

The Influence of Internal and External Monitoring Leadership Style and Good Public Governance Implementation on Financial Reporting Performance

(Study on SKPDs/ Local Government Task Forces at South-East Sulawesi Province)

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ABSTRACT

The objective of this research is to give empirical evidence that the financial report performance is affected by internal monitoring, external monitoring, and leadership style of the authority handler of local government officer, either directly or indirectly through the implementation of good public governance. Research sample is whole population (saturated sample) of the financial managers at Satuan Kerja Perangkat Daerah (SKPD/ Local Government Task Force) that spreads over 33 SKPDs in South-East Sulawesi Province. The respondents are 111 persons. The method utilized to analyse the data is SEM (Structural Equation Model). Result of research indicates that the financial report performance and GPG are only directly affected by external monitoring. Good Public Governance (GPG) does not influence financial report performance. Internal monitoring and leadership style do not significantly affect reporting performance, directly or indirectly through good public governance (GPG).

Keywords: Internal Monitoring, External Monitoring, Leadership Style, Good Public Governance, Financial Report Performance

INTRODUCTION

Local Government Financial Report (*Laporan Keuangan Pemerintah Daerah/LKPD*) is one of the responsibilities of Local Government organization that is ruled in the *Undang-Undang No. 17 2003* about *Keuangan Negara* and *Undang-Undang No. 32* about *Pemerintah Daerah*. Governor/Regent/City Mayor is required to arrange and present *LKPD* which consists of Budget Realization Report, Balance Sheet, Cash Flow Report, and Note on Financial Report. The *LKPD* must be accountable to the public through the representative (member of the Local House of Representatives/ DPRD). The content of the *LKPD* presents information about the amount of local regional income, counter balance fund, and other valid income of a local government. The amount of the income is used for funding governmental establishment and local governmental establishment. The use of the fund to finance local governmental establishment should be in line with the mechanism that is arranged in Minister of Domestic Affairs' Regulation No. 13/2006 about The Guidance on Local Government Financial Management (*Peraturan Menteri Dalam Negeri Nomor 13 Tahun 2006, Tentang Pedoman Pengelolaan Keuangan Daerah*), which is then refined in the Minister of Domestic Affairs' Resolution No. 59/2007 (*Keputusan Menteri Dalam Negeri Nomor 59 Tahun 2007*) [1].

The audit report conducted by *Badan Pemeriksa Keuangan (BPK/ Financial Audit Agency)* in 2010 for SKPD's financial report in 2009 at South-East Sulawesi Province on each Regency and City concludes an opinion *Tidak Memberi Pendapat (TMP/No Provided Opinion)*. The attained opinion demonstrates the worst condition of the local government financial report as well as its financial reporting system. This description can be further observed as follow:

Table 1 the Opinion Development of Audit Report at Regent/City/Province of South-East Sulawesi

| No. | Entity's Name | LPH LKPD's Opinion Development | | | |
|-----|------------------------------|--------------------------------|---------------------|---------------------|---------------------|
| | | Budgeting Year 2006 | Budgeting Year 2007 | Budgeting Year 2008 | Budgeting Year 2009 |
| 1 | South-East Sulawesi Province | Qualified | Qualified | Disclaimer | Disclaimer |
| 2 | Bau-Bau City | Qualified | Qualified | Adverse | Disclaimer |
| 3 | Kendari City | Qualified | Disclaimer | Adverse | Qualified |
| 4 | Bombana Regency | Disclaimer | Disclaimer | Disclaimer | - |
| 5 | Buton Regency | Qualified | Qualified | Qualified | Qualified |
| 6 | North Buton Regency | - | - | Disclaimer | - |
| 7 | Kolaka Regency | Qualified | Disclaimer | Adverse | Adverse |
| 8 | North Kolaka Regency | Qualified | Disclaimer | Adverse | Qualified |
| 9 | Konawe Regency | Qualified | Disclaimer | Disclaimer | Disclaimer |
| 10 | South Konawe Regency | Qualified | Adverse | Disclaimer | Disclaimer |
| 11 | North Konawe Regency | - | - | Disclaimer | - |
| 12 | Muna Regency | Qualified | Qualified | Disclaimer | Disclaimer |
| 13 | Wakatobi Regency | Qualified | Disclaimer | Disclaimer | Adverse |

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The worst condition of a local government's financial management should be analysed from the institution or organization aspects that are directly involved in the financial management, internal and external monitoring, and leadership style of the *Pejabat Pemegang Kekuasaan Pengolaan Keuangan Daerah* (PPKPKD/ Local Government Financial Management Authority Handler). The possibility of the influence that has the highest contribution on worst financial management and reporting is human resource aspect. Human resource results in either good or bad effect depending on the conformity of education background and the experience of the appointed financial management officer. The appointment of the financial management officer both at the level of *Pejabat Pengelola Keuangan Daerah* (PPKD/ Local Government Financial Management Officer) as *Bendahara Umum Daerah* (BUD/ General Treasurer of Local Government) and *Satuan Kerja Perangkat Daerah* (SKPD/ Local Government Task Force) are defined by PPKPKD that is the Governor/Regent/City Mayor.

MATERIALS AND METHODS

Cardoso, 1995:108 [2] explains the necessity to distinguish between classified positions and exempt positions. Classified position is defined from the bureaucracy or public service system; thus, this kind of recruitment is based on the career/working experience. Further, exempt position is not from the bureaucracy; thus this kind of appointment is based on the political will.

The institutions or organizations that are directly involved in monitoring and auditing process of local government finance are internal monitoring and external monitoring. Internal and external monitoring have task to assist local government in ensuring that the financial management is already matched to the mechanism that is ruled in the law and regulation. The ability to comprehend law and regulation defined by the government related to the financial management as well as the ability to implement independence in consistent way while conducting the task will be able to enhance local government financial reporting and management performance.

Based on Pat Sucher *et.al* [3], having a research at Czech Republic that includes auditor's independence variable and professional code of ethic, finds that the audited part is the negotiation process and result between the auditor and client [4]. At this point, auditor faces dilemmatic problem; at one side, auditor should be independent in providing opinion on the financial report fit for public interest, while the auditors should also be able to fulfil the demand of the client that gives auditing service fee for the auditor to make the client satisfied with the auditor's job and re-contact the auditor for the next other project. This problematic position makes the auditor in the dilemmatic position that can influence the quality of the auditing report. Based on Corey *et.al* [5] in the research that tried to reveal accountant independence in Malaysia provides the definition of independence as follow: independence is the primary justification of the existence, and thus the hallmark of the auditing profession. It is recognized as the primary attribute to be maintained by auditors in all circumstances. Next, the interpretations of auditor independence from several definitions are as follow: independence has been described as "avoidance of situations which would tend to impair objectivity or permit personal bias to influence delicate judgment" [6]. Auditor independence, in particular, implies "absence of influence or control in the matter of the auditor's conduct, action and opinion" [7]. It simply refers to the auditor's ability to express his conclusions honestly and impartially. In discussing the foundation of the concept of auditor independence, Pany & Reckers [8] emphasize that the concept of auditor independence is closely originated from the reason for the existence of auditing itself. According to them, the rationale for the external auditor's work (i.e. independent audit) - indeed a primary justification for the existence of the public accounting profession - arises from the need for reliable financial information.

Further, the article also explains that "According to the By-Law B-14.4(1) issued by Malaysian Institute of Accountants (MIA), independence requires both (a) independence of mind and (b) independence in appearance [9]. Independence in fact (actual independence) can be defined as the auditor's state of mind and his/ her ability to maintain a proper attitude in the planning of his audit program, the performance of his verification work, and the preparation of his report [10]. On the other hand, independence in appearance (or perceived independence) refers to the public's or others' perceptions of the auditor's independence. To be seen to be independent, an auditor should be able to demonstrate that there is no threat to his or her independence such that an outsider would not doubt the auditor's objectivity [11]. This notion of independence is one of the cornerstones of auditing theory and the sine qua non of auditing practice [12]. Both actual as well as perceived auditor independence are critical elements in the maintenance of public confidence in the auditing profession [8]. However, for this study, we will only focus on 'independence in appearance', since the actual independence of an auditor is unobservable.

Skill components based on the model that is developed by Abdolmohammadi *et.al* [13] quoted from Murtanto's article (1999:40) can be divided into (1) knowledge components including knowledge on fact, procedures, and experience; (2) physiological traits as demonstrated in the communication, trust, creativity, and ability to work with other people; (3) thinking ability to accumulate and process the information; (4) decision making strategy, both formal and informal; and (5) job analysis that is affected by the auditing experience which influences decision making process.

Libby [14] says that auditor job is a job that involves expert skill. The more experience an internal auditor has, he will be more able to prove better performance in conducting complex task, including to do monitoring and auditing on the internal monitoring structure implementation.

Boynton [15] and Sawyer *et.al* [16] mentions that internal monitoring is a process that is affected by board of commissioner, management, or other employees that is designed to radiate reasonable belief about the objective accomplishment, financial reporting reliability, operation effectiveness and efficiency, and applicable law and regulation compliance.

Mautz and Sharaf [17] state that to be able to conduct the task, there are three components for auditor to possess: independence, objectivity, and due professional care. The auditing quality is defined as the probability of the auditor to find and report the abuse depending on the technical skill of the auditor; to report the abuse; it depends on the auditor's independence.

Hypothesis 1

Does internal monitoring affect local government financial report performance through good public governance?

Purdy [18] clarifies that monitoring is need to measure and predict the objective as well as the opportunity to do intervention on the proper activity. Yulianto [19] elucidates that internal monitoring is the type of monitoring that is performed by monitoring unit from the external party of the government organization (executive). Normatively, the position of the internal monitoring is independent from the government. It means that this organization is demanded to voice up the public interests that are related to the management or allocation of public budget.

Hypothesis 2

Does the External Monitoring affect Local Government Financial Report Performance through Good Public Governance?

The regulations that are issued by the government indicate some reformations on the government financial management. The regulations are as follow: *Undang-undang Nomor 17 Tahun 2003* about *Keuangan Negara*, *Undang-undang Nomor 1 Tahun 2004* about *Perbendaharaan Negara*, *Undang-undang Nomor 15 Tahun 2004* about *Pemeriksaan Pengelolaan Dan Tanggung Jawab Keuangan Negara*, *Undang-undang Nomor 32 Tahun 2004* about *Pemerintah Daerah*, *Undang-undang Nomor 33 Tahun 2004* about *Perimbangan Keuangan Pusat dan Daerah*, *Peraturan Pemerintah Nomor 24 Tahun 2005* about *Standar Akuntansi Pemerintahan*, *Peraturan Pemerintah Nomor 58 Tahun 2005* about *Pengelolaan Keuangan Daerah*, *Permendagri Nomor 13 Tahun 2006* about *Pedoman Pengelolaan Keuangan Daerah*. As the Domestic Affairs Minister's Regulation No. 59/2007 is issued in lieu of Regulation No.13/2006 about Guidance on the Local Government Financial Management, Form Letter of Domestic Affairs Minister No. 900/079/BAKD on February 12th 2008 about Guidance on Local Government Accounting Policy Arrangement provides description about operation implementation of accounting record both at the level Local Government Financial Management Task Force (SKPKD/*Satuan Kerja Pengelola Keuangan Daerah*) and Budget User Task Force (SKPD/*Satuan Kerja Pengguna Anggaran*).

Alberto *et al* [20] mentions that leadership has strong and positive effect on performance; it also significantly affects organizational learning. This finding shows a signal that leadership style of a leader affects his subordinate's performance; besides, to achieve good performance, leader needs to provide organizational learning for his them. For the internal and external auditors' leadership style, leadership is also needed to deliver nuance on the auditor performance which can be both formal and informal. An informal leadership style tends to emphasize on leader's role model; yet, there is a wider freedom for the auditor to conduct the job but with higher responsibility as caused by the insufficient formal instrument of the organization.

Transformational or inspirational leadership is rooted from the Burns' idea [21]. Yet, there are more empirical research related to the version of theory that is formulated by Bass [22][23]. The core of this theory is about the differences among leadership definitions. Some say that it is behavioural components that are used to influence the followers; while some other says it is the influence of the leader on the followers.

Based on Weicrich & Koonts [24], transformational leader articulates a vision, inspires followers and motivates followers, and creates a climate favourable for organizational change. The followers will sense trust, pride, admiration, loyalty, and respect on the leader; they also are motivated to do more than they are previously expected. Transformational leadership brings up moral value of the followers as the effort to elevate their awareness about ethic as well as mobilize their energy and resources to reform the institution.

Transformational leadership behaviour, based on Bass [25], consists of idealized influencer, individualized consideration, inspirational motivation and intellectual stimulation. The idealized influence is behaviour that reinforces emotion and strong identification of the followers on their leader as well as individual considerations that include providing support, encouragement, and training for the followers. Inspirational motivation comprises interesting vision delivery, by using symbols to focus the followers' effort and designing

suitable behavioural model. Intellectual stimulation is the behaviour that encourages awareness of the follower about problems and affects them to have new perspective on that problem.

Transactional leadership is a leadership style in traditional management; this type of leadership provides effort and performance level of the subordinates that surpasses the performance enforced using transactional approach. Weirich & Koonts [24] mention that transactional leaders identify what subordinates need to do in achieving goal, including clarifying of roles and takes rewarding performance, and providing for the social needs of followers.

Transactional leadership is style that directs and motivates the followers to the pre-determined goals and clarifies their task and role [26]. Transactional leadership is a common leadership practice that we can find in most organization and organizational situation, since it is a transactional relationship between the leader and the followers that possibly will occur when there is no big threat or worry for future [27]. Based on Bass and Avolio [25] the original formulation of the theory includes two types of transactional behaviour: contingent reward and passive management by exception. Another transactional behaviour called active management but exception was added in more recent versions of the theory.

Hypothesis 3

Does leadership style affect local government financial management performance through good public governance?

The effort to make good governance is only achievable when there is a balance between the role of government, business world, and society. These three roles can be described as follow:

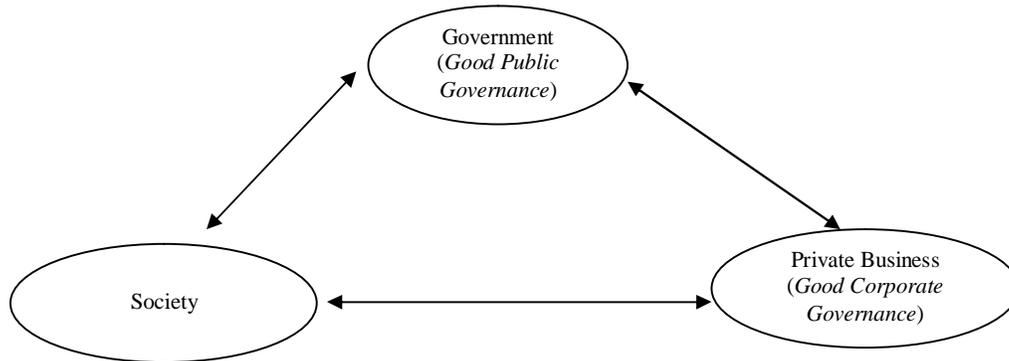


Figure 1 Three Pillars/Actors in Good Government Governance

Davidson [28] in his article mentions four things to fulfil for achieving good public governance, that are 1) participation, 2) accountability, 3) transparency, and 4) predictability. Kate Jenkins' research [29], which correlates parliament and government roles on public service, states that if the government is more visible in struggling for the public's interest, then the government will have power and trust that make the electorates take active role in government's governance. Further, she mentions that: the fundamental democratic issue is how the electorates control the increasing power of government, in practice, who is responsible for doing it on our behalf.

Next, Pramusinto A [30], conducting a research about the establishment of good government as seen from the increasing local government's transparency perspective in Indonesia, reveals that some provinces have initiated to implement good public governance in the government; yet, this effort gets less-response from other provinces that makes the result is not quite effective. Good governance basically is the arrangement of the inter-institutions relationship, inter-governmental agency, as well as the relationship with public that hold sovereignty of a particular democratic nation [31]. Further, Pramusinto A [30], concludes that to bring good public government to real and successful, it needs commitment from all of the parties: government, private sector, and the public themselves. An effective good public governance demands good harmony, congeniality, and balance as well as high interpretation, work ethos, and morale. Therefore, the implementation of good public governance concept as a good practice in the government establishment is a challenge.

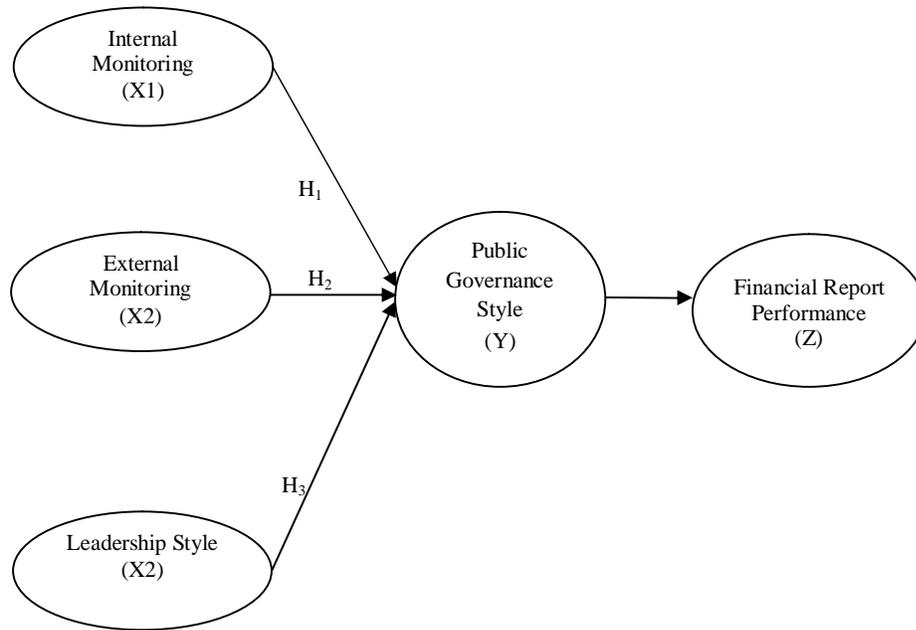


Figure 2 Conceptual Framework

Description:

- 1 H₁ Dessalign, G. Mihrat [32]. Askam Tuasikal [33]
- 2 H₂ Philmore Alvin [34]. Beatty [35]
- 3 H₃ E. Kevin Kelloway [34]. Sri Trisnarningsih [37]. Erwin D. P [38]
- 4 H₄ Lipchak [39]
- 5 H₅ Azham Md. Ali & Tech Heang Lee [40]. Alanassios Mihiotis [41]
- 6 H₆ John D. Politis [42]

RESULTS AND DISCUSSION

Based on the result and hypotheses testing, it is described by further discussion on each variable that considers several theories and prior empirical researches supported by the researcher’s argument to provide the reasoning of each research variable. The ample discussion is presented as follow:

Discussion on the Role of Internal Monitoring toward Financial Report Performance of Local Government through Good Public Governance

In line with the finding, it proves that internal monitoring role does not influence financial report performance. It means that the function of internal monitoring as the financial advisor for local government is not yet able to enhance its function as internal monitoring unit. However, internal monitoring has strategic role in assisting local government to review its annual financial report before it is checked by the external monitoring unit. The less-optimum role of the internal monitoring in taking its responsibility as the reviewer becomes one of the causes that makes low financial report performance as seen from qualitative perspective of the financial report (SAP/ Government Accounting Standard No.25/2005): relevant, reliable, comparable, and comprehensible. This fact strengthens the opinion that local government financial report as the responsibility of local government (agent) related to the position as local government financial management authority handler to the stakeholder (principle) through the house of representative members. The opinion is disclaimer during respective two years in 2008-2009 from the Financial Audit Agency (BPK/ Badan Pemeriksa Keuangan).

The result of the respondent’s perception on the internal monitoring role toward local government perceives that the weakness point of the internal monitoring is commonly caused by 1) on the indicator of independence on internal monitoring standpoint, the respondents perceive that internal monitoring is not yet able to well comprehend the applicable law and regulation related to financial management. Lack of honesty to reveal is factual finding during auditing is the other cause. Internal monitoring in its task implementation as the financial reviewer and consultant at local government possibly can find some abuses in financial management; yet, they do not dare to reveal and report the facts objectively. Lack of bravery of internal monitoring to report the abuse on financial management can be seen from two aspects: institutional aspect and functional aspect. The institutional aspect is related to the organizational structure. Internal monitoring are the officers that is appointed or dismissed by local government as internal monitoring officers (PP. No. 60/2006). The task is to assist local government on monitoring duty. Institutionally, internal monitoring is ruled and should obey the rule that is

determined by local government and work based on the provided authority. From the functional aspect 2) internal monitoring consists of functional officer that works based on the job description and provided authority. It means that each auditing result of the internal monitoring must be reported to local government mayor. The end decision of each audit finding is on the local government mayor. Therefore, internal monitoring has a limited decision making authority. Respondents' perception on the indicator of independence is low because internal monitoring does not have full authority to conduct auditing task so that the finding and audit facts has low score of objectivity. Respondents give low average score on independence dimension, both on independence in appearance and independence in a fact. For the competence dimension, the respondents perceive low experience and technical training possessed by the internal monitoring that does not fully support internal monitoring task at South-East Sulawesi Province. This finding confirms Tuasikal's [33] research in North Maluku that finds there is no consequence between internal/external monitoring on SKPD's performance. Other researchers also prove empirically that competence for internal monitoring affects significantly on internal monitoring task's quality [43]. Wang Xia and Min Wu [44] who conducts a research in Taiwan on the internal auditor finds that ethic and audit affects corporate governance practices and organizational performance.

The Regulation of Badan Pemeriksa Keuangan R.I (Financial Audit Agency of Indonesia Republic) No. 1/2007 about The Standard Audit of Government Finance, stated in Audit Standard Statement 01 on the competence and skill requirement, point (03) mentions that "auditor collectively should have professional competence that is sufficient to conduct auditing task." Next, on the Continual Education Requirement part's point (06) states that "the auditor who conducts auditing based on the audit standard should sustain his competence through continual education; thus every auditor that conducts auditing based on auditing standard should have taken at least 80 hours educational lesson for each two years range that directly enhance the auditor's professional competence to conduct auditing task."

Next, Flint [45] express that audit competence requires both knowledge and skill, which are products of education, training and experience. Auditor acts with professional skill, derived from their qualification, training and practical experience.

Referring to prior research such as Nurchasanah's [17] that did a research on the independence, integrity, and skill of auditor was affect auditing quality.

The in-depth interview result from some of the department head mentions that the recruitment of the internal monitoring comes from the officers from the internal part of the local government; the officers usually almost enter their retirement period, while some others are just common public officers. Generally, the officers that are appointed as internal monitoring have never joined sufficient technical training related to the local government financial audit, lack of experience, and only a few of them have education in accounting field. The lacks of education background and experience have made them incapable of conducting effective task.

Discussion on the Effect of External Monitoring toward Local Government Financial Report Performance through Good Public Governance

The coefficient of the path analysis from external monitoring toward financial report performance through good public governance demonstrates that both have significant influence. It means the external monitoring that implements good public governance at public sector is able to find auditing fact expressed in some findings of the audited unit's weakness. This finding should be immediately followed up. The audited unit's response on the findings if the external monitoring comes on two kinds: reimbursing the loss or legally processed. If the findings were in numeral forms, the audited unit should be able to prove by providing reasoning and explanation that can support the findings rationally. However, if the findings are about facts that are not numeral, such as false on procedure of goods and service procurement for government institution, then there are two impacts which possibly occur as the consequences of the procedural error. First, there is either the loss on the government or not. If there is a loss, the audited unit should be responsible for the amount of the loss that is caused by procedural error by reimbursing in cash to the government cash. A non-numerical audit finding commonly needs long time to solve since the execution process is through law and legal process. The consequence of procedural error finding on government financial report is the low quality of information that is presented on the financial report; the presented number on the financial report is not valid (about the government loss). By this fact, external monitoring has strong evidence to provide the worst opinion – No Opinion Provided on the local government financial report. Septiana Dwiputrianti [46] on her research in Indonesia that examines the effectiveness of external monitoring at public sector to improve public administration performance provides some recommendation to the external auditor as follow: 1) strong independence, 2) improve professionalism and competence of the auditor, 3) enhance the centre of training and education, 4) increase the follow up of audit report, 5) evaluate the law and regulation, 6) enforce the audit implementation. The interview result between the researcher and external monitoring that is directly involved in local government financial report audit mentions that the low quality of financial report performance at local government is caused by the low quality of human resource, low quality of comprehension on the applicable law and regulation related to the financial management, and the frequent mutation of financial management officers.

The result confirms that external monitoring affects financial report performance. This finding shows that external monitoring have professional competence, ability to establish consistent independence, and ability to comprehend and implement applicable law and regulation related to financial reporting, so that in its audit, the external auditor will be able to provide some findings and abuse of financial management and goods management based on the President Regulation No. 80 about Guidance to Conduct Goods and Service Procurement for Government. The abuse and finding are the evidence and foundation that enforce auditor in providing opinion on the local government financial reporting by giving "No Opinion Provided".

Other thing that encourage internal auditor in conducting financial report audit at local government is the ability to make auditing plan independently and the ability to remarkably comprehend internal audit system on governmental institution so that the auditor is able to define critical path in arranging proper auditing on financial report. The research result finds that independency, experience, due personal care, and accountability affect the audit quality [47]. The in-depth interview result from some Department Head (*Kepala Dinas*) mentions some of the following statements: high performance on internal audit in financial report audit at the level of SKPD is generally caused by: 1) Human resource, experienced and competent, having sufficient technical training to conduct the task as external monitoring. 2) external monitoring at SKPD level has education background in accounting so that they can comprehend accounting properly, 3) external monitoring has the experience to conduct audit in several governmental institution.

Discussion on the Role of Leadership Style toward Financial Report Performance of Local Government through Good Public Governance

This result demonstrates that leadership style does not affect financial management performance; it means that the leader's role which is handled by the financial management authority officer (Governor/Regent/City Mayor) is not yet able to enhance financial reporting performance. This role should be observed from the perspective of the authority possessed by the officer; possibly it may include the authority to define the heads of department (*kepala dinas*) as the budget and service users at South-East Sulawesi that do not have a vivid role yet. The appointed officers that use the budget and service are not quite able to improve local government financial reporting performance. This finding is on the contrary to Alberto's *et.al* [20] finding which states that leadership brings strong influence on the organizational performance. Meanwhile, Sri Trisnaningsih *et.al* [37] also disconfirms the research finding in South-East Sulawesi. Sri Trisnaningsih *et.al* [37] finds that leadership style results in positive significant effect on government auditor performance (BPKP).

Based on the interview result with the external monitoring that are directly involved in the financial report audit at South-East Sulawesi Province, they said that the appointment of the local government task force head officers, financial governance, treasurer officers, and technical activity manager by Governor/Local Leader as the local government financial management authority handler is not based on the achievement as the financial management officer, but on close-relationship or political participation. Besides, the mutation of the financial management officer can weaken the financial management team at the level of SKPD even some of the officers that are replaced have obtained education and training, workshop, and other technical training. Stewart [48] wrote on his book *Management of Local Government* that "*the management processes of local authority therefore need to support the political process and fulfil the requirements of political control*". For this research, it means that the authority handler to define financial management officer at the level of SKPD and PPKD as the general treasurer of local government is not yet able to improve the performance of financial report.

Due to unclear standard that is used to set up recruitment or appointment for financial management officer, Sulistiyani, Ambar Teguh & Rosidah [49] states that recruitment is conducted not only to find an officer that will handle empty position but also for political interest. Next, she mentions that at this new era, it demands good governance in bureaucratic environment. Recruitment is expected to attract the employee to join who fulfils the minimum quality, having responsible manner, high commitment on each task, truthful and transparent, accountable, and able to actively involve (participate) Sulistiyani [49]. Other research by Politis D [50] expresses that the leadership style that are characterized by participative behaviour and mutual trust and respect for subordinates ideas and feelings are correlated stronger with knowledge acquisition when compared with the leadership style that are characterized by task oriented and autocratic behaviour

This research model takes leadership style as one of the determining variable in defining local government financial report performance as it puts good public governance as the mediating variable that modifies the effect of the predictor variable (leadership style) and response variable (financial report performance). The analysis result on respondents' answer perceives that transactional leadership style brings strong influence in defining the financial management officer at SKPD level; but, the apparent role in improving financial report performance of local government is not yet optimum. Burns [51] explained two types of political leadership: transactional and transformational leaderships. Transactional leadership occurs when someone initiates to arrange relationship with other on the purpose of exchanging something valuable; it means that leader does direct approach to his followers in the form of exchange. Meanwhile, transformational leadership is based on the followers' compliance including trust, needs, and value of the followers. According to

Burn transformational leadership outcome is the good relationship arrangement that motivates and appreciates as the followers perceive their leaders as moral agent.

If it is analysed by referring to transactional leadership theory by testing the respondents' perception on the leadership style of the financial management authority handler and worst condition of financial report performance/quality, it concludes that: 1) the human resource of financial management officer at each SKPD of the South-East Sulawesi Province, the local government financial management needs direct supervision to conduct the task as financial management officer, 2) financial management officer is not based on his competence as appointed by financial management authority handler.

Research Implication

This research brings about theoretical and practical implications as follow:

Findings

1. The implementation of internal monitoring on each SKPD has not yet able to enhance financial report performance since it does not have autonomy in conducting auditing task at local government; therefore the finding during auditing cannot be objectively reported. Besides, the strong intervention and influence from the ruler on internal monitoring function at local government make the discouragement or deteriorating findings on SKPD are not reported based on the actual fact. It makes the internal monitoring role cannot enhance the performance of financial report at local government level.
2. The financial management executives of the SKPD do not have proper accounting background so that they find difficulties in having good comprehension in accounting.
3. Transactional leadership approach tends to be used by the officers that are responsible for financial management. Based on the respondents' perception, the appointment of the financial management officer tend to be not in line with their education background as well as the low competence of the officers also lack of technical training taken by the officers of financial management related to financial management. It makes them not able to well-comprehend their task.

Theoretical Implication

1. The findings strengthen that the internal monitoring in implementing auditing task at local government does not guarantee that the auditing result will be able to enhance financial report performance when the auditing principles are not consistently implemented; also, lack of competence to understand the regulation on financial management causes this doubt. Audit standard requires an auditor to have skill, independency, professionalism, and quality control.
2. The transactional leadership approach on local government organization is proven not to be able to improve financial report performance of local government since during the appointment of the financial management officer on each SKPD by GBW does not yet comprehensively consider performance, competence, and experience factors of the officer; it is based on political consideration and close relationship. This finding support Cardoso's [2] theory that the appointed officer whom are not based on career path, experience is called as classified position; while the appointment that is not based on the bureaucratic mechanism or public service system is called as political appointment (exempt position).

Practical Implication

This research has some implications that result on the effective role of internal monitoring to achieve good public governance as well as good local government's financial report performance focusing on the competence and ability enhancement to achieve independency in local government financial audit implementation.

CONCLUSION

Based on the result and discussion on the previous chapters, it concludes that:

1. Internal monitoring task at local government is not able to improve financial report performance that makes the financial report performance cannot present the quality standard from the perspective of relevance, reliability, comparable, and comprehensible. This is because of the lack of skill in conforming independency consistently as well as the strong intervention influence from local government ruler on the internal monitoring function at local government.
2. External monitoring is able to run its role optimally in local government. It means that the implementation of external monitoring on each SKPD at South-East Sulawesi Province is quite effective because they have professionalism, independence, competence, and comprehension on the regulations and law that they well implements so that in taking their task they are able to provide suggestion and correction on the findings to the audited-unit.
3. Leadership style is not able to enhance financial report performance. It means that the implementation of

financial management authority handler's (Governor/Regent/City Mayor) leadership style in defining the financial management officers at the level of SKPD and PPKD as the general treasurer cannot improve the role and function as the financial manager. The financial management officer's role is not yet optimum so that that it affects local government financial management and financial report performance.

4. The internal monitoring function at local government is not yet able to implement good public governance consisting of fairness, transparency, accountability, and responsiveness principles. This failure of internal monitoring in implementing good public governance on each SKPD causes directly the low quality of financial report performance on overall units. This is because of the limited-autonomy in decision making on each audit finding so that it weakens the position as financial management reviewer at local government.
5. External monitoring conducted by Financial Audit Agency (BPK/*Badan Pemeriksa Keuangan*) has crucial role in enforcement of good public governance and financial report performance since BPK is able to enforce independency consistently, possesses sufficient competence and experience to comprehend and implement law and regulation related to financial management on each SKPD and Reporting Unit at PPKD level.

SUGGESTION

1. The appointment of financial management officer at SKPD level or PPKD as the local government general treasurer by the financial management authority handler should be based on the competence, achievement, and experience as the financial manager either at the level of SKPD (accounting unit) or at PPKD (as financial report unit).
2. Financial management officers at SKPD and PPKD levels should be equipped with continual technical training to refine their knowledge on the law and regulation amendment or governmental conduct related to the financial management.
3. Internal monitoring during their task implementation to audit the local government should be able to enforce their independency consistently without affected or influenced by the superior or higher authority so that the internal monitoring will be independent and no doubt as well as have strong confidence to decide each abuse on financial management at local government. The decision on the financial abuse during auditing that is impartial to anyone is believed to able to provide good learning for the overall financial management officer.

RESEARCH LIMITATION

This is an explanatory research; therefore, the results work only on local region of South-East Sulawesi Provincial Government. Nevertheless, the findings are not able to be generalized at other government since the phenomenon and the population characteristic that are defined as the observation and measurement objects are different from other regions. To clarify the role of financial management authority handler in defining the officer of financial management at the level of PPKD and SKPD, it is suggested to widen this research by adding more variables such as leadership commitment for affirming vision and mission in supporting financial management enhancement from the perspective of reporting as the financial responsibility of national and local governments.

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