressed this through the publication of a local financial transparency index of 542 local governments in Indonesia. From this phenomenon, this study examines the influence of factors that affect the transparency of local financial management, including political competition, local independence, Human Development Index and BPK audit opinion. This study uses data from all local governments in Indonesia in 2016. This study

used a purposive sampling method and conducted multiple linear regression analyses to test the research hypothesis.

This study indicates that the political competition variable is not proven to have a positive effect on the transparency of local financial management. This is not in line with the hypothesis proposed that political competition positively affects the transparency of local financial management. The results of statistical tests for the local independence, Human Development Index, and audit opinion positively affect the transparency of local financial management. This indicates that these three variables affect increasing transparency in local financial management.

The results of this study reveal that agency theory can be used to explain that local independence and the Human Development Index have a positive effect on increasing the transparency of local financial management. In addition, signalling theory can also explain that audit opinion has a positive impact on increasing the transparency of local financial management.

This study is limited to data availability used as the independent research variable. Some local governments do not publish or do not provide complete information regarding political competition data, which is proxied by the number of council members from non-supporting parties divided by the number of council members as a whole. This study is limited to four independent variables in predicting the effect on the transparency of local financial management. Further research can add other variables, such as factors for the size of local government, local expenditure, local government wealth, legislative size, the complexity of local government, level of dependence, local government financial capacity, press visibility, and administrative age of local governments so that more complete results will be obtained. The results of research for political competition variables are not supported; further research can use other measuring tools which are expected to capture this phenomenon better.

This study has two implications. For academic purposes, this study hopes that this research can increase scientific insight into local financial management related to assessing the transparency of local financial management and factors that affect the openness of local financial management and a reference for further research. For local governments, this study can be input and motivation to improve transparency in local financial management and become a reference for factors that affect the openness of local financial management. In other words, local governments can increase their efforts in local independence, human development and audit opinion. For the central government, in this case, the Ministry of Home Affairs can be used as a reference for formulating policies and providing guidance that can increase the transparency of local financial management in the future.

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