The Effect of Financial Characteristics, Misstatement and Audit Quality toward the Financial Performance in West Sumatera

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Abstract
This paper is aimed at investigating the effect of financial characteristics misstatement and audit quality to the performance of local governments in improving community welfare. Sample of this study uses is the all the regional government of West Sumatera Province which consists of 1 (one) provincial government, 7 (seven) city governments, and 12 district governments which will be observed in years 2015 - 2017. The analysis showed that the independent variables misstatement and audit quality has no affect financial performance, while the total asset variables and capital expenditure have affected on financial performance.

Keywords: Total asset, capital expenditure, misstatement, audit quality; financial performance, regional government

Introduction
Decentralization as reflected in Law No. 23 of 2014 concerning Regional Government demands the acceleration of the realization of public welfare through the implementation of regional government based on good government governance (GGG). The assessment of performance (results of work) becomes important because in addition to evaluation the said law also provide for reward and punishment. The said Law also stipulates that one of the performance that will be evaluated is the accountability of the implementation of the APBD (Regional Budget and Expenditure) which is audited by the Supreme Audit Agency (BPK) which includes (1) budget realization report (LRA), (2) reports of changes in balances, (3) balance sheets, (4) operational reports, (5) cash flow statement, (6) report on changes in equity, and (7) notes to financial statements attached with an overview of the financial statements of BUMD (Regional Owned Enterprises). Akinbuli (2012) shows the importance of the preparation of interim financial reports and performance reports by the government institutions which will be announced for public criticism. Criticism from the public is normal because the basis of this behavior is the agency concept in which the community acts as principal and the government acts as an agency that controls information and which will make decisions for the principal (Jensen & Meckling, 1976). In addition, public criticism is also a reaction to the results of the evaluation / evaluation of the financial performance information that was announced. So, the information is a signal that becomes the basis for users of information to react. This signal is the basic concept of signaling theory. Therefore, Law No. 23 of 2014 requires decentralization demand the regional government to be able to organize the regional governance under the GGG principles, which includes (a) legal certainty, (b) orderly administration of the state, (c) public interest, (d) transparency, (e) proportionality, (f) professionalism, (g) accountability, (h) efficiency, (i) effectiveness, and (j) justice.

Furthermore, the budget function in the premises of government in Indonesia significantly affect the accounting and financial reporting, partly because the budget provides a basis for assessing government performance(Government Regulation No. 71 of 2010 on Government Accounting Standard, Attachment I.01, Pg.4). Kanbur & Squire (1999) explained that most of the East Asian countries has successfully decrease the number of poverty when the government use public spending on education and health. Based on this understanding, the performance of the regional government reflected in the accountability...
of the Regional Budget should be able to realize the welfare of the community. The same is the case with the private sector. In the private sector, maximizing company value is very important for the company because it will maximize the prosperity of shareholders as well. This is the main thing that must be achieved by company management (Brigham & Daves, 2010). Thus, it can be concluded that the performance of the APBD accountability or the financial performance of the regional government can reflect the welfare of the community in the area. One indicator of welfare is the Human Development Index (HDI) which consists of 3 (three) basic dimensions, namely: (1) long and healthy life, (2) knowledge and (3) decent living standards (Badan Pusat Statistik). The use of government-owned resources will affect the welfare of the community in these 3 (three) basic dimensions. Therefore, Mangkunegara (2015) and Prasetyaningsih (2014) adopted the HDI as a proxy of the financial performance of regional government. Further, Sarjono (2016), Suryaningsih, Utama, & Yasa (2015) and Azwar & Subekan (2014) also discovered that regional financial performance had a significant positive effect on people's welfare. Thus, the authors propose the regional government's financial performance to be assessed by using the HDI.

With the difference in APBD management capabilities in each region, it shows the financial characteristics of the APBD in each local government. One of the financial characteristics, namely asset and capital expenditure. Assets are economic sources that are expected to provide business benefits in the future (Indonesia Dictionary). Assets are economic resources that are controlled and / or owned by the government as a result of past events and from which future economic and / or social benefits are expected to be obtained, both by the government and the community, and can be measured in units of money, including sources non-financial resources needed to provide services to the general public and resources maintained for historical and cultural reasons (Government Regulation No. 71 of 2010 on Government Accounting Standard). Components of Regional Assets, namely: (1) Current Assets, (2) Long-Term Investments, (3) Fixed Assets, (4) Reserve Funds, and (5) Other Assets. Government assets that have transferred ownership rights to the government must be recorded in the government balance sheet. These assets become regional assets that are used for government activities or utilized by the general public. Assets used for government activities include, among others, land assets for office buildings, vehicles, computers, office buildings, and so forth. Assets that are utilized by the general public include roads, bridges, irrigation channels, etc. For example, the government needs the assets of a community health center (community health center) to serve people who need health services. Artha, Basuki, & Alamsyah (2015), Mangkunegara (2015), Prasetyaningsih (2014) and Mustikarini & Fitriasari (2012) found that regional assets affect local government performance in improving community welfare. Therefore, assets should be able to influence the financial performance of local governments in improving people's welfare.

Capital expenditure that describe budget expenditures for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period, so that it can be used by the public for a long period of time. The definition of capital expenditure according to Government Regulation Number 71 of 2010 concerning Government Accounting Standards is budget expenditure for the acquisition of fixed assets and other assets that benefit more than one accounting period. Another definition, government capital expenditures are expenditures incurred by the government on certain projects to improve and promote the ease of life and comfort of its citizens for a long period of time, usually more than one year (Ayinde, Kuranga, & Lukman, 2015). In Indonesia, capital expenditures are presented in the LRA which consists of: (1) Capital Expenditures for Land, (2) Capital Expenditures for Equipment and Machinery, (3) Capital Expenditures for Building and Construction, (4) Capital Expenditures for Road, Irrigation and Network Capital, (5) Capital Expenditures for Other Fixed Asset, and (6) Capital Expenditures for Other Asset. All of these capital expenditures will be capitalized and add government fixed assets recorded in the balance sheet and can be used for government activities or utilized by the general public. The positive impact of capital expenditure is economic growth (Ayinde et al., 2015). Thus, capital expenditure will be able to improve services to the public and at the same time give an impact to
the comfort of the community. Mangkunegara (2015) used one of the elements of the financial statements, namely capital expenditure presented at the LRA, to predict its effect on the financial performance of regional governments in improving the welfare of the community. Mangkunegara (2015) proposed that the variable capital expenditure of regional governments be re-examined because the findings were not consistent with the research conducted by Marfiana & Kurniasih (2013). Research conducted has found that capital expenditure does not have a significant effect on the performance of regional governance (Artha, Basuki, & Alamsyah, 2015) and capital expenditure has a significant effect on local government performance in realizing the public welfare (Mangkunegara, 2015; Sari & Supadmi, 2016; Antari & Sedana, 2018; Astiti & Mimba, 2016; Ayinde et al., 2015 and Marfiana & Kurniasih, 2013). Thus, capital expenditure should have an impact on the financial performance of local governments in improving the welfare of the community.

As previously described, the accountability of the implementation of the APBD is audited by the BPK. Misrepresentation of the financial report is the finding of an audit process or audit carried out by the BPK in accordance with applicable regulations. According to Agoes (2012:2), auditing is an examination conducted critically and systematically, by an independent party, on the financial statements prepared by management, along with accounting records and supporting evidence, with the aim of being able to give an opinion regarding the fairness of these financial statements. In the context of state/regional finance in Indonesia, the definition of audit of state finances is a process of problem identification, analysis and evaluation carried out independently, objectively, and professionally based on audit standards, to assess the truth, accuracy, credibility and reliability of information regarding financial management and responsibility country (Government Regulation No. 71 of 2010 on Government Accounting Standard). Auditors who carry out checks on the management and responsibility of state finances, including the BPK, must disclose the findings in the LHP if there are discrepancies between conditions and criteria (Badan Pemeriksa Keuangan Regulation No. 1 of 2017 on State Financial Inspection Standards). The misstatement is called the audit findings to then be reported to the people’s representative council every semester. Misrepresentation of financial statements can also affect the performance of local governments that have an impact on improving people’s welfare because the presentation errors are substantially not in accordance with government accounting standards. As an illustration, the assets of one unit of a health center building as amount Rp5 billion recorded by the local government are controlled and utilized by the community for their personal benefit without the utilization agreement with the local government. This condition will cause health services to the community cannot be implemented. Thus, misstatement should have an impact on the financial performance of local governments in improving the welfare of the community. Mangkunegara (2015), Prasetyaningsih (2014), Marfiana & Kurniasih (2013) and Mustikarini & Fitriasari (2012) support that audit findings influence the performance of regional governments in improving people’s welfare.

The audit carried out by the BPK was based on the mandate of the 1945 Constitution of the Republic of Indonesia. In such mandate, the BPK is also authorized, among others, to determine the period of audit. However, BPK must submit an Audit Result Report (LHP) no later than 2 (two) months after the financial report (unaudited) is received from the local government. In addition, information on the length of audit time is indeed presented in the LHP of BPK, in contrast to the independent auditor’s report on the private sector that did not present such information. In its implementation, audit quality from the result of audit must be applied in a quality control standard. Audit quality is defined as the combined probability of two conditions, namely the finding and reporting of violations by the auditor in the client’s accounting system (DeAngelo, 1981). Audit quality plays an important role in determining financial performance (Hassan & Farouk, 2014 and Ogbodo, 2017). Previous study found that there was a significant effect of audit quality on financial performance (Hassan & Farouk, 2014; Aledwan, Yaseen, & Alkubisi, 2015; Ching, Teh, San, & Hoe, 2015; and Ogbodo, 2017) and audit quality had no significant effect on company performance that was proxied by Return on Assets (Sayyar, Basiruddin, Rasid, & Elhabib,
2015). Therefore, audit quality can improve local government performance from credible and reliable financial reporting quality through the auditor's role because it will reduce misleading information. DeAngelo (1981) argued that the period of audit assignment will improve audit quality since knowledge about the client is obtained after repeated audits are carried out. Mislinawati (2017) found that the length of the audit period affected audit quality. Furthermore, Johnson, Khurana, & Reynolds, 2002 did not find a relationship to decreased in the quality of financial reporting for a longer audit period. Thus, the authors propose to use the length of audit time as a measure of audit quality because audit quality should affect local government financial performance.

Based on above background, the researcher is very keen to conduct research entitle “The Effect of financial characteristics, misstatement and audit quality toward the financial performance of Regional Government of West Sumatera”.

Based on the description above, the conceptual framework can be described as follows:

![Conceptual Framework](image)

**Figure 1 conceptual framework**

**Methods**

This paper aims to examine whether there is significant total assets, capital expenditure, misstatement and audit quality to financial performance. The type of research is quantitative comparative research that aims to test hypotheses that explain the causal relationship between variables using the design of Mangkunegara (2015). The population of this study is all local governments in West Sumatera Province consisting of 1 (one) West Sumatera Provincial Government, 7 (seven) City Governments, and 12 District Governments or as many as 20 entities that have submitted financial statements (audited). The sampling method is total sample with a 3-year observation period, 2015 to 2017, and hence the sample consists of 120 observations. The type of data in this study is secondary data. Total asset, capital expenditure, misstatement and audit quality data are obtained from secondary data, namely data which was previously documented in the form of LHP BPK and The Overview of Semester Examination Results, IHPS. Documentation data collection techniques which may be used is manual search of the document, namely from the Representative Office of West Sumatera Province.

The dependent variable used are the same with those used by Mangkunegara (2015), namely the financial performance of local governments as proxied by the HDI (Human Development Index). The independent variables used are total asset, capital expenditure, misstatement and audit quality. The operational definition of these variables can be explained in the following Table 1:
Table 1 Definition of Operational Variables of the Study

<table>
<thead>
<tr>
<th>Num.</th>
<th>Variable</th>
<th>Variable Operational Definition</th>
<th>Indicator</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial performance (Y)</td>
<td>Show the financial performance of the local government in improving people’s welfare.</td>
<td>Index numbers with the following formula: ( HDI = Number \ IPM )</td>
<td>Mangkunegara (2015)</td>
</tr>
<tr>
<td>2</td>
<td>Total asset (Xi)</td>
<td>Shows the amount of regional wealth in a local government.</td>
<td>Rupiah value of total assets is defined with the following formula: ( Regional \ assets = Total \ regional \ assets \ in \ the \ balance \ sheet )</td>
<td>Mangkunegara (2015)</td>
</tr>
<tr>
<td>3</td>
<td>Capital expenditure (Xs)</td>
<td>Shows the amount of spending that is intended to increase regional assets and can be used by the community.</td>
<td>Rupiah value of Capital Expenditures is defined with the following formula: ( Capital \ expenditure = Total \ Capital \ Expenditure \ in \ LRA )</td>
<td>Mangkunegara (2015)</td>
</tr>
<tr>
<td>4</td>
<td>Misstatement (Xi)</td>
<td>Shows the financial errors or misstatements in the regional government financial statements that can reduce the regional government’s financial performance.</td>
<td>Findings value of Rupiah on the BPK report (based on The Overview of Semester Examination Results, IHPS).</td>
<td>Mangkunegara (2015)</td>
</tr>
<tr>
<td>5</td>
<td>Audit quality (Xi)</td>
<td>Shows the number of days given to the audit assignment.</td>
<td>Total number of audit days used on the BPK LHP.</td>
<td>Mislinawati (2017)</td>
</tr>
</tbody>
</table>

Results and Discussion

Multiple linear regression analysis was used to determine the effect of asset, capital expenditures and audit quality on financial performance of Regional Government of West Sumatera. From processing data with SPSS obtained as in the following table:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Regression coefficient</th>
<th>t count</th>
<th>sig.</th>
<th>R square</th>
<th>F count</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>117.141</td>
<td>3.366</td>
<td>0.001</td>
<td>0.281</td>
<td>5.178</td>
<td>0.001</td>
</tr>
<tr>
<td>Asset</td>
<td>0.673</td>
<td>3.676</td>
<td>0.001</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>-0.733</td>
<td>-4.032</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Misstatement</td>
<td>-0.163</td>
<td>-1.310</td>
<td>0.196</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audit Quality</td>
<td>0.019</td>
<td>0.163</td>
<td>0.871</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Secondary Data Processed (2019)
Hypothesis testing is used to determine the strength of the independent variable on the dependent variable by Sekaran (2011). The relationship between variables can be described by the equation as follows:

From the table above can be determined the multiple regression equation as follows:

\[ Y = a + b_1NLX_1 + b_2NLX_2 + b_3NLX_3 + b_4X_4 + e \]

\[ Y = 117,114 + 0.673NLX_1 - 0.733NLX_2 - 0.163NLX_3 + 0.019X_4 \]

Information:

- HDI = Human Development Index (dependent variable/Y)
- a = Constant
- b = Coefficient
- NLX_1 = Natural Logarithms Total Asset (independent variable)
- NLX_2 = Natural Logarithms Capital Expenditure (independent variable)
- NLX_3 = Natural Logarithms Misstatement (independent variable)
- X_4 = Audit Quality (Length of Audit Assignment), (independent variable)
- e = error

Based on the results above, it can be interpreted as follows:

1. In the multiple regression model that is formed, it can be seen that the resulting constant value is 117,114. The results obtained indicate that when it is assumed that there is no change in the percentage of X_1, X_2, X_3, and X_4, the change in HDI (Y) that is owned in general is equal to a constant of -2.144. The results obtained indicate that there is a trend of an increase in HDI (Y) in 2015, 2016 and 2017 or that throughout the year the study used is 117,114.

2. In accordance with the multiple regression model based on the formed table it can be seen that X_1 has a positive regression coefficient of 0.673. The results obtained indicate that the higher the percentage of X_1 will increase the HDI (Y) by 0.673 units assuming other variables other than X_1 are considered constant.

3. Based on the table in the multiple regression model that is formed it is known that the X_2 variable has a regression coefficient marked negative at -0.733. The resulting regression coefficient implies that when it is assumed that there is a decrease in X_2 owned by the city of Sawahlunto by one unit, it will decrease the HDI (Y) by -0.733 assuming other factors besides X_2 are considered constant.

4. In accordance with the formation of multiple regression models based on the tables that have been done, it is also known that the X_3 variable has a regression coefficient marked negative at -0.163. The resulting regression coefficient indicates that when it is assumed that there is a decline in X_3 owned by the District of West Dharmasraya and District of Pasaman by one unit, the HDI (Y) decreases by -0.163 assuming other factors besides X_3 are considered constant.

5. In accordance with the formation of multiple regression models based on the Table that has been done, it is also known that the X_4 variable has a positive regression coefficient of 0.019. The coefficient value obtained shows that the higher the value of the X_4 will encourage an increase in HDI (Y) of 0.019 units assuming variables other than X_4 are considered constant.

Feasibility Test

Based on Table 2 above, accounting F count is 5.178 with sig.0.001< 0.05. It means that from the F test carried out together with exogenous variables whose positive and significant influence to financial performance in realizing community welfare, as a result that the exogenous variables together have positive and significant relationship to the endogenous variables. In other words, total asset, capital expenditure, misstatement and audit quality jointly influence the HDI.
The coefficient of determination is needed to see how big the dependent variable (X) to the independent variable (Y). Calculated by squaring a predetermined assessment coefficient. Based on table 2, the contribution of capital expenditures and audit quality to financial performance in realizing community welfare is 28%, and the remaining 72% of the financial performance financial performance in realizing community welfare variable is given by other factors not examined in this study.

**Hypothesis Testing**

**Hypothesis 1**

Total asset affects the financial performance of Regional Government of West Sumatera in realizing community welfare. Based on the analysis test results, it is known that Sig. 0.001 < 0.05. It means that H₀ is rejected and Hₐ is accepted, so the alternative hypothesis proposed in the study is accepted, so total asset affect the financial performance of Regional Government of West Sumatera in realizing community welfare.

**Hypothesis 2**

Capital expenditure affects the financial performance of Regional Government of West Sumatera in realizing community welfare. Based on the analysis test results, it is known that Sig. 0.000 < 0.05. It means that H₀ is rejected and Hₐ is accepted, so the alternative hypothesis proposed in the study is accepted, so capital expenditure affect the financial performance of Regional Government of West Sumatera in realizing community welfare.

**Hypothesis 3**

Misstatement affects the financial performance of Regional Government of West Sumatera in realizing community welfare. Based on the analysis test results, it is known that Sig. 0.196 > 0.05. It means that H₀ is accepted and Hₐ is rejected, so the alternative hypothesis proposed in the study is rejected, so misstatement does not affect the financial performance of Regional Government of West Sumatera in realizing community welfare.

**Hypothesis 4**

Audit quality affects the financial performance of Regional Government of West Sumatera in realizing community welfare. Based on the analysis test results, it is known that Sig. 0.871 > 0.05. It means that H₀ is accepted and Hₐ is rejected, so the alternative hypothesis proposed in the study is rejected, so audit quality does not affect the financial performance of Regional Government of West Sumatera in realizing community welfare.

**The Effect of Total Asset to The Financial Performance in West Sumatera.**

Based on the first hypothesis testing result in Table 2, it is found that the total asset has a positive and significant effect on the financial performance of Regional Government of West Sumatera in realizing community welfare. This can be interpreted that the greater total asset managed by regional government in West Sumatera will improve the welfare of the community. In other words, total assets describe the performance of regional governments that reflect improvements in community welfare. The result of this study supports the statement from Mangkunegara (2015), Prasetyaningsih (2014) which states that total assets have a significant effect on government performance in realizing public welfare. The results of this study also support the findings of Mustikarini & Fitriasari (2012) which states that total assets have a significant effect on the performance of local governments that are proxied by the performance evaluation scores of local government operations.
The Effect of Capital Expenditures to The Financial Performance in West Sumatera.

Based on the first hypothesis testing result in Table 2, it is found that the capital expenditures has a negative and significant effect on the financial performance of Regional Government of West Sumatera in realizing community welfare. In other words, the greater capital expenditure of the local government, the lower the government's performance in realizing public welfare. This finding suggests that capital expenditure carried out by the regional government in West Sumatra Province has not yet focused on increasing the HDI as a reflection of improving people's welfare. In other words, capital expenditure plans that have been approved by the executive with the legislature in each region have not yet led to an increase in people's welfare. The result of this study supports the statement from Mangkunegara (2015) which states that capital expenditure has a significant negative effect on the performance of local governments in realizing public welfare. These findings are still inconsistent with the findings of Sari & Supadmi (2016) and Marfiana & Kurniasih (2013) which state that capital expenditure has a significant positive effect on HDI.

The Effect of Misstatement To The Financial Performance in West Sumatera.

Based on the first hypothesis testing result in Table 2, it is found that misstatement does not affect the financial performance of Regional Government of West Sumatera in realizing community welfare. In other words, misstatements of financial statements that are reported do not affect the performance of regional governments in improving the welfare of their communities. The insignificant influence of misstatement on regional government performance is possible because misstatement of financial statements reported by BPK in each regional government in West Sumatra Province does not materially affect the financial statements of regional governments because of improvements in misstatements found that can be immediately followed up through correction journals / reclassification. The result of this study supports the statement from Masdiantini & Erawati (2016) which states that the BPK audit findings did not affect the financial performance of the district / city governments in Bali. Artha et al. (2015) also supports the results of this study. However, the results of this study are not consistent with (Mangkunegara, 2015).

The Effect of Audit Quality To The Financial Performance in West Sumatera.

Based on the first hypothesis testing result in Table 2, it is found that audit quality that proxied by the number of days given to the audit assignment does not affect the financial performance of Regional Government of West Sumatera in realizing community welfare. This study show that audit quality cannot be used to assess the financial performance of Regional Government of West Sumatera in realizing community welfare. The results of this study do not support the statement from Ching, Teh, San, & Hoe (2015) dan Hassan & Farouk (2014) who found that audit quality showed a significant positive relationship to financial performance.

Conclusion

The purpose of this study is to investigate the influence of financial characteristics, which are proxied by total assets and capital expenditures, misstatements, and audit quality, which are proxied by the length of the audit on the financial performance of local governments in West Sumatra Province. The results of this study found that total assets affect the financial performance of local governments in West Sumatra Province in improving community welfare. This shows that assets managed by the Regional Government in West Sumatra Province are intended to improve community welfare. This is reflected in the increase in the HDI value. In other words, the use of assets belonging to the Regional Government has boosted the basic dimensions of the HDI.
Increased regional government assets are a result of capital expenditure. However, this study shows that capital expenditure has a significant negative effect on the financial performance of local governments in improving people's welfare. That is, the higher the capital expenditure, the lower the HDI value. In other words, the Regional Government in West Sumatra Province needs to pay attention in allocating capital expenditure which can increase the factors that form the basic dimension of HDI.

The results of this study also show that misstatements have no significant effect on HDI. In other words, it can be interpreted that misstatements found do not significantly affect the financial performance of local governments in improving people's welfare in West Sumatra Province.

In addition, the results of this study also revealed that audit quality proxied by the length of the audit did not affect the HDI. One explanation is that the BPK has been given a deadline by the Law that the BPK must have submitted the results of the audit to the regional legislative assembly no later than two months after the unaudited financial report was received by the BPK.

References
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Law No. 23 of 2014 on Regional Government. Indonesia.


