

The Role of Follow-up of Audit Recommendations and Financial Performance on Incumbents Electability in Indonesia

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Abstract

This study aims to analyse the effect of follow-up of audit recommendations and local government financial performance on incumbent electability. Using a quantitative approach and secondary data from local elections in Indonesia in 2017, 2018, and 2020, this study involved a final sample of 428 observations consisting of 26 governor elections, 76 mayor elections, and 326 regent elections. The results show that the main variables analysed, namely follow-up to audit recommendations and financial performance, play a role in increasing the electability of incumbents. Good local government financial management, especially those related to accountability and sustainability of local finances, was shown to affect the level of electability of incumbents. This study has important implications for local government awareness of the role of audit practices and government financial management in increasing public trust and satisfaction. The findings emphasize the importance of implementing good financial governance and accountability as one of the factors that can support increased political support for incumbents in general elections.

Keywords: Incumbent Electability, Follow-up of Audit Recommendations, Financial Performance, Financial Independence.

Abstrak

Penelitian ini bertujuan untuk menganalisis pengaruh tindak lanjut rekomendasi audit dan kinerja keuangan pemerintah daerah terhadap elektabilitas petahana. Dengan menggunakan pendekatan kuantitatif dan data sekunder dari pemilihan kepala daerah di Indonesia pada tahun 2017, 2018, dan 2020, penelitian ini melibatkan sampel akhir sebanyak 428 observasi yang terdiri dari 26 pemilihan gubernur, 76 pemilihan walikota, dan 326 pemilihan bupati. Hasil penelitian menunjukkan bahwa variabel utama yang dianalisis, yaitu tindak lanjut rekomendasi audit dan kinerja keuangan, berperan dalam meningkatkan elektabilitas petahana. Pengelolaan keuangan pemerintah daerah yang baik, terutama yang berkaitan dengan akuntabilitas dan keberlanjutan keuangan daerah, terbukti mempengaruhi tingkat keterpilihan petahana. Penelitian ini memiliki implikasi penting bagi kesadaran pemerintah daerah akan peran praktik audit dan pengelolaan keuangan pemerintah dalam meningkatkan kepercayaan dan kepuasan masyarakat. Temuan ini menekankan pentingnya penerapan tata kelola dan akuntabilitas keuangan yang baik sebagai salah satu faktor yang dapat mendukung peningkatan dukungan politik bagi petahana dalam pemilihan umum.

Kata kunci: Elektabilitas Petahana, Tindak Lanjut Rekomendasi Audit, Kinerja Keuangan, Kemandirian Keuangan

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1. Introduction

In the dynamics of politics and governance in Indonesia, incumbents have a significant advantage over new challengers in elections. This advantage is not only due to higher name recognition, but also access to government resources that can be utilized to promote themselves. However, the success of incumbents in retaining their positions also depends heavily on public perceptions of their performance during their tenure. These perceptions are often rooted in transparency, accountability and effectiveness of financial management or local financial conditions, especially in allocating budgets for the public interest. In transparency and accountability, follow-up on audit recommendations is an indicator in assessing government accountability Kurniati & Abbas (2023),

where actions are taken by the organization or entity that has been audited to respond to and implement the recommendations provided by the auditor. Meanwhile, in the effectiveness of regional financial management and conditions according to Permendagri Nomor 19 Tahun (2020) namely financial independence and flexibility and service solvency are three of the six indicators to measure financial performance which is the financial ability of a local government to fulfill its obligations, anticipate unexpected events or execute its financial rights efficiently and effectively.

Agency theory provides a theoretical framework for understanding the relationship between the government as an agent and the public as a principal, namely in the government sector, the public as a principal try to minimize agency problems by holding agents, in this

case public officials, accountable for the sovereignty that has been given. Therefore, government performance information in the form of financial information is very important for transparency and accountability (Alcaide Muñoz et al., 2016). Related to this, research has developed that analyzes the effect of follow-up on audit recommendations and local government financial performance in increasing incumbent electability, several previous studies have analyzed the extent of the impact of financial accountability on incumbent electability including Ferraz & Finan (2011), Furqan et al. (2021), Purwanti (2023) namely financial statement information and audit results are important indicators for measuring the re-election of incumbent executives. Likewise, research by Darmawati et al., (2019) and Cuadrado-Ballesteros et al. 2019) which analyzed the effect of financial performance and financial health as a factor in increasing the electability of incumbents. Although many studies have discussed this, there are still gaps in the measurement of financial accountability and sustainability, namely the use of only the effects of audit findings but not the follow-up of audit recommendations, which is still rare to find research that highlights how the follow-up of audit recommendations affects the electability of incumbents, as well as the measurement of financial performance which only focuses on budget and financial independence. Therefore, this study wants to fill this gap by exploring more indicators of follow-up on audit recommendations, financial independence, financial flexibility and service solvency on the electability of the incumbent.

Based on the data used by researchers, namely districts / cities and provinces in Indonesia in 2017, 2018 and 2020 with a sample size of 428 observations consisting of 326 districts, 76 cities and 26 provinces, some of the findings and contributions of this study are as follows. **First**, related to the follow-up of audit recommendations, the results of this study show a positive effect of the follow-up of audit recommendations on the electability of incumbents. In line with Furqan et al. (2021) which states that governments that carry out follow-up on audit recommendations based on suggestions by auditors tend to get a good response from voters. **Second**, the results of this study indicate a positive effect of financial performance on the electability of incumbents in line with the research of Bouvet & King, (2016) and Anderson (2007) Solid financial and economic performance provides concrete evidence to voters regarding the managerial ability and success of incumbents in managing public resources and determines the electability of incumbents.

2. Research Methods

Data

This research was conducted in Indonesia, focusing on the organization of Regional Head Elections (PILKADA) in 2017, 2018, and 2020. In 2017, simultaneous PILKADA was held in 101 regions, 171 regions in 2018, and 270 regions in 2020. The number of incumbents who participated in the PILKADA during the research period was 82 in 2017, 126 in 2018, and 223 in 2020. However, due to data limitations, namely the unavailability of financial performance data in two regions and one region that did not have PILKADA data, the final sample was 428 observations consisting of 26 governor elections, 76 mayoral elections, and 326 regent elections. Of this participation, the incumbents who received the most votes were 257 incumbents or with a range of 60.04% of the total elections, consisting of 7 incumbents or 26.92% in the governor election, 51 or 67.10% in the mayor election and 199 or 61.04% in the regent election. All data used in this study are sourced from the General Election Commission (KPU) related to election data, the Indonesian Supreme Audit Agency (BPK) in the form of LKPD for follow-up data on audit results and financial performance, and from the Ministry of Home Affairs for data on the age, size, and status of local governments.

Empirical Model

To answer the research problem, the empirical model in this study is as follows:

$$INC_{it} = \alpha_0 + \alpha_1Folup_{it} + \alpha_2Kinkeu_{it} + \alpha_3Size_{it} + \alpha_4Mun_{it} + \alpha_5Ages_{it} + e.....(1)$$

This research model is a regression model used to analyze the factors that influence the dependent variable, this model provides an overview of the various factors which in this case are independent variables that can affect the observed variable. Meanwhile, the coefficients in this model provide information on the strength and direction of the relationship between these factors and the dependent variable.

- INC_{it} : Dependent variable
- Folup_{it} : Independent variable
- Kinkeu_{it} : Independent variable
- Size_{it} : Control variable
- Mun_{it} : Control variable
- Ages_{it} : Control variable

The main variables in this study include **INC_{it}**, **Folup_{it}**, and **Kinkeu_{it}**. **INC_{it}** is the incumbent's electability, measured by the percentage of the incumbent's votes to the total valid votes. **Folup_{it}** is the follow-up of audit recommendations, measured by the percentage of audit recommendations implemented in accordance with the

recommendations of BPK auditors. **Kinkeu_{it}** reflects the ability of regions to manage their finances well, measured through fiscal independence (Fisk), financial flexibility (Fleksk), and service solvency (Solv). **Fisk** measures the ability of the region to self-finance government activities without external assistance, measured by the ratio of local own-source revenue to total revenue. **Fleksk** measures the local government's ability to raise financial resources, calculated by subtracting DAK from total revenue, then dividing it by total liabilities plus personnel expenditure. **Solv** measures the ability of the region to provide public services, calculated by the ratio of total fixed assets to total population. The control variables in this study are **Size_{it}**, **Mun_{it}** and **Ages_{it}**. **Size_{it}** is a local government size variable measured by the natural logarithm (Ln) of total local government assets. **Mun_{it}** is a local

government status variable measured by a dummy, namely "1" if the local government has the status of City, and "0" if other. **Ages_{it}** is a local government age variable measured by the number of years the local government was formed.

Because the PILKADA observed in this study was held on February 15, 2017, June 27, 2018 and December 9, 2020, the auditor's report, financial performance, size, status and age of the local government used are those published within 1 year before the PILKADA (year t).

3. Results and Discussion

Results

Descriptive Statistics

A complete descriptive statistical description of the variables in this study can be seen in table 1 below:

Table 1
Statistical Description of Variables

Description	Obs	Mean	Std. Dev.	Min	Max
Inc _{it}	428	46.18	18.39	6.92	99.11
Folup _{it}	428	78.46	13.11	16.36	100
Fisk	428	12.44	11.53	0.14	87.27
Fleksk	428	2.35	0.99	0.79	8.94
Solv [*]	428	10.24	13.27	0.45	131.08
Lnsiz _{it} ^{**}	428	4.847.75	21780.17	538.88	442.977.22
Mun _{it}	428	0.29	0.57	0	2
Ages _{it}	428	41.00	24.03	2	69

Number of Observations = 428

^{*}, ^{**} = In millions of rupiah, billions of rupiah

Source: Secondary data, STATA-14.2 output (Processed, 2024)

Table 1 explains the descriptive statistics for all variables analyzed in this study. The mean of the inc variable shows a value of 46.18 from the number of 60.04% of incumbents who won the election, this can be interpreted that in an election that is held with 3 candidates, to win the election, the candidate must obtain the most votes with a minimum vote share of around 35%, this shows that even though incumbents do not have to obtain a majority of votes (more than 50%), they can still win the election with a relatively lower vote share of 35%. This may be due to the fragmentation of votes between candidates which makes the competition more open, with other candidates may not be able to consolidate enough support. Overall, it shows that incumbents tend to have a greater chance of winning elections, especially in elections involving more than two candidates, where the vote share does not necessarily reach a majority.

Meanwhile, the Mean of the Folup variable shows a value of 78.46, this means that the average sample in this study has a high follow-up value of audit recommendations. The mean Fisk variable is 12.44, so it can be interpreted that the average level of fiscal independence of the local governments sampled in this study still has a low level of fiscal independence. The mean of the Fleksk variable shows a value of 2.35, which means that the financial flexibility of the local governments sampled in this study has a slow speed of mobilization of financial resources. The mean of the Solv variable shows a value of 10.24, it can be interpreted that the average level of solvency of local government services sampled in this study is still in a condition where the ability of local governments to provide and maintain the quality of public services is still low.

Regarding the existence of control variables, table 1 shows that the mean size variable shows a value of 4,847.75 billion rupiahs, this means that the average

assets of the local governments sampled in this study are 4,875.75 billion rupiahs. Meanwhile, the mean mun and ages variables have an average value of 0.29 and 41.00, which means that the average local government status used in this study is a local government with district status and the age of the local government is 41 years.

Furthermore, the results of the correlation analysis between each variable are presented in table 2 below:

Table 2 illustrates the results of the variable correlation analysis which shows that the main variables of this study, namely folup as a measure of audit recommendation follow-up and financial performance consisting of Fisk, Fleksk and Solvl as well as the Inc variable, are not all correlated with each other. The follow-up of audit recommendations is positively and significantly correlated to vote share while financial performance is not. For the control variables used, almost all of them are positively and significantly correlated to the inc and folup variables while all control variables are positively and significantly correlated to the financial performance variable. In this case, it means that vote acquisition is only correlated with audit recommendation follow-up and local government status but not with financial performance, size and age of local government.

Table 2
Correlation Analysis of Variables

Variables	Inc	Folup	Fisk	Fleksk	Solvl	Lnsiz	Mun	Ages
Inc _{it}	1000							
Folup _{it}	0.200***	1000						
Fisk	0.047	0.147***	1000					
Fleksk	0.062	0.144***	-0.032	1000				
Solvl	0.034	0.200***	0.369***	0.317***	1000			
Lnsiz _{it}	0.015	0.131***	0.703***	0.086*	0.187***	1000		
Mun _{it}	0.112**	0.009	0.630***	0.009	0.216***	0.464***	1000	
Ages _{it}	0.022	0.212***	0.334***	0.305***	0.455***	0.351***	0.065	1000
	0.643	0.000	0.000	0.000	0.000	0.000	0.175	

Number of observations=428
 ***, **, * = P-value significant 1%, 5%, 10%

Source: Secondary data, STATA-14.2 output (Processed, 2024)

Hypothesis Testing

In general, follow-up of audit recommendations is an effort made by local governments to improve regional financial accountability. (Setyaningrum, 2017). Audit recommendations are usually made to correct weaknesses or deficiencies found during the audit process and to improve efficiency, effectiveness, and compliance with regulations and policies. Being one of the indicators to achieve accountability, and can be used to measure the likelihood of re-election of the incumbent executive (Din et al., 2017). When

accountability increases, public trust and satisfaction with government performance will be better, and this is related to the positive trend of an incumbent regional head who will run for the next election. So that the first hypothesis (**H1**) in this study is that the Role of Follow-Up on Audit Recommendations Has a Positive Effect on Incumbent Electability.

According to Cuadrado-Ballesteros et al. (2019) and Brusca & Montesinos (2006) election results are influenced by financial information and health, when the government provides financial reports that are accurate, transparent, and easily accessible to the public, it can increase public trust in the government. The existence of good and quality financial reports will

indicate an increase in accountability or responsibility for the financial statements that have been made. (Yuniar et al., 2021). Financial performance analysis is an effort to identify financial characteristics based on available financial reports, in this case financial performance is one of the information and a benchmark for voters in making their choices. So the second hypothesis (**H2**) in this study is that the role of financial performance has a positive effect on the incumbent's electability.

Figure 1. Model Analysis

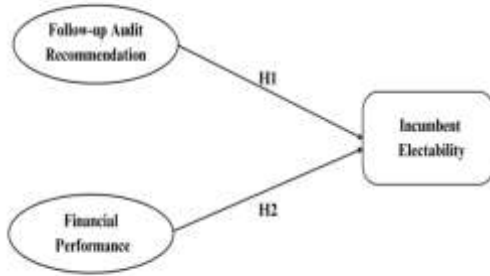


Table 3

Hypothesis Test Results

Variables	Expected Sign	INC
Cons.		39.074
		0.372
Folup	H1 = +	0.287***
		0.000
Fisk	H2 = +	0.362***
		0.004
Fleksk		1.544
		0.203
Solvl		1.577
		0.155
Lnsiz		-1.617
		0.324
Mun	+/-	-6.769***
		0.000
Ages		-0.000
		0.988
Prob>F		0.000
R-Squared		0.082
Mean VIF		1.75
Number of Observations = 428		
***, **, * = P-value significant 1%, 5%, 10%		

Source: Secondary data, STATA-14 output (Processed, 2024).

Testing using multiple linear regression with robust the model can explain 8.2 percent of the variation in standard errors shows that with an R-square of 0.082, incumbent vote share in Indonesia's regional head

elections. With an F-statistical significance level of 1% and a mean VIF of 1.75, the model does not suffer from multicollinearity problems and can reliably explain variations in incumbent vote share in Indonesia's regional head elections.

Table 3 shows that there is a positive effect of the follow-up of audit recommendations (folup) on the incumbent's vote share (inc), with a coefficient of 0.28 at the 1% significance level. This shows that the data used in this study supports Hypothesis 1 (H1) which states that an increase in the follow-up of audit recommendations has an impact on increasing the electability of incumbents. Furthermore, Table 3 also shows financial performance (fisk, flexk, solvl) where in particular financial independence has a positive effect on the incumbent's vote share (inc), with a coefficient of 0.362 at the 1% significance level, while financial flexibility and service solvency have no effect. This shows that the data used supports Hypothesis 2 (H2) which states that improving financial performance, especially financial independence, can increase the electability of incumbents.

Based on the empirical model in this study, the results of the hypothesis testing above can answer the model that has been determined. Where the independent variable, namely folup, shows a positive influence on the dependent variable, namely INC, which illustrates that the higher the value of folup, the higher the value of INC. Furthermore, the results of the second hypothesis testing, namely one of the three indicators of the independent variable, namely kinkeu, especially fisk, has a positive effect on the dependent variable INC, this result illustrates that the higher the value of fisk, the higher the value of INC.

Discussion

The first finding based on the hypothesis testing that has been carried out can be concluded that the results of this study prove the role of the follow-up of audit recommendations on increasing the electability of incumbents which largely supports previous research, especially that conducted by Furqan et al. (2021). The consistency of local government financial reporting is influenced by the application of government accounting practices and apparatus expertise. In government accounting principles, financial reporting must be based on these standards in order to provide complete and accountable facts (Mulyati et al., 2021), this can affect voters' trust in incumbents and potentially increase their chances of being re-elected. Furthermore, this study also supports previous research by Brender (2003) and Stalebrink & Sacco (2007). It is stated that the level of voter trust in local government will be influenced by how far accountability is carried out and how strict rules are imposed in managing local finances. These studies explain in general terms the public

accountability that must be carried out by the government as a form of responsibility to society, so the latest finding in this study is to analyze specifically one of the accountability indicators, namely the follow-up of audit recommendations that can increase the electability of incumbents.

The second finding based on the results of hypothesis testing can be concluded that this study proves the role of financial performance, especially financial independence, in increasing the electability of incumbents, in this case supporting the results of previous research conducted by Fauzan et al. (2019), that voters tend to consider financial performance based on the ability of regions to manage their own finances and reduce dependence on the central government to finance development in their region. The importance of financial performance on incumbent electability can be seen from how well local governments manage their finances, including high budgets influencing incumbents to be re-elected (David et al., 2024). This affects public perceptions of the incumbent's ability to lead and manage resources efficiently, which in turn can affect support and outcomes in elections.

This study also supports research conducted by Balaguer-Coll & Brun-Martos (2013) and Ratna Ayu Damayanti (2021), which examined increasing the electability of incumbents through financial independence. The results of these studies state that increasing local revenue can increase the electability of incumbents to be re-elected. Financial flexibility and service solvency in accordance with the tests that have been carried out that do not contribute to increasing the electability of the incumbent, in line with research conducted by Faguet & Paul (2000) and Gupta & Damania (2004) where good service solvency does not always ensure that incumbents have higher electability, because success in politics is more determined by the party's ability to respond to the needs and problems faced by voters. Financial flexibility and service solvency have no significant impact if they are not supported by these factors. Therefore, the difference with this study is the measurement used, if in previous studies financial independence, financial flexibility and service solvency were measured separately, so the latest findings in this study are that the measurement is carried out at the same time between the three indicators which illustrates the increase in incumbent electability due to the high financial performance of a region, especially in financial independence.

4. Conclusion

In general, this study aims to analyse the role of follow-up on audit recommendations and financial performance on the electability of incumbents in Indonesia. In accordance with the research objectives, the test results found that the follow-up of audit

recommendations and financial performance have a role in increasing the electability of incumbents, the higher the follow-up of audit recommendations, the higher the electability of incumbents, the better the financial performance of local governments, the higher the electability of incumbents. The implication of the results of this study is the importance of local government awareness of the role of audit practices and government financial management in increasing public trust and satisfaction, the government is expected to evaluate performance in accordance with the results of recommendations and improve financial performance.

These evaluations and improvements are very important to measure the extent to which effective audit practices and transparent and accountable financial management are effective in increasing the electability of incumbents. This study uses data from the 2017, 2018, and 2020 election years. In addition, it only analyses 1 indicator that discusses the quality of local government financial reports that support accountability and 3 out of 6 indicators regarding the measurement of financial conditions which only consist of financial independence, financial flexibility and service solvency. Future researchers are expected to develop the sample studied, as well as analyse other determining variables that can affect the electability of incumbents such as audit findings & opinions, as well as short-term, long-term solvency and operational solvency.

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