



Timeliness of Local Government Budgeting in Indonesia: Do Internal Audit Function and Political Factors Matter?

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ABSTRACT

Timeliness of budgeting plays a significant role in government financial management. We investigate the determinants of the timeliness of local government (LG) budgeting from the perspectives of internal audit and political supervision of Indonesian LGs from 2010 to 2018. LG internal audit function (IAF) characteristics consist of capability, maturity, and expertise. Meanwhile, the political factor is represented by the coalition. The study findings demonstrate that IAF capability, maturity, expertise, and legislative coalition positively affect LG's budgeting timeliness. These characteristics play a role in the supervision of the budget preparation process. The results of the robustness test indicate that all the effects are consistent. Our study recommends that the Indonesian Financial and Development Supervisory Agency (BPKP) needs to develop the LG IAF continuously so that its supervisory and consulting role can be improved for better budgeting and budget implementation. Due to the limited studies on budgeting timeliness, especially in Indonesia, this research contributes to the literature as one of the novel studies to examine the timeliness of LG budgeting from the perspective of IAF and political factors.

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INTRODUCTION

A budget is essential in the public sector, especially government institutions, to ensure their accountability to the public. Thus, the government budget is one of the main reports for public transparency (Jacobs, 2010). A budget is the legal basis of government spending (Andersen et al., 2012). The LG budget presents the policies decided by the executive to implement based on their preferences and discretions. The recommended policies in the government budget demonstrate the fulfilment of the executive's promises to the public (Santiso, 2010). Therefore, the LG budget is one of the leading public concerns in LG financial management, with budget validation timeliness as a part of budget accountability as one of the crucial issues (Juwono and Eckardt, 2010). The budgeting timeliness is a relevant issue in Indonesia because there are many LGs with late budget validation.

A late budget is a significant problem as it delays the implementation of LG programmes (Andersen et al., 2012), which will ultimately impede public service delivery. Following this issue, the Ministry of Internal Affairs released the Permendagri Number 54 of 2015¹, including budget timeliness as one of the accountability indicators, targeting at least 300 LGs that are required to validate the budget on time. LG will suffer significant consequences when the budget is not submitted on time because the central government will give a sanction through the elimination of the local incentive fund. Thus, this sanction will reduce funding available for the LG in question² and increases the importance of proper budget preparation and review processes. Therefore, a study examining the timeliness of budgeting in Indonesia is crucial to be studied comprehensively.

In Indonesian LG financial management, a budget is prepared and proposed by the executive, discussed by IAF, and approved by the legislative board or the public representatives³. Therefore, there are two primary stages in the LG budgeting process in Indonesia. The first stage is preparing the budget plan by the executive, and the second stage is the discussion and approval by the legislative. In the first stage, the budget plan preparation involves the participation of LG working units, followed by a review by the LG inspectorate as the internal auditor for LGs. Once the proposed budget is reviewed, it is sent to the LG legislative to be discussed. Once approved, the proposed budget is considered the official LG budget for the subsequent year. In these processes, the internal auditor's budget review and legislative discussion are two crucial aspects of timeliness.

The review process conducted in the IAF will run smoothly when the LG IAF possesses essential characteristics such as capability (Alzeban and Gwilliam, 2014; Institute of Internal Auditors, 2009; van Rensburg and Coetzee, 2016; Sari et al., 2019; Yusof et al., 2018), maturity (Chen et al., 2017; Mansour, 2010; Sarens et al., 2011), and expertise (Abbott et al., 2016; Alzeban and Gwilliam, 2014; Gras-Gil et al., 2012). These characteristics will ensure the smooth discussion process, the quality and completeness of the proposal, and timely submission to the legislative.

Public sector accounting literature experience a lack of empirical studies on budgeting timeliness despite the importance of timeliness in the context of LG. Several studies have provided insights into the relationship between IAF characteristics that affect the timeliness of financial reporting. Pizzini et al. (2015) proved that IAF quality positively impacts financial reporting timeliness. Oussii and Boulila Taktak (2018) mentioned that adequate IAF competency, organisational status and relevant policies, and procedures are needed to support the timely preparation of financial reports. Das (2012) concluded that the IAF of government institutions plays a significant role in preparing high-quality financial statements and meeting the timeliness requirements. In addition, Nurdiono and Gamayuni (2018) proved that competency positively affects the quality of financial statements. However, only a few studies have investigated the effect of IAF on LG budgeting timeliness. Due to the importance of IAF characteristics in affecting their performance and supervisory function, it is vital to study the factor in detail.

In addition to the IAF characteristics, the political characteristics of LG may also play a significant role in determining budget timeliness as the LG budget is a legal and political product that requires legislative discussion and approval. However, empirical studies investigating the timeliness of budgeting from the perspective of legislative factors are limited. Therefore, further research to obtain empirical evidence is

¹ Ministry of Internal Affairs in Regulation Number 54 of 2015 concerning Strategic Plan of Ministry of Internal Affairs 2015–2019

² Ministry of Finance Regulation Number 167/PMK.07/2020 concerning the Management of Local Incentive Fund

³ Law Number 23 of 2014 about LGs, Article 65 paragraph (1) 'LG head has the task coverage; c. Prepare and submit the draft of the budget, budget change, and budget accountability to Parliament to be discussed with Parliament ...'.

crucial. Conceptually, Stapenhurst et al. (2010) explained that the legislative plays a crucial role in many countries' budgeting processes, especially democratic ones. The legislative body may criticize the budget prepared by the executive to ensure public accountability (Jacobs, 2010). In such a scheme, the legislative coalition that determines a portion of the legislative body supporting and opposing the executive plays a significant role in budget timeliness (Cohen and Leventis, 2013).

The existing studies in this field have several limitations, including the limited scope that needs to be improved. Rahmatika (2014), Gamayuni (2018), Kewo and Afifah (2017), and Sembiring et al. (2018) studies that examined the effect of internal audits on budgeting and financial reporting are examples of studies with limited research scope that could be improved by increasing the observation period. Considering the limited LG budgeting research in Indonesia, our study contributes to the literature as one of the novel studies to comprehensively investigate the role of IAF and political supervision in the timeliness of LG budgeting. Additionally, the current study investigates all LGs in Indonesia to address the limitation of previous studies, thus, providing comprehensive results concerning the factors that affect LGs budget timeliness. The results of this study offer practical suggestions for LG financial management, specifically in budgeting, as an essential factor in achieving financial management accountability. By providing empirical results, this study recommends that Indonesia Financial and Development Supervisory Agency (BPKP) could adopt proper policies in budgeting control by enhancing IAF and legislative oversight.

REVIEW OF LITERATURE

Agency Relationship in Indonesian LGs

Since its introduction by Jensen and Meckling (1976), the agency theory has been widely used to explain various relationships, especially in business research. Lane (2005) explained that the agency theory is applicable in the LG context, thus, providing a scientific basis for the current study to adopt the theory as the underpinning theory for LG budgeting timeliness research. The selection of agency theory as the underpinning theory is also justified by the political practice implemented in Indonesia as a democratic country that conducts direct elections for government heads, both president⁴ and LG heads⁵. Indonesia also implements regional autonomy that provides LGs with the authority to manage their financial resources independently⁶. From the concept of the agency theory, an election is a process of delegation of authority in which the people entrust the development of the country to the LG head. Therefore, the LG, which is run by the executive, acts as an agent that serves the public as the principal. The Law Number 23 of 2014⁷ regarding LG states that the LG head who acts as an executive has the authority to plan, determine the budget, and implement public service delivery. In the planning stage, the authority allows the executive to pick and suggest specific programs for a fiscal year to further be proposed as LG budget. To ensure that the executive promotes the principal's interest, the public is represented by the legislative board to oversee the executive's activities.

Budgeting Process in Indonesian LGs

In Indonesia, the preparation of the LG budget (APBD) is regulated by Government Regulation Number 58 of 2005⁸. The budgeting process begins with formulating the budget plan (RAPBD) drafted by the executive, which is then reviewed by the legislative board (DPRD) for possible revision of the LG development policies. Finally, the approved RAPBD is validated as the official LG budget to be implemented as the basis for LG revenue and spending.

⁴ Law Number 23 of 2003 about President and Vice President Election

⁵ Law Number 32 of 2004 about LG

⁶ Law Number 33 of 2004 about Regional Autonomy

⁷ Law Number 23 of 2014 about LG

⁸ Government Regulation Number 58 of 2005 about Regional Financial Management

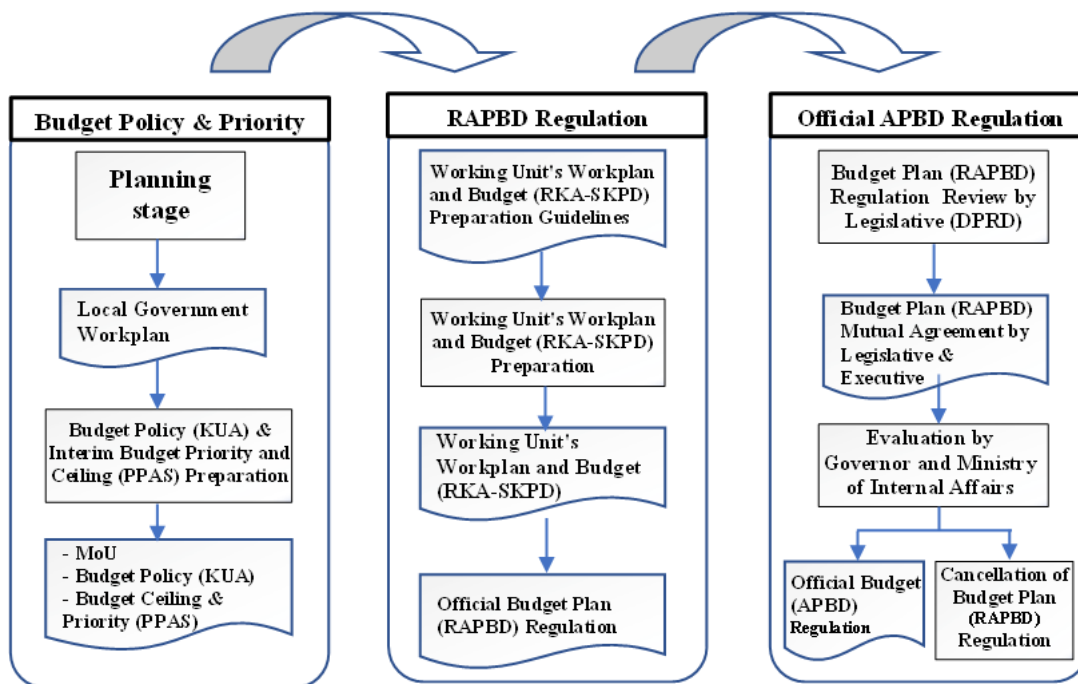


Figure 1 Local Government Budgeting Process in Indonesia

Budget preparation applies several principles such as public participation, transparency and accountability, budget discipline, efficiency and effectiveness, and compliance with relevant regulations. Public participation means that the public must be involved in preparing the LG budget, while transparency and accountability mean that the LG budget must be transparent and accessible to the public to avoid misuse of the budget. Budget discipline means that the determination of revenue and expenditure must be rational and have a budget limit. Efficiency and effectiveness refer to the budget spending that must be optimal so that public services and welfare will improve. The principle of complying with the regulation means that the preparation of the LG budget must not be against the applicable law and regulation. The official LG budget must be validated by December 31 of the current fiscal year⁹. Therefore, this date is used as the basis of timeliness measurement in the current study. It is crucial to meet this validation deadline so that budget implementation will not be disrupted (Andersen et al., 2012) to ensure better financial management (Sutaryo et al., 2020).

Hypotheses Development

LG IAF characteristics and timeliness of budgeting

IAF capability is the ability of the government's internal auditors to perform their overseeing role, including reviewing the LG working plans and its budget. When the LG IAF possesses a high level of capability, it allows LG to prepare and validate the LG budget early. In contrast, if the LG inspectorate has a lower capability score and level, it will impede LG from preparing and having the LG budget validated according to the deadline. Thus, LG will be able to follow the law and regulations to meet the LG budget validation deadline. Furthermore, it will streamline the implementation process (Sembiring et al., 2018).

Several scholars have conducted studies on IAF quality. Clatworthy (2010) and Schmidt and Wilkins (2013) found that the qualification of internal auditors affects the timeliness of financial reporting. Aksoy and Kahyaoglu (2013) stated that internal auditors must have the excellent capability required for supervision. The more detailed findings by Sembiring et al. (2018) demonstrated that the competence and role of IAF significantly affect budget absorption in a government institution, and Gamayuni (2018) found that the capacity of IAF helps the LG to prepare quality financial statements. In addition, IAF also plays a role in supporting organisation management (van Rensburg and Coetzee, 2016). IAF capability is expected to improve the budgeting process to have timely validation. Therefore, the following is hypothesised:

⁹ Government Regulation Number 12 of 2019 about Regional Financial Management

H1: IAF capability positively affects the timeliness of LG budgeting.

According to Government Regulation Number 60 of 2008¹⁰, a high internal control system maturity level reflects a higher possibility of achieving organisational objectives. One of the objectives that LG desires from LG internal control presence is LG's financial statement reliability, which can be accomplished if they could prepare the budget on time and implement the activities stated in the budget following the plan. Internal control system maturity may significantly contribute to achieving this objective (Sutaryo and Sinaga, 2018). Hence, the maturity level is expected to enable the LG to determine and validate its budget timeliness.

One of the indicators of IAF maturity is the documentation procedure. A matured IAF will have a better documentation procedure, leading to consistent audit activity and proper engagement supervision (DeSimone et al., 2019). With this support, the supervision of budgeting activities will be performed consistently, thereby increasing the timeliness of budgeting. Moreover, IAF maturity is essential as the internal audit significantly affects the financial reporting process (Chen et al., 2017). It is expected that IAF maturity will positively affect the budgeting process to meet the timeliness requirement. Thus, the following is hypothesised:

H2: IAF maturity positively affects the timeliness of LG budgeting.

McLeod and Harun (2014) highlighted that the Indonesian LG's lack of skilled finance department staff had been challenging for the government's financial management processes. Abbott et al. (2016) also stated that auditor expertise is essential in conducting audit duties. Internal auditors with higher expertise usually understand organisational processes better, particularly on how an organisation is managed and controlled (Cohen and Sayag, 2010). Higher IAF expertise supports LG working plans and its budget reviews. In addition, the result of inspectorate auditor duties is in the form of recommendations for improving financial management issues. Therefore, with the support of internal audit recommendations, the quality of reviewed LG budget is expected to be better. Internal auditors play a significant role in organisation control (Astuti and Kusharyanti, 2013). Thus, by having IAF with higher expertise, activities performed will be more comprehensive. Higher internal auditor expertise may affect the timeliness of government financial management (Chen et al., 2012) and possibly, the budget validation. Thus, the following is hypothesised:

H3: IAF expertise positively affects the timeliness of LG budgeting.

LG political characteristics and timeliness of budgeting

In budget preparation, because the political coalition of the legislative is directly related to the supervision of the executive, it plays a significant role (Araujo and Tejedo-Romero, 2016a). In an LG with low political competition and a high coalition supporting the executive, supervision of LG activities may be less stringent because the interest of most coalitions aligns with that of the executive (Barnes and Jang, 2016). Hence, the budget preparation process can be expected to take less time. Moreover, although the coalition will support the government, the nature of the legislative duty to supervise the executive will still run adequately (Lowndes and Pratchett, 2012), which is important to ensure the public accountability of the budget. Conversely, when the opposition holds significant seats on the legislative board, the supervision of LG activities may be tighter (Araujo and Tejedo-Romero, 2016a; Caba Pérez et al., 2014; Cohen and Leventis, 2013), thereby resulting in a detailed and time-consuming budget examination, which may delay the budget validation and distract the budgeting from its priority activities. Therefore, we formulate the following hypothesis:

H4: Legislative coalition positively affects the timeliness of LG budgeting.

¹⁰ Government Regulation Number 60 of 2008 concerning Government Internal Control System

RESEARCH METHOD

Samples and Data

This study employs all district and city LGs in Indonesia as research objects, with 508 LGs; the research period is nine years, from 2010 to 2018. A set of unbalanced panel data consisting of 4,530 observations is generated. We exclude six LGs with administrative region status as these LGs are not required to publish a financial statement publicly. In addition, several new autonomous LGs were also just established during the research period. The details of the sample selection process are presented in Table 1.

Table 1 Sample Selection Processes

Fiscal Year	Balanced Data	Administrative Region Status	New autonomous local governments (Unestablished)	Unbalanced data
2010	514	6	17	491
2011	514	6	17	491
2012	514	6	12	503
2013	514	6	2	505
2014	514	6	3	508
2015	514	6	0	508
2016	514	6	0	508
2017	514	6	0	508
2018	514	6	0	508
			TOTAL	4530

We use secondary data obtained directly from authorised government institutions in Indonesia, such as the Ministry of Internal Affairs, Supreme Audit Board, Financial and Development Supervisory Agency (BPKP), General Election Commissions, and all LGs. Thus, the validity of data is ensured. The details of the data and their sources are presented in Table 2.

Table 2 Data and its Sources

Data	Source
Local government financial statement 2010-2018	Supreme Audit Board
Ratification and validation of local government budget 2010-2018	Ministry of Internal Affairs
Local government internal auditor characteristics 2010-2018	Financial and Development Supervisory Agency
Local government legislative characteristics 2010-2018	Commission for General Election and local government official website
Local government head characteristics 2010-2018	Ministry of Internal Affairs and local government official website

Research Variables

We use the timeliness of budgeting as our dependent variable. The variable is measured with the time lag of budget validation, calculated by the actual date of budget validation subtracted from the regulated budget validation date. Meanwhile, a set of independent variables that consist of LG IAF and political characteristics are used.

The LG IAF capability illustrates the capability of LG IAF in performing their duties. It is measured by the IACM level reached by LG, which ranges from 0 to 4, based on the Financial and Development Supervisory Agency (BPKP) assessment result. The LG IAF maturity illustrates how well the IAF has been established. This variable was measured using the maturity level reached by LG, which ranges from 0 to 5, based on the Financial and Development Supervisory Agency (BPKP) assessment result. The expertise represents the presence of expert auditors in the IAF, measured using the proportion of expert auditors to the total number of auditors in the LG IAF.

As for the political characteristics, the legislative coalition represents the level of legislative support for the executive. It is measured by the proportion of legislative members supporting the executive to total legislative members. Furthermore, this study employs several control variables from LG IAF, legislative, financial, and administrative characteristics. IAF size is controlled to cover the availability of auditors proxied by the total number of auditors in the IAF. Legislative characteristics include gender and size. Legislative gender represents the presence of women on the board, measured by the proportion of female legislative members to total legislative members.

Meanwhile, legislative size describes the size of the LG legislative board that is proxied by the total number of legislative members on the board. Financial characteristics consist of LG assets, revenue and

expenditure, measured with the natural logarithm of its respective value. LG head consists of tenure, education, and gender, while the administrative characteristics include LG complexity and type. Table 3 summarises the details of each research variable along with its measurement.

Table 3 Summary of Research Variables

Variable	Acronym	Measurement	References
Dependent			
Timeliness of local government budgeting	LGTIMELINESS _{it}	Time lag of budget validation (Actual date of budget validation subtracted by regulated budget validation date)	Abernathy, Beyer, Masli, & Stefaniak, (2014), Cagle, Flesher, & Pridgen (2014), Edmonds, Edmonds, Vermeer, & Vermeer, (2017), Habib & Bhuiyan (2011)
Independent			
Local government internal audit function capability	IACAPABILITY _{it}	The score of local government internal audit capability assessment by BPKP	Sarjono & Sulistiadi, (2018), Suharyanto, Sutaryo, Mahullete, Meiria, & Supriyono (2018), Wulandari & Bandi (2015), Yasin, Artinah, & Mujannah (2019)
Local government internal audit function maturity	IAMATURITY _{it}	The score of local government internal audit maturity assessment by BPKP	Sutaryo & Sinaga (2018), Yasin et al. (2019)
Local government internal audit function expertise	IAEXPERTISE _{it}	Percentage of Expert Auditor in local government internal audit function	Emmanuel & Usman, (2015)
Local government legislative coalition	POLCOAL _{it}	Percentage of legislative members from executive-supporting parties in legislative board	Lewis & Hendrawan (2019)
Control			
Local government internal audit function size	IASIZE _{it}	Total number of internal auditors in local government internal audit function	Pratama & Setyaningrum (2015), Utama, Evana, & Gamayuni (2019)
Local government legislative gender	POLGEN _{it}	Percentage of female legislative members in legislative board	Araujo & Tejed-Romero (2016), Rodríguez-Garcia, (2015)
Local government legislative size	POLSIZE _{it}	Total number of local government legislative members	Lewis (2019)
Local government total asset	LGASSET _{it}	Natural logarithm value of local government total assets	Sutaryo & Sinaga (2018)
Local government total revenue	LGREV _{it}	Natural logarithm value of local government total revenues	Utama et al. (2019)
Local government total expenditure	LGEXP _{it}	Natural logarithm value of local government total expenditures	Sutaryo & Sinaga (2018), Utama et al. (2019)
Local government head tenure	RHTENURE _{it}	Total year of local government head tenure since inauguration to research period	Probohudono (2018), Rahayu and Setiawan, (2017),
Local government head education level	RHEDU _{it}	Dummy variable, 1 for local government head with minimum of Master degree; 0 for undergraduate degree and below	Probohudono (2018), Rahayu and Setiawan, (2017), Setyaningrum (2017)
Local government head education background	RHBACK _{it}	Dummy variable, 1 for local government head with accounting education background; 0 for those without accounting education background	Probohudono (2018), Rahayu and Setiawan, (2017), Setyaningrum (2017)
Local government head gender	RHGENDER _{it}	Dummy variable, 1 if local government head is a woman	Araujo & Tejed-Romero (2016)
Local government complexity	LGCOMPLEX _{it}	Total number of local government's working units	Adiputra, Utama, & Rossieta (2018), Dalimunthe & Fadli (2015)
Local government type	LGTYPE _{it}	Dummy variable, 1 for city local government; 0 for district local government	Arifin, Trinugroho, Prabowo, Sutaryo, & Muhtar (2015), Rakhman, (2019)

Data Analysis

We conduct an initial analysis by examining the descriptive statistics of the research variables. We perform panel data regression analysis to test the hypotheses using panel data in this research. To ensure the consistency of our findings, we perform a robustness test using variable proxy change for our dependent variable and a dummy measurement 1 for LGs with on-time budget validation and 0 for a late budget. The regression model is as follows:

$$LGTIMELINESS_{it} = \alpha + \beta_1 IACAPABILITY_{it} + \beta_2 IAMATURITY_{it} + \beta_3 IAEXPERTISE_{it} + \beta_4 POLCOAL_{it} + \beta_5 IASIZE_{it} + \beta_6 POLGEN_{it} + \beta_7 POLSIZE_{it} + \beta_8 LGASSET_{it} + \beta_9 LGREV_{it} + \beta_{10} LGEXP_{it} + \beta_{11} RHTENURE_{it} + \beta_{12} RHEDU_{it} + \beta_{13} RHBACK_{it} + \beta_{14} RHGENDER_{it} + \beta_{15} LGCOMPLEX_{it} + \beta_{16} LGTYPE_{it} + \varepsilon \quad (1)$$

RESULTS AND DISCUSSION

We examine the descriptive statistics of our research variables to obtain a brief illustration of variables and their development. The results are presented in Table 4:

Table 4 Descriptive Statistics

Panel A: Continuous Variables					
Variable	Obs	Mean	Std. Dev.	Min	Max
LGTIMELINESS _{it}	4,530	11.432	26.906	-145	234
IACAPABILITY _{it}	4,530	1.230	0.767	0	3
IAMATURITY _{it}	4,530	1.969	0.698	0.153	3.991
IAEXPERTISE _{it}	4,530	0.681	0.184	0	1
POLCOAL _{it}	4,530	0.336	0.192	0	0.96
IASIZE _{it}	4,530	10.817	7.893	2	47
POLGENDER _{it}	4,530	0.127	0.078	0	0.44
POLSIZE _{it}	4,530	33.819	10.176	19	55
LGASET _{it}	4,530	12.264	0.314	10.633	13.631
LGREV _{it}	4,530	11.983	0.270	9.787	13.191
LGEXP _{it}	4,530	11.954	0.253	9.772	13.726
RHTENURE _{it}	4,530	2.889	1.449	0	5
LGCOMPLEX _{it}	4,530	52.485	21.260	20	214

Panel B: Dummy Variables					
Variable	Obs	Dummy 0		Dummy 1	
		Frequency	Percentage	Frequency	Percentage
RHEDU _{it}	4,530	1,180	26%	3,350	74%
RHBACK _{it}	4,530	1,087	24%	3,443	76%
RHGENDER _{it}	4,530	382	8.4%	4,148	91.6%
LGTYPE _{it}	4,530	838	18.5%	3,692	81.5%

According to the findings, from 2010 to 2018, LGs in Indonesia ratified and validated their budget 11 days after the deadline, as shown by an LGTIMELINESS_{it} mean value of 11.432. The earliest budget validation is 145 days before the deadline, whereas the latest validation is 234 days after the deadline. This finding implies that the completion of LG budgeting in Indonesia needs to be examined further to determine whether or not LGs can meet the target set by the Ministry of Internal Affairs in 2015, as stated in Regulation Number 54 of 2015 about the Strategic Plan of the Ministry of Internal Affairs from 2015 to 2019.

Further analysis was conducted to determine the trend of LGTIMELINESS_{it} throughout the research period, showing a positive trend of budgeting timeliness. The number of late budget cases was dominant from 2010 to 2012, but from 2014, more LGs can validate their budgets on time. From 2015 to 2018, the timelines improved even more, with late budgeting cases consistently falling below 20% of the total LGs.

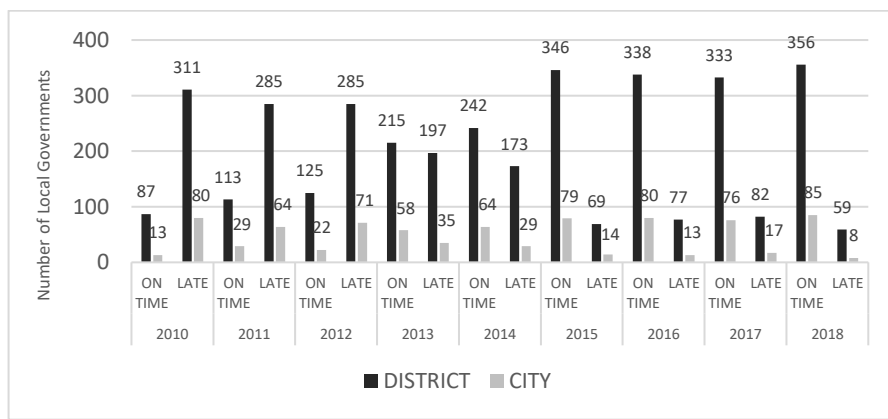


Figure 2 Indonesian local governments budgeting timeliness in 2010-2018

The characteristics of the LG internal auditors from 2010 to 2018 show that the LG internal auditors in Indonesia are at the development stage. The IACAPABILITY_{it} shows an average value of 1.23, implying that, on average, the IAF of LGs in Indonesia is at level 1 of IACM. The highest IACM level is 3, whereas the lowest is 0. As for the IAMATURITY_{it}, the average is 1.969, close to level 2. The highest maturity score is 3.991, almost at level 4, whereas the lowest is 0.153, which is still at level 0.

Moreover, the result of IAEXPERTISE_{it} shows that expert auditor in LG IAF is higher than skilled

auditor, with an average percentage of 68.1% of the total number of auditors. The examination of the political characteristics of our research objects reveals that the average $POLCOAL_{it}$ is 0.336, implying that the average coalition support for the executive by the legislative board is 33.6%. The highest support was 96%, whereas the lowest was 0%.

Regarding the control variables, the analysis of $IASIZE_{it}$ demonstrates that, on average, LGs in Indonesia has 10 auditors in the IAF. The results of $POLGEND_{it}$ analysis indicate that the average women's participation in the legislative board is 12.7%. The largest size of the legislative board ($POLSIZE_{it}$) is 55 members. Meanwhile, LG head characteristics show that the average $RHTENURE_{it}$ is 2,889 years. $RHEDU_{it}$ indicates that 26% of LG heads have postgraduate education, while $RHBACK_{it}$ shows that 24% of LG heads have an accounting background. Finally, $RHGENDER_{it}$ reaches 7.8% of women LG heads in this study. As for LG administrative characteristics, the average $LGCOMPLEX_{it}$ is at 52 working units. The most complex LG contains 214 working units, while the least complex one only has 20 working units. Finally, $LGTYPE_{it}$ represents the existence of 93 cities LGs and 415 districts LG as our study employs all LGs in Indonesia. Due to the unbalanced data, total $LGTYPE_{it}$ observations consist of 18.5% city and 81.5% district observations. We also tested the correlations among the research variables; the results are presented in Table 5.

Table 5 Matrix of Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) $LGTIMELINESS_{it}$	1.000									
(2) $IACAPABILITY_{it}$	-0.266 ^a 0.000	1.000								
(3) $IAMATURITY1_{it}$	-0.189 ^a 0.000	0.304 ^a 0.000	1.000							
(4) $IAEXPERTISE_{it}$	-0.149 ^a 0.000	0.209 ^a 0.000	0.123 ^a 0.000	1.000						
(5) $POLCOAL_{it}$	-0.108 ^a 0.000	0.117 ^a 0.000	0.134 ^a 0.000	0.084 ^a 0.000	1.000					
(6) $IASIZE_{it}$	-0.147 ^a 0.000	0.276 ^a 0.000	0.226 ^a 0.000	0.544 ^a 0.000	0.156 ^a 0.000	1.000				
(7) $POLGENDER_{it}$	-0.053 ^a 0.000	0.054 ^a 0.001	0.081 ^a 0.000	0.029 ^a 0.000	0.102 ^a 0.000	0.039 ^b 0.012	1.000			
(8) $POLSIZE_{it}$	-0.025 ^c 0.094	0.217 ^a 0.000	0.197 ^a 0.000	0.146 ^a 0.000	0.337 ^a 0.000	0.133 ^a 0.000	0.081 ^a 0.000	1.000		
(9) $LGASET_{it}$	-0.108 ^a 0.000	0.327 ^a 0.000 ^a	0.228 ^a 0.000	0.187 ^a 0.000	0.354 ^a 0.000	0.202 ^a 0.000	0.120 ^a 0.000	0.533 ^a 0.000	1.000	
(10) $LGREV_{it}$	-0.173 ^a 0.000	0.400 ^a 0.000	0.224 ^a 0.000	0.222 ^a 0.000	0.387 ^a 0.000	0.185 ^a 0.000	0.108 ^a 0.000	0.635 ^a 0.000	0.754 ^a 0.000	1.000
(11) $LGEXP_{it}$	-0.161 ^a 0.000	0.379 ^a 0.000	0.234 ^a 0.000	0.218 ^a 0.000	0.391 ^a 0.000	0.201 ^a 0.000	0.125 ^a 0.000	0.661 ^a 0.000	0.799 ^a 0.000	0.874 ^a 0.000
(12) $RHTENURE_{it}$	-0.006 0.693	-0.034 ^b 0.021	0.009 0.555	0.016 0.290	0.021 0.164	-0.048 ^a 0.001	0.015 0.322	0.030 ^b 0.042	0.008 0.585	-0.017 0.242
(13) $RHEDU_{it}$	0.034 ^b 0.021	-0.099 ^a 0.000	-0.103 ^a 0.000	-0.042 ^a 0.004	-0.121 ^a 0.000	-0.029 ^b 0.049	-0.064 ^a 0.000	-0.214 ^a 0.000	-0.185 ^a 0.000	-0.159 ^a 0.000
(14) $RHBACK_{it}$	-0.034 ^b 0.021	0.021 0.167	0.014 0.351	-0.000 .979	0.041 ^a 0.006	0.034 ^b 0.023	0.076 ^a 0.000	0.040 ^a 0.007	0.066 ^a 0.000	0.047 ^a 0.001
(15) $RHGENDER_{it}$	-0.038 ^b 0.010	0.083 ^a 0.000	0.084 ^a 0.000	0.046 ^a 0.002	0.090 ^a 0.000	0.020 0.168	0.034 ^b 0.024	0.137 ^a 0.000	0.132 ^a 0.000	0.148 ^a 0.000
(16) $LGCOMPLEX_{it}$	-0.053 ^a 0.000	0.096 ^a 0.000	0.083 ^a 0.000	0.050 ^a 0.001	0.113 ^a 0.000	0.045 ^a 0.003	0.021 0.188	0.260 ^a 0.000	0.161 ^a 0.000	0.170 ^a 0.000
(17) $LGTYPE_{it}$	-0.027 ^c 0.072	0.103 ^a 0.000	0.114 ^a 0.000	0.085 ^a 0.000	0.131 ^a 0.000	-0.016 0.279	0.177 ^a 0.000	-0.045 ^a 0.002	0.136 ^a 0.000	-0.002 0.903

Notes: a = significant at 0.01 level; b = significant at 0.05 level; c = significant at 0.1 level.

Table 5 Cont.

Variables	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) LGTIMELINESS _{it}							
(2) IACAPABILITY _{it}							
(3) IAMATURITY1 _{it}							
(4) IAEXPERTISE _{it}							
(5) POLCOAL _{it}							
(6) IASIZE _{it}							
(7) POLGENDER _{it}							
(8) POLSIZE _{it}							
(9) LGASET _{it}							
(10) LGREV _{it}							
(11) LGEXP _{it}	1.000						
(12) RHTENURE _{it}	-0.010	1.000					
(13) RHEDU _{it}	-0.163 ^a	0.002	1.000				
(14) RHBACK _{it}	0.038 ^b	-0.009	-0.150 ^a	1.000			
(15) RHGENDER _{it}	0.152 ^a	-0.062 ^a	-0.008	0.140 ^a	1.000		
(16) LGCOMPLEX _{it}	0.181 ^a	0.004	-0.073 ^a	-0.003	0.014	1.000	
(17) LGTYPE _{it}	0.023	0.014	0.004	0.016	0.013	-0.124 ^a	1.000
	0.116	0.338	0.795	0.276	0.277	0.000	

Notes: a = significant at 0.01 level; b = significant at 0.05 level; c = significant at 0.1 level.

In this study, random-effects regression is selected due to the data and main variables' characteristics. The following variables are relatively time-invariant: LG internal audit, political, regional head, and administrative characteristics. Therefore, a panel data regression analysis with fixed effect estimation is not efficient, and thus, the random effect model is more suitable (Wooldridge, 2013). The results are presented in Table 6. The data analysis on internal audit characteristics reveals that higher internal audit characteristics positively affect the LG budget preparation process.

We find that IACAPABILITY_{it} positively affects LGTIMELINESS_{it} in all examination scenarios. This result is in line with Aksoy and Kahyaoglu (2013), who suggested that internal auditors must have excellent capabilities. Thus, further assessment activity to support the budgeting processes is required. The LG working plans review along with its budget can be optimized if the LG IAF possesses a high level of capability. Hence, the LG can prepare and validate the APBD early. We find that the qualification of internal auditors significantly affects the timeliness of financial reporting, which is consistent with the findings of Clatworthy (2010) and Schmidt and Wilkins (2013). This positive impact also applies to the budgeting process.

IAMATURITY_{it} also has a positive effect on LGTIMELINESS_{it}. This result is valid in all the regression scenarios for all LGs, district LGs, and city LGs. IAF maturity may significantly contribute to achieving LG objectives (Sutaryo and Sinaga, 2018). A higher maturity level will enable the LG to determine and validate its budget in a timely manner. In line with previous findings, internal audits also significantly affect the financial reporting process (Chen et al., 2017). A matured IAF will have a better documentation procedure, leading to consistent audit activity and proper engagement supervision (DeSimone et al., 2019), including the budget preparation process.

The result shows a positive effect regarding IAEXPERTISE_{it}, but this effect appears to be insignificant in city LGs. This result implies that an expert auditor in an IAF is vital because auditor expertise is essential for conducting audits (Abbott et al., 2016). Generally, higher auditor expertise leads to a better understanding of organizational processes (Cohen and Sayag, 2010), which can be very helpful in supporting APBD preparation. Furthermore, an internal auditor with higher expertise may provide better recommendations. Thus, the LG working plans can be useful in preparing RAPBD early (before the deadline). This result

confirms that higher IAF expertise positively affects government financial management activities (Chen et al., 2012).

As represented by legislative characteristics, political factors have a significant effect on our regressions. Our findings suggest that legislative characteristics are important in supervisory activities during APBD preparation. We find that $POLCOAL_{it}$ has a positive effect on $LGTIMELINESS_{it}$. Thus, a higher political coalition implies higher support for the LG as an executive. In this condition, the discussion on RAPBD content will be shorter as their interests are more aligned (Stapenhurst, 2010). Therefore, RAPBD is more likely to be approved early, encouraging the achievement of timeliness. However, when the coalition consists of both weak political parties, the APBD review by the legislative may be time-consuming due to different possible orientations and detailed scrutiny by the opposition. This process will be ineffective as excessive attention to the detailed line items may distract the discussion from the main focus on aggregate spending items in the budget (Stapenhurst et al., 2010).

The legislative composition has implications for supporting the executive and governance supervisory committee (Rockman, 1984). With the right coalition, the legislative board can support the executive for the appropriate programs. Coalition support is also followed with adequate supervision to ensure that the executive performs the programs in accordance with the proposed political promises during the election. This argument is supported by Lowndes and Pratchett (2012), who state that the coalition also has a strong concern on enhancing bureaucracy transparency, specifically regarding government expenditure and executive compensation. This concern is crucial for the budgeting process to justify spending. In addition, Lewis (2017) also finds positive implications for the majority coalition in Indonesian local governments, where the coalition has considerable concerns about improving public service delivery. In the context of the budgeting process, the legislative coalition that supports the executive will not just merely agree with the proposed budget. The misappropriate budget items will be discussed without changing the program orientation to ensure the public accountability of the budget.

The controlling factor of IAF characteristics, $IASIZE_{it}$, also positively affects the timeliness of budgeting. Thus, LGs should have adequate internal auditors to facilitate RAPBD preparation and review on time (Mardiasmo, 2012). This finding supports Fagbemi and Uadiale (2011), mentioning that larger organizations with more employees in the finance department will support a more effective financial management process. The results of $POLGEND_{it}$ analysis indicate that women's participation in the legislative board also positively affects the timeliness of budget validation. Women tend to comply more with specific requirements and regulations, including the timeliness of budget validation. As for $POLSIZE_{it}$, the results suggest a negative effect, implying that a larger legislative board may have various insights and interests, which may delay the review process. Thus, an excessive number of legislative members can be considered ineffective.

Table 6 Panel Data Regression Analysis Result

Dependent: LGTIMELINESS	All LGs	District LGs	City LGs
IACAPABILITY _{it}	-6.218^a (-10.60)	-6.417^a (-9.82)	-5.863^a (-4.23)
IAMATURITY _{it}	-4.147^a (-6.35)	-3.965^a (-5.40)	-4.811^a (-3.22)
IAEXPERTISE _{it}	-11.617^a (-4.56)	-12.951^a (-4.62)	-5.630 (-0.91)
POLCOAL _{it}	-8.938^a (-4.07)	-9.309^a (-3.95)	-5.881 (-0.95)
IASIZE _{it}	-0.15^b (-2.29)	-0.136^c (-1.83)	-0.283^c (-1.89)
POLGENDER _{it}	-11.974^b (-2.11)	-9.475 (-1.50)	-18.653 (-1.39)
POLSIZE _{it}	0.530^a (8.69)	0.546^a (8.32)	0.404^b (2.24)
LGASET _{it}	9.190^a (4.07)	9.659^a (3.81)	8.685 (1.59)
LGREV _{it}	-13.235^a (-4.39)	-12.803^a (-4.12)	-18.254 (-1.43)
LGEXP _{it}	-16.38^a (-4.56)	-16.405^a (-4.32)	-13.165 (-1.02)
RHTENURE _{it}	-0.457^c (-1.81)	-0.366 (-1.31)	-0.880 (-1.49)
RHEDU _{it}	-0.018 (-0.02)	1.246 (1.15)	-7.199^a (-2.77)
RHBACK _{it}	-1.050 (-1.04)	-0.696 (-0.62)	-3.733 (-1.57)
RHGENDER _{it}	-0.661 (-0.44)	-0.052 (-0.03)	-4.663 (-1.33)
LGCOMPLEX _{it}	-0.036^c (-1.68)	-0.035^a (-1.45)	-0.019 (-0.36)
LGTYPE _{it}	1.171 (0.90)	- -	- -
CONSTANT	268.404^a (9.68)	256.883^a (8.35)	303.391^a (4.17)
Mean dependent var	11.432	11.774	9.924
Overall r-squared	0.115	0.119	0.116
Chi-square	664.871	552.227	127.314
R-squared within	0.156	0.157	0.161
SD dependent var	26.906	26.878	26.994
Number of obs.	4,530.000	3,693.000	837.000
Prob > chi2	0.000	0.000	0.000
R-squared between	0.046	0.054	0.034

Notes: ^a= significant at 0.01 level; ^b= significant at 0.05 level; ^c= significant at 0.1 level.

We further perform a robustness test to ensure that our findings are robust. The test was conducted by changing the variable proxy in our dependent variable, where the timeliness measurement is replaced with a dummy method. The results of the robustness test provide consistent findings for most variables. The result is also tested for proper research model fitness. Therefore, the findings in this research are robust and consistent and thus, can provide a substantial contribution to the LG internal audit and budgeting literature.

Table 7 Robustness Test - Logistic regression

Dependent: LGTIMELINESS	All LGs	District LGs	City LGs
IACAPABILITY _{it}	0.785^a (14.74)	0.789^a (13.35)	0.804^a (6.18)
IAMATURITY _{it}	0.469^a (9.05)	0.443^a (7.54)	0.559^a (4.87)
IAEXPERTISE _{it}	0.473^b (2.23)	0.612^a (2.60)	-0.091 (-0.18)
POLCOAL _{it}	0.629^a (3.51)	0.618^a (3.22)	0.699 (1.35)
IASIZE _{it}	0.006^c (2.09)	0.004 (0.58)	0.015 (1.21)
POLGENDER _{it}	1.591^a (3.61)	1.205^b (2.47)	2.778^a (2.64)
POLSIZE _{it}	-0.041^a (-8.71)	-0.039^a (-7.69)	-0.056^a (-4.01)
LGASET _{it}	-0.891^a (-4.67)	-0.991^a (-4.55)	-0.463 (-1.05)
LGREV _{it}	0.605^b (2.17)	0.604^b (2.09)	0.882 (0.77)
LGEXP _{it}	1.861^a (5.13)	1.887^a (4.83)	1.760 (1.53)
RHTENURE _{it}	0.022 (0.97)	0.019 (0.76)	0.040 (0.74)
RHEDU _{it}	-0.188^b (-2.41)	-0.288^a (-3.35)	0.363^c (1.84)
RHBACK _{it}	-0.003 (-0.04)	-0.021 (-0.23)	0.205 (1.08)
RHGENDER _{it}	0.009 (0.07)	-0.071 (-0.50)	0.406 (1.38)
LGCOMPLEX _{it}	0.002 (1.02)	0.002 (1.05)	-0.003 (-0.73)
LGTYPE _{it}	-0.204^b (-2.24)	-	-
CONSTANT	-19.507^a (-8.45)	-18.591^a (-7.24)	-26.813^a (-4.36)
Mean dependent var	0.587	0.584	0.605
Pseudo r-squared	0.131	0.130	0.154
Chi-square	804.247	650.717	172.542
Akaike crit. (AIC)	5,370.483	4,397.299	982.926
SD dependent var	0.492	0.493	0.489
Number of obs.	4,530.000	3,693.000	837.000
Prob > chi2	0.000	0.000	0.000
Bayesian crit. (BIC)	5479.597	4496.726	1,058.603

Notes: ^a = significant at 0.01 level; ^b = significant at 0.05 level; ^c = significant at 0.1 level.

CONCLUSION

In summary, our analysis provides empirical evidence that the timeliness of LG budgeting is significantly affected by internal auditors and legislative supervision. The research finding provides evidence for the positive effect of IAF capability, maturity, and expertise on the timeliness of budget validation. Higher IAF capability, maturity, and expertise positively affect the budget (RAPBD) preparation process. Moreover, we find the positive effect of a legislative coalition, suggesting that higher support from the legislative coalition may speed up the RAPBD review process.

Our findings have several practical implications for LGs in Indonesia, especially related to the budgeting process. The LGs must establish a competent IAF by improving its capability, maturity, and expertise, and recruit an adequate number of auditors to conduct a proper review of the budget plan. LGs can continuously collaborate with the Financial and Development Supervisory Agency (BPKP), as the authorized institution, in providing proper development programs and policies to improve IAF capability, maturity, and expertise. Our finding also implies that LGs should pay considerable attention to the legislative coalition that affects the budgeting process. Therefore, the LG's budget (APBD) can be prepared appropriately and in a timely manner. Furthermore, the budget realization can be executed on time, in accordance with the proposed programs under the legislative coalition's support and supervision.

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