

The Impact of The Quality of Local Government Financial Report on The Re-Election of Incumbents with Financial Expertise as a Moderating Variabel

Yenni Afriani*, Dyah Setyaningrum

Faculty of Economics and Business, University of Indonesia, Depok, 16424, Indonesia

ABSTRACT

Regional Government Financial Report (LKPD) is an important media for communicating regional government performance during a certain period. Incumbent regional heads often use the information contained in the LKPD to provide a positive image of their success in managing regional finance to the community. This research also tests the role of the financial expertise variable as a moderation that can strengthen the financial quality of the LKPD on the incumbent's re-election. In Addition, this research uses the financial expertise variable as a moderator which can strengthen the relationship between LKPD quality and the incumbent's re-election. We use Ordinary Least Square (OLS) regression to estimate the influence effect between variables. The results of this study did not influence variables. First, there is no effect quality of the LKPD on the incumbent's re-election. Second, the financial expertise variable is not proven to strengthen the influence of LKPD quality on the incumbent's re-election. Meanwhile, financial expertise is not proven to directly influence the incumbent's re-election. This finding has practical implications, where society needs to be more careful in assessing the success of incumbents.

Keywords: Local Government Financial Statements; Re-election; Incumbent; Financial Expertise.

INTRODUCTION

Local economic and financial information plays a crucial role. This information allows the public to assess the performance of politicians and local leaders while highlighting the impact of their policies (Ingram & Copeland, 1981). Based on this performance evaluation, the public can express their satisfaction with public management in voting. Rational citizens will choose government leaders (at any level) based on their performance. Therefore, it can be assumed that economic and financial information influences voting behavior (Brusca & Montesinos, 2006).

Using the assumptions of agency theory, several studies have attempted to examine whether accounting, financial, and socioeconomic factors can influence the re-election of incumbents. Balaguer-Coll et al. (2015) analyzed the effect of public spending on the likelihood of re-election of local governments in Spain during the period 2000-2007. This study found that increases in local government spending and capital expenditures had a positive impact on the re-election of incumbents. The decision to increase local government spending ahead of elections actually results in widening the vote gap between incumbents and the opposition. Opportunistic government behavior is generally manifested in increased spending before elections (Jones et al., 2012). This finding is supported by research by Boulding & Brown (2014). Boulding & Brown (2014) found that incumbents from districts with substantial financial resources are

more likely to be re-elected because they can mobilize voters using the financial resources within their government.

Conversely, districts with smaller budgets lack the resources necessary to engineer an election victory. Further research has been conducted with different variables and contexts. For example, Chortareas et al. (2016) used increased spending and additional borrowing as a means for local government incumbents to be re-elected in Greece; Arvate (2013) used the factor of increasing the supply of public goods in Brazilian local governments as a key factor in incumbent victory; Akhmedov & Zhuravskaya (2004) stated that incumbents use numerous government facilities or resources as opportunistic behavior in an effort to gain re-election. This all boils down to resources that incumbents can potentially use for personal or party interests. One mechanism to prevent such irregularities and manipulation is through the provision of high-quality local government financial reporting. Financial reporting is a key mechanism by which governments are held accountable for their financial management (Wynne, 2004). Furthermore, Wynne (2004) stated that in a democratic era, the assumption must be that the government's political accountability to voters will be prioritized. Therefore, the primary users of public sector financial reports should be considered voters.

To obtain high-quality financial reports, adequate financial expertise is also required. Financial reports are prepared by the Regional Financial Management Officer as the Regional Treasurer. However, from the perspective of upper echelon theory (UET), top management and their participation in strategic organizational planning, including financial reports, are considered a "hidden campaign" strategy for the incumbent (Kim, 2022; Wynne, 2004). The preparation of regional financial reports involves several different parties and processes, including the Regional Head, the Financial Officer, the Regional Finance Agency, and others. Regional Heads, such as governors, regents, or mayors, have significant responsibilities in preparing regional government financial reports. These responsibilities encompass aspects of financial management, budgeting, monitoring and evaluation, and accountability (BPK East Java, 2019).

UET can be applied not only in the private sector but also in the public sector (Kim, 2022). Several studies have investigated the observable effects of top managers' backgrounds on the decisions and performance of public organizations in the context of increasing government accountability and increasing public demand (e.g., Anessi-Pessina & Sicilia, 2020; Thurmaier, 1992). They found that the personal characteristics of budget and finance officials influence budget decisions. Goodman & Clynnh (2004) explored legislative and executive budget officials and found that decision-making patterns were significantly influenced by their gender and personal income. Therefore, it can be concluded that the characteristics of regional legislative and executive officials are crucial in determining the quality of local government financial reports.

This research fills the limited literacy that makes financial report quality variables a determinant of incumbent re-election. To measure these variables, this research uses the Regional Government Financial Report (LPKD) quality index obtained from the Principal Component Analysis (PCA) technique. In addition, research on the determinants of incumbent re-election has been examined with various country variables and contexts. The Indonesian context is also very important because regional head elections in Indonesia are one of the causes of corrupt practices. Regional government heads who end their term of office and apply for re-election tend to use all means to increase their popularity so that they can be re-elected in the next period (Darmastuti & Setyaningrum, 2019). Moreover, Indonesian society is currently entering a political year where on Wednesday, February 14, 2024, simultaneous elections will be held next year. Finally, this research tries to analyze whether the financial expertise of regional heads helps strengthen the relationship between the quality of financial reports and the re-election of incumbents.

Theoretical basis

Previous research has attempted to analyze variables that may influence voting behavior and explain various election outcomes at the local government level. Most of these studies use agency theory to explain the influence of accounting variables on the re-election of regional heads. This is based on the assumption of information asymmetry between voters as principals and regional heads or politicians as agents. Therefore, agency costs can arise under these conditions, as agents do not always act in the interests of their principals (Jensen & Meckling, 1976). Politicians or regional heads strive to maximize their own interests by being re-elected and hope to gain greater benefits than before. Without mechanisms to limit the potentially opportunistic behavior of agents, principals must bear these agency costs (Zimmerman, 1977). Therefore, voters, as principals, demand that politicians disclose information that provides a clear picture of their actions to reduce this asymmetry. One tool for communicating the economic impact of policy decisions and for voters to assess politicians performance is a set of accounting information, typically reflected in publicly published financial reports (Ingram & Copeland, 1981).

Upper Echelon Theory, hereinafter abbreviated as UET, assumes bounded rationality in decision-making. This theory also states that the individual characteristics of decision-makers will influence how they act and make decisions (Hambrick, 2007). The basic idea of this theory is that when decision-makers are in weak situations, their choices can vary greatly based on their individual interpretations (Finkelstein, 1992). Executives facing lighter job demands can analyze problems more comprehensively, so their choices are more in line with the objective conditions they face. Conversely, when job demands are high, executives cannot comprehensively and correctly gather and process all potentially useful information for rational decision-making. As a result, they resort to shortcuts and fall back on their past experiences and dispositions. This condition allows their personal characteristics to play a greater role (Anessi Pessina & Sicilia, 2020).

Empirical applications of UET generally focus on decision-makers backgrounds and demographic characteristics such as age, gender, education, functional track, and socioeconomic background (Hambrick & Mason, 1984). However, this does not necessarily mean that demographics alone influence decisions. Rather, demographic characteristics are used as observable indicators of unobservable constructs that are thought to inform executives interpretations of reality, such as values, cognitive aspects, personality factors, and other psychological factors (Finkelstein, 1992; Finkelstein et al., 2009).

UET explains that organizational performance can be significantly influenced by the experience, values, and personality of its top executives. In companies, UET is generally associated with the significant influence of the chief executive officer (CEO), board of directors/commissioners, and managers on their company's behavior and performance. UET can be applied not only in the private sector but also in the public sector (Kim, 2022). Several studies have investigated the observable effects of executive and/or top manager backgrounds on the decisions and performance of public organizations in the context of increased government accountability and increasing public demand (Anessi-Pessina & Sicilia, 2020; Kim, 2022). UET, which focuses on the role of individual characteristics in organizational decision-making and strategy, can be applied in the context of local government by identifying several key actors who play a crucial role in shaping policy and managing local government.

Hypothesis Development

As in the business sector, government financial reporting has the primary goal of meeting users needs and helping them make decisions. Government financial reporting must provide information to assist users in assessing accountability and making economic, social, and political decisions (Thompson

& Whitley, 2017). Lack of public knowledge regarding the financial status of local governments is the key to information asymmetry (Thompson & Whitley, 2017). voters as principals can demand that politicians disclose sufficient information to have a clear picture of the activities they have undertaken to reduce such asymmetries. One tool for communicating the economic impact of policy decisions and as a tool for voters to assess the performance of politicians is a series of accounting information that is usually reflected in publicly published financial reports (Ingram & Copeland, 1981).

Based on agency theory, politicians may use accounting data opportunistically to provide positive signals to voters about their success in getting re-elected. Several studies examine the role of financial information in the context of local elections (e.g., Brusca & Montesinos, 2006; Ingram & Copeland, 1981). Most existing studies find that this information serves as a measure of regional heads' fiscal responsibility and has an impact on voters' reelection decisions.

Hambrick and Mason (1984) stated that individual characteristics play an important role in organizational level decision-making. The financial expertise and experience that regional heads have previously acquired gives them a deeper understanding of financial and accounting issues, which can be used to make informed accounting decisions and improve financial reporting processes. In addition, extensive experience and interaction with the financial sector makes regional heads aware of the type of information that society wants (Brusca & Montesinos, 2006). Therefore, regional heads with financial backgrounds and experience may have more incentives to provide the public with high-quality financial reporting so that they can provide a favourable assessment of local government performance. Based on this explanation, we developed the following hypothesis.

H₁: The quality of financial reports increases the incumbent's chances of being re-elected

H₂: The regional head's financial expertise strengthens the positive influence of the quality of financial reports on the incumbent's chances of being re-elected.

METHOD, DATA, AND ANALYSIS

This research used purposive sampling. Using several criteria such as data availability, the sample for this study was 174 regions, consist of provinces and districts/cities in 2020. The variable for the incumbent's re-election (Re-election) was measured by using the percentage of the incumbent's vote acquisition. The LPKD quality variable (FS_Quality) was measured by using a quality index obtained, using the principal component analysis technique from 3 indicators: audit opinion, timeliness of presentation, and level of accrual disclosure. Meanwhile, the financial expertise variable (FS_Expert) was measured by using a dummy variable, where a score of 1 was for regional heads who have an educational background, certification, or work experience in accounting/finance/economics and 0 for others. This research also used several control variables that were believed to influence the re-election of incumbents, including coalition, size of regional government (SIZE), level of Gross Regional Domestic Product (GRDP), Percentage of SIMDA application use (SIMDA), audit findings (Audit_Finding), and follow-up on audit findings (Recom).

To test the hypothesis, this research used Ordinary Least Square (OLS) regression. The model used can be formulated as follows

$$Re_{Election_i} = \gamma_0 + \gamma_1 FS_{Quality_{it-1}} + \gamma_2 Coalition_i + \gamma_3 SIZE_i + \gamma_4 PDRB_i + \gamma_5 SIMDA_i + \gamma_6 Audit_Finding_i + \gamma_7 Recom_i + \varepsilon_i \quad (1)$$

$$Re_{Election_i} = \gamma_0 + \gamma_1 FS_Quality_{it-1} + \gamma_2 FS_Expert_i + \gamma_3 FS_Quality_{it-1} * FS_Expert_t + \gamma_4 Coalition_i + \gamma_5 SIZE_i + \gamma_6 PDRB_i + \gamma_7 SIMDA_i + \gamma_8 Audit_Finding_i + \gamma_9 Recom_i + \varepsilon_i \quad (2)$$

RESULTS AND DISCUSSION

Table 1 shows descriptive statistics from the data in this study. The Re-election variable has a maximum value of 96.2% and a minimum value of 6.1%. This means that there are incumbents who get almost 100% of the vote, while others only get 6.1%. The average vote share was 46.1%. Furthermore, the FS_Expert variable has an average value of 0.247. This shows that an average of 24.7% of incumbents have financial background and expertise.

Table 1. Descriptive Statistics

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. Dev.</i>	<i>Min</i>	<i>Max</i>
<i>Independent Variable</i>					
<i>Re_Election</i>	166	0.463	0.184	0.061	0.962
<i>Audit Quality Indicator</i>					
<i>Audit Opinion</i>	166	0.962	0.131	0.250	1.000
<i>Timeliness of Presentation</i>	166	0.794	0.151	0.250	1.000
<i>Accrual</i>	166	0.742	0.084	0.500	1.000
<i>Independent and Control Variable</i>					
<i>Fin_Expert</i>	166	0.367	0.484	0.000	1.000
<i>Coalition</i>	166	0.522	0.245	0.000	1.000
<i>SIZE</i>	166	28.604	0.613	27.627	31.125
<i>PDRB</i>	166	9.108	1.221	6.389	12.007
<i>SIMDA</i>	166	0.329	0.207	0.000	0.875
<i>Audit_Finding</i>	166	18.723	7.337	5.000	52.000
<i>Recom</i>	166	.602	.218	0.157	1.000

Source: Data processed by researchers (2023)

Univariate Analysis (Correlation and Multicollinearity)

Univariate analysis aims to assess the correlation between variables. This research uses the Pearson Correlation test. Table 2 below presents the test results

Table 2. Univariate Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1) Re_Election	1.000								
(2) FS_Quality	0.047 (0.544)	1.000							
(3) Fin_Expert	0.396*** (0.000)	0.186** (0.016)	1.000						
(4) Coalition	0.754*** (0.000)	0.027 (0.728)	0.283*** (0.000)	1.000					
(5) SIZE	0.156** (0.045)	0.124 (0.112)	0.131* (0.093)	0.082 (0.295)	1.000				
(6) PDRB	0.086 (0.268)	0.336*** (0.000)	0.137* (0.078)	0.012 (0.878)	0.799*** (0.000)	1.000			
(7) SIMDA	-0.072 (0.358)	0.074 (0.346)	0.079 (0.312)	-0.024 (0.762)	-0.194** (0.012)	-0.153* (0.049)	1.000		
(8) Audit_Finding	-0.011 (0.887)	-0.037 (0.637)	-0.060 (0.443)	0.028 (0.723)	0.124 (0.112)	0.135* (0.083)	0.260*** (0.001)	1.000	
(9) Recom	0.022 (0.781)	0.273*** (0.000)	0.065 (0.404)	0.011 (0.892)	0.081 (0.301)	0.182** (0.019)	-0.084 (0.279)	-0.096 (0.220)	1.000

Notes: ***, **, * = p-value significant at 1%, 5%, 10%

Source: Data processed by researchers (2023)

Based on the table above, there is no perfect correlation between variables. The highest correlation is seen in the Coalition variable (0.753). This shows that the coalition formed by the incumbent is closely related to the votes obtained by the incumbent. Univariate analysis assumes that the dependent variable is not influenced by other variables, so univariate analysis is not used to test hypotheses. Table 3 also shows that the data in this study is free from multicollinearity problems. This is proven by the absence of variables that have a vif value above 10.

This research uses OLS regression to test the hypothesis. Table 3 presents the OLS regression results for model 1.

Table 3. Hypothesis Testing Model 1

Variable	Coefficient	Significance (P value)	Information
FS_Quality	-0.001	0.441	Hypothesis 1 is rejected
Fin_Expert	0.075***	0.000	Hypothesis 2 Accepted
Coalition	0.518***	0.000	Positive Influence
SIZE	0.022	0.195	No effect
PDRB	-0.002	0.451	No effect
SIMDA	-0.049	0.156	No effect
Audit_Finding	0.000	0.406	No effect
Recom	-0.005	0.455	No effect
Konstanta	-0.436	0.252	
Obs	166		
R-Square	0.6133		
Adj. R-Square	0.5936		
F Value	31.12		
Prob > F	0.0000		

Source: Data processed by researchers (2023)

Table 4 presents the results of model 2, which was used to test the third hypothesis, which states that financial expertise can moderate the influence of quality LKPD on the incumbent's re-election in the second election.

Table 4. Hypothesis Testing Model 2

Variable	Coefficient	Significance (P value)	Information
FS_Quality	-0.003	0.374	No effect
Fin_Expert	0.074	0.000	Positive Influence
FS_Quality* Fin_Expert	0.008	0.332	Hypothesis 3 is rejected
Coalition	0.517	0.000	Positive Influence
SIZE	0.022	0.198	No effect
PDRB	-0.002	0.449	No effect
SIMDA	-0.048	0.161	No effect
Audit_Finding	0.000	0.410	No effect
Recom	-0.007	0.436	No effect
Constant	-0.429	0.256	
Obs	166		
R-Square	0.6138		
Adj. R-Square	0.5915		
F Value	27.54		
Prob > F	0.0000		

Source: Data processed by researchers (2023)

Table 3 (Model 1) shows that the FS_Quality variable has no significant effect on the Re-election variable. This finding does not support the first hypothesis in this study, which means that the quality of local government financial reports has no effect on the incumbent's re-election. This result contradicts previous research which states that the financial aspects of local governments have an important role in increasing the electability of incumbents in their second election (Balaguer-Coll et al., 2015; Martins & Veiga, 2013). The quality of the LKPD does not have a significant effect on the re-election of the incumbent, in other words, the quality of the LKPD cannot be used as a basis for people's decision-making in determining their voting rights in the second election contest. The results of this research refer to the results of research by Daniels & Daniels (1991) which found that there were differences in the information needs of each local government stakeholder group. This can be seen because the existence of LKPD does not have an effective impact on managing relations between the community and the government. This indicates that there is an agency problem between the agent and the principal. Political variables are more dominant in influencing the election of incumbents. The Coalition variable shows a significant value below 1% and the financial expertise variable has a positive effect on the incumbent's re-election with a significance value below 10%.

Table 4 (Model 2) also shows that the moderation of financial expertise on the influence of financial report quality on the incumbent election (FS_Quality* FS_Expert) is not proven to have a significant effect. This means that financial expertise is not proven to be able to strengthen the positive influence of the quality of financial reports on the incumbent's re-election. This finding can be explained for several reasons. First, the average incumbent who has financial expertise is still low. As shown in Table 2, the average number of incumbents who have financial expertise is only 24.7%. Second, many community members may not be aware of or are not interested in examining regional financial reports. They may feel that the information is not relevant to their daily lives. Third, to make financial reports more useful for society, the data needs to be easy to access and find. If the report is difficult to find or is not openly available, then the public will have difficulty getting this information. In some areas, internet access is still uneven (BPS, 2022).

Table 5. Sensitivity Test Result

Variable	Audit Opinion		Serving Time		Accrual Disclosure	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
FS_Quality (AO)	-0.041	-0.049				
FS_Quality (PT)			0.127**	0.144**		
FS_Quality (AD)					-0.161	-0.286**
FS_Expert	0.075***	0.042	0.070***	0.121	0.078***	-0.167
FSQ_AO* FS_Expert		0.034				
FSQ_PT* FS_Expert				-0.063		
FSQ_AD* FS_Expert						0.327
Coalition	0.522***	0.522***	0.524***	0.526***	0.513***	0.511***
PDRB	0.021	0.021	0.034	0.034	0.020	0.021
SIMDA	-0.001	-.001	-0.012	-0.012	0.001	0.002
SIZE	-0.050	-0.050	-0.074	-0.075	-0.051	-0.046
Audit_Finding	0.000	0.000	0.000	0.000	0.000	-.001
Recom	-0.002	-0.003	-.0025	-0.023	-0.008	-0.012
Constants	-.0377	-0.360	-0.758	-0.782	-0.266	-0.208
Obs	166	166	166	166	166	166
R-Square	0.614	0.614	0.621	0.621	0.618	0.623
Adj R-square	0.594	0.592	0.602	0.599	0.599	0.602
F Value	31.216***	27.583***	32.134***	28.439***	31.795***	28.702
Prob > F	0.000	0.000	0.000	0.000	0.000	0.000

Source: Data processed by researchers (2023)

We conducted a sensitivity test, considering that the two hypotheses in this study were not proven. The sensitivity test is carried out by partially estimating each indicator of the quality of local government financial reports, namely audit opinion, timeliness of presentation and accrual disclosure. Table 5 below shows the test results.

The table shows that the indicator of the quality of regional financial reports that influences the incumbent's re-election is the time of presentation. This describes the quality of financial reports better than audit opinions and accrual disclosures.

DISCUSSION

This study estimates Models 1 and 2 using indicators that partially form the LKPD quality index. This is to determine which indicators have the greatest influence on the dependent variable. The results of the sensitivity test can be seen in Table 4.6 below.

Table 6. Sensitivity Test Results

Variabel	Audit Opinion		Serving Time		Accrual Disclosure	
	Model 1	Model 2	Model 1	Model 2	Model 1	Model 2
<i>FS_Quality (AO)</i>	-0.041	-0.049				
<i>FS_Quality (PT)</i>			0.127**	0.144**		
<i>FS_Quality (AD)</i>					-0.161	-0.286**
<i>FS_Expert</i>	0.075***	0.042	0.070***	0.121	0.078***	-0.167
<i>FSQ_AO* FS_Expert</i>		0.034				
<i>FSQ_PT* FS_Expert</i>				-0.063		
<i>FSQ_AD* FS_Expert</i>						0.327
<i>Coalition</i>	0.522***	0.522***	0.524***	0.526***	0.513***	0.511***
<i>PDRB</i>	0.021	0.021	0.034	0.034	0.020	0.021
<i>SIMDA</i>	-0.001	-0.001	-0.012	-0.012	0.001	0.002
<i>SIZE</i>	-0.050	-0.050	-0.074	-0.075	-0.051	-0.046
<i>Audit_Finding</i>	0.000	0.000	0.000	0.000	0.000	-0.001
<i>Recom</i>	-0.002	-0.003	-0.0025	-0.023	-0.008	-0.012
<i>Constant</i>	-0.0377	-0.360	-0.758	-0.782	-0.266	-0.208
<i>Obs</i>	166	166	166	166	166	166
<i>R-Square</i>	0.614	0.614	0.621	0.621	0.618	0.623
<i>Adj R-square</i>	0.594	0.592	0.602	0.599	0.599	0.602
<i>F Value</i>	31.216***	27.583***	32.134***	28.439***	31.795***	28.702
<i>Prob > F</i>	0.000	0.000	0.000	0.000	0.000	0.000

Description: Re_Election = Re-election of regional head in the second election/regional election; FS_Quality = Quality of LKPD; AO (Audit Opinion); PT (Presentation Time); AD (Accrual Disclosure); FSQ (Financial Statement Quality); Fin_Expert = Financial background of regional head; Coalition = percentage of coalition; SIZE = Size of regional government; GRDP = Gross Regional Domestic Product; SIMDA = Percentage of SIMDA application usage; Audit_Finding = Audit findings on LKPD; Recom = Follow-up of audit findings. *p < 0.10; **p < 0.05; ***p < 0.01. Source: Research Data Processing Results (2023).

All models show significant f-values. This means that all models can be used to estimate the effects of the independent variables on the dependent variable simultaneously. The R-Square value is above 0.6, which means that the independent variables in all models can represent 60% of the factors influencing the

election of the incumbent, while the other 40% is influenced by other factors outside the model. The quality of the LKPD, as proxied by the audit opinion, empirically had no effect on the incumbent's re-election in any of the models. This was due to the high average value of the audit opinion variable. The average value of the audit opinion variable was 0.962, meaning that 96.2% of observations (local governments) received an unqualified opinion. The quality of the LKPD, as proxied by the presentation time, empirically has a positive effect on the re-election of incumbents, with a coefficient of 0.127 and a significance level below 5%. Of the other two indicators, the presentation time indicator can increase the re-election of incumbents. The quality of the regional government's financial statements, as proxied by accrual presentation in Model 2, is significantly negatively related to re-election. This finding suggests that the higher the local government's accrual presentation, the lower the incumbent's re-election rate. The implementation of accrual accounting in the public sector has consistently drawn both pros and cons, from before its implementation until now. The moderation of the quality of the regional financial statements (LKPD) with financial background, as proxied by these three indicators, was not proven to be related to the incumbent's reelection. This suggests that financial expertise is less suitable for increasing the incumbent's chances of reelection through LKPD quality. Referring to previous studies, perhaps financial expertise would be more appropriate if moderated by other financial aspects such as financial expenditure strategies or local government budgets (Akhmedov & Zhuravskaya, 2004; Balaguer-Coll et al., 2015; Veiga & Veiga, 2007).

The results show that Hypothesis 1 is rejected, the quality of the Regional Government Accounting Report (LKPD) does not influence the re-election of incumbents. This provides empirical evidence that LKPD quality does not signal positively to voters. Looking at descriptive statistics, an average of 96% of local governments in this study sample received an unqualified opinion, an average of 79% of audit reports were submitted before May 31st, and 74% of LKPDs disclosed accrual accounts. These high average values indicate a lack of variation in the data. Furthermore, a sensitivity analysis of the three indicators revealed that the only indicator that influenced the re-election of incumbents was the timing of the presentation. Hypothesis 2 is accepted, financial expertise has been empirically proven to have a positive effect on the re-election of incumbents. Incumbents can leverage their financial expertise to develop strategies and policies that can help them win re-election in the second general election. Hypothesis 3 is rejected, financial expertise does not moderate the relationship between LKPD quality and incumbent re-election. These findings demonstrate that while financial expertise can increase the incumbent's vote share in elections, it is not through the means of a quality LKPD. A control variable that positively influences incumbent re-election is the percentage of the incumbent's coalition. The more party coalitions formed, the higher the incumbent's electoral victory rate. This is because incumbents with a majority of ruling parties have more resources than others.

CONCLUSIONS AND SUGGESTIONS

This research aims to empirically test the influence of the quality of regional financial reports on the re-election of incumbents and how financial expertise moderates this relationship. We use regional head election data from 174 provinces and districts/cities. Using OLS regression, we found that both hypotheses in this study were rejected. In other words, the quality of the LKPD cannot be used as a basis for people's decision-making in determining their voting rights in the second election contest. This can be seen because the existence of LKPD does not have an effective impact in managing relations between the community and the government. This indicates that there is an agency problem between the agent and the principal. Apart from that, local government financial reports that are not easily accessible could be another reason that the transparency feature does not have an impact on the incumbent's re-election.

We believe this study has several limitations. First, future research needs to consider indicators that can form an index of the quality of regional heads' financial reports. We feel that the audit opinion is not enough to show important indicators because LKDP which has an unqualified opinion dominates the opinion of the entire sample so it does not represent variations in the quality of LKDP in each region. Second, it is necessary to add more intrinsic variables for regional heads, for example the regional head's educational level, gender, age and the regional head's wealth. This is an important factor that can play a role in maximizing the incumbent's potential for re-election.

Three hypotheses were empirically tested. The third hypothesis was the positive influence of LKPD quality on incumbent re-election, the positive influence of financial expertise on incumbent re-election, and the moderating effect of financial expertise on the relationship between LKPD quality and incumbent re-election. The LKPD quality index was measured using PCA techniques based on three indicators: audit opinion, presentation time, and accrual disclosure.

REFERENCES

- Akhmedov, A., & Zhuravskaya, E. (2004). Opportunistic Political Cycles: Test in a Young Democracy Setting*. *Quarterly Journal* <https://doi.org/10.1162/0033553042476206>
- Balaguer-Coll, M. T., Brun-Martos, M. I., Forte, A., & Tortosa-Ausina, E. (2015). Local governments' re election and its determinants: New evidence based on a Bayesian approach. *European Journal of Political Economy*, 39, 94–108. <https://doi.org/https://doi.org/10.1016/j.ejpoleco.2015.04.004>
- Boulding, C., & Brown, D. S. (2014). Political Competition and Local Social Spending: Evidence from Brazil. *Studies in Comparative International Development*, 49(2), 197–216. <https://doi.org/10.1007/s12116-013-9145-8>
- BPS. (2022). Statistik Telekomunikasi Indonesia 2022. <https://www.bps.go.id/publication/2023/08/31/131385d0253c6aae7c7a59fa/statistik-telekomunikasi-indonesia-2022.html>
- Brusca, I., & Montesinos, V. (2006). Are Citizens Significant Users of Government Financial Information? *Public Money & Management*, 26(4), 205–209. <https://doi.org/10.1111/j.1467-9302.2006.00526.x>
- Cuadrado-Ballesteros, B., Santis, S., Citro, F., & Bisogno, M. (2019). Does financial health influence the re election of local governments? *Journal of Public Budgeting, Accounting & Financial Management*, 31(3), 345–363. <https://doi.org/10.1108/JPBAFM-10-2018-0114>
- Daniels, J. D., & Daniels, C. E. (1991). Municipal financial reports: What users want. *Journal of Accounting and Public Policy*, 10(1), 15–38. [https://doi.org/https://doi.org/10.1016/0278-4254\(91\)90018-F](https://doi.org/https://doi.org/10.1016/0278-4254(91)90018-F)
- Darmastuti, D., & Setyaningrum, D. (2019). The Effect Of Discretionary Spending On Incumbent Victories In Elections. *Humanities & Social Sciences Reviews*, 7, 685–693. <https://doi.org/10.18510/hssr.2019.7488>
- Hambrick, D. C., & Mason, P. A. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *Academy of Management Review*, 9(2), 193–206. <https://doi.org/10.5465/amr.1984.4277628>
- Ingram, R. W., & Copeland, R. M. (1981). Municipal Accounting Information and Voting Behavior. *The Accounting Review*, 56(4), 830–843. <http://www.jstor.org/stable/247204>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Jones, M. P., Meloni, O., & Tommasi, M. (2012). Voters as Fiscal Liberals: Incentives and Accountability in Federal Systems. *Economics & Politics*, 24(2), 135–156. <https://doi.org/https://doi.org/10.1111/j.1468-0343.2012.00395.x>

- Kim, J. (2022). Extending upper echelon theory to top managers' characteristics, management practice, and quality of public service in local government. *Local Government Studies*, 48(3), 556–577. <https://doi.org/10.1080/03003930.2021.1882427>
- Lorig, A. N. (1941). Determining the Current Financial Position of a City. *The Accounting Review*, 16(1), 41–49. <http://www.jstor.org/stable/239652> S. P.
- Martins, R., & Veiga, F. J. (2013). Economic voting in Portuguese municipal elections. *Public Choice*, 155(3), 317–334. <https://doi.org/10.1007/s11127-011-9849-0>
- Shapiro, (2005). Agency Theory. *Annual Review of Sociology*, 31, 263–284.
- Thompson, P. N., & Whitley, J. (2017). The effect of school district and municipal government financial health information on local tax election outcomes: evidence from fiscal stress labels in Ohio. *Public Choice*, 170(3), 265–288. <https://doi.org/10.1007/s11127-016-0395-7>
- Wynne, A. (2004). Public Sector Accounting – Democratic Accountability or Market Rules? *Public Money & Management*, 24(1), 5–7. <https://doi.org/10.1111/j.1467-9302.2004.00385.x>
- Zimmerman, J. L. (1977). The Municipal Accounting Maze: An Analysis of Political Incentives. *Journal of Accounting Research*, 15, 107–144. <https://doi.org/10.2307/249063>