The Impact of Financial Accountability, Internal Control and Government Expenditure on Social Welfare

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ABSTRACT

One of the goals of the Indonesia is social welfare. However, there are still Indonesian people who suffer for living. The local government expenditure, which is expected to encourage welfare, still hasn`t show satisfactory results. This study aims to determine the impact of financial accountability, internal control and government expenditure on social welfare. This research was conducted in 508 districts/cities in Indonesia within period between 2015-2019. The results indicate that financial accountability has various effects on welfare. Only the unqualified opinion has a significant effect on all welfare indicators. The audit findings were not proven to have a significant effect on welfare. The results also indicate that internal control has a significant influence on all welfare indicators. The higher the internal audit capability and the internal control system maturity level, the greater the impact on promoting welfare. Government expenditure, in aggregate, has a significant effect on most welfare indicators. The results of this study further strengthen the role of internal control to promote welfare. Therefore, it is important that the local government considered improving the internal audit capability and the internal control system.

Keyword: Accountability, Government Expenditure, Internal Audit Capability, Internal Control System, Welfare

INTRODUCTION

Founding father of Indonesia intend to achieve welfare for all its people (Alfitri, 2012). The 1945 Constitution supports the Welfare State concept which states that the government needs to manage resources for the greatest social welfare (Elviandri et al., 2019). With decentralization, these obligations also lie in local governments. The decentralization aims to expand the coverage, quality and efficiency of basic services and improve the welfare (OECD, 2019). These resources are managed by collecting taxes or levy fairly and efficiently (Ebdon, 2005) and spending them on the public goods and services (Leland, 2005) as stated in the local government budget. Nurlina (2015) and Wahyudi (2020) state that the government budget is one of the instruments to promote welfare so that government budget needs to be managed carefully.

As a form of accountability for the government expenditure to achieve welfare, local governments are required to compile Local Government Financial Reports (LGFR). Figure 1 shows that since 2015 the majority of local governments have been able to achieve unqualified opinions and the number continue to increase. However, local budgeting is still far from perfect as indicated by the audit findings of the Supreme Audit Board of Indonesia (SABI). Audit findings are a sign of budgeting leakage (Mangkunegara, 2015). World Bank (2020) states that government expenditure in Indonesia is inefficient and ineffective on several sectors that enhance infrastructure and human resources. So even though the local budgeting continues to grow, not all people necessarily enjoy its benefits.

Figure 1 SABI`s Opinion on LGFR
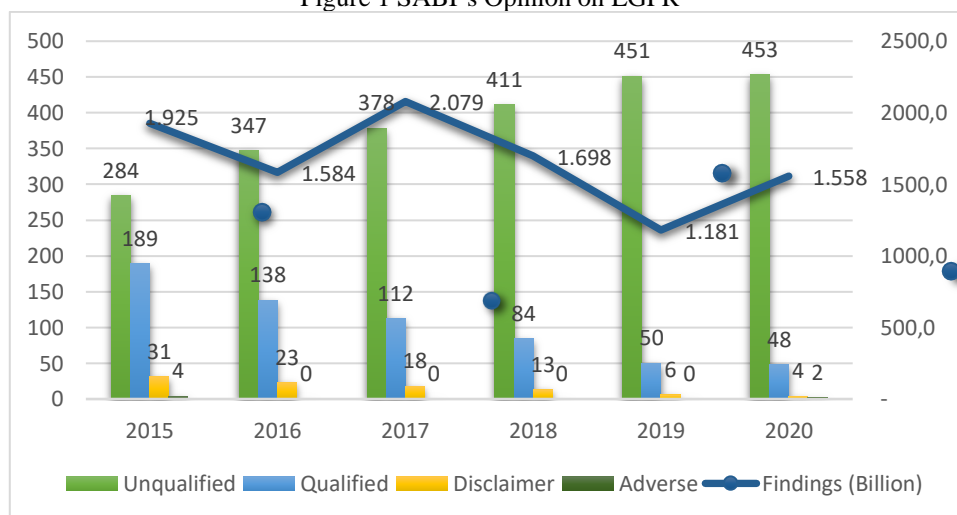
Source: SABI processed

Auliyana (2017); Basuki (2020); and Prasetyia (2021) research shows that the SABI`s opinion on the LGFR further promote welfare. On the contrary, previous studies shows that there is no strong correlation between SABI`s opinion and welfare (Akbar & Djazuli, 2015; Khairudin et al., 2019; Prawoto & Basuki, 2016; Saragih & Hasibuan, 2020). Santosa (2022) states that it`s difficult to link between financial audits and welfare because of undetected fraud or corruption in the audit process. To overcome these problems Santosa (2022) proposes strengthening the internal control.

Strengthen the internal control can be done by improving Goverment Internal Control System (GICS) and Government Internal Supervisory Apparatus (GISA). In its implementation, GICS states the important role of an effective GISA in a local government. GISA is one of the main elements of local government that helps achieve goals and hold responsible for these results

(IIARF, 2009). With an effective GISA, Santosa (2022) believes that budgeting leakage can be avoided.

LITERATURE REVIEW

Indonesia follows welfare state concept since its independence day (Purwanti & Rahmawati, 2021; Safitri et al., 2021)(Elviandri et al., 2019; Prasetyo, 2012) but nowadays only few people achieved welfare (Alfitri, 2012). *Welfare state* is the state guarantee for the availability of basic services to achieve or maintain welfare (Alfitri, 2012; Elviandri et al., 2019). Akbar & Djazuli, (2015) define some indicators that can be used to measure welfare in Indonesia, including the economic growth, GRDP per capita, poverty rate, HDI, unemployment rate, and gini ratio. In addition, Bappenas has formulated the Inclusive Economic Growth Index (IEGI) to measure the inclusiveness of development in Indonesia.

Local budgeting is used to provide basic needs for society. Previous studies find a positive correlation between governments expenditure and welfare indicators, including HDI (Fadilah et al., 2018; Fahmi & Dalimunthe, 2018; Palayukan, 2019), IEGI (Purwanti & Rahmawati, 2021; Safitri et al., 2021), reducing poverty (Mustaqimah et al., 2017; Pratama & Utama, 2019), decreasing unemployment (Kaharudin et al., 2019; Muslim, 2014), and economic growth (Nurlina, 2015; Patanduk et al., 2019; Putri et al., 2018; Wahyudi, 2020). However, an increase in the local budgeting does not necessarily mean an increase in welfare (Leland, 2005). Studies revealed that there are other variables that influence welfare, namely the quality of government (Kaufmann & Kraay, 2002; Pradhan & Sanyal, 2011; Uddin & Joya, 2007).

In accordance with the welfare state, agency theory states that the government is an *agent* who is obliged to improve the welfare through quality administration. Halim & Abdullah (2006) explain that it`s very possible that there is a conflict between principal and agent in achieving targets. These conflict, known as the agency problems, is caused by some differences between principal and agent (Panda & Leepsa, 2017). To reduce this, Panda & Leepsa (2017) suggest setting performance targets, increasing accountability and transparency, implementing supervision, and encouraging good governance.

According to UNDP (1997) governance is a system of values, institutions and policies to manage economic, political and social affairs through interactions between the government, society and the private sector. World Bank and UNDP introduced governance principles to simplify the implementation. However, previous studies shows that not all principles have a significant effect on welfare (Table 2). To achieve welfare, the government must focus on principles such as accountability and transparency, government effectiveness and enhancing the GICS.

Table 2 Main Principles of Governance

Ahmad & Saleem (2014)	Ariu et al. (2016)	Wulandari & Bandi (2015)	LAN & SABIP (2000)	Mardiasmo (2006)	Chaudhary (2019)
• Government Effectiveness • Political Stability • Control Corruption • Regulatory Quality	• Government Effectiveness • Rule of Law • Control Corruption	• Transparency • Accountability	• Transparency • Accountability • Responsive	• Responsive • Enhance Internal Control • Competitive public service	• Transparency • Accountability • Responsive • Inclusive

processed from several sources.

Accountability and transparency are two things that are closely related. LAN & SABIP (2000) and Wulandari & Bandi (2015) states that accountability and transparency are needed to

achieve good governance. Accountability is the obligation to provide information and disclosure to stakeholders regarding the achievement of previously agreed targets (Mardiasmo, 2006; Schiavo-Campo & Tommasi, 1999). Local Government Financial Reports (LGFR) are a form of local government accountability for using public resources (Mardiasmo, 2006).

Every year SABI issues an opinion on LGFR which describes the level of financial accountability of local governments. During the financial audit, SABI conducts an assessment of the GICS. This affirms the important role of GICS in the governments. Internal control helps accelerate the achieve goals in a systematic way, evaluate and improve the effectiveness of risk management, control and governance (IIARF, 2009). Santosa (2022) believes that GICS is needed to prevent corruption which work effectively than prosecution.

The implementation of GICS requires quality human resources. One of element in control environment, which is the foundation of the GICS, requires the an effective GISA (BPKP, 2021). An effective GISA can provide reasonable assurance in the effectiveness and efficiency of achieving goals, acts as an early warning system in government, maintains and improves the quality of governance (BPKP, 2021). To measure GISA quality, FDSA uses Internal Audit Capability Model (IACM) adopted from the Institute of Internal Auditors. Nanda et al. (2019) find that perform GICS with an effective GISA had a significant effect on the local government`s quality.

RESEARCH METHODOLOGY

This studi aims to determine the impact of financial accountability, internal control and government expenditure on social welfare. The object of this research is 508 Regency/Municipality in Indonesia between 2015 and 2019. The data is obtained by submitting a request for data and downloading it from the official website of the relevant agency.

Table 3 Definition of Operational Variables

VARIABLE	DEFINITION	SOURCE	REFERENCE
Human Development Index (HDI)	An index to measure achievement to improve the quality of human life	Statistics Indonesia	Fadilah et al. (2018); Palayukan (2019)
Inclusive Economic Growth Index (IEGI)	IEGI is an index that measures the inclusiveness of development in Indonesia	National Development Planning Agency	Purwanti & Rahmawati (2021); Safitri et al. (2021)
Percentage of Poverty (POV)	The inability from an economic perspective to meet basic needs as measured by monthly expenses.	Statistics Indonesia	Mustaqimah et al., (2017); Pratama & Utama, 2019)
Unemployment Rate (UNEMP)	Percentage of unemployed to total labor force.	Statistics Indonesia	Kaharudin et al. (2019); Muslim, (2014)
GDP per Capita (GRDP)	The total income from these production activities is divided by the total population.	Statistics Indonesia	Basuki et al. (2019); Patanduk et al. (2019); Prasetyia (2021);
Government Expenditure (GOVEX)	Total of Local Government budgeting.	Ministry of Finance	Nurlina (2015); Putri et al. (2018); Wahyudi (2020)

VARIABLE	DEFINITION	SOURCE	REFERENCE
SABI`s Audit Opinion on LGFR (AUDOP)	SABI`s opinion on LGFR.	SABI	Mardiasmo (2006); Prasetyia (2021); Basuki et al. (2019)
SABI`s Audit Findings on LGFR (FIND)	Total Audit Findings from the Financial Audit on LGFR.	SABI	Mardiasmo (2006); Mangkunegara (2015)
GICS Maturity Level (GICS)	Maturity level of GICS according to Government Regulation number 60 of 2008.	FDSA	Mardiasmo (2006); Nanda et al. (2019)
GISA Capability Level (GISA)	GISA`s capabilities in order to provide *added value* and help achieve the goals of local government.	FDSA	Nanda et al. (2019); Sholeh & Dewi (2017)

source: author

From the definitions above and previous studies as well as the data availability, this study uses panel data regression. The dependent variables of this study are HDI, IEGI, poverty level, unemployment rate and GRDP per capita with the equation model as follows:

$$(HDI)_{it} = \alpha_{it} + \beta_1(AUDOP)_{it} + \beta_2(FIND)_{it} + \beta_3(GISA)_{it} + \beta_4(GICS)_{it} + \beta_5(GOVEX)_{it} + \varepsilon_{it} \ \dots\dots\dots \ (1)$$
$$(IEGI)_{it} = \alpha_{it} + \beta_1(AUDOP)_{it} + \beta_2(FIND)_{it} + \beta_3(GISA)_{it} + \beta_4(GICS)_{it} + \beta_5(GOVEX)_{it} + \varepsilon_{it} \ \dots\dots \ (2)$$
$$(POV)_{it} = \alpha_{it} + \beta_1(AUDOP)_{it} + \beta_2(FIND)_{it} + \beta_3(GISA)_{it} + \beta_4(GICS)_{it} + \beta_5(GOVEX)_{it} + \varepsilon_{it} \ \dots\dots \ (3)$$
$$(UNEMP)_{it} = \alpha_{it} + \beta_1(AUDOP)_{it} + \beta_2(FIND)_{it} + \beta_3(GISA)_{it} + \beta_4(GICS)_{it} + \beta_5(GOVEX)_{it} + \varepsilon_{it} \ .. \ (4)$$
$$(GRDP)_{it} = \alpha_{it} + \beta_1(AUDOP)_{it} + \beta_2(FIND)_{it} + \beta_3(GISA)_{it} + \beta_4(GICS)_{it} + \beta_5(GOVEX)_{it} + \varepsilon_{it} \ \dots \ (5)$$

RESEARCH RESULT

Social Welfare in Indonesia
The highest values of HDI, IEGI and GRDP per capita are dominated by western Indonesia, especially Java (table 4). The highest HDI was achieved by Yogyakarta with a score of 86.65. The highest IEGI was achieved by Kediri with 6.84. The highest GRDP per capita was achieved by Denpasar in 2019 with a value of 19.99 million. There are three regions with the poverty percentage above 40% namely Intan Jaya, Deiyai, and Lanny Jaya. The region with the unemployment rate above 15% is in Sorong, North Aceh, Tual and Ambon.
Local governments with the lowest HDI, IEGI and GRDP per capita is in Papua Province. The lowest HDI and GRDP per capita is in Nduga with an HDI score 25.38 and GRDP per capita of 3.6 million. The lowest IEGI value is in Tolikara with score of 2.66. The lowest poverty is in South Tangerang and Badung where the poverty rate is below 2%. The lowest unemployment is in Jayawijaya. It is clear that there is an inequality between regions in Indonesia. Social welfare in eastern Indonesia, particularly in Papua Province, needs to be improved.

Table 4 Descriptive Statistics

Variables	Min	Max	Observation
HDI	25.47	86.65	2540
IEGI	2.66	6.84	2288
POV	1.67	45.74	2527
UNEMP	0.05	17.26	2522
GRDP	3.625	19,992	2540

AUDOP	1.00	4.00	2539
FIND	0.00	210,690.61	2524
GISA	1.00	3.00	2451
GICS	1.00	3.00	2451
GOVEX	171,835,19	9,506,272.36	2540

source: research results processed

Research Result

From the results of the Chow, Hausman and LM tests, the best model for this research equation is the *Fixed Effect Model* (table 5). The results showed that the *adjusted* R^2 of each welfare variable is 0.685 (HDI), 0.488 (IEGI), 0.408 (POV), 0.125 (UNEMP), 0.667 (GRDP). This means that the independent variables of this study have an effect of 68.5% on HDI, 48.8% on IEGI, 40.8% on POV, 12.5% on UNEMP, and 66.7% on GRDP while the rest is influenced by variables outside of this study.

Table 5 Panel Data Results

VARIABLES	HDI	IEGI	POV	UNEMP	GRDP
AUDOP=2 (Disclaimer)	-0.249	0.0653	1,951**	-1.156**	-7.554
	(0.251)	(0.0698)	(0.765)	(0.565)	(60.78)
AUDOP=3 (Qualified)	0.309	0.101*	1,718**	-0.905*	99.60**
	(0.211)	(0.0597)	(0.754)	(0.528)	(41.71)
AUDOP=4 (Unqualified)	0.746***	0.163***	1,459*	-1,060**	259.2***
	(0.215)	(0.0608)	(0.772)	(0.529)	(42.10)
FIND	-0.0204	-0.00769	0.00429	0.0234	-8.030
	(0.0172)	(0.00518)	(0.0113)	(0.0379)	(6.005)
GISA=2 (Structured)	0.389***	0.0511***	-0.258***	-0.239***	134.9***
	(0.0367)	(0.00731)	(0.0485)	(0.0717)	(16.70)
GISA=3 (Delivered)	0.583***	0.0972***	-0.211***	-0.277***	242.1***
	(0.0549)	(0.0109)	(0.0628)	(0.0879)	(26.22)
GICS=2 (Developing)	0.746***	0.0981***	-0.528***	-0.429***	297.1***
	(0.0383)	(0.00778)	(0.0479)	(0.0639)	(16.68)
GICS=3 (Defined)	1.150***	0.155***	-0.850***	-0.601***	549.7***
	(0.0375)	(0.00781)	(0.0517)	(0.0713)	(18.03)
GOVEX	0.835***	0.0791***	-0.717***	-0.209	397.1***
	(0.132)	(0.0183)	(0.147)	(0.152)	(59.73)
Constant	66.99***	4,991***	11.69***	6.307***	9,327***
	(0.214)	(0.0598)	(0.763)	(0.524)	(41.88)
Observations	2,438	2,210	2,427	2,422	2,438
R^2	0.686	0.490	0.410	0.128	0.668
Adjusted R^2	0.685	0.488	0.408	0.125	0.667
F-stat	577.19	144.38	66.39	21.28	435.26

Source: research results processed

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

The results shows that the SABI`s opinion variables has various effects on welfare indicators. Only the unqualified opinion has a significant influence on all welfare indicators. However, these opinion actually increases the level of poverty. The unqualified opinion will increase HDI by 0.746, increase IEGI by 0.163, increase poverty by 1.459%, reduce unemployment rate by 1.060% and increase GRDP per capita by Rp.259,200.

This study indicate that audit findings have no effect on all welfare indicators. However, based on the coefficients of this variable, audit findings are inversely effected to the social welfare. This suggests that an increase in audit findings will reduce the social welfare.

The result shows that GISA capability as well as GICS maturity level has a significant and positive correlation on all welfare indicators. Local governments with GISA Level 3 (Delivered) will increase HDI by 0.583, increase IEGI by 0.097, reduce poverty by 0.211%, reduce unemployment by 0.277% and increase GDP per capita by Rp.242,100. GICS maturity level 3 (Defined) will increase HDI by 1.150, increase IEGI by 0.155, reduce poverty by 0.850%, reduce unemployment by 0.601% and increase GDP per capita by Rp.549,700. This result proves that GISA capability and GICS maturity level will promote social welfare higher.

The GOVEX variable has a significant effect on the HDI, IEGI, poverty, and GRDP per capita, while this variable does not have a strong correlation on the unemployment rate. However, the coefficients of this variable indicate that an increase in the GOVEX can improve social welfare. An increase of 1 million rupiah in the government expenditure will increase HDI by 0.835, increase IEGI by 0.0791, reduce poverty by 0.717% and increase GRDP per capita by Rp.397,100.

Discussion
Financial accountability is proxied by SABI's opinion on LGFR and Audit Findings. The results shows that only the unqualified opinion that consistently has a significant effect on welfare. The results strengthen the study conducted by Akbar & Djazuli (2015), Khairudin et al. (2019), Santosa (2022) and Saragih & Hasibuan (2020) who conclude that there is no significant relationship between the Financial Audit on LGFR and social welfare. Furthermore, Prawoto & Basuki (2016) argue that unqualified opinion will actually reduce welfare.

The Financial Audit by SABI only compares the financial statements presented by local governments with Government Accounting Standards as well as laws and regulations. This audit is not designed to answer the question of whether the local government budgeting produce benefits that will enhance welfare (Martiana, 2018; Nurdin & Nurkholis, 2014). Santosa (2022) suggests that we need to pay close attention to fraud and corruption that are undetected during financial audits. Corruption is a sign of bad governance (KPK, 2016) and local governments with bad governance will not achieve its goals even if the budget is increased (Rajkumar & Swaroop, 2008). In other words, without eliminating corruption, local governments will find it difficult to enhance welfare.

Mangkunegara (2015) states that the audit findings indicate a budgeting leakage that will hinder the achievement of welfare. This study shows that audit findings did not have a significant effect on all welfare indicators. These results support Alam & Adib (2017), Dasmar et al. (2020) and Suheri et al. (2018) which suggests that the audit findings can not improve the local governments performance in order to promote welfare.

The financial audit of LGFR is *mandatory* so that it must be carried out by the SABI every year. Although SABI's opinion on LGFR continues to improve, this study prove that this financial audit has not proven to have a significant impact on social welfare. The reason is that financial audits have not evaluate the effectiveness, efficiency, and economic aspects of programs, especially those related to welfare (Martiana, 2018; Suartama et al., 2015). Therefore, financial audits on LGFR must include the results of performance audits on priority programs related to social welfare. By combining the results of financial audits and performance audits, it will be able to measure and ensure that local government programs will promote welfare. (Akbar & Djazuli, 2015; Martiana, 2018; Suartama et al., 2015).

Results shows that the GISA variable has a significant effect on all welfare indicators. These results support Santosa (2022); Sholeh & Dewi (2017); Wulandari & Bandi (2015) which states that an effective GISA plays an important role in improving the quality of financial management and local government performance so that it will promote welfare. GISA is an integral part and has a strategic contribution in the implementation of GICS (BPKP, 2021). BPKP (2021) and Santosa (2022) states that GISA will improve the quality of public services, increase the

effectiveness and efficiency of local government to achieve goals and act as an early warning system against corrupt practices.

GICS variable has a significant and positive impact on all welfare indicators. This result supports BPKP (2016) which states that local governments with high GICS maturity will achieve its goals faster. GICS maturity level 3 means that the local government has implemented internal control but has not perform an adequate evaluation so that there are weaknesses that can interfere with the achievement of goals (BPKP, 2016) .

Mardiasmo (2006) states that one way to achieve good governance is through GICS improvement. GICS improvement is inseparable from the quality of GISA. Therefore, local governments needs to improve GICS maturity level as well as GISA capability level. Most local governments are still at level 2 or 3. To increase the level of GICS Maturity and GISA Capability this study suggest to, *first*, add the GICS maturity and GISA capabilities improvement into local government performance targets. *Second*, improving the quality of human resources, especially in the Inspectorate. The Inspectorate is one of the important components in the implementation of GICS and the main component in assessing GISA capabilities.

The results shows that the local budgeting has a significant effect on HDI, IEGI, poverty and per capita GRDP. These results support Fadilah et al., (2018), Mustaqimah et al., (2017), Nurlina, (2015), Patanduk et al., (2019), Putri et al., (2018), and Wahyudi, (2020) which states that the local budgeting is primarily for education, health and capital expenditures have a significant impact on welfare. However, these result also in line with Jais (2015) and Rotinsulu et al. (2016) study that suggests the local budgeting does not have a significant impact on the unemployment rate. Considering the limited budget, local governments must prioritize programs that can produce the greatest benefit to welfare (Rotinsulu et al. 2016).

Aligning development priorities is also one of the keys so that the local budgeting can promote welfare. The other is execute budget effectively, efficiently and sustainably (Wahyudi, 2020). In particular, the government has set various basic service quality standards as stated in the Minimum Service Standards (MSS). To ensure the points above, it is necessary to have both internal and external supervision. GISA can carry out internal supervision of the local budgeting by providing assurance, such as performance audits, probity audits and providing consulting. Externally supervision is carried out by other agencies such as SABI which carries out financial audits and FDSA which carries out compliance audits.

CONCLUSIONS AND RECOMMENDATIONS

Social welfare is one of the main goals of Indonesia. Local governments play a key role to improve welfare in the era of decentralization. However, a huge local government budgeting does not mean that welfare is achieved. There are other factors that can affect the achievement of welfare. This study indicate that the GISA capability level and GICS maturity level can improve social welfare. In addition, government expenditure shows a significant impact on HDI, IEGI, poverty, and GRDP per capita. On the other hand, financial accountability proxied by SABI`s opinion and audit findings have inconsistent effect on welfare. Only the unqualified opinion that have a significant effect on welfare, while the audit findings have no significant effect on all welfare indicators.

This study suggests, *first*, supervising government expenditure and its objectives through performance Audits and probity audits. *Second*, improving the quality of human resources, especially GISA, and cooperating with other local governments or vertical agencies related to financial management. *Third,* strengthening GISA capability and GICS maturity level within local governments. *Fourth*, improving the quality of the local government budgeting by aligning

development priorities at all levels of government. *Fifth*, allocating local government expenditure on programs that provide the greatest benefits and according to MSS.

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DECLARATION OF CONFLICTING INTERESTS
The authors report no conflicting of interest**.**

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