Local Government Financial Performance: The Role of Political Monitoring

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Abstract: This study intends to investigate and demonstrate the impact of local government financial performance as influenced by political oversight, regional wealth, intergovernmental revenue, and capital spending. In Indonesia in 2019, the district/city local governments were the subject of this study. The Report on Local Government Finances (LKPD) accessible at the Audit Board of the Republic of Indonesia was used as secondary data (BPK RI). The data used in this study included 491 data samples chosen using the purposive selection approach from 507 districts/cities across Indonesia. The analytical method used in this study was path analysis with Smart PLS software and a significance level of 5%. Structural Equation Modeling was used for data analysis (SEM). The findings of this investigation showed that regional wealth, intergovernmental revenue, and capital expenditures have an impact on local government’s financial performance. Political supervision, however, does not mitigate the association between intergovernmental revenues and capital expenditures on the financial performance of local governments, which reduces the relationship between regional wealth and local government financial performance. The results of this study are anticipated to be used as source material for studies on the factors affecting local government financial performance and to help local governments by providing information on the monitoring activities carried out by numerous Regional People’s Representative Council (DPRD) members. As a result, local governments will be encouraged to increase legislative oversight to improve their financial performance.

Keywords: Regional Wealth, Intergovernmental Revenue, Capital Expenditure, Political Monitoring, Financial Performance.

1. Introduction

All rights and obligations under the regional financial management technique, which is defined as income, spending in the form of regional expenditure, and other financings, are affected by the implementation of regional autonomy. Regional autonomy is the exercise of sovereignty over one's own concerns or regional interests, including one's own citizens' welfare (Law No. 23, 2014). Implementing all government affairs to attain prosperity carried out equally, democratically, transparently, and effectively includes regional financial management in the framework of funding. It is anticipated that regions will further develop their own resources and potential with the introduction of regional autonomy, resulting in a more prosperous local population (Noviyanti & Kiswanto, 2016). The concepts of compliance and fairness are used to implement regional financial management guidelines in accordance with Government Regulations 5 No. 105 of 2000, which also stipulates that regional financial management guidelines must be accountable. Creating strong governance requires effective local financial management, with financial performance measurement indicators serving as a crucial yardstick for performance evaluation in local government (LG) (Darwanis & Saputra, 2014). The findings and performance suggestions are connected to the work program on implementing the internal control system.

Compliance with laws and regulations was published in the opinion on the financial performance accountability report following the examination conducted by BPK-RI. Results of the first semester 2020 audit by the Audit Board of the Republic of Indonesia on 541 the Report on Local Government Finances in 2019 showed Unqualified Opinion (WTP) on 485 (90%) LKPD, Qualified Opinion (WDP) on 50 (9%) LKPD, and Disclaimer Opinion (TMP) on 6 (1%) LKPD. Due to inadequate oversight by responsible parties with the authority, a lack of a strong internal control system structure, and a high level of disobedience to the relevant rules and regulations, the LG that obtained the WDP opinion was nonetheless registered (Redaksi, 2019). Based on the First Semester Audit Board of the Republic of Indonesia (BPK RI) Examination results in 2020, it was determined that there was a problem with non-compliance with financial impacts. The Audit Board (BPK) disclosed that there were 6,160 findings, consisting of 10,499 problems, 5,175 issues with internal control systems (SPI), and 5,324 issues with non-compliance with statutory provisions, which led to losses of Rp. 1.52 trillion. There were additional issues with financial performance, specifically with the 3E (Economy,
Efficiency, and Effectiveness) aspect, according to the Audit Board of the Republic of Indonesia Examination Report for the Second Semester of 2020, which revealed that 53 issues were found and led to a loss of Rp. 137.86 billion.

Furthermore, issues with its reporting and management of capital expenditures persist, as evidenced by the First Semester Audit Board of the Republic of Indonesia Examination results in 2020. 484 LG lost Rp 432.75 billion due to payments for capital expenditures that were more than necessary due to physical limitations and non-compliance with specifications or job details. Due to payments for capital expenditures that were more than necessary because of physical constraints and non-compliance with specifications or project specifics, 484 LGs lost Rp 432.75 billion. Additionally, there are issues with the way in which the regional revenue management method implements revenue. The issue was the absence of other revenues, which affected 36 LG and led to a loss of Rp. 8.08 billion. This loss was caused by the overpayment of government subsidies and regional revenues.

The use of a lower tax of/Non-Tax State Revenue (PNBP) rate than was necessary. This issue arose as a result of the relevant officials' under-monitoring of the administration of capital expenditure accounts, income, and levies, as well as the management of regional financial governance obligations. It had an impact on ineffective regional financial management, procedures that are carried out in a manner inconsistent with the provisions, human resources that were not properly educated, targets and targets that had not been fully attained, and all issues pertaining to the effectiveness of LG performance (Summary of BPK's Audit Reports (IHPS BPK, 2014)). Furthermore, with political supervision serving as a moderating variable, this study sought to evaluate and quantify the impact of regional wealth, intergovernmental revenue, and capital expenditures on the financial performance of LG.

2. Literature Review and Hypothesis Development

**Agency Theory:** Agency theory, according to Jensen and Meckling (1976), is a theory that describes a legal relationship between the principal and the agent in which the principal gives the agent discretion and trust when making decisions. A complex interaction in the public sector is described by agency theory (Suryaningsih & Sisdyani, 2016). To assess an area's performance, LG is required to produce reports, disclose all operations, and provide accountability reports to the community (Masdiantine & Erawati, 2016). This is done to make sure regional wealth management has been effectively managed and to prevent information asymmetry to further optimize the financial performance of LG. Agency issues will develop if regional finances are not managed for the welfare of the community in the best possible way.

**Stakeholder Theory:** Stakeholder theory describes internal or external parties including the government, rival businesses, the global environment, environmental watchdogs, and institutions outside the business and community (Hadi, 2014, p. 93). Stakeholder theory calls for data or information that is more pertinent, trustworthy, and diverse when determining a course of action (Mardiasmo, 2009, p.159). According to Sesotyaningtyas (2012), the relationship between the constituents the DPRD represents and the LG might be compared to that between stakeholders and managers. In the public sector, stakeholders, specifically the population represented by the DPRD, give the regional government complete ability to run the government and arrange it in a way that maximizes efficiency.

**Local Government Financial Performance:** Performance is defined as the result of activities that need to be completed or have already been completed in relation to the use of a measurable amount and quality of budget, according to Minister of Home Affairs Instruction No. 21 of 2011 article 1 (37) related to the Guidelines for Regional Financial Management. A view of an activity or program performance is how well it helped an entity reach the goals outlined in Bastian's (2006) planning strategy. Mahsun (2013), the financial performance of LG is an indicator of the degree of effectiveness of regional financial management in putting programs, work activities, or policies into place that will help the area achieve its goals. Performance measurement is a technique of evaluating accomplishment or success in implementing a work program to fulfill a mission (mission accomplishment) through commodities, services, or processes to obtain a result (Aswar et al., 2020; Putri et al., 2020).
**Regional Wealth and Local Government Financial performance**: According to Law No. 33 of 2004 Governing the Financial Balance of the Central Government and Regional Governments, regional wealth is defined as the totality of an area’s economic resources that are efficiently managed to meet demands and maximize potential. According to Law Number 23 of 2014 concerning Regional Government, Local Own-source Revenue (PAD) is income from the region's original economic activity or activities (Halim & Kusufi 2014, p. 101). Regional taxes, regional levies, the outcomes of distinct regional wealth management, and other legal local revenue are all included in the PAD classification. As a kind of decentralization, PAD can be utilized as a goal to exercise LG authority to finance regional government operational activities without relying on central government transfer monies (Aswar, 2019). A region’s financial performance is determined by the amount of PAD it receives, and a greater PAD shows that the LG is able to manage the local economy and all of its potential (Sari, 2016). According to agency theory, LG needs to be transparent in its financial reporting to build public trust in regional financial management. The impact of PAD on the financial performance of LG has been studied previously by Aswar (2019), Amalina and Sumardjo (2020), Samadara et al. (2021), Oktaviani et al. (2020), and Simanullang (2013). Results from earlier studies indicate that PAD has an impact on how financially successful LG.

**H1**: Regional wealth affects the financial performance of LG.

**Intergovernmental Revenue and Local Government Financial performance**: In order to help regions fund governance and reduce potential resource imbalances between them, the central government transfers cash known as "balancing funds" to LG as a source of revenue. Accountable financial management must come from the center (Lutfia & Bagana, 2018). The Special Allocation Funds (DAK), Profit Sharing Funds (DBH), and General Allocation Funds make up the balancing fund, which is based on Law No. 33 of 2004 Article 10 Paragraph 1. (DAU). The distribution or allocation of LG finances is indirectly responsible for enhancing and optimizing LG’s performance. A balancing fund is one way that the central government pays attention to LG. According to the stakeholder theory perspective, intergovernmental money is not generated between regions because it comes from the federal government and is distributed to them. Since regional financial management is under the supervision of the national government, regional administrations must fulfill all of their responsibilities to enhance regional financial performance. The relationship that the central government has with LG as an external entity, which necessitates knowledge of the flow of funds spent, will have an impact on LG’s financial performance. In the past, Noviyanti and Kiswanto (2016), Awwaliyah et al. (2019), and Ilmiyyah et al. (2017) investigated the impact of intergovernmental income on the financial performance of LG. The findings imply that intergovernmental income affects LG's financial performance.

**H2**: Intergovernmental revenue affects the financial performance of LG.

**Capital Expenditure and Local Government Financial performance**: According to Government Regulation No. 71 of 2010 concerning Government Accounting Standards, capital expenditures are defined as capital formation through the purchase of fixed assets and other assets that provide benefits for longer than one year, including maintenance costs that extend and improve the quality and useful life of these assets. The Local Government Budget (APBD) structure includes capital expenditures in the direct expenditure group. Capital expenses are costs associated with the acquisition of fixed assets for initiatives carried out by LG to enhance the welfare of their constituents who receive benefits for more than one fiscal year (Ayinde et al., 2015). Investing in capital assets may involve buying furniture, machinery, land and buildings, roads, irrigation systems, and other permanent assets. The amount and caliber of infrastructure and facilities constructed by regional governments to carry out regional government functions are reflected in capital expenditure. Due to the high realization of capital expenditures, which indicates a significant amount of infrastructure development, LG is under pressure to deliver high-quality services to the public and maintain financial transparency as a measure of its effectiveness. Capital spending has a considerable impact on LG’s financial performance, according to earlier studies by Oktaviani et al. (2020) and Mulyani and Wibowo (2017).

**H3**: Capital expenditure affects the financial performance of LG.

**Political Monitoring Moderates the Effect of Regional Wealth on Local Government Financial Performance**: To maximize the financial performance of LG, political supervision is crucial. The level of wealth created by a PAD is a key signal for legislative monitoring; the greater the PAD developed, the better the LG’s ability to maximize and enhance its financial performance. The amount of monitoring done in
relation to PAD will increase with the high number of DPRD. The extent of PAD monitoring makes it possible for LG to effectively manage their budgets for the well-being of their constituents. The findings of Angelina et al. (2020) imply that monitoring can tame PAD and regional financial performance.

**H₄:** Political monitoring moderates the relationship between regional wealth and LG financial performance.

**Political Monitoring Moderates the Effect of Intergovernmental Revenue on Local Government Financial Performance:** Funds from the central government known as intergovernmental revenue or balancing funds are used to pay for operational activities and their authority to reduce imbalances across regions (Sari, 2016). To promote decentralization and take into consideration local resources, the balancing fund uses a method for the equitable, transparent, democratic, fair, and fair distribution of monies (Julitawati et al. 2012). Due to the quantity of balancing funds granted, it is also necessary to require tighter monitoring of the number of DPRD members to accomplish community welfare and improve government financial performance. In order to verify that all public policies linked to balancing funds have been implemented in accordance with applicable laws and regulations, DPRD members must oversee this process as effectively as possible. Zea and Akmal (2015) demonstrate that monitoring reduces the impact of general allocative funds on regional financial performance.

**H₅:** Political monitoring moderates the relationship between intergovernmental revenue and LG financial performance.

**Political Monitoring Moderates the Effect of Capital Expenditure on Local Government Financial Performance:** A budget output known as capital expenditure is used to purchase or acquire goods or services that the general public can use and benefit from (Masdiantini, 2016). The number of developments planned for the public benefit is a measure of how successfully LG has improved its financial performance through capital expenditure. To ensure that there are no variations in the allocation of capital expenditure realized for the welfare of the community, DPRD must be able to monitor the distribution of capital expenditures. According to Junita and Abdullah (2016), capital spending and the number of legislative seats are related. Members of the legislature, who serve as the people’s representatives, have a say in whether or not LG policies are adopted. According to Suqri and Mardiamal (2016), monitoring effectively and favorably tempered the impact of capital spending on regional financial performance.

**H₆:** Political monitoring moderates the effect of capital expenditure on LG’s financial performance.

### 3. Research Methodology

In 2019, the district/city government in Indonesia received the applications. This investigation used Indonesia's LKPD district and city in 2019, due to ongoing issues with the district/city government's financial performance. The research information was gathered from BPK's official website, www.bpk.go.id. Table 1 shows how to measure each variable.

#### Table 1: Operational and Measurement Definition

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Measurement</th>
</tr>
</thead>
</table>
| Local government financial       | Local government financial performance, proxied by the efficiency ratio. The efficiency ratio is an analysis in calculating the efficiency of expenditure funds by local governments (Mulyani and Wibowo, 2017) | Efficiency Ratio = \[
\frac{\text{Total Actual Expenditure}}{\text{Total Realised Receipts}}
\] |
| performance                      |                                                                                                                                                                                                                       |                                                                            |
| Regional wealth                  | The measurement of the level of regional wealth can be calculated by looking at the total PAD with total income (Qowi et al., 2017)                                                                                               | Wealth = \[
\frac{\text{Total PAD}}{\text{Total Income}}
\]                              |
| Intergovernmental revenue        | Intergovernmental revenue is the transfer of funds from external sources, namely the central government, and there is no need to return these funds (Patrick, 2007).                                                        | IRGOV = \[
\frac{\text{Total Balancing Fund}}{\text{Total Income}}
\]                                                                   |
Capital Expenditure is measured using total capital expenditure consisting of land, equipment and machinery, building and construction, road, irrigation and network, and other fixed asset expenditures. This research was measured by utilizing it in the form of Log Natural (Log N) Masdiantini (2016).

Political monitoring is a legislative body which is an institution whose position is the administration of the government as a representative of the people (Law No. 23, 2014).

4. Results and Discussion

The population applied was the district/city government in Indonesia in 2019. This examines the utilized district/city LKPD in Indonesia in 2019.

**Table 2: Final Sample of the Study**

<table>
<thead>
<tr>
<th>No</th>
<th>Research Sample Criteria</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>LKPD, which BPKRI audited in 2019</td>
<td>541</td>
</tr>
<tr>
<td>2.</td>
<td>LKPD consisting of Provinces in 2019</td>
<td>(34)</td>
</tr>
<tr>
<td>3.</td>
<td>Regencies/cities throughout Indonesia which did not issue LKPD in 2019</td>
<td>0</td>
</tr>
<tr>
<td>4.</td>
<td>Number of districts/cities throughout Indonesia which are sampled</td>
<td>507</td>
</tr>
<tr>
<td>5.</td>
<td>Outlier</td>
<td>(16)</td>
</tr>
<tr>
<td>6.</td>
<td>Total research sample</td>
<td>491</td>
</tr>
</tbody>
</table>

The data analysis method made use of the Smart Partial Least Square (PLS) program and Structural Equation Modeling (SEM). SEM analysis was chosen for the study, according to Dillala (2000), for a number of reasons, including the fact that the model under study is fairly complex, making it challenging to solve using the path method in linear regression, and the fact that SEM can estimate the relationship between variables that have multiple relationships. This study employs SEM analytic methodologies with the help of the SmartPLS program. PLS is a technique for information processing that works to handle unusual and complex data (Hair et al. 2014). In this study, data on the average, minimum, maximum, and standard deviation of each variable were acquired and described using descriptive statistics. The average value of the data gathered is anticipated to closely match the average value (Sekaran, 2006). While Nafi’iyah (2016) claims that the standard deviation is a technique to understand the diversity of a group.

**Table 3: Statistical Descriptive Analysis**

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>STD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Government Financial Performance</td>
<td>491</td>
<td>0.5819</td>
<td>1.1007</td>
<td>0.8649</td>
<td>0.0864</td>
</tr>
<tr>
<td>Regional Wealth</td>
<td>491</td>
<td>0.0039</td>
<td>0.4117</td>
<td>0.1098</td>
<td>0.0742</td>
</tr>
<tr>
<td>Intergovernmental Revenue</td>
<td>491</td>
<td>0.3789</td>
<td>0.9161</td>
<td>0.694</td>
<td>0.0927</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>491</td>
<td>25.1247</td>
<td>27.897</td>
<td>26.3376</td>
<td>0.4958</td>
</tr>
<tr>
<td>Political Monitoring</td>
<td>491</td>
<td>20</td>
<td>55</td>
<td>33.839</td>
<td>10.039</td>
</tr>
</tbody>
</table>

According to the results of the descriptive data shown above, LG’s average financial performance for 2019 is 0.8649, or 86.49 percent, which indicates that they are already performing well financially. Additionally, Indonesia's average district/city regional wealth in 2019 is 0.1098, or 10.98%, indicating that the local economy is underdeveloped. Intergovernmental revenue, an independent variable, has a value of 0.694, or 69.4 percent, indicating that the funds transferred by the federal government to LG have been allocated. The average district/city capital expenditure value for Indonesia in 2019 is then shown to be 26.3376, indicating that capital expenditures have been effectively realized. Lastly, the average value of political monitoring in...
Indonesian provinces and cities in 2019 is 33,839, indicating that the DPRD’s oversight has not been carried out as effectively as it could have. In this T-test, the degree of confidence of 0.05 is used to make decisions. The independent variable has a partial influence on the dependent variable if the significance level is less than 0.05 and the t-value is more than the t-table. The degree of confidence is 5 percent, and it is known that the formula df = n - k or df = 491 - 5 = 486 yields the value t-table = 1.648.

Table 4: PLS Path Algorithm and Bootstrapping

<table>
<thead>
<tr>
<th></th>
<th>Original Sample</th>
<th>Sample Mean</th>
<th>Standard Deviation</th>
<th>T Statistics</th>
<th>P Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>RW -&gt; LGFP</td>
<td>0.851</td>
<td>0.859</td>
<td>0.066</td>
<td>12.835</td>
<td>0.000</td>
</tr>
<tr>
<td>IRGOV -&gt; LGFP</td>
<td>0.365</td>
<td>0.377</td>
<td>0.077</td>
<td>4.768</td>
<td>0.000</td>
</tr>
<tr>
<td>CE -&gt; LGFP</td>
<td>0.197</td>
<td>0.200</td>
<td>0.053</td>
<td>3.682</td>
<td>0.000</td>
</tr>
<tr>
<td>PM* RW -&gt; LGFP</td>
<td>-0.232</td>
<td>-0.233</td>
<td>0.068</td>
<td>3.403</td>
<td>0.001</td>
</tr>
<tr>
<td>PM*IRGOV -&gt; LGFP</td>
<td>-0.111</td>
<td>-0.104</td>
<td>0.082</td>
<td>1.362</td>
<td>0.174</td>
</tr>
<tr>
<td>PM*CE-&gt; LGFP</td>
<td>-0.049</td>
<td>-0.041</td>
<td>0.057</td>
<td>0.862</td>
<td>0.389</td>
</tr>
</tbody>
</table>

The processing of the data findings revealed that the regional wealth had a t-value > t-table (or 12.835 > 1.648) and a significance value 0.05 (or 0.000 0.05) as a consequence. These findings support H1; regional wealth considerably affects the financial performance of LG. The study findings are consistent with the agency theory, which argues that LG trusts residents to manage regional wealth for the benefit of the entire community. The findings of this study are consistent with a number of earlier studies, including those by Aswar (2019), Amalina and Sumardjo (2020), Samadara et al. (2021), Oktaviiani et al. (2020), and Simanullang (2013), which found a strong correlation between regional wealth as measured by PAD and LG financial performance. Furthermore, it was discovered that the intergovernmental revenue had a t-value > t-table, 4.768 > 1.648, and a significance level of 0.000 0.05. These findings support H2; intergovernmental revenue has a major impact on the financial health of LG. The study findings are consistent with the stakeholder theory, which explains that the LG serves as the manager and receives transfer funds from the central government, which is the main stakeholder. The funds are then recognized as income and put to use in carrying out operational tasks that promote the sustainability and welfare of the local population.

The findings of this study are consistent with other earlier investigations into the impact of intergovernmental revenue on LG financial performance, including those by Noviyanti and Kiswanto (2016), Awwaliyah et al. (2019), and Ilmiyyah et al. (2017). The findings imply that intergovernmental revenue affects LG’s financial health. In light of this, the capital expenditure exhibits a t-value > t-table or 3.682 > 1.648 relationship, with a significance level of 0.000 0.05. These findings support H3, which states that capital investments have a major impact on LG’s financial performance. The study findings are consistent with the stakeholder theory, which claims that when a stakeholder—in this case, the community represented by the DPRD—grants the LG manager full authority to oversee and administer the government, it functions at its best. The findings of this analysis are consistent with a number of earlier studies, particularly those by Oktaviani et al. (2020) and Mulyani and Wibowo (2017), which found that capital expenditure had a considerable impact on LG’s financial performance. The moderating variable, political monitoring, which modifies the association between regional wealth and LG financial performance, has a significant level of 0.001 to 0.05 and a t-value greater than the t-table, or 3.403 > 1.648. These findings suggest that H4 is suitable.

Political surveillance, however, can reduce the impact of regional wealth on the financial performance of LG because of the unfavorable direction of the coefficient value. This suggests that the political monitoring variable, which is represented by the proportion of DPRD members who supervise with insufficient human resources, will lower regional wealth derived from the region’s initial perception; consequently, a decline in LG financial performance will occur. The findings of this study contradict the stakeholder theory, according to which PAD issues arise because of insufficient oversight by relevant officials, particularly the DPRD, which has not exercised its oversight authority over a region’s initial tax collection to the fullest extent possible. Undoubtedly, this will cause regional wealth to decline, which will then cause LG’s financial performance to decline. The results of data processing on the moderating variable, namely the role of political monitoring in modifying the relationship between intergovernmental revenue and LG financial performance, show that the
t-value < t-table is 1.362<1.648 and a significance value of 0.174 > 0.050, indicating that political monitoring is unable to moderate the impact of intergovernmental revenue on LG financial performance. According to these findings, H5 cannot be accepted or dismissed.

The distribution of balance funds owned in carrying out regional operational operations for the welfare of the community is not influenced by the level of oversight exercised by DPRD members, indicating that it has no bearing on the financial performance of the regional government. The results indicate that political monitoring or supervision carried out by the DPRD displays an average value that tends to be low, which is only 33.83 percent, rejecting the hypothesis when evaluated from descriptive statistics. Additionally, the incidence of accusations of bribery and game-playing against the balancing fund shows that interventions from different parties seeking personal advantage are made in the supervision of the allocation of the balancing fund, particularly for a number of LG projects. The stakeholder hypothesis holds that decisions about the distribution of balancing funds owned by LG should benefit the entire community for the benefit of the general welfare. This study does not support this notion. Additionally, the data processing results on the moderating variable, namely political monitoring in moderating the relationship between capital expenditures and LG financial performance, show a t-value t-table, i.e. 0.862 1.648 and a significance value of 0.389 > 0.050, which indicates that political monitoring cannot moderate the effect of capital spending on LG financial performance. According to these findings, H5 cannot be accepted or dismissed.

This shows that the level of control exercised by DPRD members has no bearing on the distribution of capital expenditures made for the community’s welfare and, as a result, has no bearing on the financial performance of LG. The hypothesis was disproved because it was supported by Tanzi and Davoodi (1997), which explained that DPRD members engaged in opportunistic behavior when overseeing the realization of capital expenditures. For example, they prioritized public investment, such as allocating capital expenditures for road or bridge construction over allocating capital expenditures for services like health or education. To receive a commission, this is done. Additionally, DPRD members frequently use the building of roads or bridges to carry out the legislative commitments they made to their supporters during the campaign (Usman, 2020). Members of the DPRD did this to advance their financial interests or self-interest. This study was not supported by stakeholder theory, which prioritizes the interests of stakeholders, namely the community in making decisions in the realization of capital expenditures for the welfare of the community at large. A large number of DPRD members may lead to information asymmetry in the realization of capital expenditures, where DPRD members only tried to provide benefits for some parties without considering services to the public.

5. Conclusion

The goal of this study was to investigate and quantify the impact of regional wealth, intergovernmental revenue, and capital expenditures on the financial performance of LG, with political monitoring serving as a moderating variable. According to the study findings, LG’s financial performance is influenced by regional wealth, intergovernmental revenue, and capital expenditures. As a result, LG’s financial performance will be influenced by the amount of regional wealth, intergovernmental revenue, and capital expenditures. The findings also indicated that political monitoring reduces the link between LG’s financial performance and regional prosperity. This suggested that the level of oversight exercised by DPRD was less effective, would lower regional wealth derived from PAD, and would be followed by a decline in the financial performance of LG. Meanwhile, the impact of capital expenditures and intergovernmental revenue on LG’s financial performance could not be moderated by political oversight.

It demonstrates that political oversight of intergovernmental revenue and capital spending has no bearing on LG’s financial health. The report of audit findings (LHP) was presented in the scanned form in several districts and cities, so the figures are not visible and it is difficult to read. As a result, to check the notes on the government financial report (CALK) to make sure the numbers in the Budget Realization Report and Operational Report are accurate. The amount of DPRD members in this study, who must be able to access the official website of each district/city, made it difficult to measure political monitoring variables. The findings of this study suggest that additional independent variables, such as the size of the LG, leverage, and BPK viewpoint, which were not included in this study, should be considered in future research, particularly with
the financial performance of LG. Additionally, the balance of efficiency, independence, and economy can be utilized to assess the financial performance of LG in addition to the efficiency ratio employed in this study.

References


