The Effect of Local Government Fiscal Decentralization on Financial Reporting Accountability with Financial Performance as a Moderating Variable (Study of Regency and City Local Governments in North Sumatra in 2016-2020)

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Abstract. The implementation of fiscal decentralization in Indonesia has come a long manner over the last two decades. This observe objectives to acquire empirical proof about the impact of the implementation of economic decentralization at the accountability of neighborhood government financial reporting with monetary overall performance as a moderating variable. tests were completed on 33 district and town nearby governments in North Sumatra. This study makes use of the documentation technique the use of secondary information acquired from the LHP (Inspection document) of the BPK RI on LKPD (nearby government financial Statements). The analytical check gear used are logistic regression and moderate Regression analysis (MRA). fiscal independence has a big bad impact on economic reporting accountability. Dependence on the valuable government has no significant effect on the duty of economic reporting duty. performance finance can have an effect on monetary independence on economic reporting responsibility but can not slight the impact of local government dependence on valuable authorities on financial reporting accountability.

Keywords: Fiscal Decentralization, Fiscal Independence, Dependence on Central Government, Financial Reporting Accountability, Financial Performance

1 Introduction

In the course of implementing this decentralized system, many dynamics have been experienced, starting from the early era of reform until the current era. In the spirit of making independence inside the regions, economically, fiscal decentralization is one of the answers sought by way of the Central Government for Regional Governments. Although it is still taken into consideration very fast, the implementation of delegation of authority in all traces, besides for aspects inside the fields of foreign policy, protection, security, justice, monetary and fiscal and religious. This delegation of authority was observed by the handing over of investment

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assets within the shape of handing over tax bases and funding help via a switch mechanism to the regions.

However, in practice, in the early days, there had been many corrupt practices that passed off in local governments attributable to the utility of authority that became so great powerful, as if it became simply repeating the old story that befell throughout the Brand New Order. Of course, this is very far from the state of affairs previously envisioned.

Till now, after more than 20 years of decentralization and regional autonomy, the difficulty of decentralization and fiscal independence continues to be a trouble and a highlight as it has no longer absolutely proven the favored goals. The outcomes of a review by the Audit Board of the Republic of Indonesia (BPK) on fiscal independence through the calculation of the Fiscal Independence Index (IKF), as many as 88.07% of local governments are nevertheless classified within the "Not Yet Independent" category. This additionally takes into account outside factors that passed off, namely the COVID-19 pandemic throughout 2020, which apparently did not have a significant impact. This was said due to the fact the consequences of the IKF calculations did not change the fiscal independence status of local governments which nonetheless remained in the “not yet independent” since 2013. There is also a large gap in fiscal independence between regions [1].

The aim of fiscal decentralization is to increase financial resources originating from the regions and use them to improve the quality and quantity of services for community needs. With fiscal decentralization, it’s is hoped that regions will have independence in growing regional financial resources to finance regional spending and development activities in the region. Fiscal decentralization cannot be performed without local government dependence on the central government, in truth regional governments nevertheless count on balancing funds from the central government. So the implementation of fiscal decentralization requires responsibility and transparency from local governments in terms of financial management. Accountability is a key aspect of fiscal decentralization reform. Because with accountability, the management of financial resources entrusted by the community will become more transparent [2].

Accountability is the responsibility to report and be answerable for the success or failure of implementing the agency undertaking in achieving predetermined results, through regular accountability media. Accountability is believed to be able to change the condition of a government, from a government that cannot offer precise public services and is corrupt to a democratic order. On the organizer aspect, accountability reflects the governments dedication to serving the public [3].

Based on Law Number 15 of 2004 concerning Auditing and Management of State Financial Responsibility, the Financial Audit Agency of the Republic of Indonesia (BPK RI) carries out examinations of the management and responsibility of state finances covering all elements of state finances as intended in Law Number 17 of 2003 concerning State Finances. Types of state financial audits include financial audits, performance audits, and PDTT (Inspections with Specific Objectives). Financial audit goals to provide an opinion on the fairness of financial reports (SPKN, 2017) [4]. Currently, the development of the quality of financial reports and accountability for LKPD has increased from 2016 to 2020 but is not yet optimal, because it can be seen from the fact that there are still regions that receive *disclaimer* opinions or do not give *adverse* or unreasonable opinions.

Fontanella and Rossieta (2014) found that good regional government performance weakens the negative influence of dependence on the central government on the possibility of high accountability in financial reporting in the form of increased opinion. This finding is consistent with previous literature which found that performance will increase transparency and accountability of government finances [5].

The performance of regional government administration has a positive effect on financial reporting accountability, but the performance variable does not have the ability to moderate the relationship between regional independence and financial reporting accountability [6]. One form of successful regional government financial performance is increasing independence and gradually reducing fiscal dependence on the central government. Agustina (2013) stated that the aim of regional autonomy and fiscal decentralization according to Law Number 32 of 2004 is to increase independence and reduce the fiscal dependence of Local Governments on the Central Government [7].

1.1 Teori Stewardship

The basic assumption of stewardship theory is that managers always act in such a way as to maximize the interests of the company and the contemporary business environment forces management towards ethically responsible, innovative, yet profitable business. At the same time, a steward who successfully improves organizational performance generally satisfies most groups, because most stakeholder groups have interests that are best served by increasing organizational wealth. Higher needs and intrinsic factors are important in motivating individuals to serve an organization, and they recognize that identification with and commitment to the organization can facilitate one motivation to promote organizational success. Therefore, an organizational steward is motivated to maximize organizational performance, thereby satisfying shareholder interests [8].

1.2 The Effect of Fiscal Independence on the Accountability of Regional Government Financial Reporting

Regional independence has a positive effect on the possibility of regions having the highest financial reporting accountability to good audit opinions. So fiscal decentralization generally influences the possibility of regions having the highest financial reporting, especially looking at the aspect of regional independence [4]. Regional independence has a positive effect on financial reporting accountability, this shows that district/city governments can develop local original income well so that they can finance development or other costs from the financial results of regional independence [9]. In the other research, it is stated that fiscal decentralization has no effect on the accountability of financial reports. Most local governments have not been able to develop PAD, so they are still dependent on the central government [10].

H1 : Fiscal decentralization affects the accountability of financial reporting

1.3 The Effect of Dependence on the Central Government for Accountability of Regional Government Financial Reporting

Fiscal gaps that occur between the government and regions and between regions can be reduced with the existence of balancing funds. Balancing funds can also be used to increase

regional capacity in exploring regional economic potential. Balancing Funds are transfer funds given to Regional Governments for the purpose of equalization so that there is no income inequality between Regional Governments, there is no effort made by Regional Governments to obtain Balancing Funds. A high percentage of balancing funds indicates that the Regional Government is not independent in managing its revenues and can cause performance accountability assessments to be lower because a high percentage of Balancing Funds indicates that the Regional Government is unable to plan and carry out programs/activities to optimize Locally-Generated Revenue (PAD).
H2: Dependence on the central government influences financial reporting accountability

1.4 Financial performance moderates the relationship between fiscal independence and financial report accountability

Performance is the overall result or level of success during a certain period in carrying out a task. Stewardship theory views that management in local government organizations who are assumed to be stewards are entrusted to work responsibly in accordance with organizational goals. Performance as a moderator influences the relationship between fiscal independence and the accountability of local government financial reporting. With a high level of independence and supported by good performance, the region will have the possibility of obtaining good accountability as well [5] [6].
H3: Government performance moderates the relationship between regional independence and financial reporting accountability

1.5 Financial Performance moderates the relationship between dependence on the central government and financial report accountability

Performance influences the relationship between regional government dependence on the central government and the accountability of regional government financial reporting. So the sixth hypothesis proposed is that if there is a high level of dependency within a regional government, supported by good performance, there will be an opportunity for the region to obtain good accountability.

H4: Government performance moderates the relationship between dependence on the central government and financial reporting accountability

2 Research Method

The type of data used in this research is secondary data, namely data whose source does not directly provide data to the data collector, for example through other people or through documents. The documents can be in the form of notes, books and magazines, websites in the form of company published financial reports, government reports, articles, books as theories, and so on.

The sample is 33 regencies and cities in North Sumatra Province in the form of Audit Result Reports (LHP) of Regional Government Financial Reports (LKPD) from 2016-2020.

The data analysis method is the method that will be used by researchers to manage the data obtained in order to produce research results that can be proven empirically. All data obtained by researchers is processed using SPSS software and will be tested using logistic regression.

Therefore, before data analysis is carried out, it is necessary to test the question instrument through data quality testing, model feasibility testing, coefficient of determination testing, and hypothesis testing and data analysis.

3 Result

3.1 Hosmer and Lemeshow Testing

The results of testing the similarity of the predictions of the logistic regression model with the observation data obtained from the chi square value of 10.974 with a significant value of 0.203. With a significant value greater than 0.05, there is no difference between the predictions of the logistic regression model and the observed data. This means that the model is able to predict the observed values or it can be said that the model is accepted because the model matches the results of the observations.

3.2 Cross Tabulation Model

The logistic regression model used was quite good, because it was able to correctly predict 61.8% of conditions that occurred ((50+52): 165 x 100%).

Table 1. Clasification Table

Observed			Predicted		
			Financial Reporting Accountability (Y)		Percentage Correct
			Beside WTP	WTP	
Step 1	Financial Reporting Accountability (Y)	Beside WTP	50	32	61.0
		WTP	31	52	62.7
	Overall Percentage				61.8

a. The cut value is .500

3.3 Overall Model Testing

The results of the omnibus test of model coefficient showed that the chi square value was 10.768 with a significant value of 0.056. With a significant value greater than 0.05, it can be concluded that Fiscal Independence (X1), Dependence on Central Government (X2), Financial Performance (Z), the interaction between Fiscal Independence (X1) and Financial Performance (Z), the interaction between Dependence on the Central Government (X2) and Financial Performance (Z) do not simultaneously influence Financial Reporting Accountability (Y).

Table 2. Omnibus Test of Model Coefficient

		Chi-square	df	Sig.
Step 1	Step	10.768	5	.056
	Block	10.768	5	.056

Model	10.768	5	.056

3.4 Hypothesis Testing

The results of partial testing using a logistic regression analysis tool, the significance of the influence of each variable can be seen in the table which has significance with the logistic regression equation as follows:

$$Y = 5{,}636 - 12{,}746\ X_1 - 5{,}489\ X_2 + 3{,}689\ Z + 126{,}449\ X_1{*}Z - 28{,}222\ X_2{*}Z \qquad (1)$$

Table 3. Logistic Regression Testing

		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I for EXP(B)	
								Lower	Upper
Step 1[a]	Fiscal Independence (X1)	-12.746	5.745	4.921	1	.027	.000	.000	.227
	Dependence on Central Government (X2)	-5.489	4.061	1.827	1	.177	.004	.000	11.833
	Financial Performance (Z)	3.689	22.218	.028	1	.868	40.002	.000	3.268E+20
	X1*Z	126.449	55.974	5.103	1	.024	8.242E+54	18674824.078	3.638E+102
	X2*Z	-28.222	33.154	.725	1	.395	.000	.000	9.203E+15
	Constant	5.636	3.520	2.564	1	.109	280.378		

a. Variable(s) entered on step 1: Fiscal Independence (X1), Dependence on Central Government (X2), Financial Performance (Z), X1*Z, X2*Z.

Based on the logistic regression model formed, a relationship is obtained between each independent and moderating variable (X1, X2, Z, X1*Z, X2*Z) and the dependent variable (Y) which can be explained as follows:

1. A constant value with a positive sign states that if there are no independent and moderating variables (X1, X2, Z, X1*Z, The regression coefficient for Fiscal Independence (X1) has a negative sign of -12.746 and a significance value of 0.027 <0.05, meaning that Fiscal Independence (X1) has an effect on Financial Reporting Accountability (Y).
2. The regression coefficient for Dependence on Central Government (X2) has a negative sign of -5.489 and a significance value of 0.177 > 0.05, meaning that Dependence on Central Government (X2) has no effect on Financial Reporting Accountability (Y).
3. The regression coefficient for Financial Performance (Z) has a positive sign of 3.689 and a significance value of 0.868 > 0.05, meaning that Financial Performance (Z) has no effect on Financial Reporting Accountability (Y).
4. The regression coefficient X1*Z (the interaction between X_1 and Z) has a positive sign of 126.449 and a significance value of 0.024 <0.05, meaning that Financial Performance (Z)

moderates the influence of Fiscal Independence (X1) on Financial Reporting Accountability (Y).

5. The regression coefficient X2*Z (the interaction between X_2 and Z) has a negative sign of 28.222 and a significance value of 0.395 > 0.05, meaning that Financial Performance (Z) does not moderate the influence of Dependence on the Central Government (X2) on Financial Reporting Accountability (Y).

4 Conclusion

Based on these results, it can be seen that of all the independent, dependent and moderating variables, the results which are significant and the research hypothesis is accepted are the influence of Fiscal Independence (X1) on Financial Reporting Accountability (Y), then Financial Performance (Z) moderates the influence of Fiscal Independence (X1) on Financial Reporting Accountability (Y) because the significance value is <0.05. Meanwhile, the other research hypotheses were rejected because the significance value was > 0.05.

1. Based on the first hypothesis (H1) fiscal independence has a significant negative effect on financial reporting accountability. This finding means rejecting the hypothesis that the higher the level of fiscal independence, the better the level of accountability in local government financial reporting. With the increase in PAD acquisition, regional governments in carrying out government affairs within their authority have not been able to provide optimal public services. Obtaining insufficient audit evidence that is inadequate and of significant value has an impact so that the fairness of the financial reporting presentation cannot be fully assured and becomes the basis for obtaining an opinion other than WTP. Increasing regional income must be accompanied by transparency and accountability in its use.
2. Based on the second hypothesis (H2), the dependence of the Regional Government on the Central Government has an insignificant value. This finding means that dependence on the Central Government (X2) has no effect on Financial Reporting Accountability (Y). This could be due to the low level of control provided by the central government over the management of transfer funds so that regional governments are not motivated to improve the quality of audits of regional financial reports. The negative sign on the coefficient indicates that regions that are more independent (have a smaller level of dependence) have better audit quality. A region that is more independent indicates that the region has a larger share of Original Regional Income (PAD).
3. Based on the third hypothesis (H3), it is formulated that Financial Performance has the ability to moderate Fiscal Independence on Financial Reporting Accountability. The test results prove significant with a positive sign. This shows that a good level of regional government performance is able to strengthen the relationship between regional fiscal independence and accountability in regional financial reporting.
4. Based on the fourth hypothesis (H4) regression coefficient X2*Z (Interaction between X2 and Z) has a negative sign of 28.222 and a significance value of 0.395 > 0.05, meaning that Financial Performance (Z) does not moderate the influence of Dependence on the Central Government (X2) on Financial Reporting Accountability (Y).

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