International Consortium on Government Financial Management

"Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens."

The material published herein may be reproduced without the consent of the Consortium, which in fact encourages their reproduction, translations, and distribution. The views expressed in this publication do not necessarily reflect those of the editor or the positions taken by the Consortium.

The editor invites submission of articles, research papers, letters and reviews of books, and other relevant documents. Please submit material to the editor: Peter Dobrowolski—peterdobrowolski@pro.onet.pl.

Requests for information on the Consortium should be addressed to:

International Consortium on Governmental Financial Management
PO Box 1077
St Michaels, MD 21663
Telephone: (410) 745-8570
Fax: (410) 745-8569
Email: icgfm@icgfm.org
www.icgfm.org

Copyright 2013 by the International Consortium on Governmental Financial Management
International Consortium on Governmental Financial Management

General Information

"Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens."

Our mission includes three key elements. First, it highlights that, within the international community, the International Consortium on Governmental Financial Management (ICGFM or the "Consortium") is unique - it serves as an “umbrella” bringing together diverse governmental entities, organizations (including universities, firms, and other professional associations), and individuals. At the same time, it welcomes a broad array of financial management practitioners (accountants, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, and national). Additionally the mission statement emphasizes the organization’s commitment to improving government infrastructure so that needs of the people are better met. Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application.

Internationally, the Consortium: (1) sponsors meetings, conferences, and training that bring together financial managers from around the world to share information about and experiences in governmental financial management; and (2) promotes best practices and professional standards in governmental financial management and disseminates information about best practices and professional standards to our members and the public. ICGFM provides three options for membership:

1. **Sustaining Members**: organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM Board of Directors and receives 10 copies of all ICGFM publications to be distributed within their organization. (Dues: $1,000)

2. **Organization Members**: government entities with financial management responsibilities, educational institutions, firms, regional and governmental organizations, and other professional associations. Six organization members serve on the ICGFM Board of Directors and organization members receive 5 copies of publications to be distributed to their members. (Dues: $250/$125*)

3. **Individual Members**: persons interested in or dedicated to activities directly related to financial management and who wish to be members in their own right. Six members of the ICGFM Board of Directors will be selected from among all individual members. Each individual member will receive a copy of all ICGFM publications. (Dues: $100/$50*)

* A special discount is offered to Low and middle lower income economies, as classified by the World Bank (Gross National Income GNI). This discount is available to the following countries: Afghanistan, Albania, Algeria, Angola, Armenia Azerbaijan, Bangladesh, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, China, Colombia, Comoros, Congo (Dem. Rep), Congo (Rep), Cote d'Ivoire, Djibouti, Dominican Republic, Ecuador, Egypt (Arab Rep), El Salvador, Ethiopia, Gambia, Georgia, Ghana, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Iran (Islamic Rep), Iraq, Jordan, Kenya, Kiribati, Korea (Dem. Rep), Kyrgyz Republic, Lao PDR, Lesotho, Liberia, Macao China (SAR), Madagascar, Malawi, Maldives, Mali, Marshall Islands, Mauritania, Micronesia (Fed Sts), Moldova, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Peru, Philippines, Rwanda, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Turkmenistan, Uganda, Ukraine, Uzbekistan, Vanuatu, Vietnam, Yemen, West Bank and Gaza, Zambia, Zimbabwe
4. **Student Members**: persons enrolled at a college or university who are interested in financial management are eligible and will enjoy the benefits of Individual Members. Student Members enjoy the benefits of Individual Members. (Dues: $25/$15*)
Foreword

The effectiveness of public organizations’ financial management systems can be strengthened by establishing procedures that ensure ongoing accountability aimed at creating a preventive environment that does not promote or encourage fraud and other types of wrongdoing. An effective financial management system imposes accountability by collecting and reporting complete and accurate information in a timely manner, thus limiting the opportunities for irregularities. A strong financial management system also contributes to and provides a basis for effective performance measurement that can assist the decision-makers in planning, program implementation and carrying out evaluations that highlight the impact of funds spent on programs focused on public needs.

The reliability of financial information, although important, is not the sole objective of modern public organizations’ financial information or accounting systems. An effective accounting system should help to achieve other objectives including the maintenance of fiscal sustainability and the avoidance of fiscal crises. To achieve these objectives, it is important that accrual accounting identifies all costs of services and goods provided. Accrual accounting provides a comprehensive and integrated accounting system that enables transparent reporting. Such clear and accurate financial data creates public trust, which is correlated with economic development. It can also reduce transaction costs and can be a key factor in building networks and social cohesion.

Strengthening financial management systems has long been of interest to the ICGFM. ICGFM has introduced a Compilation and Certification Program for Developing Countries that is in the process of implementing the International Public Sector Accounting Standards (IPSAS). We begin this issue of our Journal explaining the components of the Compilation and Certification Program for Developing Countries with the objective of helping to improve both the quality and comparability of financial information reported by government entities for external users.

The second article provides an overview of the Nigerian accounting system. The author of the article states that Nigeria is faced with the challenges of transparency and accountability in its present cash-based budgeting system. Initiatives to ensure transparency of public accounts must be taken to prevent the occurrence of wrongdoing in the public sector. The article presents information on the effects of the adoption of accrual-based budgeting in the Nigerian public sector based on the results of qualitative research conducted by the author and others.

Our third article is also from Africa. Ghana, as in other developing countries, has implemented reforms aimed at promoting a culture of performance, and making the public sector more responsive to the public needs. Economic reforms should be supported by strong public accounting. The public sector accounting education system in Ghana still needs to change. The author of the article demonstrates that universities, in their educational offerings, have not fully adapted to the needs of the public sector. The article makes the point that collaboration between academic and government financial institutions needs to be fostered and strengthened.

In the fourth article, the author states that in most developing countries the absence of appropriate conditions and environment for better performance and transparency, and results-based accountability will hinder the implementation of performance budgeting. The article describes advantages of performance budgeting and presents, a specific framework that can enable the successful implementation of performance budgeting in the public sector in developing countries.

The final article presents an analysis of the impact of local elections in Indonesia on the level of
various public sector expenditures. The author makes the assumption that an elected official with financial decision-making authority, when seeking re-election has an opportunity and a tendency to politicize local government budgets to support his/her re-election. The article points out that grant expenditures and social aid expenditures are the most probable parts of local government budgets that could be manipulated by the incumbent in a re-election effort. The author presents data that could be used to establish whether incumbents manipulate local government budgets to achieve their political goals. Although the author does not specifically address the issue of using accrual accounting to ensure accountability and transparency in public transactions, the article describes budgeting situations that call for accountability and transparency.

We hope the articles in this issue will stimulate discussion on contemporary problems of accounting in public organizations. If you would like to participate in such discussions please start thinking about contributions for the next issue of this Journal, participating in the ICGFM blog, and/or attending future ICGFM events. We would also be pleased to receive reviews and suggestions of other resources that we should refer to in future issues. Send them to icgfm@icgfm.org.

We look forward to hearing from you!

Prof. nzw. Zbyslaw Dobrowolski
Cordell Olive
Manuel Pietra

Editor
Vice President of Communications
President
July 2013 Issue

A Compilation and Certification Program for Developing Countries .............................................................. 1
Jesse Hughes

The Effects of Adoption of Accrual-Based Budgeting on Transparency and Accountability in the
Nigerian Public Sector ............................................................................................................ 15
Shakirat Adepeju Babatunde

Public Sector Accounting Education: A Neglected Element of Public Financial Management
Reforms in Ghana .................................................................................................................. 36
Redeemer Yao Krah, Felix Kwame Aveh

Suggested Framework for Implementation of Performance Budgeting in the Public Sector of
Developing Countries ........................................................................................................... 50
Hassan A. G. Ouda

Do Incumbents Utilise Local Government Budgets in Their Renomination in Regional General
Elections? Evidence From Indonesia ................................................................................. 68
Irwan Taufiq Ritonga

Invitation to Potential Authors .............................................................................................. 79
Invitation aux Auteurs Potentiels ......................................................................................... 84
Invitación a posibles Autores ............................................................................................. 89
Do Incumbents Utilise Local Government Budgets in Their Re-nomination in Regional General Election? Evidence from Indonesia

Irwan Taufiq Ritonga2, Lecturer at Department of Accounting, Faculty of Economics and Business, Universitas Gadjah Mada

Abstract

The phenomenon of money politics in regional general election needs special attention, especially when an incumbent become a candidate in the election. Being nominated as a candidate in the election, incumbents have an opportunity and a tendency to politicise local government budgets to support their political objective to be re-elected. Grant expenditures and social aid expenditures are the most probable parts of local government budget that could be utilised by the incumbent. Therefore, this study is focused to analyse data of grant expenditures and social-aid expenditures of local government budgets from fiscal year 2009 to 2010, the period of the most frequent regional general elections that have ever been held in Indonesia. The objective of this study is to investigate whether incumbents utilize local government budgets in their re-nomination in the regional election. To achieve the objective, this study tests whether: (1) significant differences exist in grant expenditure and social aid expenditure of incumbent local government budgets before and during the process of the regional election; (2) significant differences exist in grant expenditure and social aid expenditure between incumbent local government budgets and non-incumbents local government budgets. The data were analysed using paired sample t-test, independent sample t-test, Wilcoxon Signed Ranks Test and Mannwhitney-test with \( \alpha = 5\% \). The results show that incumbent candidates tend to utilise local government budgets in their re-nomination in the regional election.

1. BACKGROUND

The constitutional system in Indonesia has been experiencing fundamental changes since the third amendment to the Constitution of 1945 in 2001. One of the fundamental changes is that the head of the local governments are elected directly and democratically by people. From 2005 to 2008, regional elections have been conducted in 314 provinces, districts, and cities all across Indonesia. In addition, in the year 2010 alone, there were 238 regional elections held.

The tendency of incumbent candidates to utilise local government budget, local government facilities, as well as money politics during the regional election becomes an important issue from time to time. The Chairman of the Constitutional Court found that money politics will continue to occur if the current system of regional elections is not changed. Money politics became a classic problem in a number of election-related lawsuit (Harian Kabar Indonesia, 4 February 2013). The issue is primarily addressed to the head of local government as an incumbent candidate in the regional election. Allegations of local government financial irregularities will increase with the holding of regional elections. As an incumbent candidate, heads of local governments have the opportunity to take advantage of the local government's budget in their interest. To persuade people to vote for them again in the regional election, parts of the local government's budget that most probably are used by the incumbent candidates are grant expenditures and social-aid expenditures. This study argues that during the year of

---

22 Incumbent refers to someone who is in office (regent, mayor, governor, president) who come to be participants in the general election to be re-elected in office.

23 Lecturer at Department of Accounting, Faculty of Economics and Business, Universitas Gadjah Mada. He can be reached at irwanritonga@ugm.ac.id
regional election, both expenditures will increase significantly. This significant increase in such expenditures will contribute to unfavourable effects on the local authorities as a whole. This situation will deteriorate the performance quality and objectivity of the local government's budget because those expenditures do not have measurable performance measures. To prepare the budget of those expenditures, there are no requirements of performance budgeting attributes such as performance indicators, performance benchmarks, and performance targets. As a consequence, level of performance and objectivity of local government budget will decrease.

In addition, the significant increase in grant expenditure and social aid expenditure could disturb the sustainability of regional development. This condition occurs because some portion of the local government budget that should be allocated for development programs and activities is switched to grant expenditures and social aid expenditures.

In general, the allegations of the misuse of the local government facilities and money politics committed by incumbent candidates are mostly seen from the social and political aspects. However, to the author's knowledge, discussions that provide empirical evidence from the aspect of local government financial management have not been had. Therefore, based on the indicated problem stated above, the objective of this study is to provide empirical evidence using financial information as to whether incumbent candidates utilise local government budgets in their re-nomination in the regional elections. To achieve the objective, this study examines the variations in grant expenditures and social aid expenditures. Those expenditures are perceived as the susceptible parts of local government budgets that can be used by the incumbent during the general election process.

Results of this study will provides inputs to the central government to improve the existing regulations on grant expenditures and social-aid expenditures. In addition, results of this study offer considerations for the auditors in implementing their audit strategies and procedures.

2. LITERATURE REVIEW

"Power tends to corrupt, and absolute power corrupts absolutely. Great men are almost always bad men" is a well-known proposition expressed by Lord Acton. Bhakti (2012) argues that the proposition is appropriate to describe the heads of local government who are susceptible to abusing their power. Corruption in Acton's proposition above is not just about money, but also politics or policies. In the context of regional election, abuse of power by the incumbent candidates is associated with the use of local government's money and decision-making in the local government budget preparation. As the holder of the local government's financial management authority, a head of local government has the authority to make financial management policy ranging from planning, budgeting, implementing and reporting local government finance (Regional Financial Management Government Regulation, 2005). These broad authorities provide a great opportunity for heads of local government to use local government budgets if they become a candidate in the regional election. Using its financial authorities, the incumbent candidate could make local government financial management policies (particularly in the planning and budgeting phases) in his/her favor for the regional elections. This is consistent with the function of local government budget as a political tool (Jones & Pendlebury, 2000).

Rubin (2000) states that in determining the amount and allocation of public funds, there is always political interests that are accommodated by the bureaucrats. The budget allocation often also reflects the interests of policymakers related to their constituents. Meanwhile, research conducted by Manor and Crook (1998) state that in many cases, the regional election and a clear separation between the head of local government and members of parliament in developing countries has led to a worsening of governance practices. Major factors in deteriorating governance practices are: characteristic of local elites who always preclude other parties to
compete in politics; poor knowledge and poor political awareness of the people; and lack of continuous monitoring of the parliament towards the heads of local government. Furthermore, as confirmed by Prasojo (2009), these factors are also reflected in several local governments in Indonesia. Co-optation of power by incumbent candidates is done by leveraging their access to the bureaucracy.

In the agency theory perspective, the proposal put forward by the executive (as agent) to legislative (as principal) has a charge of the interests of the executive. An executive can submit a budget that could increase its agency, in terms of both financial and non-financial resources (Smith & Bertozzi, 1998). In addition, Prasojo (2009) stated that in the aspect of political equality, the relationship between the executive and legislative in the implementation of regional autonomy is characterized by the dominance of the executive in the budgeting process.

Opportunistic behavior of incumbent candidates toward the holding of the regional election became stronger in the budgeting process. The heads of local government who ran in the regional election as incumbent candidates have a greater chance to use local government budgets for their interests. This study argues that grant expenditures and social aid expenditures are parts of local government budgets that are prone to be exploited by the incumbent candidates to persuade people to vote for them.

The argument above is strong enough because both types of expenditures are part of the indirect expenditures and the process of their accountability is relatively easier compared to other expenditures since they do not need to go through a tender mechanism. The nature of such expenditures is discretionay expenditure, so their budget allocations are tended to be subjective. Groups of indirect expenditures are budgeted expenditures that are not directly related to the implementation of local governments' programs and activities (Guidance on Regional Financial Management Minister of Home Affair Regulation, 2006). This condition causes the allocation of grant expenditures and social-aid expenditures to be determined by discretionary power of the executives and legislative members (Abdullah & Asmara, 2006; Halim & Abdullah, 2006). Furthermore, recipients of those expenditures are decided by the head of the region, which is expressed in the regional head regulation. This suggests a tendency of absolute power in the hands of regional heads that could lead to abuse of power.

**Grant Expenditure Budgeting Policy**

Grant expenditure is an expenditure that is used for awarding grants in the form of cash, goods and/or services to the central government or other local governments and community groups or individuals. The use of this expenditure has been specifically defined. The nature of grant expenditures are not binding, non-recurring and must be used in accordance with the requirements set forth in the text of the grant agreement (Guidance on Regional Financial Management Minister of Home Affairs Regulation, 2006; Guidance on Regional Financial Management Amendment Minister of Home Affairs Regulation, 2007).

Awarding grants in the form of money or services can be budgeted if the local government had complied with all matters concerning the expenditure needs to meet minimum service standards stipulated in legislation. A local government is allowed to award grants in the form of goods if the goods do not have any economic value to the local government, but beneficial to the recipients (i.e. central government or other local governments and/or community groups/individuals).

**Social Aid Expenditures Budget Policy**

Social aid expenditure is an expenditure that is used for providing assistance in the form of money and/or goods to the community, which aims to improve the welfare of the community (Guidance on Regional Financial Management Minister of Home Affairs Regulation, 2006;
Criteria or prerequisite of social aid expenditure allocations are: not continuous/non-recurring for each fiscal year, selective and have a clear designation of its use, meet the budget functions as an instrument of justice and equity in improving services, and social welfare. Social aid expenditures in the form of money can be budgeted if the local government had complied with all matters concerning the expenditure needs to fulfil minimum service standards set out in the legislation. In addition, social aid expenditures to political parties are given in accordance with the provisions of the legislation.

**Hypotheses Development**

Based on literature review and argument discussed in the previous section, this study’s proposed hypotheses are as follows.

H1: The proportion of grant expenditures in an incumbent candidate’s local government budget at the period of regional election is higher than those before the period of election.

H2: The proportion of social aid expenditures in an incumbent candidate’s local government budget at the period of general election is higher than those before the period election.

H3: The proportion of grant expenditures in an incumbent candidate’s local government budget is higher than those of a non-incumbent candidate at the time of election.

H4: The proportion of social aid expenditures in an incumbent candidate’s local government budget is higher than those of a non-incumbent candidate at the time of election.

**3. RESEARCH METHODS**

**Length of Observation**

The observation was done for fiscal years 2009 and 2010 because 2010 is the year with the highest number of elections ever held in Indonesia. This condition occurs because there were no local elections in 2009 due to the presidential election held in that year.

**Data**

The data used in this study are secondary data. The information about the data is as follow:

1. Data of regions that held elections in 2010 are sourced from the General Elections Commission.
2. Data of the status of the head of the provincial/district/city (i.e., re-nominated or not) are sourced from the Ministry of Home Affairs.

Total grant expenditures in 2010 included grant expenditures for the holding of the regional election to the General Elections Commission and the Regional Election Supervisory Body. In addition, the total grant also incorporated regional election security expenditures for the provinces, districts, and cities that held regional elections in 2010. These expenditures were not available in the total grant expenditures in fiscal year 2009. Therefore, the amounts of such expenditures were eliminated from the total grant expenditures in 2010 so that the components of grant expenditures for 2010 are comparable to the components of grant expenditures in 2009 (i.e., apple to apple comparison).
Sampling

This study utilises the convenience sampling technic due to limitation on data availability regarding information on candidate status (i.e., incumbent or non-incumbent) and information on grant expenditures and social-aid expenditures information for the fiscal years 2009 and 2010. As a result, the number of samples used in this study were as many as 96 regions out of 238 regions that held regional elections in 2010. The 96 regions consist of 60 regions with incumbent candidates and 36 regions with non-incumbent candidates.

Data Analysis

To determine an appropriate statistical tool to test the hypotheses, this study first tested the normality of data using Kormogorov-Smirnov One Sample Test and Shapiro-Wilk test. If the data satisfy the criteria of normality, the t-tests will be used to analyse the data; and if the data distribution are not normal, then the data analysis is done by using the Wilcoxon Signed Ranks Test or Mann Whitney-test (Lind et al., 2011). The confidence level is set at 95% with one-tailed significant testing.

4. FINDINGS

Descriptive Statistics

The following table reports the descriptive statistics of grant expenditure and social aid expenditure of the incumbent local government budget before and at the year of regional election; and grant expenditure and social aid expenditure of non-incumbent local government budget at the year of general election.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incumbents Grant Expenditures before regional election (2009)</td>
<td>60</td>
<td>.00015</td>
<td>.09657</td>
<td>.01520</td>
<td>.01557236</td>
</tr>
<tr>
<td>Incumbents Grant Expenditures at regional election (2010)</td>
<td>60</td>
<td>.01679</td>
<td>.14382</td>
<td>.05904</td>
<td>.02890618</td>
</tr>
<tr>
<td>Incumbents Social aid Expenditures before regional election (2009)</td>
<td>60</td>
<td>.0042</td>
<td>.07088</td>
<td>.02303</td>
<td>.01486167</td>
</tr>
<tr>
<td>Incumbents Social aid Expenditures at regional election (2010)</td>
<td>60</td>
<td>.0039</td>
<td>.08384</td>
<td>.02610</td>
<td>.01746042</td>
</tr>
<tr>
<td>Non-Incumbents Grant Expenditures at regional election (2010)</td>
<td>36</td>
<td>.00883</td>
<td>.07382</td>
<td>.04666</td>
<td>.01739317</td>
</tr>
<tr>
<td>Non-Incumbents Social aid Expenditures at regional election (2010)</td>
<td>36</td>
<td>.00021</td>
<td>.05991</td>
<td>.01958</td>
<td>.01519577</td>
</tr>
</tbody>
</table>

Table 1 above shows that the mean of the proportion of incumbent's grant expenditures at the regional election period (2010) is 5.90% which is higher than its proportion of 1.52% before the period of regional election (2009). Similar situation also occurs in the case of proportion of social aid expenditures where the proportion of incumbent's social aid expenditures at the regional election period (i.e., 2.61%) is larger compared to its proportion before the regional election period (i.e., 2.30%)

In addition, Table 1 also reports that both proportions of incumbent's grant expenditures and social aid expenditures at the election period (2010), which are 5.90% and 2.61% respectively,
are higher than the proportions of non-incumbent's grant expenditures (i.e., 4.66%) and social aid expenditures (i.e., 1.95%).

Further, to ensure the level of probability of the observed variables in this study, the statistical tests are run to test the hypotheses as stated in the previous section. In order to apply appropriate statistical tests, the normality of data is examined before testing the hypotheses.

**Testing the Normality of Data**

Results of testing the normality of data are presented in the following table:

<table>
<thead>
<tr>
<th>Tests of Normality</th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statistic</td>
<td>Df</td>
</tr>
<tr>
<td>Incumbent grant expenditure before general election period (2009)</td>
<td>0.167</td>
<td>60</td>
</tr>
<tr>
<td>Incumbent grant expenditure in general election period (2010)</td>
<td>0.118</td>
<td>60</td>
</tr>
<tr>
<td>Incumbent social aid expenditure before general election period (2009)</td>
<td>0.138</td>
<td>60</td>
</tr>
<tr>
<td>Incumbent social aid expenditure in general election period (2010)</td>
<td>0.151</td>
<td>60</td>
</tr>
<tr>
<td>Non-incumbent grant expenditure in general election period (2010)</td>
<td>0.097</td>
<td>36</td>
</tr>
<tr>
<td>Non-incumbent social aid expenditure at general election period (2010)</td>
<td>0.155</td>
<td>36</td>
</tr>
</tbody>
</table>

Based on the results of both normality tests of Kolmogorov-Smirnov and Shapiro-Wilk indicate that the proportion of grant expenditures of incumbent candidates in the period of the regional election (2010); the proportion of grant expenditures of local governments of incumbent candidates before the year of the regional general election (2009); the proportion of social aid expenditure of incumbent candidates in the year of the regional election (2010); the proportion of social aid expenditure of incumbent candidates before the year of the regional general election (2009) did not satisfy the criteria of normality because the significant values for those data are less than 5%. Therefore, the non-parametric test of Wilcoxon Signed Ranks Test was used to test the first and the second hypotheses.

Table 1 above also reports that data of grant expenditure of non-incumbent candidates in the period of the regional election (2010) met the assumptions of normality because its significant value is more than 5%. Thus, the parametric test of independent sample t-test was used to test the third hypothesis. On the other hand, data of social aid expenditure of local governments of incumbent candidates in the year of the regional election (2010) and data of social aid expenditure of local governments of non-incumbent in the year of the regional election (2010) did not meet the assumptions of normality. As a result, the non-parametric test of Mann Whitney U-test was used to test the fourth hypothesis.

**Testing the First Hypothesis**

The Wilcoxon Signed Rank test was used to test the first hypothesis. The results of the test can be seen in the following table:

<table>
<thead>
<tr>
<th>Grant Expenditure of Incumbent at Period of Election – Grant Expenditure of Incumbent before Period of Election</th>
<th>Z</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-5.580*</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Based on negative ranks.
b. Wilcoxon Signed Ranks Test
The results demonstrate that the value of $z$ is -5.580 and the significance is 0.00 (smaller than $\alpha = 0.05$). Thus, this study accepts the hypothesis that the ratio of grant expenditures of local governments budgets of incumbent candidates in the period of the regional elections is higher than those before the period of the regional elections. This result indicates that regional elections cause grant expenditures to increase in local government budgets of incumbent candidates.

Testing the Second Hypothesis

The Wilcoxon Signed Rank Test was used to test the second hypothesis. Table 3 below shows the results of the test.

<table>
<thead>
<tr>
<th>Social aid expenditure of incumbent at period of election - Social aid expenditure of incumbent before election</th>
<th>Asymp. Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Z</td>
<td>-1.811*</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.070</td>
</tr>
</tbody>
</table>

a. Based on negative ranks.
b. Wilcoxon Signed Ranks Test

The results in Table 3 demonstrate that the value of $z$ is -1.881 and the significance is value 0.07 (larger than $\alpha = 0.05$). Thus, this study rejects the hypothesis that the ratio of grant expenditures of local governments of incumbent candidates in the period of the regional election is higher than those before the period of the regional election. This result indicates that the regional general election does not cause grant expenditures to increase in local governments of incumbent candidates.

Testing the third hypothesis

The independent sample $t$-test was used to test the third hypothesis. The test results can be seen in Table 4 below.

<table>
<thead>
<tr>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td>$F$</td>
<td>Sig.</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant Expenditure 2010</td>
<td>Equal variances assumed</td>
</tr>
<tr>
<td>Equal variances not assumed</td>
<td>2.620</td>
</tr>
</tbody>
</table>

The results demonstrate that the $t$ value of $t$ is 2.62 (equal variances not assumed) and the significance value is 0.01 (smaller than $\alpha = 0.05$). Thus, this study accepts the hypothesis that the ratio of grant expenditures of local governments of incumbent candidates in the period of the regional election is higher than grant expenditures of local governments of non-incumbent
candidates in the period of the regional election. This result indicates that incumbent candidates utilize grant expenditures in the period of the regional election.

**Testing the Fourth Hypothesis**

The Mann Whitney U-test was used to test the fourth hypothesis. The test results can be seen in Table 5 below.

<table>
<thead>
<tr>
<th>Table 5: Results of Testing the Forth Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social-aid Expenditures 2010</td>
</tr>
<tr>
<td>Mann-Whitney U</td>
</tr>
<tr>
<td>Wilcoxon W</td>
</tr>
<tr>
<td>Z</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
</tr>
<tr>
<td>814.000</td>
</tr>
<tr>
<td>1480.000</td>
</tr>
<tr>
<td>-2.013</td>
</tr>
<tr>
<td>.044</td>
</tr>
</tbody>
</table>

The results demonstrate that the value of $z$ is -2.013 and the significance value is 0.04 (smaller than $\alpha = 0.05$). Thus, this study accepts the hypothesis that the ratio of social aid expenditure of local governments of incumbent candidates in the period of the regional election is higher than social aid expenditures of local governments of non-incumbent in the period of the regional election. This result indicates that incumbent candidates utilize social aid expenditures in the period of the regional election.

**5. CONCLUSION AND DISCUSSION**

Based on findings discussed in the previous section, this study concludes that the proportion of grant expenditures in incumbent candidates local government budget at the time of election is higher than before the time of regional election; the proportion of social aid expenditures in incumbent-candidates local government budgets at the time of election is higher than before the time election; the proportion of grant expenditures in incumbent candidates local government budget is higher than those of non-incumbent candidates at the time of election; and the proportion of social aid expenditures in incumbent candidates local government is higher than those of non-incumbent candidates at the time of regional election. Those findings indicate that incumbents tend to utilise local government budgets in their re-nomination in regional election.

As a result, this condition tends to decrease the performance quality and objectivity of the local government budget. Furthermore, the significant increase in such expenditures could disturb the sustainability of regional development.

This condition brings several implications. Firstly, the central government via the Ministry of Home Affairs needs to develop new more stringent regulations regarding the management of social-aid expenditures and grant expenditures. The new regulations should encompass a more tight-fitting how to plan, to budget, to execute, to report, and to monitor the expenditures. The new regulations have to ensure that quality of the transparance and accountability of such expenditures is improved. As a result, the democratic costs and local government finance will be more efficient and effective in the future.

Secondly, the auditor, which is the Supreme Audit Board, should give more attention to social aid expenditures and grant expenditures during their audit on local government financial statements, especially at the time of regional election. The auditor should consider a higher audit risk on these expenditures. As a consequence, they have to allocate more time and be more thorough while auditing such expenditures.
Thirdly, the incumbent candidates have bigger opportunities than other non-incumbent candidates to win in the regional election. If the incumbent candidates do not commit a significant mistake during their period of leadership, normally, they will win the next regional general election.

The limitation of this study is that the authors do not identify incumbent-equivalent candidates who become a candidate in regional elections. This happens because such data are not available. An incumbent-equivalent candidate is someone who has special relationship with the incumbent, such as sons or daughters of incumbent, wife of incumbent, or relatives of incumbent. The incumbent-equivalent candidates should be categorized in the same group with incumbent candidates. Therefore, other researchers should address this issue in future research.

6. REFERENCES


Constitution of 1945 Amendment III (2001)


Guidance on Regional Financial Management Amendment Minister of Home Affairs Regulation, 2007 (No. 59, 2007)


Regional Financial Management Government Regulation, 2005 (No. 58, 2005)


Invitation to Potential Authors

The *International Journal on Governmental Financial Management* (IJGFM) aims to provide a forum for practitioners, academics and the general public to discuss the many disciplines involved with governmental financial management. These include accounting, auditing, budgeting, debt management, information technology, tax management and treasury management.

We would like to be able to publish articles and comment which will:

- encourage collaboration among professionals and others concerned about public financial management;
- contribute to the advancement of government financial management principles and standards, especially through describing existing good practice;
- identify problems or weaknesses through the critique of currently dominant views on public sector financial management reforms; and
- assist public sector financial managers in identifying their own solutions to common challenges.

We would particularly welcome contributions from individuals or teams working in the developing countries. We invite potential authors to review past issues of the journal at: http://www.icgfm.org/digest.htm

The Journal does not currently provide double blind reviews (where both the author and the review’s identities are not disclosed) as the standard approach. The aim is to provide confidential comment on submitted contributions and to provide editorial suggestions (detailed as necessary) to help the author to produce a paper which is suitable for publication. A double blind review facility may be provided if requested by individual authors.

*The Journal primarily publishes papers in English. However, for a trial period at least, we will now also accept articles for publication in French or Spanish. Such articles will not be translated, but will be published in their original language. We welcome comments on this initiative from our readers.*

Submission of Manuscripts

*We do not charge a fee for submission or publication of articles.*

Manuscripts should be sent as email attachments to the editor, Peter Dobrowolski - peterdobrowolski@pro.onet.pl and be copied to icgfm@icgfm.org

Ideas for articles are welcome and may be discussed with the editor before submission of the full text. The editor is happy to respond to informal enquiries about the suitability of papers for possible publication.

Authors must warrant that the work does not infringe upon any existing copyright and does not contain material of a libellous or scandalous nature. By submission of a paper to the Journal, the author indemnifies the publisher and editors against any breach of such warranty or copyright restrictions.

Material published in the Journal may be reproduced without the consent of the editor or the Consortium and reproduction, translation and distribution is encouraged.
Format and Style

The manuscripts should include:

- no more than 20 single spaced pages (or 10,000 words);
- an abstract not exceeding 150 words - it should summarize the purpose, methodology, and major conclusions of the article;
- the title, the authors name(s), position/post and institutional affiliation (ministry, university, etc.), email address and any acknowledgements;
- authors should write in a non-sexist and non-discriminatory style, using, for example, "her/him"; or "s/he"
- limited use of abbreviations to improve ease of reading, appropriate references (see below) to the literature on the subject to support facts, assertions and opinions; all quotations should be fully referenced;
- footnotes, identified in the text by a numeral that is superscripted, should not include literature citations, and should be listed at the end of the paper, before the bibliography.

Referencing the text

References in the text to books, articles etc. should include the authors' names, the year of publication, and the specific page numbers if direct quotations are provided (e.g., Mickey & Donald, 1968, p.24). For more than two authors, the citation should be abbreviated as follows: (Kramdon and others, 1988, p.1). Multiple citations of the same author(s) in the same year should be distinguished in the text (and in the bibliography) by a, b, c, etc. following the year of publication. Latin terms, for example, et al, ibid or op cit should be avoided.

Bibliography

A bibliography should be included at the end of the text containing details of all books, articles papers, etc. which have been referenced in the text. The bibliography should only include references cited in the text. These should be arranged in alphabetical order according to the surname of the first author. The following details should be included: author and initials, full title and subtitle, place of publication, publisher, date, and page references (for direct quotations). References to journal articles must include the volume and number of the journal.

Where possible, details should be provided of the web address for material which is available on the Internet. In this case the date the material was read should be provided.

The layout should adhere to the following convention:

- articles:


- books:

- citations from edited books:
  

- translated books
  

- reference to a report.
  

- references to material on the Internet
  
  
  http://icgfm.blogspot.com (6 September 2008)

**Charts, Diagrams, Figures and Tables**

These should all be called figures, numbered consecutively in arabic numerals, with a brief title in capitals, labeled, axes, etc. The text should indicate where the figure is to appear.

**Editorial Board**

Femi Aborisade
The Polytechnic, Ibadan, Nigeria

Pawan Adhikari
University of Essex, UK (from Nepal)

Hugh Coombs
University of Glamorgan Business School, Wales, UK

Jérôme Dendura
Consultant in Public Financial Management (from France)

Jerry Gutu
Consultant in Public Financial Management, former Accountant General of Zimbabwe (US based)

Jesse Hughes
Old Dominion University (retired), Virginia, USA
We would also like to hear from other individuals who would be willing to assist with the editorial work of the Journal. The work would consist of reviewing potential contributions, suggesting whether they should be accepted for publication and making editorial recommendations to improve the quality of submissions.

Please contact the editor, Peter Dobrowolski - peterdobrowolski@pro.onet.pl - if you would like to discuss the role of the editorial board and any input you could provide.