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**The Effect of Regional Financial Characteristics and Transparency on
Corruption Potential: Study on Regency / City Governments in Indonesia in
2020-2022**

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Abstract

This research aims to provide more in-depth knowledge regarding the influence of regional financial characteristics and transparency on the potential for corruption in regional government. This research uses district/city governments in Indonesia in 2020-2022 as research objects, using 250 district/city governments that meet the predetermined sample criteria and an observation period of 3 years so that the observation data amounts to 750. The research data is in the form of secondary data taken from the Softcopy Attachment of the BPK Semester I Examination Results Summary, Regional Government Financial Reports, and the

official website of each district/city government. The analysis method uses SPSS version 25 with multiple linear regression methods. The results of this research conclude that employee expenditure and regional financial independence have a negative effect on the potential for corruption in district/city governments. Capital expenditure has a positive effect on the potential for corruption in district/city governments. Meanwhile, transparency has no effect on the potential for corruption in district/city governments.

Keywords: Regional Financial Characteristics, Personnel Expenditure, Capital Expenditure, Regional Financial Independence, Transparency, Potential for Corruption

1. Introduction

Corruption, as an act of fraud, has a detrimental impact on many parties, especially in the context of state government. Every year, the problem of corruption arises on various scales, even though the government has established three law enforcement agencies, namely the Attorney General's Office, the Police, and the Corruption Eradication Commission (KPK), to deal with it. It is hoped that the existence of these institutions will reduce corrupt practices. Still, data from Indonesia Corruption Watch (ICW) shows that the number of corruption cases continues to increase from 2019 to 2022. The following is data regarding the number of corruption cases collected by ICW.

Table 1: Number of corruption cases in the last 4 years

Year	Number of Cases
2019	271
2020	444
2021	533
2022	579

Source: Indonesia Corruption Watch, 2022

Based on these cases, the Government is supposed to provide the best service to the community, but they are suspected of using power improperly. The high number of corruption cases is thought to be due to negligence in providing public services to the community, without complying with established standards (Siadari, 2020) ^[1]. Abuse of power, violation of standards, and maladministration result from the lack of implementation of service standards, which has the potential to cause corrupt practices due to inadequate services. According to information from the kpk.go.id website, from 2004 to January 2022, the

KPK has followed up on 22 governors and 148 regents/mayors. Furthermore, Pahala Nainggolan, KPK Deputy for Prevention and Monitoring, revealed that around 58% of the total cases followed up by the KPK from 2016 to June 2021 were corruption cases that occurred in the local government environment (Kartika, 2021) ^[2].

Indonesia Corruption Watch (ICW) states that the mode of fraud that often occurs is related to budget misuse. In 2022, Law Number 1 of 2022 concerning Financial Relations between the Center and Regions was passed which regulates budget limits for local governments, including maximum limits on personnel expenditure and capital expenditure. Article 146 paragraph (1) sets a maximum limit of 30% of total APBD expenditure for employee expenditure, while Article 147 paragraph (1) sets a minimum limit of 40% of total APBD expenditure for capital expenditure. Despite this, many local governments exceed these limits, with some even reaching 50% for personnel expenditure and allocating less than 40% for capital expenditure. This may increase the potential for corruption due to such budgetary changes.

Spending on employees is believed to have an impact on the potential for corruption. One aspect of management that is closely related to fraudulent practices is policies regarding compensation or wages for employees. If the salaries of government employees are low while expectations for public services are high, government officials may seek unofficial or unlawful reimbursement of higher compensation, which may result in corruption (Gong & Wu, 2012) ^[3]. This supports the view of Liu & Lin (2012) ^[4] which states that providing high salaries to government officials can reduce corruption. Research by Muhtar *et al.* (2018) ^[5] found that increasing the salaries of government officials can reduce the potential for corruption. However, research by Benito *et al.* (2018) ^[6] noted that government officials' salaries can increase the potential for corruption.

Capital expenditure is also estimated to be a factor that contributes to the potential for corruption in a region. Mauro (1998) ^[7] in his study stated that perpetrators of fraud in local government have an easy time carrying out and hiding their actions, especially in the context of capital expenditures. Tuanakotta (2010) in Maria *et al.* (2019) ^[8] found that in the process of purchasing capital expenditure by local governments, eighteen modes of fraud were identified. Often, entrepreneurs try to influence regional heads or regional officials to intervene in the capital expenditure procurement process to win tenders and increase the price of goods/services (markup). This price increase is then shared between them. The study by Maria *et al.* (2019) ^[8], Rahmasari & Setiawan (2021) ^[9], and Wicaksono & Prabowo (2022) ^[10] show that capital expenditure can trigger fraudulent acts. However, research results by Bakhtiar & Prabowo (2023) ^[11] concluded that capital expenditure does not have a significant impact on potential corruption.

The granting of full authority by the central government to regional governments is expected to produce independent regions, namely regions that are not dependent on central/provincial government subsidies and tend to have a lower level of compliance with regulations (Gudono, 2017 in Maria *et al.*, 2021) ^[12]. However, this freedom is often misused for corrupt practices by creating programs that are more focused on maximizing personal interests and/or certain dominant groups in the organization rather than public interests (Chang & Geoffrey, 2002 ^[13]; Syurmita,

2014 ^[14]). This is supported by the many corruption cases in Indonesia involving regional heads and legislative leaders. According to KPK data (2019), in the period 2004-2019, as many as 119 regional heads were followed up by the KPK and proven to have committed corruption. The positive relationship between regional financial independence and the potential for corruption shows that the more independent a region is, the greater the possibility of corruption in regional government (Maria *et al.*, 2021) ^[12]. Research by Priatnasari & Suhardjanto (2020) ^[15], Wulandari (2015) ^[16], and Yusuf & Suryaningrum (2022) ^[17] supports these findings by showing that regional financial independence can increase the potential for corruption. However, the results of research by Heriningsih & Marita (2013) ^[18] show different results, that regional financial independence does not affect the potential for corruption.

Corrupt practices in Indonesia are not only related to the management of funds, but many incidents show that corruption starts at the planning stage. Increasing the level of budget transparency is a key factor in the effort to run a proper financial system. When budget management is not transparent, it can become a platform for manipulation and corruption. Government transparency in managing finances is very important because the public as the principal has the right to understand how the local government (agent) runs and allocates its budget (Salle, 2016) ^[19]. Several studies related to transparency and potential corruption have been conducted previously. Research findings show that transparency can reduce the potential for corruption (Jimenez & Albalate, 2018; Aulia *et al.*, 2023; Listivaniputri & Yuhertiana, 2022) ^[20, 21, 22]. However, research conducted by Kini *et al.* (2021) ^[23] and Priatnasari & Suhardjanto (2020) ^[15] produced different conclusions, namely that transparency does not affect the frequency of fraud or corruption. Based on the description that has been presented, motivates the author to examine the "Effect of Regional Financial Characteristics and Transparency on Corruption Potential in District/City Governments in Indonesia in 2020-2022".

2. Literature Review

2.1 Agency Theory

Agency theory, proposed by Jensen & Meckling (1998) ^[24], describes the contractual relationship between principals and agents to provide appropriate incentives to agents and achieve maximum welfare for principals. Principals act as decision-makers and entrust agents to carry out tasks on their behalf, to align the interests and goals of both parties, which are often different. Information imbalances between principals and agents can trigger fraud, as highlighted in a study by Latifah (2010) ^[25]. In the context of public services, agency theory can also be applied, where the public as the principal assigns tasks to the government as the agent. However, the possibility of information imbalance between the public and the government can trigger fraud, including corruption.

2.2 Fraud Diamond Theory

Teori Fraud Diamond, introduced by Wolfe and Hermanson in 2004, is an approach that updates Cressey's Fraud Triangle Theory in 1950 by adding qualitative elements, especially Capability/Capacity (ability), to complement the elements of Incentive/Pressure, Opportunity, and Rationalization. Pressure is a motivation or drive that drives

individuals to engage in inappropriate behavior in response to the pressure they feel, which can arise from various factors such as financial problems or work pressure. Opportunity is a situation that allows an individual to commit an unlawful act, often due to a lack of internal controls or a strategic position that allows manipulation. Rationalization provides an ethical justification for individuals to engage in immoral behavior. Finally, capability refers to an individual's ability to utilize the surrounding environment, including efforts to deceive the internal control system. The Association of Certified Fraud Examiners (ACFE) as an antifraud agency divides fraud into three main types, namely asset misappropriation, fraudulent statements, and corruption. In government, corruption is a type that is difficult to detect because all parties involved benefit from mutually beneficial cooperation.

2.3 Potential for Corruption

In the KBBI, potential refers to abilities that can be expanded, strength, skills, or power. Meanwhile, the term "corruption" comes from the Latin "corruptus" which means damage or destruction. KBBI defines corruption as an act of misuse of public funds for personal gain or that of other parties. Thus, potential corruption can be interpreted as a situation or condition that allows corrupt practices to occur. According to Law Number 31 of 1999 which has been amended to become Law Number 19 of 2019 concerning the Second Amendment to Law Number 30 of 2002 concerning the Corruption Eradication Commission (KPK), corruption is an illegal act carried out to enrich oneself or other people, or entities that have the potential to harm the country or the country's economy. In the context of Law Number 1 of 2004 concerning the State Treasury, state losses are a shortage of money, securities, or goods in a definite amount due to unlawful acts, which can include acts of corruption such as procurement of fictitious goods/services, high prices, or fraudulent spending. Exceeds the provisions.

2.4 Characteristics of Regional Finance

According to Government Regulation Number 12 of 2019 concerning Regional Financial Management, regional finance includes all regional assets and liabilities that can be valued in the form of money, including all forms of wealth owned by regions related to their rights and obligations in running the regional government. The elements included in regional finance include regional income, regional expenditure, and regional financing.

2.4.1 Employee Expenditure

According to Government Regulation Number 12 of 2019 concerning Regional Financial Management, "employee expenditure" includes various components such as salaries, allowances, additional income for ASN employees, incentives for collecting regional taxes and regional levies, as well as honorariums for DPRD leaders and members as well as Regional Heads/deputy Heads Area. Meanwhile, according to the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management, employee expenditure is used to budget compensation by the provisions of statutory regulations, which is given to Regional Heads/deputy Regional Heads, DPRD leaders/members, and employees ASN. Employee expenditure is a binding expenditure, must be allocated continuously by the Regional Government, and does not

include work related to capital formation. Components of employee spending include salaries, allowances, overtime, food allowance, and honorarium. This allowance includes various things such as allowances for wife/husband, children, position, work compensation, income improvements, rice, income tax, remote area service, and general allowances, both in the form of money and goods (Defitri, 2020) ^[26].

2.4.2 Capital Expenditures

Capital expenditure, by the provisions in Minister of Home Affairs Regulation Number 77 of 2020, refers to the expenditure of funds allocated to acquire fixed assets and other assets that provide benefits for more than one accounting period. The purpose of using capital expenditure is to obtain future profits by the economic useful life of the assets involved. Therefore, it is important to compare the costs incurred and the benefits to be obtained (Defitri, 2020) ^[26].

2.4.3 Regional Financial Independence

According to Halim and Kusufi (2012) in Ernawati & Riharjo (2017) ^[27], regional financial independence refers to the capacity of regional governments to manage their funding related to government programs, development, and public services for the community. The level of regional financial independence reflects how much the region relies on external resources. A high level of regional financial independence indicates that regional dependence on assistance from external parties such as the central government will be lower, and vice versa (Defitri, 2020) ^[26]. Ernawati & Riharjo (2017) ^[27] also stated that the level of community participation in regional development is reflected in financial independence. The higher the financial independence of a region, the greater the community's participation in paying regional taxes and levies, which are the main indicators of regional original income.

2.5 Transparency

Krina (2013) ^[28] and Mursyidi (2015) ^[29] explain that transparency is a principle that guarantees every individual's right to obtain information about the government, including policies, the process of making them, implementation, and results. This includes providing honest and open financial information to the public to ensure that the government is responsible for managing resources and complying with legal regulations. This openness includes policies to provide budget information, encourage community participation, accountability reports, and publications related to important activities such as procurement of goods. Transparency ensures that government activities can be understood by the public and hopefully improves oversight, detects errors, and corrects failures before they occur. According to the OECD in 2017, online budget transparency enables easy access to complete and timely budget information, which, when provided through Open Government Data (OGD) can increase citizen participation in government oversight and ensure greater public involvement. In this research, the transparency variable is measured based on how much information is provided by the local government on its official website, by the Instruction of the Minister of Home Affairs of the Republic of Indonesia No. 188.52/179/SJ of 2012 concerning Increasing Transparency in Regional Budget Management, which includes 12 documents related to financial or budget management.

2.6 Hypothesis Development

2.6.1 The Influence of Employee Expenditures on Potential Corruption

An aspect of management that is closely related to corruption is policy regarding employee compensation or wages, where low salaries for government employees while expectations of public service are high tend to encourage officials to seek higher compensation unofficially or in violation of the law, which can result in corruption (Gong & Wu, 2012)^[3]. This opinion is supported by Liu & Lin (2012)^[4]; Haryanto (2023)^[30]; and Wicaksono & Prabowo (2022)^[10] who emphasize that providing higher salaries to government officials can reduce the risk of corruption. Chen & Sandino (2012) in Benito *et al.* (2018)^[6] stated that higher wages can prevent employee theft because employees who earn high wages are generally reluctant to commit theft as a positive expression to their superiors or to maintain a high-income job (motivation), and also because agencies that provide higher wages will attract more honest workers through selection mechanisms. Government employees cannot ask for salary increases directly because their salaries have been determined by legal regulations based on class and length of service, which has the potential to cause dissatisfaction which could trigger corruption. However, providing higher salaries can inspire them not to engage in corrupt practices because they are satisfied with higher incomes (Wicaksono & Prabowo, 2022)^[10]. Research by Muhtar *et al.* (2018)^[5] shows that salaries of government officials can reduce the potential for corruption.

H1: Employee Expenditures has a negative effect on Corruption Potential

2.6.2 The Effect of Capital Expenditures on Potential Corruption

Mauro (1998)^[7] in his research stated that perpetrators of fraud in local government have an easy time carrying out and hiding their actions, especially regarding capital expenditures. Tuanakotta's (2010) findings in Maria *et al.* (2019)^[8] show that in the process of purchasing capital expenditure in local governments, eighteen fraudulent schemes were carried out. Often, entrepreneurs try to influence regional heads or regional officials to intervene in the capital expenditure procurement process to win tenders that can increase the price of goods/services (markup), and the profits from this price increase are then shared between them. As a result, capital expenditure has a high risk of corruption, and the greater the capital expenditure, the higher the possibility of corrupt practices (Rahmasari & Setiawan, 2021)^[9]. Research by Maria *et al.* (2019)^[8], Rahmasari & Setiawan (2021)^[9], and Wicaksono & Prabowo (2022)^[10] also show that capital expenditure can trigger fraudulent acts.

H2: Capital Expenditures have a positive effect on Corruption Potential

2.6.3 The Influence of Regional Financial Independence on Potential Corruption

The implementation of fiscal decentralization policies in Indonesia, as stated by Puspasari & Suwardi (2016)^[31] and Maria *et al.* (2019a)^[32], can be a trigger for corrupt practices at the local government level. Delegation of full authority from the central government to the regions tends to produce

more independent regions, which independently manage their lives without relying on subsidies from the central or provincial government, and often tend to be less obedient to the rules (Gudono, 2017 in Maria *et al.*, 2021)^[12]. This freedom is sometimes misused to produce programs that benefit the interests of certain individuals or groups within the organization more than the interests of the public as a whole (Chang & Geoffrey, 2002; Syurmita, 2014)^[13, 14]. This fact is reflected in the increasing number of corruption cases involving regional heads and legislative leaders in Indonesia. Data from the KPK (2019) notes that during the 2004-2019 period, as many as 119 regional heads were proven to be involved in corruption cases. Syurmita (2014)^[14] explains that independent regions have substantial regional income so they may have an unused budget (surplus), however, in contrast to the view of business entities which see surplus as an indicator of management success, the surplus in regional government is not always seen as an achievement. Because it shows a lack of efficiency in public services (Abdullah, 2008; Gosling, 2015)^[33, 34]. This situation encourages local governments to spend surpluses in a non-transparent manner and produce additional programs that may not always be in line with community needs (Hartono *et al.*, 2014 in Maria *et al.*, 2021)^[12]. Priatnasari & Suhardjanto (2020)^[15], Wulandari (2015)^[16], and Yusuf & Suryaningrum (2022)^[17] conducted research and the results showed that regional financial independence could increase the potential for corruption.

H3: Regional Financial Independence has a positive effect on Corruption Potential

2.6.4 The Effect of Transparency on Potential Corruption

The government shows its financial accountability by presenting financial reports as a form of accountability for the financial management that has been carried out. The use of transparency is one solution to reduce information inequality in agency theory. Kini *et al.* (2021)^[23] state that the increasing openness of the government in presenting Local Government Financial Reports (LKPD), can strengthen public confidence in the government's ability to carry out its duties effectively. This statement is in line with the view of Cinintya (2022)^[35] which states that the government's non-transparency in managing resources can create an impression of wrongdoing in the eyes of the public. With a high level of transparency, the use of public budgets and resources will be more open, allowing the public to more easily oversee the government and ultimately, reduce the potential for corruption. Research conducted by Jimenez & Albalade (2018)^[20] and Listivaniputri & Yuhertiana (2022)^[22] shows that the higher the level of government transparency in managing resources, the lower the potential for corruption.

H4: Transparency has a negative effect on Potential Corruption

3. Research Method

This research is quantitative using secondary data derived from several sources, namely data on the variables of employee expenditure, capital expenditure, and regional financial independence obtained from the Local Government Financial Report (LKPD) provided by BPK.

Information related to the level of transparency is taken from the official website of the district/city government in Indonesia in the 2020-2022 period. Meanwhile, data on corruption potential is taken from the softcopy attachment of IHPS I BPK. The sample selection used a purposive sampling method with a final sample size of 750. The data analysis method in this study uses multiple linear regression analysis with the help of the IBM SPSS version 25 application.

The potential for corruption in this research was estimated by comparing the number of losses documented in the IHPS I softcopy attachment by the BPK with the total budget allocation in the APBD (Perdana & Prasetyo, 2023) [36]. Measuring employee expenditure is carried out by comparing the amount of realized employee expenditure with the total realized regional expenditure (Darwis, 2015) [37]. In this research, the capital expenditure variable is measured by comparing the amount of capital expenditure realized with the total regional expenditure realized (Defitri, 2020) [26]. In this research, regional financial independence

is measured by comparing the total original regional income with the total realized regional income (Priatnasari & Suhardjanto, 2020) [15]. Based on a study conducted by Listivaniputri & Yuhertiana (2022) [22], the transparency variable was measured by counting the number of documents published by the regional government on its official website, according to the provisions stipulated in the Instruction of the Minister of Home Affairs of the Republic of Indonesia No. 188.52/179/SJ of 2012 concerning Increasing Transparency in Regional Budget Management. The instruction stipulates that regional governments are required to provide 12 documents related to regional budget management, including RKA SKPD, RKA PPKD, Raperda APBD, Raperda P-APBD, Perda APBD, Perda P-APBD, DPA SKPD, DPA PPKD, LRA SKPD, LRA PPKD, LKPD, as well as Regional Regulations and BPK Opinion on LKPD.

4. Results and Discussion
4.1 Descriptive Statistical Analysis

Table 2: Results of Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Employee Expenditure	750	18.91	55.03	37.5673	5.97544
Capital Expenditures	750	5.05	36.82	15.9805	5.78685
Regional Financial Independence	750	.33	51.23	14.1374	9.50032
Transparency	750	.00	12.00	4.9107	4.19024
Potential for Corruption	750	.0020	.7100	.111552	.1236980
Valid N (listwise)	750				

Source: Data processed by SPSS 25 (2024).

Based on the statistical results above, it can be seen that the number of observation data (N) in this study was 750, with the following interpretation:

1. Employee Expenditures have a minimum value of 18.91, a maximum of 55.03, a mean of 37.5673, and a standard deviation of 5.97544.
2. Capital Expenditures have a minimum value of 5.05, a maximum of 36.82, a mean of 15.9805, and a standard deviation of 5.78685.
3. Regional Financial Independence has a minimum value of 0.33, a maximum of 51.23, a mean of 14.1374, and a standard deviation of 9.50032.
4. Transparency has a minimum value of 0, maximum of 12, mean of 4.9107, and standard deviation of 4.19024.
5. Potential Corruption has a minimum value of 0.0020, a maximum of 0.7100, a mean of 0.111552, and a standard deviation of 0.1236980.

4.2 Classic assumption test

4.2.1 Normality test

Table 3: Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residuals
N		750
Normal Parameters, b	Mean	.0000000
	Std. Deviation	.13159284
Most Extreme Differences	Absolute	.021
	Positive	.021
	Negative	-.019
Statistical Tests		.021
Asymp. Sig. (2-tailed)		.200c,d
a. Test distribution is Normal.		
b. Calculated from data.		

c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: SPSS 25 processed data (2024)

From the results of the normality check using the One-Sample Kolmogorov-Smirnov Test, the Asymp. Sig. (2-tailed) of 0.200. This figure exceeds 0.05, indicating that the data in this study has a normal distribution.

4.2.2 Multicollinearity Test

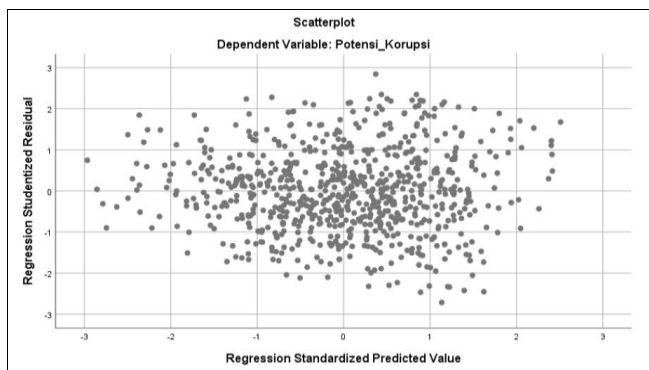
Table 4: Multicollinearity Test Result

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Employee Expenditure	.760	1,316
	Capital Expenditures	.763	1,311
	Regional Financial Independence	.939	1,065
	Employee Expenditure	.976	1,025
a. Dependent Variable: Potential for Corruption			

Source: SPSS 25 processed data (2024)

From the table above, it can be seen that all independent variables have a Tolerance value > 0.10, with employee expenditure of 0.760, capital expenditure of 0.763, regional financial independence of 0.939, and transparency of 0.976. In addition, the four variables also have a VIF value < 10, namely employee expenditure of 1.316, capital expenditure of 1.311, regional financial independence of 1.065, and transparency of 1.025. Therefore, with all independent variables having a Tolerance value greater than 0.10 and a VIF value less than 10, it can be concluded that there is no multicollinearity problem in these four variables.

4.2.3 Heteroscedasticity Test



Source: SPSS 25 processed data (2024)

Fig 1: Heteroscedasticity Test Results

From the figure presented above, it can be observed that the points of data analysis in the scatterplot spread randomly above and below the starting point (zero) on the Y-axis, without showing a consistent pattern such as narrowing, widening, or wave patterns. Therefore, it can be concluded that there is no tendency of heteroscedasticity seen in the data of this study.

4.2.4 Autocorrelation Test

Table 5: Autocorrelation Test Result

du	DW	4-du
1,89076	2,016	2,10924

Source: SPSS 25 processed data (2024)

Based on the autocorrelation test table, the results show that the Durbin-Watson (DW) value is 2.016. This DW value is between the du (1.89076) and 4-du (2.10924) values, namely $1.89076 < 2.016 < 2.10924$. Therefore, it can be concluded that the data in this study do not show any autocorrelation problems, be it positive or negative autocorrelation.

4.3 Multiple Linear Regression Analysis

Table 6: Multiple Linear Regression Analysis Result

Model	Coefficients ^a		
	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
(Constant)	,402	,117	
Employee Expenditure	-,064	,027	-,089
Capital Expenditures	,205	,031	,252
Regional Financial Independence	-,164	,016	-,342
Potential for Corruption	,048	,029	,056

a. Dependent Variable: Potential for Corruption

Source: SPSS 25 processed data (2024).

Based on the test results table above, the linear regression equation is obtained as follows:

$$Y = 0,402 - 0,064X_1 + 0,205X_2 - 0,164X_3 + 0,048X_4 + e$$

The constant value is 0.402 which states that if the variables X1, X2, X3, and X4 are constant, then the potential corruption value is 0.402. If there is an addition of 1 unit to the Employee Expenditure variable, the potential corruption value will decrease by -0.064. If there is an addition to the Capital Expenditure variable of 1 unit, the potential corruption value will increase by 0.205. If there is an addition of 1 unit to the Regional Financial Independence variable, the value of potential corruption will decrease by -0.164. Then, if the Transparency variable increases by 1 unit, the value of potential corruption will increase by 0.048.

4.4 Hypothesis testing

4.4.1 T-test

Table 7: T Test Results

Coefficients			
	Model	Q	Sig.
1	(Constant)	3,444	,001
	Employee Expenditure	-2,333	,020
	Capital Expenditures	6,628	,000
	Regional Financial Independence	-9,995	,000
	Transparency	1,679	,094

a. Dependent Variable: Potential for Corruption

Source: SPSS 25 processed data (2024)

Based on the t-test results table above, it can be concluded that:

1. The employee expenditure variable has a significant negative effect on the potential for corruption partially because it has a significance value of less than 0.05, namely 0.020.
2. The capital expenditure variable has a significant positive effect on the potential for corruption partially because it has a significance value of less than 0.05, namely 0.000.
3. The variable regional financial independence has a significant negative effect on the potential for corruption partially because it has a significance value of less than 0.05, namely 0.000.
4. The transparency variable does not have a significant positive effect on the potential for partial corruption, because based on the test results the transparency variable has a significance value greater than 0.05, namely 0.094.

4.4.2 F test

Table 8: F Test Results

N	F	F Table	Sig.
750	41,061	2.383806	,000b

Source: SPSS 25 processed data (2024)

Based on the test results above, it can be seen that the significance value is below 0.05, namely 0.000. Apart from that, the F-calculated value also exceeds the F-table value, with $41.061 > 2.383806$. Thus, it can be concluded that together, the variables of employee expenditure, capital expenditure, regional financial independence, and transparency have a significant influence on the potential for corruption.

4.4.3 Coefficient of Determination Test

Table 9: Coefficient of Determination Test Results

Model Summary b		
R	R Square	Adjusted R Square
.425a	.181	.176
a. Predictors: (Constant), Transparency, Personnel Expenditures, Regional Financial Independence, Capital Expenditures		
b. Dependent Variable: Potential for Corruption		

Source: SPSS 25 processed data (2024)

Based on the test results, it can be concluded that the relationship between the dependent variable, namely Potential Corruption, can be explained by independent variables such as Employee Expenditures, Capital Expenditures, Regional Financial Independence, and Transparency, with a coefficient of determination (R^2) of 0.181 or equivalent to 18.1%. This shows that 18.1% of the variation in potential corruption can be explained by these variables, while the remaining 81.9% is influenced by other factors not examined in this study.

4.5 Discussion

4.5.1 The Effect of Personnel Expenditure on Potential Corruption

Based on statistical analysis, hypothesis testing shows that the proportion of employee expenditure has a negative impact on corruption potential, with a B value of -0.064 and a significance level of 0.020, which is lower than $\alpha = 5\%$. Therefore, the first hypothesis of this study is accepted, indicating that every one-unit increase in the proportion of employee expenditure will result in a decrease in corruption potential of -0.064 units. This suggests that a larger budget allocation for employee expenditure can reduce the potential for corruption in district/city governments in Indonesia, provided that it does not exceed the maximum limit set in Law No. 1 of 2022, which is 30% of regional expenditure.

According to the Fraud Diamond Theory, pressure can encourage a person to engage in improper behavior in response to perceived pressure (Arles, 2014) [38]. Nominal restrictions on employee expenditure allocations can create financial pressure on an agency, which can then increase the potential for corruption. Previously, the proportion of allocations for employee expenditure reached up to 50% of the total regional budget, but with the issuance of new regulations, this limit is now limited to 30%. This change has prompted the government to formulate new policies regarding incentivizing their employees. This may put pressure on employees as they feel dissatisfied with the restriction, which in turn may reduce the incentives they receive.

The results of this study reveal empirical evidence that the proportion of employee expenditure has a negative impact on the potential for corruption. The data analyzed comes from district/city governments in South Sumatra, Central Kalimantan, East Kalimantan, Southeast Sulawesi, West Sulawesi, Gorontalo, Maluku, and West Papua. These district/city governments show a value of the proportion of employee expenditure below the average of 37.5673% but have a potential for corruption above the average of 0.111552%. On the other hand, district/city governments in West Java, Central Java, Yogyakarta Special Region, Banten, and Bali have a value of the proportion of employee expenditure above the average of 37.5673%, but their

potential for corruption is below the average of 0.111552%. Thus, it can be concluded that the higher the proportion of employee expenditure in a district/city government, the lower the potential for corruption in that district/city government. This finding is in line with research conducted by Muhtar *et al.* (2018) [5], which concluded that increasing the proportion of government employee expenditure can reduce the potential for corruption.

4.5.2 The Effect of Capital Expenditure on Potential Corruption

From the statistical analysis, the hypothesis test shows that the proportion of capital expenditure has a positive impact on corruption potential, with a coefficient value (B) of 0.205 and a significance level of 0.000, which is lower than $\alpha = 5\%$. Therefore, the second hypothesis of this study is accepted, indicating that every one-unit increase in the proportion of capital expenditure will lead to an increase in corruption potential of 0.205 units. This indicates that a lower budget allocation to capital expenditure may increase the potential for corruption in district governments in Indonesia. However, it should be noted that the proportion of capital expenditure should not be less than the minimum limit set in Law No. 1 of 2022, which is 40% of total regional expenditure.

Based on the Fraud Diamond Theory, changes in capital budget allocations can open up opportunities for fraud, which in turn increases the potential for corruption. The change in the proportion of capital budget allocations, which previously averaged only 18% of the total regional expenditure budget, is now set at a minimum of 40% of the total regional expenditure budget. This creates opportunities for corrupt actors because, as revealed by Amri (2017) in Perdana & Prasetyo (2023) [36], the infrastructure development sector is often the target of corruption in local budget allocations, especially in local government capital expenditures. Capital expenditure projects, such as infrastructure development or equipment procurement, require large investments and involve various parties, including the government, contractors, and service providers. The involvement of external actors in the procurement process can influence local governments to engage in corrupt practices, as they have greater power to interfere in the process. As these projects have a large value, they are often a target for dishonest officials who want to make unlawful gains through corrupt practices such as price mark-ups, bribery, or embezzlement of funds. The government's greater authority to intervene in the procurement process makes it easier for fraud to occur.

The results of this study provide empirical evidence that the proportion of capital expenditure has a positive impact on the potential for corruption. The data analyzed comes from district/city governments in the provinces of South Sumatra, Central Kalimantan, East Kalimantan, Southeast Sulawesi, West Sulawesi, Gorontalo, Maluku, and West Papua, which shows that the proportion of their capital expenditure is above the average of 15.9805%, with a potential corruption value also above the average of 0.111552%. Meanwhile, district/city governments in the provinces of West Java, Central Java, Special Region of Yogyakarta, Banten, and Bali, have a proportion of capital expenditure below the average of 15.9805%, and the value of potential corruption is also below average. Amounting to 0.111552%. From this analysis, it can be concluded that the higher the proportion

of capital expenditure in a district/city government, the greater the potential for corruption within the local government. This finding is in line with the results of previous research which shows that the proportion of capital expenditure can trigger fraudulent acts, as carried out by Maria *et al.* (2019) ^[8], Rahmasari & Setiawan (2021) ^[9], Wicaksono & Prabowo (2022) ^[10], and Perdana & Prasetyo (2023) ^[36].

4.5.3 The Influence of Regional Financial Independence on Potential Corruption

Based on the results of statistical analysis, hypothesis testing shows that regional financial independence harms potential corruption, with a B value of -0.164 and a significance level of 0.000 or lower than $\alpha = 5\%$. Therefore, the third hypothesis in this study is not supported. The findings of this research show that every one-unit increase in regional financial independence will result in a reduction in potential corruption of -0.164 units. This means that the higher the level of regional financial independence, the lower the potential for corruption in district/city governments in Indonesia.

Within the framework of the Fraud Diamond Theory, the level of regional financial independence can influence the opportunity for acts of corruption to occur. When a region has a high level of financial independence, it means that the management and use of the regional budget are carried out more independently and are less dependent on external resources, such as the central government. Conversely, when regional finances are less independent, the region is more dependent on financial assistance from the central government or other external sources. This situation can provide opportunities for local officials to use these funds for their personal or group interests without having to be adequately accountable to the public. A high level of financial independence in a region in government administration indicates the efficiency of the government's work because it can generate large Regional Original Income (PAD) from regional tax and levy revenues. On the other hand, the community's active participation in paying taxes reflects their awareness and compliance with applicable regulations (Priatnasari & Suhardjanto, 2020; Wulandari, 2015) ^[15, 16].

The results of this research provide empirical evidence that regional financial independence harms the potential for corruption. Data collected from district/city governments in the provinces of South Sumatra, Central Kalimantan, East Kalimantan, Southeast Sulawesi, West Sulawesi, Gorontalo, Maluku, and West Papua shows that although their regional financial independence is below the average of 14.1374%, their potential for corruption is above average, namely 0.111552%. In contrast, district/city governments in the provinces of West Java, Central Java, Special Region of Yogyakarta, Banten, and Bali have regional financial independence above the average of 14.1374%, but their potential for corruption is below the average of 0.111552%. Thus, it can be concluded that regional financial independence harms the potential for corruption in district/city governments in Indonesia. This finding is in line with research conducted by Vyatra & Payamta (2020) ^[39].

4.5.4 The Effect of Transparency on Potential Corruption

The results of statistical analysis show that the hypothesis

test shows that transparency has no impact on potential corruption, with a B value of 0.048 and a significance level of 0.094 or higher than $\alpha = 5\%$. Thus, the fourth hypothesis in this study is not supported. These findings illustrate that the level of transparency, whether high or low, does not affect the level of potential corruption in district/city governments in Indonesia.

According to Agency Theory, an imbalance of information between the government as an agent and society as a principal can create a conflict of interest. Although the public has the right to obtain information about government actions through transparency in financial reports, this research shows that this transparency does not significantly influence the potential for corruption at the district/city government level. This is because the transparency implemented tends to focus on managerial issues and overall government responsibility. Corruption cases are often related to individual behavior, such as regional heads who commit fraud (Kini *et al.*, 2021) ^[23]. This confirms that transparency is only effective if it is supported by full commitment and support from leaders and implementers (Sumantri, 2023) ^[40]. Although the government can be transparent by reporting budget plan documents, without integrity, the information conveyed could be manipulated or inaccurate.

The results of this research show that there is no significant influence between the level of transparency and the potential for corruption, as can be seen from data obtained from district/city governments in various provinces. Although there are variations in the level of transparency and potential corruption between regions, there is no clear pattern showing a relationship between the level of transparency and potential corruption. This finding is consistent with previous research by Sitorus & Rahayu (2018) ^[41] and Kini *et al.* (2021) ^[23], who found that statistically, transparency does not have a significant impact on potential corruption.

5. Conclusion

This research aims to evaluate the impact of employee expenditure, capital expenditure, regional financial independence, and transparency on the potential for corruption in district/city governments in Indonesia from 2020 to 2022. Personnel expenditure is measured by comparing actual expenditure for employees with total regional expenditure. Meanwhile, capital expenditure is measured by comparing actual expenditure on capital with total regional expenditure. Regional financial independence is measured by comparing original regional income with total regional income. The level of transparency is assessed through information published on the official websites of district/city governments in Indonesia. The potential for corruption is assessed by comparing the loss value listed in the IHPS I softcopy attachment with the total regional budget. Of the four hypotheses tested, two hypotheses were accepted.

The results of hypothesis testing show that the proportion of employee expenditure (X1) harms the potential for corruption, which means the first hypothesis of this research is accepted. An increase in personnel spending allocation can reduce the potential for corruption in district/city governments in Indonesia. The proportion of capital expenditure (X2) has a positive impact on the potential for corruption, indicating that the second hypothesis of this research is accepted. The greater the proportion of capital

expenditure in a district/city government, the greater the opportunity for corruption to occur. Regional Financial Independence (X3) harms the potential for corruption, so the third hypothesis is rejected. Meanwhile, transparency (X4) does not influence potential corruption, so the fourth hypothesis is also rejected.

This research has limitations, namely that it only measures the loss value findings contained in the IHPS I BPK softcopy attachment. Intended for further research to calculate the loss value findings contained in the BPK IHPS I and II softcopy attachments. In addition, it is recommended for future researchers to add other variables that may have a more significant influence on the potential for corruption, such as political costs and the government's internal control system.

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