Journal of Economic & Management Perspectives, 2018, Volume 12, Issue 2, 221-230.

Government Auditor Report, Transparency and Corruption Perception Index: Evidence from Local Governments in an Emerging Market

Andi Chairil FURQAN*
Faculty of Economics & Business, University of Indonesia/ Tadulako University, Palu, Central Sulawesi, Indonesia. Email : furqan.tadulako@gmail.com.

Muhammad DIN
Diponegoro University/ Tadulako University, Palu, Central Sulawesi, Indonesia.

ABSTRACT

This study attempts to analyze the extent of the effect of audit findings and transparency on the corruption perception index in local government in Indonesia based on legitimacy theory. This study uses STATA-12 and Ordinary Least Square (OLS) in analyzing the data of 95 observations comparable to the survey of the 2008's and 2010's Corruption Perception Index (CPI) of Transparency International Indonesia and the annual report of the Financial Investigation Bureau of Indonesia (Badan Pengawas Keuangan/BPK) in 95 districts in Indonesia. The finding indicates that the transparency positively impacts on the index, and the audit findings contained in the audit reports published by the bureau has no significant effect on the index. Furthermore, the transparency of the audit findings can strengthen the negative effect of audit findings on the index. These results reveal the critical function of transparency in reducing corruption practices and enhancing public trust and legitimacy on the local governments. The results could be the basis for local governments to consistently maintain financial transparency and for the bureau to improve the quality of accounting and auditing reports. This study suggests the effectiveness of Act No. 14/2008 regarding public disclosure in manifesting the transparency and accountability of public financial management.

JEL Classification: D73; M42.

Keywords: Audit Findings; Transparency; Corruption Perception Index; Local Government; Indonesia.

* *Corresponding author.*

1. INTRODUCTION

Government's efforts to combat corruption must begin with a focus on reforming the system of government (Klitgaard, 1998), improving the accountability (Klitgaard, 1998) and implementing the transparency of public finances (Pellegrini & Gerlagh 2007). These efforts highlight the importance of government's accounting and auditing functions in the public sector in the fight against corruption (DiRienzo, 2007; Svensson 2005; Olken, 2007; Everett et al., 2007; Ferraz and Finan, 2008; Fantaye, 2004; Malagueño 2010; Schelker & Eichenberger, 2010; and Liu and Lin, 2012). In this context, Everet et al, (2007) state that by which functions held by the accounting, the auditors should be at the front in the fight against corruption both at domestic and international level. Even though they are generally unable to measure the level of corruption and to report the actual event of corruption, they are able to function and prevent corruption cases by highlighting the potential areas for corruption (see also Lubbe & Lubbe, 2015).

Indonesia, as many developing countries do, faces an enormous social, economic and political problems related to the widespread corruption and bribes throughout the government services and private bussines, characterized by increasing corruption cases, as data released by the Corruption Eradication Commission (Komisi Pemberantasan Korupsi/KPK, 2014; MacMillan, 2011). Until August 31, 2014, the number of corruption cases handled by KPK from 2004-2014 kept increasing, i.e. consisting of 645 cases of preliminary investigation, 393 cases of full investigation, 309 cases of prosecution, 270 cases of inkracht, and 282 cases of execution (KPK, 2014). These fact do not include the corruption cases handled nationally and locally by prosecutors and police department amounting to 9.868 cases. Several previous studies (e.g Olken, 2007; Hartanto and Probohudono, 2013; Sudibyo, et al., 2014; Setyaningrum, et al.,2014) had conducted the role of accounting and governance audit on the corruption eradication efforts in Indonesia.

Olken's (2007) study shows the effectiveness of the government auditor's surveillance and the influence of the two control strategies i.e top-down supervision performed by the government auditors and bottom-up supervision through public participation in reducing the level of misuse of funds in development projects in the rural areas. However, these studies do not specifically analyze the effect of audit report on the corruption index and the extent of transparency of that. Meanwhile, despite the presence and function of accounting and governance auditing that has been recognised and improved since the enactment of the package of national financial acts in 2003-2004, the functioning of accounting has not yet been able to demonstrate its optimum contribution in reducing corruption cases in Indonesia (Furqan, 2011).

The purpose of this study is to extend the applicability of legitimacy theory in the public sector especially in the local government, by analyzing Act No. 14 of 2008 regarding public disclosure. Despite the fact that legitimacy theory is more applicable in private context, and corruption and CPI are studied much in public sector, some studies have attempted to combine these both variables. Furthermore, although CPI is not actually able to measure teh level of absolute corruption, it can be used to determine the level of public trust as a basis for public sector legitimacy. For instance, a study of Xin and Rudel (2004) shows that the perception on experienced corruption is more likely to reduce citizens' trust in legitimacy of the government. Hence, low CPI is perceived as a threat of legitimacy, while the transparency is a way to regain the public trust and government legitimacy by providing more transparent financial report. Moreover, O'Donovan (2002) reveals the importance of the role of annual report disclosures to gain, maintain, and repair legitimacy. Furthermore, this study also examines the impact of audit findings as an object of transparency on CPI. Therefore, this study contributes to empirically analyze the extent of the relationship between the audit findings on corruption cases in the local governments and corruption perceptions index (CPI) in Indonesia.

2. LITERATURE REVIEW

Legitimacy theory is increasingly considered important in the accounting and auditing studies, for instance, to explain the origin, implementation and behaviour of actors of public sector organizations in customising the disclosure (Gabrini, 2013; Burlea & Popa, 2013; Cuganesan, Ward, & Guthrie, 2007). Gabrini (2013) suggests that this theory is more appropriately used in explaining how the implementation of auditing function influences the activities of local government. Zaman Mir and Shiraz Rahaman (2005) Zhao, Kim, and Du (2003) state that legitimisation leads to an improvement on the organizational accountability to provide credibility of government and auditing bodies to donor institutions and foreign investors. According to this theory, the legitimacy of the organization is generally described as the organizational behavior in implementing its activities that is consistent with the social contract and expectations of various parties (Suchman, 1995; Burlea and Popa, 2013). Hence, a discrepancy or failure of an organization to perform its functions and responsibilities would pose a serious risk to the legitimacy of the organization. Further, the risk will be exacerbated by greater demands for transparency and accountability of organizations (Power, 2003).

It is largely known that in accounting research and related areas relying on legitimacy theory is more frequently used to analyse the effects of legitimacy threats to corporations measured and analysed by the extent and type of public corporate disclosures. Legitimacy theory is sometimes used in reporting such detrimental and sensitive behavior of corporate actions as environmental reporting and social responsibility (Wilmshurst, & Frost, 2000; Patten, 1992; Guthrie, & Parker, 1989; O'Donovan, 2002). Although its applicability in public sector is arguably limited, some have also examined the relationship of the idea of legitimacy and public sector corruption (e.g Chang & Chu, 2006; Rodriguez, Uhlenbruck, & Eden, 2005; Rajagopal, 1999). Seligson (2002, p. 408) reveals that corruption reduces public trust in the political system and rises the political costs. These demands negatively impact on the achievement of organizational goals, such as public spending, and the reduction of resources allocation received (Suryadarma, 2012). Therefore, it is important for organizations to manage institutional organization and maintain their legitimacy (Gabrini, 2013).

As in the private sector, there are those who perform the function of internal and external auditing in the public sector. In Indonesia, Government Internal Supervisory Apparatus (Aparat Pengawasan Intern Pemerintah/APIP) serves as the government's internal auditors. Their main function, particularly in the public sector organizations, is to provide assurance of quality of management system of the local government, control the internal conditions and improve the performance through auditing and reviewing (Diamond, 2002; Asare, 2009). Meanwhile, the external auditors function as a tool for providing the assurance of the fairness of financial statements or reports in describing actual economic activity (Dye, 2007), whose role in Indonesia is carried out by the Financial Investigation Bureau of Indonesia (Badan Pemeriksa Keuangan/BPK, hereinafter referred to as the bureau).

To increase the accountability in the public sector, it is a mandatory task to government officials both the President of Indonesia and Heads of the Regions as specified in article 30-32 of Act No. 17/2003 as a part of the package of the statute of national finance, to deliver financial statements audited by the bureau no later than six months after the fiscal year ends, to meet the Government Accounting Standards (Standar Akuntansi Pemerintah/SAP), and be attached by the financial statements of state/regional owned enterprises. Meanwhile, with regard to the efforts to achieve transparency, the government enacts Act No. 14/2008 on Public Information Disclosure, which mandates the need for public bodies to provide, deliver, publish and or announce public information to the public. The public information includes information related to the activities, performance and financial statement information of the public bodies, including the investigation report on the financial statements of local government (Laporan Hasil Pemeriksaan atas Laporan Keuangan Pemerintah Daerah/ LHP BPK atas LKPD, hereinafter referred to as the report).

However, the characteristics of the auditor and the auditee jointly affect the quality of the audit report conducted by the bureau (Setyaningrum, 2012). The quality of the report, not surprisingly, does not meet the established standards. Thus, to improve the quality of the audit results and the right opinion, the bureau should be able to improve the quality of its auditors. It is worth noting, as stated by Power (2003) and Diamond (2002) that the audit opinion should be "clean" and meet the standard for public consumption. Then, the audit findings as a part of the report should be the basis for the users of financial statements in determining how good the financial management is carried out by the regional governments. In addition, to bring better transparency and public participation, the Act mandates the national or regional audit report to be submitted to the House of Representatives (DPR) or to the Provincial Parliament (Dewan Perwakilan Rakyat Daerah/DPRD), respectively, to be declared open to the public and published through both printed and electronic media. Such thing is expected to be able to assess the extent of the financial management of the national or regional level undertaken by the government, the level of corruption and misuse of the budget by using public awareness. This is in accordance with DiRienzo's (2007) study revealing that countries with a high level of transparency can minimize the occurrence of corruption cases.

Corruption, which takes place in almost all countries, not only in developing countries, but also in those considered as developed ones, is such a detrimental problem that widely affects economic development and political stabilization (DiRienzo, 2007; Dye, 2007; Malagueño et al., 2010; Neu et al., 2012). Indonesian government regulates the eradication of corruption by issuing Act No. 31 of 1999 jo. Act No. 20 of 2001 which states that corruption is criminal act and basically takes place in these matters: state losses, bribery, embezzlement in office, extortion, skulduggery, conflicts of interest in procurement, and gratification (compare with Tanzi's (1998) classification of corruption). Accordingly, corruption is defined as an illegal action causing financial loss to state, organization or other interested parties, aimed to benefit particular individuals or group. The fight against corruption is a difficult effort and a sensitive issue as it relates to leadership, systems and culture of an organization as the dynamics and impetus of corruption (Treisman, 2000; Stapenhurst, & Langseth, 1997). Thus, Klitgaard (1998) assigns the following formula to explain its dynamics:

$$C = M + D - A \qquad (1)$$

Where C for corruption, M for monopoly power, D for discretion policies and A for accountability. The model implies that corruption is strongly influenced by high power or authority held by officials, high discretion of policies, and low accountability in an organization. The higher the monopoly power and the discretion, the higher the corruption. Based on the formula, improving accountability or transparency and reducing monopoly power and discretion policies are a way to reduce corruption cases (see also Esposto & Alshammary, 2013). Hence, National Act No. 14 of 2008 regarding public disclosure which specifies the information transparency of regional finances is a basis for improving accountability that is expected to provide more comprehensive information to the public and give a positive influence on the public perception on the performance of financial management.

The legitimacy of the local government relies heavily on its performance that meets the expectation of the people. Particularly, the public can judge the government's behavior by using the results of the auditor report in assessing the performance of financial management. Ferraz and Finan (2008) find that the audit report of local government discloses the corruption activities, which would then affect the outcome of elections or electoral votes as the source of government legitimacy. Similarly Malagueño et al. (2010) reveal that the accounting and auditing quality significantly affect the perceived level of corruption in a country. The study also implies that the higher the quality of accounting and auditing report, the lower the level of corruption perceived by society. Thus, we propose the following hypothesis:

H1. The audit findings negatively affect the corruption perception index.

Setyaningrum et al. (2014) finds that the publication of audit findings significantly affects audit findings of the following year. Similarly, DiRienzo (2007) emphasizes the role of transparency on the decrease in corruption. Reinikka and Svensson's (2005) study on the government of Uganda further explains that transparency is the determining factor on the size of the role of the government's auditing report. Moreover, they state that Ugandan government's publication and socialization regarding education funds allocated to primary schools, resulting in a significant decline in embezzlement of education funds, leading to an increased public trust in the education in Uganda. Davis (2004) and Lindstedt and Naurin (2010) reveal the link between the reduction of corruption and the accountability of institution. Bertot, Jaeger, and Grimes (2010) state that the access for information likely indicates public response of corruption cases. Hence, it can be said that the transparency of the audit report impacts the public perception. Thus, the following hypothesis is proposed:

H2. The transparency positively affects the corruption perception index

H3. The transparency increases the negative influence of audit findings on the corruption perception index.

3. METHODOLOGY

The population in this study was all local governments in Indonesia that were included in the data of Corruption Perception Index (CPI) during the authors' survey period. The data source used was secondary data obtained from two main sources, i.e auditing reports of Financial Investigation Bureau of Indonesia (Laporan Badan Pemeriksa Keuangan/BPK) and survey results of Indonesian Corruption Perception Index (CPI) published by Transparency International Indonesia (TII). By using purposive sampling, this study used the following criteria to choose the sample. Firstly, the local government were those of regencies and cities included in the data of corruption perception index during the survey period. Secondly, the auditing reports of particular regions provided complete data on the variables measured in this study. It is arguably highly difficult to directly measure the actual level of corruption; instead this paper utilizes CPI as a measure of local government corruption. This paper argues that although CPI is primarily based on the surveys and public opinion having been criticized on the basis of its measurement (Wilhelm, 2002) and applicability, notably for indicating actual corruption in developing countries (Madichie, 2005), the index has been the most ideal measure of corruption, and hence its publication is more likely to able to enhance public official behavior to improve the quality of public financial management by conducting more transparent report to the public. This is based on the opinion of Andersson and Heywood (2009):

"...it [CPI] measures perceptions rather than, for example, reported cases, prosecutions or proven incidences of corruption. This matters because perceptions can influence behaviour in significant ways: for instance, if we believe that all around us people are engaging in corrupt behaviour, that may make us more likely to adopt such practices ourselves."

Between 2006 and 2016, Transparency International Indonesia (TII) conducted 3 surveys of Corruption Perception Index (CPI) of the local governments in 32 municipalities and cities in 2006, and 50 of those both in 2008 and in 2010, respectively. The use of the CPI to measure the level of corruption of local government is based on Andersson and Heywood (2009, p. 746) that emphasize the important role of the index as a systematic basis on the issue of corruption. The report of the bureau used in this study was based on the published report of the previous fiscal year, consisting of two report summaries (Ikhtisar Hasil Pemeriksaan/IHPS): one published in September the current year, and the other in March of the following year. Therefore, both the audit findings of the fiscal year of 2006 as a whole were completely published no later than March 2008. Therefore, the 2008's corruption index was based on the information in the report of the fiscal year of 2006, while that of 2010 was based on the report of 2008. Since there were some items that were incomplete, this study used a sample amounting to 95 samples of municipalities and cities in Indonesia.

This study measured the auditor report as the independent variable, the corruption level as the dependent variable and the size of asset value of region (city or municipality) as the control variable. In this section, we would like to describe the measurement and operationally define the variables examined. The independent variable in this study was measured with the report of the audit findings, as also used by Setyaningrum (2014) and Liu and Lin (2012). In addition, the variable was interacted with the transparency. We here measured the variable of transparency using a dummy to be based on Act No. 14 of 2008 on Public Information, assuming that the index of 2008 and the previous years was given number 0 (less transparent) and 1 (transparent) for the index after the Act was issued. This is based on the assumption that the issuance of the Act enables the public to already have access to public information, including the audit report of the local governments.

The dependent variable in this study was the degree of corruption as measured by the Corruption Perception Index (CPI) of the local governments as used by DiRienzo et al. (2007), Malagueño et al. (2010), and Hartanto and Probohudono (2013). The variable was measured by a scale ranging from 0 (highly corrupt) to 10 (very clean). The control variable used was the size of the local government. This variable was presented by Liu and Lin (2012) and Hartanto and Probohudono (2013). As the control, therefore this variable was predicted only a significant effect on the corruption perception index.

The data was analyzed by using the following equation. Since there is a potential for multicollinearity between the two variables examined, then we analysed the proposed hypotheses by this regression:

$$CPI_i = \beta_0 + \beta_1 AR_i + \beta_2 TRD_i + \beta_3 LASSET{*}TRD_i + \beta_4 LnASSET_i + \varepsilon_{i1} \qquad (1)$$

CPI_i = Corruption Perception Index

AR_i= Auditing Report (proxied by the number of audit findings of the bureau)

TRD_i = Transparency (Dummy, 1= after 2008; 0= 2008 and the previous years)

$LnASSET_i$= Ln Asset Size of Local Government; β_0 = intercept (constant); β_{1234} = slope (coefficient);

ε_{i12} = error term

4. RESULTS AND DISCUSSION

This descriptive statistic analysis gives an overview of the sample used in the study with a description of the mean, the minimum and maximum value, standard deviation and variance of each variable examined. Based on the research sample of the 95 observed regions, the statistical description of the variables of corruption perception index and audit findings was obtained.

Table 1. Descriptive Statistic

Variable	N	Mean	Min	Max	Stand. Dev	Variance
Corruption Perception Index (CPI)	95	4,74	2,97	6,71	0,72	0,52
Number of Audit Findings	95	86,34	28,00	163,00	31,38	985,02

This result reveals that the mean of CPI is 4.73 with the standard deviation of 0.72 and variance of 0.52, the minimum value of 2.97 and maximum of 6.71. This implies that the public perception of corruption in the local government in Indonesia is still very high, which is still below 7. In other words, the public perceives that corruption is still prevalent in the local government and none of the local governments are considered free of corruption, especially during the observation period. The audit findings reveal the mean of the findings of 86,34 at the maximum value of 163, the minimum of 28, the standard deviation of 31.38 and the variance of 985.02. It shows that the variance of the audit findings in the sample is very large.

This study used the software of STATA-12 in analyzing the data. Before testing the hypotheses, the study firstly used the testing of assumption of Ordinary Least Square (OLS) toward regression model to estimate the unknown parameters in the above-mentioned linear model.

Table 2. Testing Result of Assumption of OLS

Variabel	**n**	**Prob>z**	**VIF**	**1/VIF**	**Chi2**	***Unadjusted* p-values**
Corruption Perception Index	95	0.98	-	-	0.58	0.44
Audit Findings	95	0.57	1.39	0.718	0.19	0.64
Transparency	95	1.00	1.35	0.742	0.01	0.38
Asset/Size	95	0.00	1.06	0.941	0.03	0.58

The result shows that the variables of corruption perception index data, audit findings and transparency as the main variables used in this study are all normally distributed, except for the variable of asset size of the local government as the control variable that shows the probability value of <0.05.

Due to the normality problem of the control variable, then it is not able to be further analyzed in testing the hypotheses. By using VIF and tolerance testing (1 / VIF), the values of VIF for all the independent variables are <5 and the tolerance values are > 0.20. Hence, it can be stated that there are no problems of multicollinearity in the regression model. Moreover, the testing of Szroeter's demonstrates the value of unadjusted p-values of > 0.05 in all the variables, so there is no problem of heteroscedasticity of the regression model variance since all the variables have constant values of variance.

Table 3. Hypothesis Testing (without interaction)

Variable	Coefficient	Stand. Err	t	P> (t)	Sig.
Constant	4.7291	0.2882	16.41	0.000	-
Audit Findings	-0.0019	0.0026	-0.73	0.718	-
Transparency	0.3485	0.1646	2.12	0.037	**
Corruption Perception Index	= Dependent				
Prob > F	= 0.016 **				
R-squared	= 0.085				
Adjusted R-squared	= 0.065				
Root MSE	= 0.699				
**	= 5%				

The result shows that the variables' effects are statistically significant at the level of 5% i.e. 0.01 or below <0.05, although the audit findings and transparency variables together are only able to explain the corruption perception index in a weak effect 6.5%. The small value of the adjusted R square occurs since this study only focuses on accountability, and does not consider other factors such as monopoly and discretion as previously stated by Klitgaard (1998). The test shows that the variable of audit findings negatively influences the Corruption Perceptions Index (T value -.073). However the p value shows the value of 0.718 or above the level of significance (0.05). Thus, statistically the first hypothesis stating that the audit findings negatively affect the corruption perception index is not supported. The variable of transparency has the T value of 2.12 and p value of 0.037 or below the level (0.05), then statistically the hypothesis stating that the transparency positively affects the corruption perception index is accepted. This means that Act No. 14 of 2008 regarding public disclosure that provides a measurement of transparency of public financial management of local government has a better impact on corruption index, indicated by the positive value of coefficient of this variable than that before the enactment of the Act.

By using the above-mentioned equation, the testing of the third hypothesis was conducted by measuring the interaction between transparency and audit findings.

Tabel 4. Hypothesis Testing (with interaction)

Variable	Coefficient	Stand. Err	t	P> (t)	Sig.
Constant	4.1525	0.2882	10.37	0.000	***
Audit Findings	0.0037	0.0037	0.98	0.718	-
Transparency	1.2788	0.4843	2.64	0.010	**
Transparency* Audit Findings	-0.0106	0.0051	-2.04	0.044	**
Corruption Perception Index	= Dependent				
Prob > F	= 0.007 ***				
R-squared	= 0.124				
Adjusted R-squared	= 0.096				
Root MSE	= 0.688				
, *	= 5%, 1%				

The testing reveals that the interaction between the transparency and audit findings provides a better explanation to the variation of the index that is reflected in the increase in the value of the adjusted R square to 0.096. The interaction brings a negative and significant impact on the index. Thus, the third hypothesis stating that the transparency increases the negative influence of the audit findings on corruption perception index is accepted. It means that the publication of the audit findings would be perceived by the public that the level of the corruption of the local government is high. The result provides a strong evidence that transparency plays an important role in reducing both the actual and potential corruption cases.

This confirms the results of Klitgaard (1998), DiRienzo (2007); Reinikka and Svensson (2005); Pellegrini & Gerlagh (2007), Liu and Lin (2012), showing that the state or local governments with high levels of transparency are more likely to minimize the occurrence of corruption. The transparency is going to open more opportunities for people to get information on public finance management of local government, so the index will be higher, and on the contrary, the lack of transparency will be perceived by the public that there has been a lot of corruption in the Local Government, leading to a lower index of corruption. However, the result shows no direct influence between the audit findings with the corruption perception index, and this is different from the results of the study of Liu and Lin (2012) and Ferraz and Finan (2008). The key findings obtained from the results are that the effect of the interaction between the audit findings and transparency on the corruption perception index emphasize the importance of transparency in enhancing the role of the audit function. It is in line with Ferraz and Finan (2008), stating that the audit result plays a major role in shaping public perception, especially in evaluating the performance of, and giving legitimacy to, the government. The publication of the audit findings is more likely to increase the negative opinion of the growing possibility of corruption in the local government that is perceived by the public.

The study provides positive implications for public financial management. The government needs to reduce the likelihood or possibility to increase the findings of the audit in managing regional finances and gaining the legitimacy from the people. Less audit findings published by the bureau positively impact on local governments' efforts to reduce corruption, decrease the negative perception of corruption of the public, and eventually increase the legitimacy of the public to the local government. This is in line with Furuholt and Wahid (2008) emphasizing the need to improve transparency to maintain government's legitimacy and increase citizen participation. The result also provides evidence of the effectiveness of Act No. 14 of 2008 regarding public disclosure in promoting transparency and accountability in financial management, by enhancing citizen participation in controlling the financial misuse and mismanagement by mandating the local government to publish the information regarding public finances.

For the bureau, the results have implications on the importance of improving the audit quality and transparency of the audit report, so that it is able to be used as a basis for decision making for the government and community. Despite the lack of quality of the audit report of the bureau, auditor actually has a highly important role to reduce and prevent potential practices of corruption. Therefore, it is an imperative task for the bureau to perform a more transparent, relevant, reliable and comprehensive report. This is in line with Brademas, and Heimann (1998) stating that the establishment of rules to improve the quality of accounting and auditing can prevent the corruption cases. In addition, this confirms Neu et al. (2012) stating that accounting and auditing practices are more likely to reduce white collar crimes.

5. CONCLUSION

This study attempts to analyze the extent of the effect of audit findings and transparency on the corruption perception index in local government in Indonesia based on legitimacy theory. The above result confirms the theory of the legitimacy, in which the local government would increase the performance of public finance management by reducing the negative findings of the audit report, to get legitimacy from the public. The study demonstrates the importance of transparency in reducing corruption practices that occur in the local government. Transparency has a positive effect on better public perception of local government that is marked by the increase in the corruption index. On other hand, the transparency of the audit findings has a negative effect on the corruption perception index. When the audit findings are published, it could lead to public perceptions on an increasing corruption in the local governments, which is characterized by a lower value of the index. However, the transparency has an important role in reducing corruption practices that occur in local government officials.

This study has some limitations. The measurement of the corruption in this study only uses the corruption perception index perceived by the public, which may be different from the study measuring the actual corruption practices occurring in the local governments in Indonesia. Furthermore, the study finds that the variable asset that is widely used as a proxy of the size of the local government does not have normal distribution. Therefore, further research could explore the influence of audit opinion, the implementation of audit findings by local government, and other factors triggering corruption cases such as monopoly, leadership and discretion.

REFERENCES

Andersson, S., & Heywood, P. M. (2009), The politics of perception: use and abuse of Transparency International's approach to measuring corruption, Political Studies, 57(4), pp. 746-767.

Asare, T. (2009), Internal auditing in the public sector: Promoting good governance and performance improvement, International Journal on Governmental Financial Management, 9(1), pp. 15-28.

Bertot, J. C., Jaeger, P. T., & Grimes, J. M. (2010), Using ICTs to create a culture of transparency: E-government and social media as openness and anti-corruption tools for societies, Government information quarterly, 27(3), pp. 264-271.

Brademas, J., & Heimann, F. (1998), Tackling international corruption-No longer taboo, Foreign Aff., 77(17).

Burlea, A. S., & Popa, I. (2013), Legitimacy Theory, In Encyclopedia of Corporate Social Responsibility (pp. 1579-1584). Springer Berlin Heidelberg.

Cuganesan, S., Ward, L., & Guthrie, J. (2007), Legitimacy theory: A story of reporting social and environmental matters within the Australian food and beverage industry, In 5th Asian Pacific Interdisciplinary Research in Accounting (APIRA) Conference (pp. 8-10).

Davis, J. (2004), Corruption in public service delivery: experience from South Asia's water and sanitation sector, World development, 32(1), pp. 53-71.

Diamond, M. J. (2002), The role of internal audit in government financial management: an international perspective (No. 2-94), International Monetary Fund.

DiRienzo, C., Das, J., Cord, K. and Burbridge, J. (2007), Corruption and the role of information, Journal of International Business , Vol. 38, No.2, pp. 320-332.

Dye, K. M. (2007), Corruption and Fraud Detection by Public Sector Auditors, EDPACS , 36 (5-6), pp. 6-15.

Esposto, A. S., & Alshammary, M. (2013), The role of institutions in successful fiscal arrangements: The case of Australia and Argentina, Corporate Ownership and Control, 10(2), pp. 646-658.

Everett, Jeff., Dean Neu & Abu Shiraz, R. (2007), Accounting and the Global Fight against corruption, Accounting, Organizations and Society, Vol. 32, pp. 513-542.

Everett, N. D., J., Rahaman, A. S., & Martinez, D. (2013), Accounting and networks of corruption, Accounting, Organizations and Society, 38(6), pp. 505-524.

Fantaye, D. K. (2004), Fighting corruption and embezzlement in Third World Countries, The Journal of criminal law, 68(2), pp. 170-176.

Ferraz, C., Finan, F., (2008), Exposing Corrupt Politicians: the effect of Brazil's publicly released audits on electoral outcomes, Quarterly Journal of Economics, 123 (2), pp. 703-745.

Furqan, A.C. (2011), Refleksi Transformasi Akuntansi Sektor Publik: Dari Hulu Sampai Ke Hilir, Majalah Akuntan Indonesia, Issue 29 (V).

Furuholt, B., & Wahid, F. (2008), E-government Challenges and the Role of Political Leadership in Indonesia: the Case of Sragen. In Hawaii International Conference on System Sciences, Proceedings of the 41st Annual (pp. 411-411). IEEE.

Gabrini, Carl J., (2013), The Effect of Internal Audit on Governance: Maintaining Legitimacy of Local Government, Dissertation at The Florida State University College of Social Sciences And Public Policy.

Guthrie, J., & Parker, L. D. (1989), Corporate social reporting: a rebuttal of legitimacy theory. Accounting and business research, 19(76), pp. 343-352.

Hartanto, R. & Probohudono, A. N. (2013), Desentralisasi Fiskal, Karakteristik Pemerintah Daerah dan Tingkat Korupsi Pemerintah Daerah pada Tahun 2008 dan 2010.

Klitgaard, R. (1998), International cooperation against corruption, Finance and Development, 35 (1), pp. 3-6.

Komisi Pemberantasan Korupsi. (2014), Rekapitulasi Penindakan Pidana Korupsi (Recapitulation of Corruption Enforcement). Accessed from http://acch.kpk.go.id/statistik-penanganan-tindak-pidana-korupsi-berdasarkan-tahun. Retrieved Oct, 5, 2014.

LaRocca, R. N. (2012), The corruption factor: how public sector employees influence the tide, International Journal of Society Systems Science, 4(1), pp. 92-106.

Lindstedt, C., & Naurin, D. (2010), Transparency is not enough: Making transparency effective in reducing corruption, International political science review, 31(3), pp. 301-322.

Liu, J., & Lin, B. (2012), Government corruption auditing and control: Evidence from China's provincial panel data, theChinese Journal of Accounting Research, Vol. 5, pp. 163-186.

Lubbe, N., & Lubbe, D. (2015), Topics to be included in a meaningful and informative undergraduate business ethics course for accountancy students: A South African Perspective. Corporate Ownership & Control, Vol. 221.

MacMillan, J. (2011), Reformasi and Public Corruption: Why Indonesia's Anti-Corruption Agency Strategy Should Be Reforms to Effectively Combat Public Corruption, Emory Int'l L. Rev., 25(587).

Madichie, N. O. (2005), Corruption in Nigeria: how effective is the corruption perception index in highlighting the economic malaise?. World Review of Science, Technology and Sustainable Development, 2(3-4), pp. 320-335.

Malagueño, R., Albrecht, Ch. O., Ainge, Ch., & Stephens, N. M. (2010), Accounting and Corruption: A Cross-Country Analysis, Journal of Money Laundering Control, 13(4), pp. 372-393.

O'Donovan, G. (2002), Environmental disclosures in the annual report: Extending the applicability and predictive power of legitimacy theory, Accounting, Auditing & Accountability Journal, 15(3), pp. 344-371.

Olken, BA (2007), Monitoring corruption: evidence from a field experiment in Indonesi, Journal of Political Economy, 115 (2), pp. 200-249.

Owolabi, A. (2011), Corruption and the environment of accounting and auditing in Africa, International Journal of Critical Accounting, 3(2-3), pp. 220-234.

Patten, D. M. (1992), Intra-industry environmental disclosures in response to the Alaskan oil spill: A note on legitimacy theory, Accounting, Organizations and Society, 17(5), pp. 471-475.

Pellegrini, L., Gerlagh, R. (2007), Causes of corruption: a survey of a cross-country analyzes and extended results. Economics of Governance , 9 (3), pp. 245-263.

Power, M. (2003), Auditing and the production of legitimacy, Accounting, Organizations and Society, Vol. 28, pp. 379-394.

Rajagopal, B. (1999), Corruption, legitimacy and human rights: the dialectic of the relationship, Connecticut Journal of International Law, 14(2).

Reinikka, R., & Svensson, J. (2005), Fighting corruption to improve schooling: Evidence from a newspaper campaign in Uganda, Journal of the European Economic Association, 3(2-3), pp. 259-267.

Rodriguez, P., Uhlenbruck, K., & Eden, L. (2005), Government corruption and the entry strategies of multinationals, Academy of management review, 30(2), pp. 383-396.

Sanyal, R., & Samanta, S. (2008), Effect of perception of corruption on outward US Foreign Direct Investment, Global Business and Economics Review, 10(1), pp. 123-140.

Schelker, M., & Eichenberger, R. (2010), Auditors and fiscal policy: empirical evidence on a little big institution, Journal of Comparative Economics, 38(4), pp. 357-380.

Seligson, M. A. (2002), The impact of corruption on regime legitimacy: A comparative study of four Latin American countries. Journal of politics, 64(2), pp. 408-433.

Setyaningrum, D. (2012), Analisis Faktor-Faktor Yang Mempengaruhi Kualitas Audit BPK-RI (Analysis of Factors Affecting Audit Quality of BPK-RI), Simposium Nasional Akuntansi XV, Banjarmasin, Kalimantan Selatan.

Setyaningrum, D., Gani, L., Martani, D., and Kuntadi, C. (2014), Pengaruh Kualitas Auditor Dan Pengawasan Legislatif Terhadap Temuan Audit Dengan Tindak Lanjut Rekomendasi Hasil Pemeriksaan Sebagai Variabel Intervening (The Effect of Auditor and Legislative Oversight of Audit Findings on Following-Up of Audit Recommendation as an intervening variable), Simposium Nasional Akuntansi XVII, Lombok, Nusa Tenggara Barat.

Stapenhurst, F., & Langseth, P. (1997), The role of the public administration in fighting corruption, International Journal of Public Sector Management, 10(5), pp. 311-330.

Suchman, M. C. (1995), Managing legitimacy: Strategic and institutional approaches, Academy of management review, 20(3), pp. 571-610.

Sudibyo, Y. A., Jianfu, S., and Bawono, I. R. (2014), Teori Institusi Dan Korupsi: Studi Empiris Pada Organisasi Sektor Publik Di Cina Dan Indonesia (Institutional Theory and Corruption: Empirical Study on Public Sector Organizations in China and Indonesia). Simposium Nasional Akuntansi XVII, Lombok, Nusa Tenggara Barat.

Suryadarma, D. (2012), How corruption diminishes the effectiveness of public spending on education in Indonesia, Bulletin of Indonesian Economic Studies, 48(1), pp. 85-100.

Svensson, J. (2005), Eight Questions about Corruption, Journal of Economic Perspectives, 3 (19), pp. 19-42.

Touny, M. A. (2016), The interactive effects of corruption and political instability on foreign direct investment: evidence from the Middle East region, International Journal of Trade and Global Markets, 9(4), pp. 370-385.

Treisman, D. (2000), The causes of corruption: a cross-national study. Journal of public economics, 76(3), pp. 399-457.

Wilhelm, P. G. (2002), International validation of the corruption perceptions index: Implications for business ethics and entrepreneurship education, Journal of business Ethics, 35(3), pp. 177-189.

Wilmshurst, T. D., & Frost, G. R. (2000), Corporate environmental reporting: a test of legitimacy theory, Accounting, Auditing & Accountability Journal, 13(1), pp. 10-26.

Xin, X., & Rudel, T. K. (2004), The Context for Political Corruption: A Cross- National Analysis, Social Science Quarterly, 85(2), pp. 294-309.

Zaman Mir, M., & Shiraz Rahaman, A. (2005), The adoption of international accounting standards in Bangladesh: An exploration of rationale and process, Accounting, Auditing & Accountability Journal, 18(6), pp. 816-841.

Zhao, J. H., Kim, S. H., & Du, J. (2003), The impact of corruption and transparency on foreign direct investment: An empirical analysis, MIR: Management International Review, pp. 41-62.