

PERFORMANCE ACCOUNTABILITY IN INDONESIAN LOCAL GOVERNMENTS: DOES MONITORING REALLY WORK?

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ABSTRACT

This study aims to empirically examine whether the monitoring activities on local government implementation really matter for local government performance accountability. Based on a sample of decentralized Indonesia during 2010-2019, we test this by measuring monitoring activities of local government at district and city levels. Using panel data set of 514 local governments, our results show that the monitoring activities, conducted by external audit and the public, positively affect local government performance accountability. In contrast, legislative monitoring negatively affects performance accountability. These findings suggest that the external audit plays a fundamental role in monitoring activities at the local governments. In addition, direct public monitoring can enhance performance accountability through intensifying human development and a greater democracy. As for legislators, the composition between government coalition and opposition should also be suitable for the effectiveness of monitoring.

Keywords: local government, performance accountability, external audit, legislative monitoring, public monitoring.

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1. INTRODUCTION

Performance accountability is a fundamental issue in government strategic policy around the world (Pelizzo & Stapenhurst, 2013). Since the rise of new public management concept, the public sector performance, particularly in local governments, has gained considerable attention over the last few decades (Parker et al., 2019) In most countries of European Union, for example, local governments have been endowed with an increasingly wider range of duties and public service delivery (Da

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Cruz & Marques, 2014). The criticism over local governments performance accountability in Africa have also been a significant issue in which decentralization is regarded to have failed to live up to expectations (Wilfahrt, 2018). In Australia, Parker et al. (2019) argue that the growth of performance audit in public sector has continued over time. The growing concern over performance accountability also arises in Asia, including Indonesia as a country that implement decentralization through regional autonomy (Nofianti & Suseno, 2014). In Indonesia, performance accountability has been given special attention, meaning that the government should no longer pay limited attention to input and output issues, but has entered a stage that is oriented towards processes and even outcomes. In other words, process and performance have greatly become public demands (Pollitt, 2018). In fact, the public, supported by the mass media, will continuously demand and impose new standards of government performance accountability.

According to agency theory, better performance accountability allows organizations, both private or public, to have an opportunity to reduce information asymmetry. Referring to Law Number 23 of 2014¹, agency relationships occur in the government system in Indonesia. One of the agency relationships is between the legislature as the principal and the executive or regional head as the agent. As a form of accountability, the regional head must prepare accountability report. However, most of the Indonesian local governments still suffer significant performance-accountability issue. Several local governments unable to meet the performance-accountability target that are determined by the Ministry of Internal Affairs. The Ministry require local government to achieve a 'good' or 'excellent' accountability performance by 2017. In fact, there were still 15% of local government with 'average' performance. In worse situation, there were still around 5% of local government categorized to have 'poor' performance. Therefore, an urgent improvement becomes necessary considering that local governments possess high authority to manage their resources as a result of regional autonomy implementation (Bennet, 2010).

One of the main objectives of regional autonomy is to create good governance by having proper resource management through accountable and transparent processes (Rose-Ackerman, 2017). Therefore, a mechanism is needed to support the success of regional autonomy. According to Mardiasmo (2012), there are several aspects that support the success of regional autonomy, namely monitoring, control and audit. In Indonesia, monitoring activities can be performed directly by the public and politically by legislative board as public representatives. Control is a mechanism exercised by the executive to ensure the implementation of proper management and policies, so that organizational goals can be achieved. Meanwhile, audit is an activity by independent party with professional competence to assess whether local government performance is in accordance with existing standards or criteria.

This research provides useful insights for local government monitoring and audit literature and can be expected to be able to answer the limitations of prior studies. Firstly, we comprehensively analyze various external monitoring mechanisms that exist in Indonesian local government. Many previous studies only partially discuss the effects of the government monitoring mechanisms, both those conducted in Indonesia (Pratama & Setyaningrum, 2015; Simangunsong, 2014; Suharyanto et al., 2018; Yasin et al., 2019), and studies conducted in other countries (Asaolu et al., 2016; Asare, 2009; Badara & Saidin, 2014; Bourdeaux & Chikoto, 2008; Kiabel, 2012; Lee & Schachter, 2019; Moreno-Enguix et al., 2019; Neshkova & Guo, 2012; Reichborn-Kjennerud & Johnsen, 2018). Our

¹ Law Number 23 of 2014 concerning Local Government

study comprehensively examines all of government monitoring mechanisms, from government external auditors through the Supreme Audit Board, legislative institutions through the legislative board and direct public monitoring. Thus, all of the monitoring mechanisms have been taken into account in this study. In addition, the observation coverage of our study also becomes a prominent novelty as we cover all local governments in Indonesia. To the best of our knowledge, most of previous studies are limited to one or a few local government (Kewo & Afifah, 2017; Mangkunegara, 2015; Nofianti & Suseno, 2014; Yasin et al., 2019). By having a more comprehensive analysis in terms of research issues, namely government monitoring, followed by high research object coverage, it is expected to obtain more robust results. Therefore, it will be more representative and possess higher generalizability.

2. LITERATURE REVIEW

2.1. *Agency Theory*

Introduced by Jensen and Meckling (1976), agency theory is very popular among scholars for its principal-agent relationship and agency conflict. The theory is very applicable in many context including local government (Lane, 2005). In general, local government acts as public agent to deliver public services and social welfare in which public delegates the authority to local government to manage public economic resources. In Indonesian context, Halim and Abdullah (2006) mention the existence of three relationships in local government financial management that consist of the relationship between public and legislative, legislative and executive, and executive (regional head) and working unit head. Public, as represented by legislative as the principal demand transparency as well as accountability for financial management. Jensen and Meckling (1976) mentions that the agent needs to be monitored for assuring best practice. Here is where monitoring activities plays crucial role to ensure that financial report preparation to meet the performance accountability requirements.

2.2. *Local Government Performance Accountability*

Performance accountability in government institutions should meet six indicators; inputs; process; outputs; outcomes; benefits; and impact (Adisasmita, 2014). In practice, Indonesia implements the Government Institution Performance Accountability System (SAKIP). It is designed to help government institutions increase accountability and, at the same time, improve their performance. The system is implemented by self-assessment, meaning that government institutions independently plan, implement, measure and monitor performance and report it. Implementing a system with such a mechanism requires evaluation from a more independent party in order to obtain objective feedbacks to improve the accountability and performance of government agencies². In practice, local government performance accountability report will be reviewed by local government internal auditor to ensure the information reliability. Furthermore, the performance accountability report will be evaluated by higher institution under the coordination of the Ministry of Civil Apparatus Empowerment and Bureaucracy Reformation. The evaluation itself is carried out on all aspects with the following details:

² Ministry of Civil Apparatus Empowerment and Bureaucracy Reformation Number 20 of 2013 concerning Instructions for Implementing Accountability Performance Evaluations of Government Agencies

Table 1: SAKIP Evaluation Aspects and Component Allocation

No	Aspect	Weight	Components
1	Planning	35%	Strategic Planning (12,5%) Annual Performance Planning (22,5%)
2	Performance Measurement	20%	Measurement coverage (4%) Measurement quality (10%) Measurement implementation (6%).
3	Performance Reporting	15%	Reporting coverage (3%) Performance information disclosure (8%) Performance information usage 4%.
4	Performance Evaluation	10%	Evaluation coverage (2%) Evaluation quality (5%) Evaluation result usage (3%)
5	Performance Achievement	20%	Performance reported (output) (5%) Performance reported (outcome) (5%) Annual performance (benchmark) (5%) Other performance (5%)
Total		100%	

Source: Ministry of Empowerment of State Apparatus and Bureaucratic Reforms Regulation Number 20 of 2013

Further, the evaluation score range between 0 to 100 and will be classified into several categories presented as follows:

Table 2: SAKIP Evaluation Score and Category and Interpretation

No	Category	Score	Interpretation
1	AA	>85-100	Excellent
2	A	>75-85	Very Good
3	B	>65-75	Good, requires several improvements
4	CC	>50-65	Satisfactory, requires many un-fundamental improvements
5	C	>30-50	Less than satisfactory, requires many improvements, including fundamental changes
6	D	0-30	Very less than satisfactory, needs many improvements in most aspects

Source: Ministry of Empowerment of State Apparatus and Bureaucratic Reforms Regulation Number 20 of 2013

2.3. Legislative Monitoring

The legislative board (DPRD) is the legal institutions representing the public in monitoring the performance of local governments in Indonesia. The functions and duties of the DPRD are consist of three functions³, namely: 1) legislative function, 2) budgeting function and 3) supervisory function. The legislative function means that the DPRD contributes in making laws and regulations. The budgeting function consists of preparing the budget while the supervisory function is the function to monitor the executive performance in implementing local government financial management and regulations, local government policies and other various public policies. The DPRD also has the task and authority to supervise the implementation of local government revenue and expenditure as stated in the budget.

³ Law Number 23 of 2014 concerning Local Government

2.4. Public Monitoring

Public participation is legally regulated in Indonesia⁴. The public can freely express opinions and express their opinion both orally and in writing. This becomes the basis for the importance of public monitoring. This further play role in providing views on governance. The effectiveness of public monitoring is determined by the openness of the media for monitoring as well as the awareness and ability of the public to carry out monitoring activities (Juwono & Eckardt, 2010). As the public communication space has been opened and provides a legal guarantee, it is expected that the public will increase their participation in carrying out the supervisory function of local government performance accountability.

2.5. Hypothesis Development

a. External audit and local government performance accountability

Local government non-compliance to the existing regulation has a lot of consequences (Pamungkas et al., 2018). Non-compliance on the existing regulations may result in state financial loss, administration problems, ineffectiveness, and inefficiency due to waste of financial resource (Mangkunegara, 2015). Further, this weakness also leads to poor local government performance. This is due to the absence of efforts to optimize the management of public funds that can be accounted for economically, efficiently and effectively in accordance with the authority that has been given to the local government for the sake of improving public welfare. Performance evaluation of government bureaucracy is never apart from compliance aspect in which external audit plays a considerable role.

External audit frequently monitors the running of local government in Indonesia to ensure proper administration, control adequacy, and thus increase the level of compliance. As a result, good compliance practices will always support the efficient and effective functioning of an organization. As a part of good management, it may result in good performance as well (Pearson, 2008). The Supreme Audit Board of Republic of Indonesia annually conduct audit on local government financial statement and determine the compliance with laws and regulations. Thus, the compliance aspect also contributes to determining the performance accountability of local government (Pamungkas et al., 2018). The more audit findings indicate that the financial management of the local government, which is one of the components assessed in the local government performance, is low. Therefore, we develop the following hypotheses:

H1. External audit positively affects local government performance accountability

b. Legislative monitoring and local government performance accountability

Bourdeaux and Chikoto (2008) reveals the importance of legislative involvement in government performance management reform. The legislative board acts as the key actor in the "chain of accountability" concept thanks to its oversight role on government implementation (Pelizzo &

⁴ Ministry of Internal Affairs Regulation Number 25 of 2007 concerning Guidelines for Handling Public Complaints within the Ministry of Internal Affairs and Local Government Regulation Number 68 of 1999 concerning Procedures for Implementing Community Participation in State Administration; Indonesian Constitution Article 28

Stapenhurst, 2013). Likewise, the legislative board in Indonesia (DPRD) has legislative, budgeting and monitoring functions⁵. The monitoring function is crucial as it plays a great role in ensuring the implementation of local government activities in accordance with established policies and plans and to ensure that objectives can be achieved effectively and efficiently or aim to maintain public accountability.

Legislative oversight function has an important contribution, for both the local government and the public (Bourdeaux & Chikoto, 2008). For local governments, the supervisory function is an early warning system, to oversee the implementation of activities to achieve goals and objectives. Meanwhile, for those implementing supervision, this supervisory function must be conducted effectively (Setyaningrum & Martani, 2018). Thus, it can provide analysis and suggestions in the form of corrective actions within governance implementation so that management activities can achieve goals and objectives effectively and efficiently. Legislative members who are also members of certain political parties should be able to become part of a system that criticizes the executive's performance in exercising power and the authority of the community (Fagbadebo, 2019). The Accountability Statement Report (LKPI) is the annual accountability report of local government head to the DPRD which functions as a tool for evaluating the work results for one fiscal year and as a progress report on the implementation of tasks (progress report), then the report is a tool for assessing and improving the performance of government administration regions, as a means of increasing efficiency, effectiveness, productivity, and accountability of regional government administration for the following years. DPRD in carrying out its supervisory function is required to ensure that local governments are in favor of the public interest (Oleszek, 2014) and must be able to realize the common goals and interests that have been agreed upon in the legislation and budgeting process (Juwono & Eckardt, 2010).

Fagbadebo (2019) states that ineffective legislative oversight will have an impact on bad governance. The oversight will meet the check and balance when the opposition hold significant influence in the board. The circumstances create political pressure and increased demands and hence the executive will be forced to pay higher level of commitment to transparency (Tavares & da Cruz, 2017). Strong opposition in the legislative will also be able to reduce executive's opportunistic behaviour (García & García-García, 2010). In line with that, (Ríos, Bastida, & Benito, 2016) find that effective legislative oversight will improve the performance and transparency of government budgets. In addition, Poulsen and Varjao (2018) also find that political opposition increases oversight action and decreases corruption. Therefore, we hypothesize that:

H2. Legislative monitoring positively affects local government performance accountability

c. Public monitoring and local government performance accountability

Public participation is one of the crucial keys in ensuring good governance (Lee & Schachter, 2019). Basically, public plays an important role in realizing an ideal government with the rights and obligations regulated by the constitution in various countries. Jurlina Alibegović and Slijepčević (2018) state that the efficiency of local government performance will be guaranteed if the public actively participates in monitoring local government accountability accompanied by

⁵ Law Number 23 of 2014 concerning Local Government

involvement in the decision-making process. This mechanism will encourage the creation of an effective, efficient, clean and free government from corruption, collusion and nepotism. Public has the right to supervise the implementation of regional government in Indonesia⁶. The delivery of information from the public to the government plays an important role. According to (Neshkova & Guo, 2012), the effectiveness of public services will increase when people actively provide useful inputs. Public monitoring is related to the level of people's education. One of the indicators of the quality of public education is the human development index (HDI). When a region has quality human resources, this area will be much more developed than other regions (Mittal, 2016).

Rosario and Eduardo (1999) and Ranis et al. (2000) state that regions with higher human development index tend to produce higher performance as well. Neshkova and Guo (2012) find positive effect of public participation on the performance of government institutions. Further, Park (2018) also adds that the people's aspirations are important attributes in evaluating government's fiscal performance so that it is useful for the next year's budgeting. In addition, Jimenez (2013) confirms that governments that receive high public scrutiny tend to have better fiscal indicators. Based on the explanation above, we hypothesize that:

H3. Public monitoring positively affects local government performance accountability

3. METHODOLOGY

3.1. *Population, Samples, and Research Data*

Our data is drawn from the authorized institution that consist of: (a) the results of the evaluation of local government performance accountability by the Ministry of Civil Apparatus Empowerment and Bureaucracy Reformation for 2010-2018; (b) Summary of BPK Audit Results for 2010-2018, (c) legislative board composition published on the local government website, and (d) human development index (HDI) obtained from Indonesia Statistics Bureau. The population of our study is all local governments in Indonesia from 2010 to 2018 fiscal period. We use purposive sampling method to select our research sample. We finally generate total of 4530 observations from 508 local governments during 2010-2018. The sample covers all local governments in Indonesia except for six local governments with administrative region status. The financial reporting of these local governments is consolidated at province level and thus the Supreme Audit Board only conduct audit on the consolidated financial statement. Including these local governments in our sample will potentially lead to bias results. Table 3 presents the sample selection process.

⁶ Ministry of Internal Affairs Regulation Number 25 of 2007 concerning Guidelines for Handling Public Complaints within the Ministry of Internal Affairs

Table 3: Sample selection process

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total Obs.
Total LGs (previous year)	497	497	497	509	511	514	514	514	514	4567
New autonomous local governments	0	0	12	2	3	0	0	0	0	17
Total	497	497	509	511	514	514	514	514	514	4584
Subtracted by:										
LGs with administrative region status	6	6	6	6	6	6	6	6	6	54
Final samples	491	491	503	505	508	508	508	508	508	4530

3.2. Variable Measurement

The dependent variable of our study is local government performance accountability while the independent variables consist of: (a) BPK's opinion on local government financial statement; (b) legislative monitoring measured by political competition; and public monitoring measured with HDI. In addition, it also uses control variables by considering local government financial, leader, and demographic factors. The details of variables along with the measurements are presented in Table 4 as follows:

Table 4: Variable Measurement

Variable	Symbol	Measurement	Data Source
Dependent			
Local government performance accountability	PERFACC _{it}	Local government performance accountability level based on Ministry of Ministry of Civil Apparatus Empowerment and Bureaucracy Reformation evaluation	Ministry of Civil Apparatus Empowerment and Bureaucracy Reformation
Independent			
External audit	EXT_AUDIT _{it}	External auditor opinion on local government financial report	Supreme Audit Board
Legislative monitoring	LEGIS _{it}	Proportion of legislative opposition against the executive	Local government website
Public monitoring	PUBLIC _{it}	Local government human development index	Indonesia Statistics Bureau
Control			
Local government assets	ASSET _{it}	Natural logarithm of local government total asset	Local government financial statement
Local government revenue	REVENUE _{it}	Natural logarithm of local government total revenue	Local government financial statement
Local government expenditure	EXPEND _{it}	Natural logarithm of local government total expenditure	Local government financial statement
Local government head tenure	RHTENURE _{it}	Total year of local government head tenure	Commission of General Elections
Local government head education	RHEDU _{it}	Dummy variable: 1 for local government head with postgraduate education; 0 for below	Commission of General Elections

Variable	Symbol	Measurement	Data Source
Local government complexity	LGCOM _{it}	Total number of local governments working units	Local government financial statement
Local government population	LGPOP _{it}	Total number of populations in local government	Indonesia Statistics Bureau
Local government geography	LGGEO _{it}	Dummy variable: 1 for local governments located in Java; 0 for those located outside Java	Ministry of Internal Affairs
Local government type	LGTYPE _{it}	Dummy variable: 1 for city local governments; 0 district local governments	Ministry of Internal Affairs

3.3. Data Analysis

The initial step of data analysis is started with descriptive statistics and correlation analysis to provides clear description of research data and potential association. The main analysis for hypotheses testing is performed with panel data regression analysis. The following is the basis equation of our regression model:

$$PERFACC_{it} = \alpha - \beta_1 EXT_AUDIT_{it-1} - \beta_2 LEGIS_{it} + \beta_3 PUBLIC_{it} + \beta_4 ASSET_{it} + \beta_5 REVENUE_{it} + \beta_6 EXPEND_{it} + \beta_7 RHTENURE_{it} + \beta_8 RHEDU_{it} + \beta_9 LGCOM_{it} + \beta_{10} LGPOP_{it} + \beta_{11} LGGEO_{it} + \beta_{12} LGTYPE_{it} + \varepsilon_i \dots\dots\dots (1)$$

Information:

- PERFACC_{it} : Local government performance accountability
- EXT_AUDIT_{it} : External audit
- LEGIS_{it} : Legislative monitoring
- PUBLIC_{it} : Public monitoring
- ASSET_{it} : Local government asset
- REVENUE_{it} : Local government revenue
- EXPEN_{it} : Local government expenditure
- RHTENURE_{it} : Local government head tenure
- RHEDU_{it} : Local government head education
- LGCOM_{it} : Local government complexity
- LGPOP_{it} : Local government population
- LGGEO_{it} : Local government geography
- LGTYPE_{it} : Local government type
- α : Constant
- β₁ – β₉ : Regression coefficient
- ε_i : Standard error

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

We provide descriptive statistics analysis to summarize and illustrate our research data along with its trend across time period for several variables. The details of descriptive statistics results are presented in Table 5 as follows:

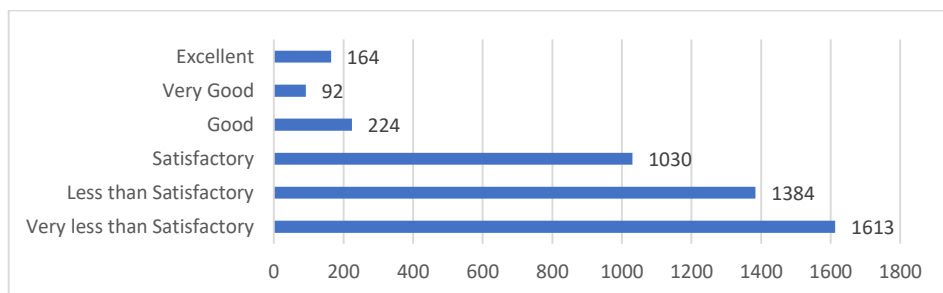
Table 5: Descriptive Statistics

<i>Panel A: Continuous Variables</i>						
Variable	Obs	Mean	Std.Dev.	Min	Max	
PERFACC _{it}	4507	2.177	1.233	1.000	6.000	
EXT_AUDIT _{it}	4488	3.613	1.283	1.000	5.000	
LEGIS _{it}	4495	0.636	0.169	0.000	0.980	
PUBLIC _{it}	4497	67.107	7.106	21.120	88.71	
ASSET _{it}	4497	12.266	0.313	10.633	13.631	
REVENUE _{it}	4497	11.985	0.270	9.787	13.191	
EXPEND _{it}	4497	11.955	0.252	9.772	13.726	
RHTENURE _{it}	4495	2.897	1.448	1.000	6.000	
LGCOM _{it}	4495	52.545	21.295	20.000	214.000	
LGPOP _{it}	4405	12.599	1.011	9.522	15.376	

<i>Panel B: Dummy Variables</i>						
Variables	Obs	Dummy 0		Dummy 1		
		Frequency	Percentage	Frequency	Percentage	
RHEDU _{it}	4495	3,339	73.7%	1,191	26.3%	
LGCEO _{it}	4530	3,434	75.8%	1,094	24.2%	
LGTYPE _{it}	4530	3,692	81.5%	838	18.5%	

Based on Table 4, we find that the average performance-accountability level of Indonesian local governments during 2010-2018 fiscal periods is at level 2, with average value of 2.177. The highest performance-accountability level achieved by Indonesian local government is level 6 (excellent), obtained by 164 local governments while the lowest level achieved is level 1 by 1613 local governments. We conduct deeper analysis of the distribution of local government performance accountability level in 2010-2018 based on level classification that is presented in Figure 1.

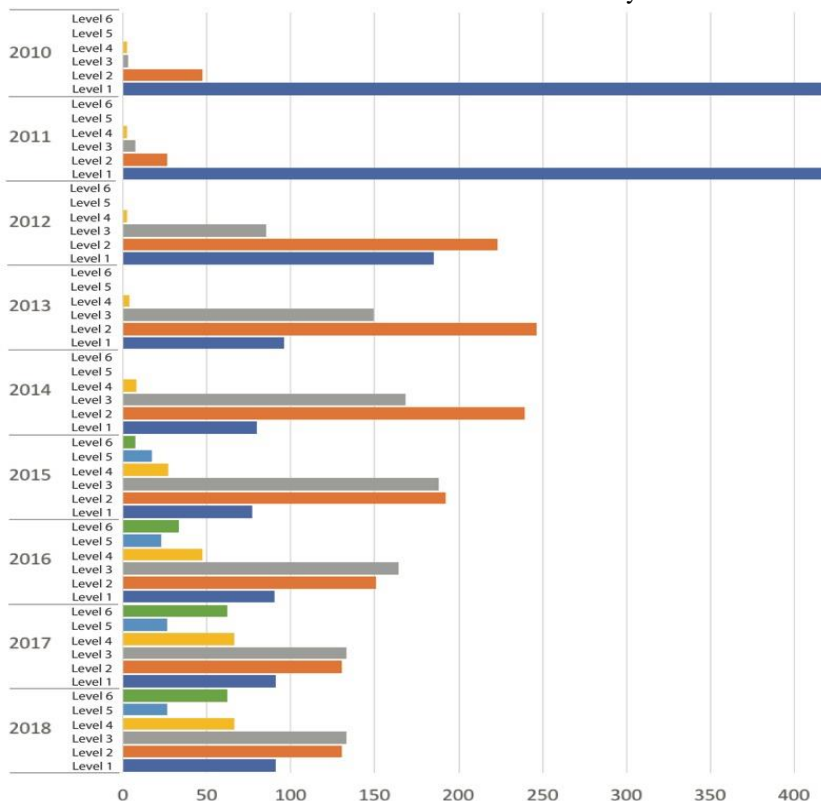
Figure 1: Distribution of Local Government Performance Accountability Level in 2010-2018 based on Level Classification



Further details of the trend of performance accountability achievement by Indonesian local governments demonstrate the fact that lower level of performance-accountability dominates in 2010-2018 examination. The lowest performance-accountability level (level 1 - very less than satisfactory), even has the highest frequency among all other level with total of 1613 observations. Level 2 (less than satisfactory) follows with 1384 observations. There are 1030 observation that reaches level 3 (satisfactory) performance accountability while there are only 224 observations at level 4 (good) and 92 observations at level 5 (very good) performance accountability. As for level 6 (excellent) performance accountability, there are 164 observation within 2010-2018.

Considering the higher number low performance accountability level, it is also important to check the trend and development of local government achievement in pursuing good performance accountability over the years. Fortunately, we find that the performance accountability of Indonesian local government experienced a considerable improvement throughout the observation period. During 2010 to 2011 observation, the performance accountability level was still totally dominated by very less than satisfactory and less than satisfactory level. Starting from 2012 to 2018, the amount of local government that obtain satisfactory, good, very good, and excellent performance keeps increasing over the years until 2018. Therefore, it can be concluded that there is significant improvement of local government performance accountability for the last nine years. The details are presented in Figure 2 as follows:

Figure 2: Indonesian Local Government Performance Accountability Achievement in 2010-2018



External audit variable shows that there are 1751 local government observations that are able to obtain unqualified opinion from BPK's audit. There is total 215 observations with unqualified with explanatory paragraph opinion while total 2000 local government observations achieve qualified opinion for their financial statement. Unfortunately, there are still 79 local government observations with adverse opinion and, for worse, there are also 443 local government observations with disclaimer opinion from external audit. As for the legislative monitoring, the average is 0.636, indicating that the average legislative opposition against the executive running the local government is at 63.6% of legislative board members. The lowest opposition is at 0 and the highest is at 0.98. As for the public monitoring, the average value of Human Development Index (HDI) is at 67.107 in which this number is not really high, indicating that the public monitoring in overall may not be so effective. The highest score is at 88.71 while the lowest is at 22.12 with standard deviation of 7.106. We further check the correlations among our research variables. The result is presented in Table 6 as follows:

Table 6: Matrix of correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) PERFACC _{it}	1												
(2) EXT_AUDIT _{it}	0.406 ^a	1											
(3) LEGIS _{it}	0.155 ^a	0.150 ^a	1										
(4) PUBLIC _{it}	0.320 ^a	0.267 ^a	-0.02	1									
(5) ASSET _{it}	0.324 ^a	0.362 ^a	0.150 ^a	0.327 ^a	1								
(6) REVENUE _{it}	0.388 ^a	0.399 ^a	0.145 ^a	0.210 ^a	0.752 ^a	1							
(7) EXPEND _{it}	0.386 ^a	0.391 ^a	0.162 ^a	0.235 ^a	0.798 ^a	0.872 ^a	1						
(8) RHTENURE _{it}	-0.039 ^b	-0.028 ^c	-0.034 ^b	0.003	-0.01	-0.03	-0.024	1					
(9) RHEDU _{it}	-0.065 ^a	-0.070 ^a	-0.021	-0.152 ^a	-0.198 ^a	-0.167 ^a	-0.173 ^a	0.003	1				
(10) LGCOM _{it}	0.012	0.031 ^b	0.019	0.006	0.150 ^a	0.163 ^a	0.174 ^a	-0.005	-0.061 ^a	1			
(11) LGPOP _{it}	0.171 ^a	0.150 ^a	0.072 ^a	0.191 ^a	0.568 ^a	0.642 ^a	0.665 ^a	0.008	-0.198 ^a	0.248 ^a	1		
(12) LGGEO _{it}	0.158 ^a	0.148 ^a	0.097 ^a	0.199 ^a	0.355 ^a	0.437 ^a	0.458 ^a	0.006	-0.225 ^a	0.221 ^a	0.642 ^a	1	
(13) LGTYPE _{it}	0.071 ^a	0.111 ^a	-0.073 ^a	0.537 ^a	0.129 ^a	-0.01	0.014	0.008	0.004	-0.130 ^a	0.001	0.099 ^a	1

^asignificant at 0.01 level; ^bsignificant at 0.05 level; ^csignificant at 0.1 level.

4.2. Panel Data Regression Analysis

Hypotheses testing as the main analysis in our study is conducted with panel data regression. As for robustness, we estimate our main empirical model in two ways. First, we only include our main independent variable without controlling other factors. Second, we include control variables in the main empirical model. Overall, we discover that all three independent variables are significant predictor of local government performance accountability, both while performing the regression with or without control variables. As for the individual effect, the findings show that external audit exhibit positive effect that confirms the first hypothesis. The effect remains significant but appears to be lower while controlling for other factors. Surprisingly, we find that legislative supervision provides negative effect that rejects the second hypothesis. The effect coefficient also gets lower while controlling for other factors but is still significant. Meanwhile, direct public supervision shows positive effect that confirms the third hypothesis. After controlling for other factors, the effect of public monitoring gets a little higher. The details of panel data regression analysis are presented in Table 7 as follows.

Table 7: Panel Data Regression Analysis Result

Dependent: PERFACC _{it}	Regression 1 Without Control Variables	Regression 2 With Control Variables
EXT_AUDIT _{it}	0.381 ^a (0.0131)	0.238 ^a (0.0144)
LEGIS _{it}	-1.034 ^a (0.115)	-0.735 ^a (0.112)
PUBLIC _{it}	0.0649 ^a (0.00338)	0.0778 ^a (0.00379)
ASSET _{it}		-0.0882 (0.0959)
REVENUE _{it}		0.971 ^a (0.115)
EXPEND _{it}		1.327 ^a (0.141)
RHTENURE _{it}		-0.00809 (0.00935)
RHEDU _{it}		0.0554 (0.0429)
LGCOM _{it}		-0.00111 (0.00102)
LGPOP _{it}		-0.250 ^a (0.0368)
LGCEO _{it}		-0.0984 (0.0811)
LGTYPE _{it}		-0.582 ^a (0.0805)
Constant	-2.902 ^a (0.241)	-26.51 ^a (1.163)
Observations	4,488	4,398
Number of ID	508	508
Overall r-squared	0.224	0.285
Chi-square	1,585.520	2,278.581
Prob > chi2	0.000	0.000

^asignificant at 0.01 level; ^bsignificant at 0.05 level; ^csignificant at 0.1 level.

In order to obtain better understanding on local government performance accountability in Indonesian local governments, we perform sub-sample analysis by classifying the type of local governments. Indonesia has two local government type namely district and city local government. There are several characteristics difference between these two type of local governments especially demographic characteristics. Subsample analysis reveals that external audit consistently exhibits positive effect in all subsample analysis, both in district and city local governments. The variable effect coefficient is also identical, indicating that the monitoring role of external audit in district are as important as in city local governments. Investigation on legislative coalition is also consistent in subsample analysis. Despite the effect is more pronounced in district local government, it can be said that the practice of legislative supervision is more or less the same in district and city local governments. As for public supervision, the result is consistent in district local governments but is insignificant in city local governments. The result of subsample analysis is presented in Table 8 as follows:

Table 8: Subsample Analysis Result with Panel Data Regression

Dependent: PERFACC _{it}	District Local Governments	City Local Governments
EXT_AUDIT _{it}	0.234*** (0.0158)	0.218*** (0.0360)
LEGIS _{it}	-0.762*** (0.121)	-0.609** (0.289)
PUBLIC _{it}	0.0840*** (0.00396)	0.0157 (0.0130)
ASSET _{it}	-0.0910 (0.107)	0.115 (0.225)
REVENUE _{it}	0.967*** (0.118)	1.013** (0.486)
EXPEND _{it}	1.275*** (0.148)	1.727*** (0.485)
RHTENURE _{it}	-0.00855 (0.0103)	-0.00867 (0.0220)
RHEDU _{it}	0.0763* (0.0462)	-0.0516 (0.110)
LGCOM _{it}	-0.000481 (0.00112)	-0.00359 (0.00238)
LGPOP _{it}	-0.247*** (0.0348)	-0.456*** (0.0891)
Constant	-26.28*** (1.285)	-27.52*** (2.578)
Observations	3,572	826
Number of ID	415	93
Overall r-squared	0.304	0.2279
Chi-square	1,985.467	339.45
Prob > chi2	0.000	0.000

^asignificant at 0.01 level; ^bsignificant at 0.05 level; ^csignificant at 0.1 level.

4.3. Discussion

We evidence positive effect of external audit on local government performance-accountability. The finding emphasizes that the role of external audit in monitoring local government is crucial, especially in ensuring that local governments manage their financial resources properly. By having

effective external audit and unqualified audit result, local government financial management will be conducted properly in accordance with the stated budget as well as the procedure (Pamungkas et al., 2018). Mangkunegara (2015) mention that better external audit also enables local government to be more compliant with regulations, resulting in lower financial loss and administration problems due to waste of financial resource. Compliance is also important as good compliance provides good management, so that it will produce good performance as well (Pearson, 2008). Based on this finding, it can be concluded that the role of external auditor is inevitable in realizing good governance in local government. Moreover, in attempt to increase local government performance accountability, the external auditor should develop further effort to ensure that their recommendations are followed properly. With proper implementation of external audit recommendation, local government financial management processes can be enhanced in all functions to support good governance.

The surprising result in our analysis appears in testing for hypothesis 2. The analysis reveals legislative supervision exhibit negative effect on performance accountability. Local government with weaker opposition and higher coalition tend to be able to achieve higher local government performance accountability level. This finding is against our hypothesis and most of the studies in the literature (Barnes & Jang, 2016). Having majority legislative coalition that supports the executive is not always bad. Higher support from legislative coalition enables local government executive to focus on the implementation of their programs with lesser conflicting political interest. Having strong opposition in the legislative is not always good either. Firstly, high pressure from opposition may distract the executive in running their primary programs from budgeting up to implementation (Stapenhurst et al., 2010). Alcaide-Muñoz et al. (2017) also mention that strong opposition can increase the long-term costs of political opportunistic behavior. Matthieß (2019) even interestingly find that local governments with both minority and majority coalition displays equal performance in terms of pledge fulfilment.

Finally, direct public supervision also exhibits positive effect on local government performance-accountability. This finding confirms Jimenez (2013), Neshkova and Guo (2012), and Park (2018) that previously demonstrate similar findings. When the society is has good development, the performance accountability of local government also arises. Indonesia as a democratic country that is very open for public opinion and criticism, the role of the public itself hold a crucial contribution to government implementation. Besides, the public also pay a lot of attention to government issues in Indonesia, both in the central government and local governments. Media attention also highlights government issues more often, both in the form of news, discussion, and etc. These are important aspect for public monitoring. Following this finding, we suggest that public participation in monitoring local governments in Indonesia, as mandated by the constitution, must always be maintained in order to realize good performance accountability by Indonesian local government.

5. CONCLUSION

Our study aims to investigate whether monitoring on local government implementation by external audit, legislative, and directly by the public result in local government performance accountability in Indonesia. We find empirical evidence that external audit and direct public supervision positively affects local government accountability, emphasizing the important role of external audit and public for good governance. Interestingly, we find that legislative supervision demonstrates

negative effect on performance accountability in Indonesian local governments. With majority coalition supporting the executive, local government performance accountability tends to be higher.

Our study has several important implications for governance systems. First, the research implies that the external audit plays a fundamental role in monitoring activities at the local governance and thus needs to be increased to higher extent. Second, direct public monitoring can enhance performance accountability through intensifying human development and a greater democracy. Third, as for legislators, the composition between government coalition and opposition should also be suitable for the effectiveness of monitoring on local government. In practice, local government should realize better institutional governance to improve performance accountability, specifically in maintaining good relationship with external auditors, legislative board and the public. At national level, the Ministry of Internal Affairs can determine higher enforcement of local government performance accountability achievement so that the compliance will be improved.

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