

THE EFFECT OF LOCAL GOVERNMENT LEADER CHARACTERISTICS AND AUDIT OPINION ON LOCAL GOVERNMENT PERFORMANCE AND ITS IMPLICATIONS ON HUMAN DEVELOPMENT INDEX IN WEST NUSA TENGGARA

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Abstract

This research aims at examining the effect of local government leader characteristics and audit opinion on the performance of local governments and its implications on human development index in Nusa Tenggara Barat. A Score of Local Government Performance Evaluation (EKPPD) was applied as a proxy for the Local Government Performance. The sample was 10 districts of the province during the period 2011-2015. The analytical tool was path analysis using Partial Least Square. The test results showed that the local government leader characteristics such as age, years of service, and education level do not affect the local government's performance. Meanwhile the audit opinion has a significant effect on the local government's performance; hence the local government's performance has a significant effect on the human development index. This research accordingly implied that Upper Echelon Theory which is stated that the local government leader characteristics influence the local government's performance was unjustified. In other side, the researched finding supported the Signaling Theory in which the audit opinions influenced the performance of local governments. This study was practically considered as the efforts to foster human development in term of developing the local governments performance; which was initiated by an improvement in the audit opinion.

Keywords: Local Government Performance, Local Government Leader Characteristics, Audit Opinion, Human Development Index, Upper Echelons Theory, Signaling Theory

1. Introduction

The reform era that began in 1998 had led Indonesia into a new form of government and democracy. This reform entailed the regional autonomy in Indonesia since 1999. It was targeted to increase the government performance in terms of society welfare. In the form of regional autonomy, local government was designed to maximise its performance on both duties and functions in promoting the community welfare.

The local government evaluation is based on a performance report that was reported by the local governments. The report is also used as the basis of local government accountability to its citizens. The local governments performance is typically determined by the account of financial reports as it rated as an unqualified opinion on the audit report. (Riphat et al, 2016)

In terms of management and financial report, the local government is noted to report finance accountably and transparently. It is mandated by Law No. 17 of 2003 on state finances which are then further clarified by the Government Regulation No. 71 Year 2010 on the Government Accounting Standards (SAP). Teh SAP requires governments in both central and local levels to make financial statements. These financial statements will then be audited by the external auditors, Audit Board of Republic Indonesia (BPK RI), at regular intervals. The preparation and examination of local government financial statements is a step to strengthen the accountability of financial report.

Budianto (2012) underlined that the examination result of local government by BPK audit opinion on LKPD is a factor that determines the local government performance. He used sample of 1,082 District / City in Indonesia during the period 2008-2010. He found that there is a positive effect of audit opinion and a significant impact on the performance of the Local Government. It is measured by a rating performance scores of Local Government. Budianto (2012) also explained that the local government, who is scored as the averaged to a low on the audit opinion, tend to have lower performance when it is compared to the one that scored higher in the audit opinion. Furqan and Rossieta Research (2016) and Masdiantini and Erawati (2016) also noted that the audit opinion has a positive and a significant effect on the Provincial Government performance. Different findings was delivered by Marfiana and Kurniasih (2013), they highlighted that the audit opinion does not effect the financial

performance of local government. Puspita and Martani (2010) pointed out that from the perspective of Signaling Theory, the government serves a highlight to the community of how to deliver financial statements properly. It is delivered by a comprehensive publication that demonstrates its performance. The local government also provides a performance and financial report in order to convincingly demonstrate that the local government has been accomplishing the service trustworthily which is mandated by its citizen (Puspita and Martani, 2010).

Based on Semester Examination Results Summary in First Half (IHPS) 2015, from 10 (ten) districts of the city in the province of West Nusa Tenggara, there are two (2) districts of the region which received qualified opinion (WDP) is Bima and Lombok Timur (BPK, 2015). Although there have been improvements in 2016, there are still districts that receive a qualified opinion, it is noted as a dissatisfying phenomenon. The qualified opinion at any case marked a flaw financial report, it eventually ruined the image of local government performance in this area.

It was confirmed by another results of Local Government Performance Evaluation (EKPPD) of 2014, issued by the Ministry of Home Affairs (Kemendagri) to ten (10) Government of Districts / City in the province of West Nusa Tenggara (NTB) showed that in terms of ranking all Districts / City government received a rating below 10 nationally. Hence none has received an award as a stipulated in Permendagri No. 73 the year 2009 on Guidelines for the Award to the organizers of the Local Government. It entailed that the performance of the Government of District / City in NTB was not optimal and needs to be improved, so that the competitiveness of the local government became more challenging (Artha et al, 2015).

Hambrick and Mason (1984) stated that an organisation is the actualization of the value of a top manager in an organisation. Strategic decisions is the result of a character that was in top management. The Major are a top leader in the local government so that local leader characteristic affected the performance of the local government (Prasetyo, 2015). In a study of public sector accounting, research on the influence of the leader characteristics as a top leader of a local government performance is still a bit to do and only implemented by some researchers.

Low Human Development Index (HDI) in the province of West Nusa Tenggara which is ranked 30th out of 34 provinces in Indonesia is another interesting issue examined. By being on the lower level

shows the city or district governments in NTB is still far behind other regions in the country. The quality of human development in districts in West Nusa Tenggara province is still not optimal. This is demonstrated by Riphath et al (2016) that West Nusa Tenggara is a province of Eastern region of Indonesia that left behind in Human Development Index.

There was inconsistent results of previous studies on the effect the major's personal traits to its government performance. Moreover, there was an influence of the audit opinion to the local governments performance, as well as the influence of local government performance toward the Human Development Index. These previously listed issues are the underlying background why the researcher is interested in studying the problems. There are some issues such as faulty in an audit opinion, none of districts in NTB could ever achieve the top 10 in EKPPD rank, then Human Development Index in West Nusa Tenggara are further concern of this research. The research reliability and dependability applied structural analysis techniques with Partial Least Square while the previous studies mostly apply multiple linear regression analysis.

Based on the afore-elaborated background, the research problems are: do the local government leader characteristics and Audit Opinion influence the performance of local governments in West Nusa Tenggara?; Does the local government performance influence the Human Development Index in West Nusa Tenggara?

2. Theoretical Framework and Hypothesis Development

Post implementations of regional autonomy, local governments have authority to manage its resources to boost economic development and improve the quality of public services. The performance of local governments in managing resources is often measured through financial ratios (Riphath et al, 2015), evaluation of the performance of the regional administration/EKPPD (Budianto, 2012; Arthaet al, 2015; Prasetyo, 2015; Ara et al, 2016) and the quality of financial reports indicated by an unqualified opinion on the audit report (Budianto, 2012; Furqan and Rossieta, 2016).

The top leader of local governments has an important role in maximising its performance (Prayitno, 2012; Prasetyo, 2015) so that the personal trait of the leader influences the local government performance (Hambrick and Mason, 1984; Prasetyo, 2015). Upper Echelons Theory (UET) that

proposed by Hambrick and Mason (1984) explain that characteristics of top leader affect the performance of an organization.

Based on Signaling Theory (Ross, 1977) explains that government as the agent of the citizen attentively shows its accountability to the public. It is done by providing a dependable financial reports as well as comprehensive demonstration (Evans and Pattons, 1987). Local government also present the performance information holistically in order to indicate that the local government has been accomplishing the mandate. (Puspita and Martani, 2010).

According to Agency Theory, local government as the agent aims at providing the principal welfare (society welfare) as the main goal. It is a contract agreed by society principal. An instrument used to demonstrate the local government performance on welfare issue is the Human Development Index (Sandri et al, 2016; Riphat et al, 2016).

From the above arguments, author proposes research model as shown in Figure 1.

Figure 1. Research Model



2.1 Effect Of Local Government Leader Characteristics On Local Government Performance

Upper Echelon Theory proposed by Hambrick and Mason (1984) explains that an organisation is an act of the regarded value by a top manager. Age, according to Hambrick and Mason is logically represent the experience. Hambrick and Mason (1984) noted that age is correlated with the willingness and the ability to cope with the risk. Organisations with younger leaders tend to take the choices of high-risk strategy. Older leaders, in other side, is burdened by their past experiences that it is inevitable to avoid failure. They also have physical and psychological limitations that tend to avoid risk. Age according to Prasetyo (2015) and Misdi (2015) affect the local governments performance.

Leaders with a longer working experience influence positively on decision-making issue. Knowledge of the leader will grow along with work experience. But when a leader to achieve success in an organisation, they normally adopt the value into a new place, and sometimes it does not always

work (Hambrick and Mason, 1984). Years of service of the local government leader positively influence the performance reported by Prayitno (2012) and Misdi (2015), while Prasetyo (2015) found it otherwise.

Education makes a person able to develop their potential, personality, intelligence and skills. A person with higher level of education adopted more complex knowledge and skills and experience. Logically, people with higher knowledge, skills and experience will be better than those who with lower level of education. The level of education has a positive effect to the acceptance of innovation and new things. But leaders who have a higher education tend to be longer in taking decisions, because the better cognitive ability tends to encourage them to consider more factors and variables in the process (Hambrick and Mason, 1984).

From the above arguments author propose the first hypothesis:

H1: *Local government leader characteristics (age, years of service and education level) affect the Local Government performance*

2.2 *Effect of Audit Opinion on Local Government Performance*

Puspita and Martani (2010) points out that from the perspective of Signaling Theory, government as the agent of the people desirous of showing signal to the public. The government will give a signal to the community by providing quality financial statements, a more complete disclosure to demonstrate its performance.

Budianto (2012) found that the positive effect of audit opinion on the performance of the Local Government which is measured by a score of of Local Government Performance Evaluation (EKPPD). Budianto (2012) also explained that local governments who have a low audit opinion tendency to have lower performance compared to the local governments that have better audit opinion. Furqan and Rossieta Research (2016) and Masdiantini and Erawati (2016) asserted that the audit opinion is positive and significant effect on the performance of the Provincial Government.

Based on the arguments presented earlier researchers propose a second hypothesis in this study:

H₂: *Audit Opinion affects Local Government Performance*

2.3 *Effect of Local Government Performance on Human Development Index*

Based on Agency theory framework, the conflict between society (the principal) and the local government (the agent) regarding financial policy can influence policy efforts to improve local government performance in order to improve the welfare of the community as measured by the Human Development Index (Sandri et al., 2016). Government as the agent will try to realise principal welfare (society welfare) as the goal of the agency contract agreed upon by society as a principal. One measure used to demonstrate the performance of an agent in realising welfare is the Human Development Index.

The effect of local government performance on Human Development Index (HDI) presented by Grousario and Dharmastuti (2014), Anggraini and Sutaryo (2015), Amalia and Purbadharmaja (2015) and Sandri et al (2015).

Based on the above arguments researchers propose the third hypothesis in this research:

H₃: *Local Government Performance affects the Human Development Index (HDI)*

3. Research Method

3.1 *Population and Sample*

The population of this study was all local governments in West Nusa Tenggara province consisting of 1 (one) Province, eight (8) local government for Fiscal Year 2011-2015. The sample used is 8 (eight) District Government and two (2) Cities Government which was observed in 5 (five) years of observation, from 2011 to 2015, resulting 50 (fifty) observations.

List of the population and sample of this research can be seen in Table 1 below:

Table 1: List of Population and Sample

Number	Local Government	Sample
1	West Nusa Tenggara Province	-
2	West Lombok District	V
3	Central Lombok District	V
4	East Lombok District	V
5	North Lombok District	V
6	Sumbawa District	V
7	West Sumbawa District	V
8	Dompu District	V
9	Mataram City	V
10	Bima City	V

Source: www.ntbprov.go.id (processed)

3.2 *Data Collection Approaches*

This study used secondary data of Local Government Financial Statements for Fiscal Year 2011 to 2015. Data were obtained from the website of the Directorate General of Fiscal Balance at www.djpk.kemenkeu.go.id and from a website of each Local Governments. Sources of data for variable BPK audit opinion obtained from the Audit Report of the Audit Board of Republic Indonesia (BPK) at <http://www.bpk.go.id>. Data of District Government / City performance scores rank obtained from <http://otda.kemendagri.go.id/>.

3.3 *Variables and Operational Definition*

The variables in this study consisted of:

- 1) Endogenous variables namely the Local Government Performance and Human Development Index
- 2) Exogenous variables, namely, the Local Government Leader Characteristics and Audit Opinion.

Local Government Performance

Variables Local Government Performance (KPD) used proxies score Regional Government Performance Evaluation (EKPPD) obtained from the Ministry of Home Affairs (Artha et al, 2015; Ara et al, 2016) with the following provisions:

- 0 to 0.9 is low,
- 1 to 1.9 moderate statuses,
- 2 to 2.9 high statuses,
- 3-4 very high status.

Human Development Index

Sandri et al (2016) suggested that the Human Development Index is a process that increases the aspects of community life. The most important aspect of life is seen from age's long and healthy life, an adequate level of education, and standard of living. Four major elements of human development, namely productivity (productivity), equity (equity), sustainability (sustainability) and empowerment (empowerment).

The HDI is a composite index on 3 indices:

- 1) The life expectancy index, as the embodiment of the dimensions of long and healthy life (longevity)
- 2) The education index, as an embodiment of the dimensions of knowledge (knowledge)

3) A decent standard of living index, as the embodiment of a decent life dimension (decent living)

Human Development Index value in this study used data issued by the Central Bureau of Statistics from 2010 to 2015. In order to view the progress and status levels of HDI, UNDP in Sandri et al (2016) distinguish the level of HDI is based on four classifications:

- a) Low (HDI less than 50),
- b) lower-medium (HDI between 50 and 65.99),
- c) upper-medium (HDI between 66 and 79.99) and
- d) High (HDI 80 or higher).

Local Government Leader Characteristics

Upper Echelon Theory as proposed by Hambrick and Mason (1984) explains that an organisation is the actualization of the value of a top manager in the organisation. In this study, the characteristics of local government leader expressed in the three indicators:

- a) Age, expressed in years (Prayitno, 2012; Prasad, 2015)
- b) Years of Service, expressed in years, namely the length of the lead regional head region (Prayitno, 2012; Prasetyo2015)
- c) The level of education is expressed in accordance with (Prayitno, 2012) is shown with dummy variables:

- 1 for high school and Bachelor
- 0 to graduate

Audit Opinion

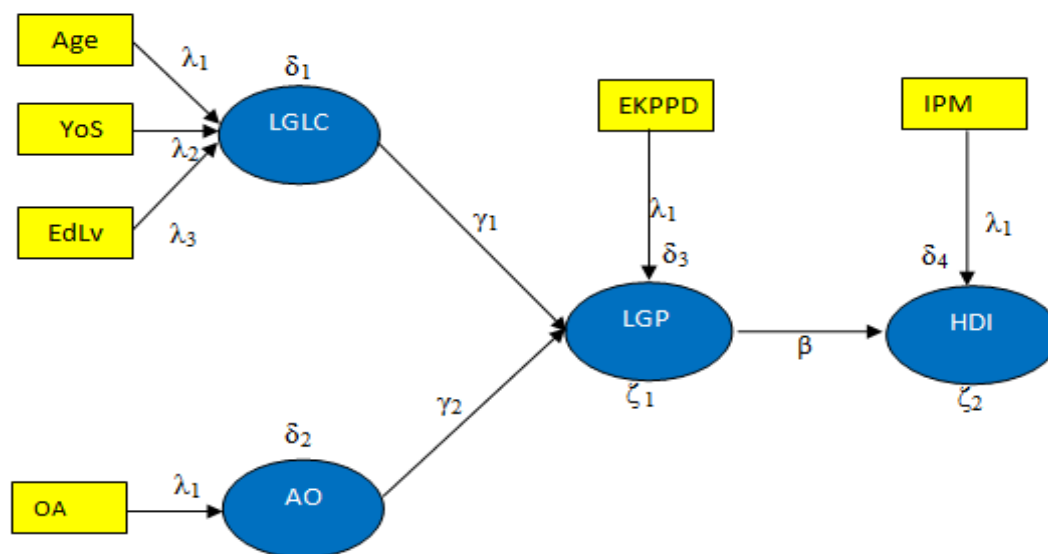
The audit opinion in this study will be measured with an ordinal scale that indicates the level or opinion ratings ranging from the highest to the lowest (Budianto, 2012; Furqan and Rossieta, 2015; Masdiantini and Erawati, 2016), as follows:

- 5 = Unqualified Opinion (WTP).
- 4 = Unqualified Opinion with Modified Wording (WTP-DPP),
- 3 = Qualified Opinion (WDP),
- 2 = Adverse Opinion (TW)
- 1 = Disclaimer of Opinion (TMP),

3.4 Analysis Method

The analytical method used in this study is Partial Least Square-SEM with the help of Smart PLS 3.2.3 program. This analysis was chosen because it has the advantages of scale can be applied to all the data, does not require a lot of assumptions and should not be large sample size (Ghozali. 2014: 7).

Figure 2. Partial Least Square Outer and Inner Model



Outer model equation:

$$\text{LGLC} = \lambda_1 \text{Age} + \lambda_2 \text{YoS} + \lambda_3 \text{EdLv} + \delta_1$$

$$\text{AO} = \lambda_1 \text{OA} + \delta_2$$

$$\text{LGP} = \lambda_1 \text{LGPf} + \delta_3$$

$$\text{HDI} = \lambda_1 \text{IPM} + \delta_4$$

Notes:

LGLC = Local Government Leader Characteristics

Age = Age Indicator

YoS = Year of Services Indicator

EdLv = Education Level Indicator

AO = Audit Opinion

OA = Audit Opinion indicator

LGP = Local Government Performance

EKPPD = Local Government Performance indicator

HDI = Human Development Index

IPM = Human Development Index indicator

$\lambda_1 - \lambda_4$ = Lamda matrix *loading* indicator each variables

$\delta_1 - \delta_4$ = Delta, indicators measurement error on each variable

Inner model equation:

$$\text{LGP} = \gamma_1 \text{LGLC} + \gamma_2 \text{AO} + \zeta_1$$

$$\text{HDI} = \beta \text{LGP} + \zeta_2$$

$\gamma_1 - \gamma_2$ = Gamma, coefficients of exogenous variables on endogenous variables

β = Beta, coefficient of endogenous variable on another endogenous variabel

$\zeta_1 - \zeta_2$ = Zeta, model errors

4. Results

An Overview of Research Object

West Nusa Tenggara is one of the provinces in Indonesia in the middle region of Indonesia, consisting of 2 (two) large islands of Lombok and the island of Sumbawa. Mataram are Capital of province. West Nusa Tenggara consists of 8 (eight) districts and 2(two) Cities.

Table 2 show descriptive analysis of variable indicator used in a study.

Table 2. Descriptive Analysis

	Mean	Min	Max	Standard Deviation
Age	52,26	44	66	5,802
YoS	3,72	0	9	2,58
EdLv	0,78	0	1	0,418
OA	3,28	1	5	1,051
EKPPD	2,561	1,822	3,214	0,335
IPM	63,9006	56	75,93	5,022

Source: Processed data

From table above, minimum value of Age is 44, maximum 66, and mean 52,26. Youngest Local government leader is West Lombok regent, oldest one is East Lombok regent. Years of services minimum value is 0, maximum 9, and mean 3,72. Longest years of services owned by Sumbawa regent.

Education Level minimum value is 0, max. 1, and mean 0,78. With that mean value of 0,78 most of local leader have bachelor degree, and and has met the statutory regulations. Audit Opinion have minimum value is 1, maximum 5 and mean 3,28. From this value majority of the audit opinion obtained by local government in West Nusa Tenggara was qualified opinion.

Local government performance that measured by EKPPD score show minimum value is 1,822, mean 2,561, and maximum 3,214. From EKPPD criteria, this values show that most of local government performance score including high category.

Human Development Indec that measured by IPM, show minimum values is 56, mean 63,9, and maximum 75,93. Based on UNDP (2014) with 63,9 mean, HDI in West Nusa Tenggara including lower-medium category.

Partial Least Square Analysis

The result of the smart PLS 3.2.3 algorithm can produce calculating the coefficient of determination (R^2), as specified in Table 2 below.

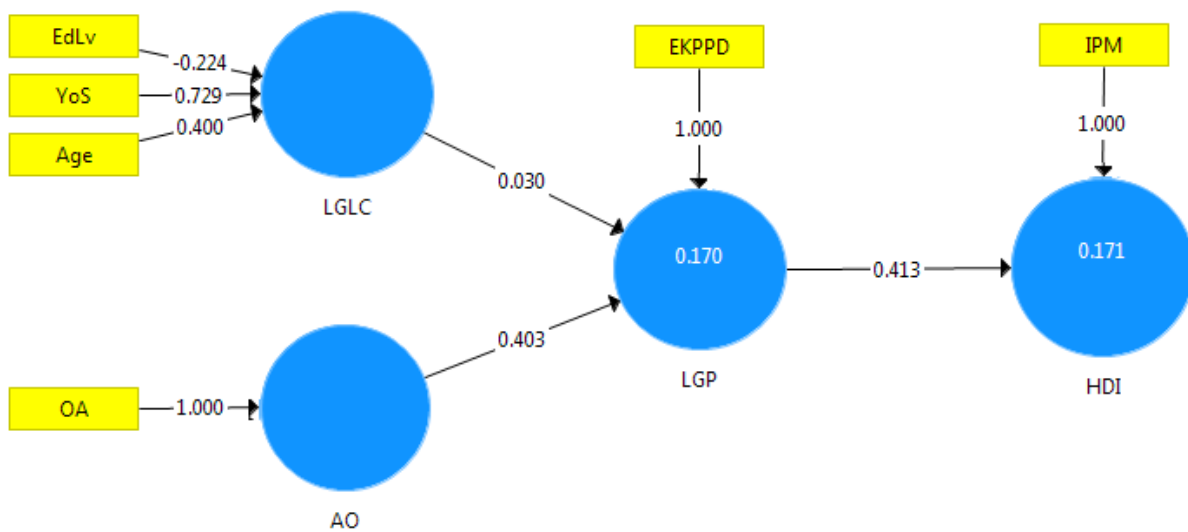
Table 3. R SQUARE

Construct	R Square
LGP	0.170
HDI	0.171

Source: SmartPLS 3.2.3 output

Based on Table 3 above is known that constructs LGP can be explained by LGLC construct and AO construct by 17%, and 83% is explained by other variables that not examined. From this value, it is known that the ability of exogenous LGLC and AO in explaining LGP construct classified as a weak category. Constructs HDI can be explained by LGP by 17, 1% and 82.9% explained by other variables outside the research. This R^2 value classified as a weak because of lower than 0,19 (Chin, 1998 in Ghozali 2014:42). Output of SmartPLS algorithms shown in Figure 3

Figure 3. SmartPLS Algorithm Output



Source: Smart PLS 3.2.3 output

The following table is the result of bootstrapping SmartPLS, to obtain the Path coefficient of variables in this research.

Table 4. Path Coefficient (Mean, STDEV, T-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	Hypothesis	Notes
LGLC -> LGP	0.030	0.072	0.246	0.121	H1	Rejected
AO -> LGP	0.413	0.424	0.143	2.892	H2	Accepted
LGP -> HDI	0.403	0.385	0.074	5.451	H3	Accepted

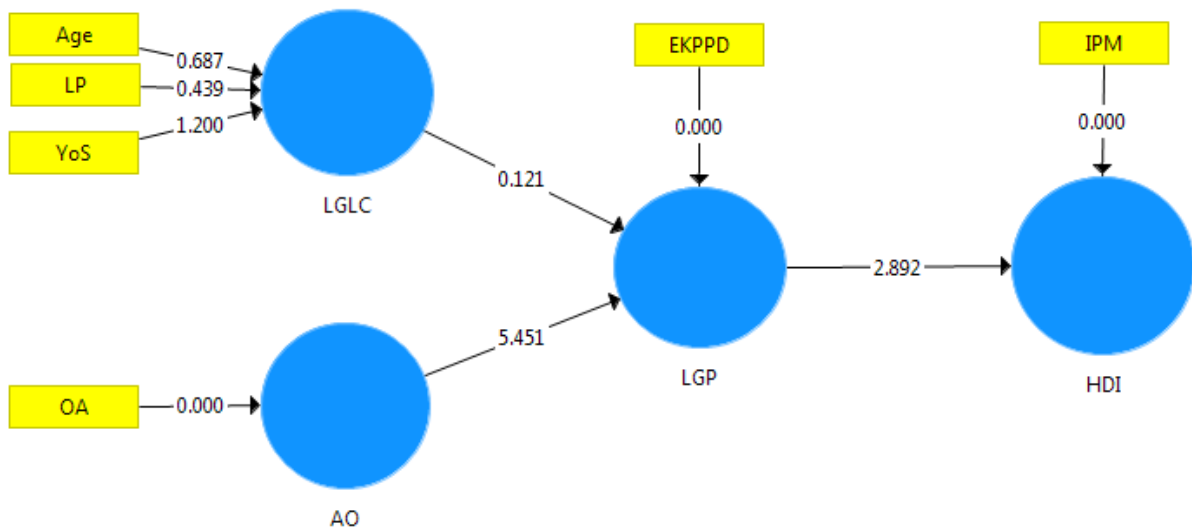
Source: SmartPLS 3.2.3 output

Based on Table 4 Hypothesis 1 of this study rejected, that Local Government Leader Characteristics (LGLC) not significantly influence the Local Government Performance because although the parameters coefficient indicates a positive direction for 0.030 but the value of t statistics 0.121 are smaller than t-table 1.96 (two-tailed).

Hypothesis 2 of this study, that Audit Opinion (AO) affected Local Government Performance was supported. T-Statistic value higher than t-table 1.96(two tailed), and path Coefficient values are the positive direction for 0,413.

Hypothesis 3 of this study also accepted. Local Government Performance has significance influence on Human Development Index. It shows by t- statistic 5.451 higher than t-table 1.96 (two-tailed) and path coefficient 0.403. Figure 4 show t-statistic values of path model that processed by bootstrapping output.

Figure 4. Bootstrapping Output of SmartPLS



Source: SmartPLS 3.2.3 output

4.1 Effect Of Local Government Leader Characteristics On Local Government Performance

The first hypothesis that is local government characteristics affected local government performance was not supported. This means that the three indicators of regional head characteristics are age, a length of service and educational levels do not affect the performance of the local government.

The test results showed that age does not affect the regional head of local government performance in West Nusa Tenggara. This result is inconsistent with the findings of Hambrick and Mason (1984) Bamber et al (2010), Prasetyo (2015) and Misdi (2015) but consistent with Prayitno (2012) and Setiawan (2017). This is possible because of the head of the region as a top leader more mature age too much consideration and less willing to take risks that are less responsive to the emerging challenges and ultimately less than optimal in leading the region which leads to the maximum performance of the local government which he leads. Prayitno (2012) suggests that the performance of regional heads in leading areas not dominated by the maturity of age, but by a strong commitment to adapt to the advancement of knowledge and technology to create innovation in public service delivery.

Years of Services does not affect the performance of local governments. This is not in accordance with the Upper Echelon theory (Hambrick and Mason 1984) which proposed leader with a longer working experience positive influence on decision-making. Knowledge of the leader will be growing with increasing work experience. But the test results in this study indicate that the work period has no effect. This is probably because when a leader to achieve success in an organization, they tend to maintain the old ways they are to be applied to new place, and sometimes it does not always work, or in other words the leader with years old are sometimes too conservative and less susceptible to innovation (Hambrick and Mason, 1984).

The higher level of education pursued by a person, the more complex knowledge and skills and experience they have. The level of education has a positive effect on the acceptance of innovation and new things. But leaders who have a higher education tend to be longer in taking decisions because better cognitive abilities tend to encourage them to consider more factors and variables in the decision-making process (Hambrick and Mason, 1984).

Overall, all three indicators: age, education level, and years of services that tested for latent variables of Local Government leader's characteristic produced findings that the characteristics do not significantly affect the local government's performance in West Nusa Tenggara. These findings do not support the Upper Echelon Theory proposed by Hambrick and Mason (1984). Some reasons that may cause this condition include the absence of conditions that encourage local leaders to make strategic decisions based on personal characteristics, where many of the limitations faced by the leader (bounded rationality), whereas the situation facing is a crisis situation. Leadership quality is often more pronounced in times of crisis, any kind of crisis. Whether political, economic, natural disasters, social unrest, and others. In this study, no significant influence of the characteristics of regional heads may occur as well as the regional head acts only as an administrative manager course, which focuses on the implementation of the routine tasks of government and the lack of innovation in the face of the emerging challenges in leading the local government.

4.2 Effect of Audit Opinion On Local Government Performance

The second hypothesis in this study produced findings that the audit opinion has the significant effect on the performance of local governments in West Nusa Tenggara. These findings are consistent with Budianto (2012), Masdiantini and Erawati (2016), Suryaningsiha and Sisdyani (2016), Furqan and Rossieta (2016) but are not consistent with Marfiana and Kurniasih (2013) and Saktiawati (2014).

Opinion BPK audit is a professional statement examiner on the fairness of the financial information presented in the financial statements that are based on four criteria namely compatibility with Government Accounting Standards (SAP), adequate disclosures), compliance with laws and regulations, and the effectiveness of the internal control system. The better the BPK audit opinion obtained, it can show the improvement in performance of local governments. Opinion is a statement about the examiner's professional conclusion reasonable levels of information presented in the financial statements. BPK's opinion can be a benchmark (indicators) to assess the accountability of a government entity. This opinion can raise or lower the confidence level stakeholders for reporting presented by the auditee, in this case, the local government entities. In other words, the higher BPK audit opinion indicates the higher performance of a local government (Saktiawati, 2014).

The test results in West Nusa Tenggara indicate that the local governments in West Nusa Tenggara sought to demonstrate its performance with the acquisition of audit opinion for the better. This finding supports the Signaling Theory (Ross, 1977) that the government as the party is given the mandate of the people desirous of showing signal to the public. The government will give a signal to the community by providing quality financial reports as well as a complete disclosure (Evans and Pattons, 1987).

4.3 Effect of Local Government Performance on Human Development Index

The third hypothesis in this research that the local government performances affect the human development index in West Nusa Tenggara accepted. These results are consistent with the findings Grousario and Dharmastuti (2014), Anggraini and Sutaryo (2015), Amalia and Purbadharmaja (2015), Sandri et al (2016) but inconsistent with Riphath et al (2016).

Government as the agent will try to realise welfare society as the goal of the agency contract agreed upon by society as a principal. One measure used to demonstrate the performance of a principal agent in realising welfare is the Human Development Index. (Sandri et al, 2016)

From the results known that the Human Development Index in West Nusa Tenggara influenced by the local government performance. In the framework of the Agency Theory, local governments in West Nusa Tenggara has been trying to meet the agency contract with society as its principal, by maximising the performance to promote improvement in the Human Development Index..

5. Conclusion, Implication And Limitation

5.1 Conclusion

This study aims to examine the effect of the local government leader characteristics and audit opinions on local government's performance, as well as the effect of local government performance on human development index in West Nusa Tenggara. test results showed that the Local Government Leader Characteristics (LGLC) that measured by three indicators such as age, years of service and education level did not affect the performance of local governments as measured by scores of local government performance evaluation (EKPPD). These findings do not support the Upper Echelon Theory as presented Hambrick and Mason (1984).

Furthermore showed that the audit opinion on the performance of local governments in West Nusa Tenggara. This further finding supports the Signaling Theory as disclosed by Ross (1977) and Evans and Pattons (1987). The third findings are the local government performance in West Nusa Tenggara affect the human development index.

5.2 Implications

The implications of this study found that the Upper Echelon Theory cannot explain the effect of the local government leader characteristics on local government performance. While the effect of an audit opinion on the performance of local governments to support Signaling Theory. In practical results of this study can be considered in efforts to improve human development through improving the performance of local governments, which was initiated by an increase in the audit opinion of local government financial statement.

5.3 Limitation

Some of the limitations of this study can provide direction for future research. First, the study period was only five years with the object only of Local Government in West Nusa Tenggara, expected future studies using the longer time studies with larger objects, so the results can be better. Second, the financial performance of the variable regions using only one indicator that score EKPPD, future research is expected to seek another indicator of the performance of the local government, so that the conclusions obtained more comprehensive. This study uses only two exogenous variables, future research may add other exogenous variables suspected to affect the performance of local governments such as the characteristics of local government for example assets, the level of dependency on the central government, local wealth levels, the number of population and area.

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