HUMAN DEVELOPMENT INDEX AND AUDIT OPINION

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Abstract; This study is to investigate the influence of human development index (HDI) and growth of HDI on audit opinion and the difference between the level of HDI entities that obtain unqualified opinion or non unqualified opinion. The data of this research comprise 1.482 out of 496 regencies/cities governments in Indonesia during 2014-2016. The analysis techniques employed are multiple regression and independent simple t test. The results of this study indicate that the human development index influence on audit opinion; and the growth of human development index affect an audit opinion. The results of this study also found that the average performance of HDI between regencies/cities in Indonesia is different between of unqualified opinion and non unqualified opinion.

Abstrak; Penelitian ini bertujuan untuk mengetahui pengaruh indeks pembangunan manusia (IPM) dan pertumbuhan HDI pada opini audit dan perbedaan antara tingkat entitas HDI yang mendapatkan predikat opini wajar tanpa pengecualian atau opini tidak wajar tanpa pengecualian. Data penelitian ini terdiri dari 1,482 dari 496 kabupaten/kota pemerintah di Indonesia selama 2014-2016. Teknik analisis yang digunakan adalah regresi berganda dan uji t sederhana independen. Hasil penelitian menunjukkan bahwa indeks pembangunan manusia berpengaruh terhadap opini audit; pertumbuhan indeks pembangunan manusia memiliki pengaruh terhadap opini audit. Hasil penelitian ini juga menemukan bahwa rata-rata kinerja IPM antar kabupaten/kota di Indonesia berbeda antara opini wajar tanpa pengecualian dan opini tidak wajar tanpa pengecualian.

INTRODUCTION

Education, health and income level are the main factors in human development and level of social welfare which correspond the nation's objectives. Therefore, the involvement of society in government surveillance is very important to embody the good public governance in their region (Rajkumar & Swaroop, 2004). Adzani and Martini (2012), state that the role of civil society is represented by four parameters i.e. human development index, education, health, and income level. Despotis (2005), Pradhan (2007), and Sen (2000) indicate that society with a high human development index can fully participate in decision making of the society ; and hence, it will improve the governance. The improvement of good governance will affect the financial performance of the government.

Local Government Financial Statement (LKPD) is a form of accountability of management resource and policies implementation that is entrusted to government organizational unit in order to achieve the goal which has already been set through the government financial statement. In order that the information can be fully useful for all the interested parties, the information in the financial statement should meet qualitative characteristics so that it can be used in decision making. Therefore, it is necessary to do inspection on such financial statement to assess its reasonability based on generally accepted accounting principles in Indonesia.

Indonesian Supreme Audit Agency (BPK) as the external auditor of government is needed to assess the quality of financial statement served by the local government. The external auditor which assesses the quality of LKPD in the Indonesian governance is BPK. Through the inspection of BPK, it is hoped that the Indonesian Government can be more transparent and accountable in managing the finance which is entrusted to the government.

Akbar and Djazuli (2015) states that accountability and transparency are just like the pillars which support a good financial management so that social welfare can be achieved. Ng'eni (2016) states that local government plays an important role in providing social service in a regional scale so that audit will highly contribute to the success of financial accountability which ensure the right utilization of public funds. According to Nyman, et al (2005), audit is a signal for principal in this sense, the society in which audit can help to improve the transparency and to give the main valuable information about the performance of agency and government.

In accordance with its job, BPK has a big role to maintain and ensure that the state finances are truly utilized for the sake of the social welfare. Therefore, through BPK, it is hoped that state finances utilization will become transparent and accountable. Transparency and accountably of the state finances management is an assurance of the trust which has been given by the society to the government as the governance organizer. Inspection of financial report is one of mediums in minimizing the conflict of agency and also in actualizing the implementation of good public governance (Zimmerman, 1977). This is to show that the function of supervision by the society is one of the main keys in creating a good budget management which is supported by the openness of good information as well. A good budget management is hoped to bring a good impact toward the government's performance in improving social welfare.

Several researchers look at the relationship between the financial performances of the local government and the level of the social welfare. In general, the financial performances of the local government are can be seen through the audit opinion issued by BPK and the social welfare, the one of which is through the HDI score issued by BPS (The Indonesian Central Bureau of Statistics). BPK's opinion becomes one of the indicators of accountability of the local government financial performances, while HDI becomes the indicator of the achievement of development goal.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Levels of human development show the level of advancement achieved by a society. Levels of human development can be measured by Human Development Index (HDI). Good governance requires a society with a good levels of development as well (Ramachandran, 2002). So it can be said that the level of social welfare will determine

the good governance, therefore it can create a better accountability of financial report. Akbar and Djazuli (2015) try to illustrate the relationship between financial audit and social welfare. The results show that there is still no strong correlation especially between financial audit and social welfare. This study proposed the following hypotheses:

H1: Levels of Human Development Index affects Audit Opinion

H2: The growth of Human Development Index affects Audit Opinion

HDI which is calculated by UNDP (United Nations Development Program) is used to determine the position of Indonesia in a global scale. The calculation method of HDI which is used by BPS is based on the methodology which is used by UNDP by adjusting some indicators in accordance with the availability of the data through the regencies/cities scale (see technical note). Therefore, the number of HDI in Indonesia which is calculated by BPS is not comparable with the number of HDI in Indonesia which is calculated by UNDP. Generally speaking, Indonesia was divided into five groups of large Islands, those are: Sumatra Island, a group of Java, Bali and Nusa Tenggara Islands, Borneo Island, Sulawesi Island, and a group of Maluku and Papua Islands. Most groups of the large Islands in Indonesia have provinces with "High" level category. However, there are also many of them which are categorized as "Medium" category. The higher HDI shows the better social welfare, it is different with the HDI in "Medium" or "Low" level category – the difference lies within the social welfare.

According to BPS (2016), the achievement of human development in a particular region in a particular time can be classified into four groups of classifications i.e. Very High (HDI ≥ 80), High (HDI ≥70 ->80), Medium (HDI 60 ≤ - < 70) and Low (HDI < 60). The next hypothesis is based on the difference between the HDI with Very High and High categories and the HDI with Medium and Low categories in Indonesia, for it is believed that the two groups of category tend to have a different financial management.

H3: There is a difference of HDI levels between the entity which get the predicate of Unqualified Opinion or Non Unqualified Opinion.

RESEARCH METHOD

Unit of Analysis

The unit of analysis is the major entity which is being analyzed in a study and it is in a form of individual, group, or organization. The units of analysis in this study are the regencies and the cities government in Indonesia.

Population and Sample

This study is a census study for it analyzes all the population i.e. the regencies and the cities government in Indonesia. According to the current data of BPK RI (The Audit Board of the Indonesian Republic), there are 542 regencies/cities which are inspected by LKPD. However, there only 496 regencies/cities which are being included in the final analyzes of this study for the rest of the regencies/cities were late to report and some of them are divisional regencies/cities so that the required data was not qualified.

Operational Variable

According to Mahmudi (2011), the quality of financial statements can also be noticed from the audit opinion. That means, the qualitative characteristics of financial statements which draw the quality of a financial statement can be proxied by the audit opinion of BPK RI. The quality of financial statements in this study were measured by the audit opinion with ordinal scales which shows the following levels: (1) Disclaimer of Opinion (DO), (2) Adverse Opinion (AO), (3) Qualified Opinion (QO), (4) Unqualified Opinion with Explanatory Paragraph (UO-wEP), (5) Unqualified Opinion (UO) (Fontanella and Rossieta, 2014; SPKN, 2016). The level of HDI indicates the social welfare achieved by a society. The levels of social welfare within a society can be measured through HDI (BPS, 2016). The growth of HDI indicates the level of social

welfare achieved by a society. The growth levels of social welfare can be measured through the growth of HDI (BPS, 2016).

Technique of Data Collection

The technique of data collection which can be used to obtain secondary data is through collecting archives or data base (Hartono, 2004). The data is obtained by accessing several websites related to the data needed by the researcher. The data related to the audit opinion was obtained from the website of BPK RI while the data of HDI and the data of the growth of HDI were obtained from the website of BPS from year 2014-2016. North Borneo was not included for it is a province which is newly established in 2014.

Technique of Data Analysis

This study examines the proposed hypotheses using the SPSS (Statistical Product and Service Solution) version 23. The tests of hypotheses 1 and 2 were done by simple regressive analysis, while the test of hypothesis 3 employed comparative analysis. Hypothesis 1 followed the following statistical equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Details:
Y   : Audit opinion
A   : Constants
X_1 : Levels of HDI
X_2 : Growth of HDI
$\beta_1 - \beta_2$: Regression coefficient
ε : *error*

The comparative analysis was used to examine the difference between HDI performances which is regarded as Unqualified Opinion or Non Unqualified Opinion by using *independent sample t-test*.

FINDINGS AND DISCUSSIONS

Data and Descriptive Statistics

The descriptive statistic of the findings of this study is can be seen in table 1 as follows:

Table 1 Descriptive Statistic Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Opinion	1482	1.00	5.00	3.9987	1.16382
Level of HDI	1482	.98	85.32	66.9108	7.24404
Growth of HDI	1482	.07	4.27	.8966	.42752
Valid N (Listwise)	1482				

From table 1 above, it can be noticed that the total data which is being observed is 1.482 Regencies/Cities in Indonesia. While the correlation data between variable is can be seen in table 2 as follows:

Table 2 Correlation Between Variables

		Opinion	Level of HDI	Growth of HDI
Audit Opinion	Person Correlation	1	.552**	-.088**
	Sig. (2-tailed)		.000	.001
	N	1482	1482	1482
Level of HDI	Person Correlation	.352**	1	-.383**
	Sig. (2-tailed)	.000		
	N	1482	1482	1482
Growth of HDI	Person Correlation	-.088**	-.383**	1
	Sig. (2-tailed)	.001	.000	
	N	1480	1480	1480

** Correlation is Significant at the 0.01 level (2-tailed)

Based on the result of the correlation between variables, it can be explained that the correlation between Audit Opinion (X) and levels of HDI (Y1) is 35,2%, the

correlation between Audit Opinion (X) and the growth of HDI (Y2) is 8,8%, and the correlation between levels of HDI (Y1) and the growth of HDI (Y2) is 38,3%. It means that Audit Opinion has a low-category correlation toward the variable of Levels of HDI and the Growth of HDI.

Discussions

In order to test the validity of a regressive model which is used in a hypothesis, a classical assumption test was conducted (Multicollinearity test, autocorrelation test, heteroscedasticity test, and normality test), and there was no problem found on the test.

The Effect of the Levels of HDI toward Audit Opinion

Hypothesis 1 which was tested for the purpose of analyzing the influence of levels of HDI toward audit opinion is can be seen in the following SPSS result:

Table 3 Summary Result of SPSS Output of Hypothesis Testing

Variables	Coefficient	T	P
Konstanta	0,552	1,676	0,094
Level of HDI	0,066	14,762	0,000
Growth of HDI	0,165	2,314	0,021
R^2 = 13,4,6% F = 115,597 Sig = 0.000			

This study used 95% confidence level, which means α is 0,05. This is also to say that if *p* value < 0,05 then the independent variable has a highly significant effect toward the dependent variable. The result of the regressive analysis shows that the value of regressive coefficient is 0,066 with the significance level $p=0,000$ ($p<0,05$). The positive and significant correlation which is showed by regressive coefficient suggests that if the levels of HDI are increasing, the audit opinion is also increasing. The value of the t-test is 14,762 with the significance level $p=0,000$ ($p<0,05$), while the value of t-table is 1,645 – it is obtained from Degree of Freedom (df) N-2, 1.488-2= 1.486, with 5% significance level. From the t-value which is higher than the value of t-table with the significance level $p=0,000$, it can be concluded that the levels of HDI has positively significant effects on the audit opinion. This study accepts H_1 (rejects H_0) which states that audit opinion is affected by the levels of HDI.

The Effect of the Growth of HDI toward Audit Opinion

Hypothesis 2 is tested to analyze the effect of the growth of HDI on audit opinion. According to table 3 above, it can be seen that the value of regressive coefficient is 0,165 with the significance level $p=0,010$ ($p<0,05$). The positive and significant correlation which is showed by regressive coefficient suggests that if the growth of HDI is increasing then the audit opinion will be better. The t-value is 2,314 with significance levels $p=0,021$ ($p<0,05$), while the value of t-table is 1,645 – it is obtained from Degree of Freedom (df) N-2, 1.488-2= 1.486, with 5% significance level. From the t-value which is higher than the value of t-table with the significance level $p=0,021$, it can be concluded that the growth of HDI positively and effectively affects audit opinion. This study accepts H_1 (rejects H_0) which states that the growth of HDI affects the audit opinion.

The Difference of HDI Levels (UO and Non UO Entities)

Hypothesis 3 is tested to analyze the difference of HDI levels between entities which get the predicates Unqualified Opinion (UO) and Non Unqualified Opinion (Non UO).

Table 4: Comparative Analysis Summary Result

Model	Mean	Std. Deviation
Non UO	64,9888	7,94299
UO	68,6641	6,03400
F levene's test = 14,526 prob. = 0,000		
t = 9,958 Sig = 0,000		

Based on the result of SPSS output, the average score of HDI performance toward non UO is 64,9888, while the average score of HDI performance toward UO is 68,6641. This is to say that the average performances of HDI between regencies/cities in Indonesia were different between UO and Non UO opinion. The SPSS results also show that the f value Levene's test is 14,526 with the probability 0,000 ($p< 0,05$), then it can be concluded that this study accepts H_1 (rejects H_0) or has a different variance. T-test analysis shows 9,958 values with significance probability 0,000. Thus, it can be concluded that the average performance of HDI significantly differs between UO and Non UO opinion.

Based on the result of the analysis by the statistical program and BPS data and BPK RI data, it can be discussed that HDI which consists of educational aspects, health, and social spending is one of the achievement indicators of development goals or social welfare, while the opinion issued by BPK on the audit toward regencies and cities in Indonesia is one of the accountability indicators of the local government financial performances. Broadly speaking, the growth of HDI in regencies and cities in Indonesia is increasing. Human development report (HDR) 2016, UNDP reported that the Indonesian HDI in 2016 reaches 0,7018 and the growth of HDI is 0,91%; in 2015, was reaching 0,6955 with 0,93% HDI growth levels; and in 2014, the HDI was reaching 0,6890 with 0,87% HDI growth from the previous year. This is comparable with the significant growth of the audit opinion of the regencies/cities government in Indonesia.

Despotis (2015) states that the society which has a high level of HDI can fully participate in the process of decisions making in the society so that it can enhance the governance. This study also shows that the influence of levels and growth of HDI also positively affects the improvement levels of audit opinion of the local government. In line with Ramachandran (2002), he states that the higher the HDI, the better the social welfare would be, so that it will generate a better quality of governance.

The social welfare is the main goal of the conduct of the government programs, so that the utilization of APBD (Regional Government Budget) should have positively affected the levels of the local social welfare. Therefore, the success of the local government's goal-attainment should correlates with the local government financial performances. The better attainment of the local government's financial performances should have positively affected all the success of the local government's programs. The management of BPK's Opinion becomes one of the accountability indicators of the local government in taking the responsibility for the mandate which has been accepted. The success of the management of audit opinion which is one of the financial performance indicators of the local government should be offset by the growth of the local social welfare.

A good opinion or UO indicates the accountability of financial management of the local government and vice versa. The success on financial performance should affect the local government performance in achieving the social welfare, which can be seen from the HDI indicators. A good financial management will enforce the success of the conduct of the government program which will eventually affect the growth of the social welfare. The more prosperous the society, the less they will struggle with their primary and secondary needs, so that they will have more focus on the governance and louder voice to express their opinion and aspiration – the good aspiration from the society in supporting a better opinion.

In relation with the result of hypothesis 3 which suggests that there is a significant difference of HDI performance between the UO and non UO audit opinion, it can be explained that human development inequality in the provincial perspective gives a general illustration of the national development performances. Meanwhile, in the perspective of regencies/cities, the inequality becomes an important clue about the government performances in distributing the development in the provincial scale. For the central government, an analysis of inequality in regencies/cities which occurs in the provincial scale will help to give a focus on the progress of the human development. On the general level, it is important to notice the inequality of human development through HDI. Meanwhile, on a further level, the inequality on each dimension which forms the human development will also give a more detail focus (BPS, 2016).

A high level of HDI will not always guarantee that the development has occurred evenly and equally. Two provinces with high level of HDI, DKI Jakarta and DI

Yogyakarta, also have experienced such thing in 2016. However, the inequality of the human development occurred in DI Yogyakarta was higher compared with DKI Jakarta. The accomplishment of the human development of DI Yogyakarta in regencies/cities level is between 67,82 - 85,32. Meanwhile, the accomplishment of HDI of DKI Jakarta in regencies/cities level is a little bit closer – between 69,52 - 83,94.

On the other side, it can be suggested that cities have more attractions compared with the regencies. The cities provide many kinds of sufficient facilities so that the society can do their activity effortlessly. The accessibility provided in the city is quite much, such as the education, health, economy, social, and etc. Therefore, the city is physically more advanced than the regency in general.

Indonesia comprises of 34 provinces, each of the provinces comprises of regencies/cities in a smaller regional scale. There are 98 cities and 416 regencies in 2016. Geographically, most regencies/cities are located in Java Island. Of all the provinces in Java Island, East Java is known as the province with the most regencies/cities.

In 2016, the difference of the advancement progress between the cities and the regencies in Indonesia is too obvious. The cities with the "Very High" HDI category has reached 18,4%. Meanwhile, in the regency regions, only 0,2% of regencies which have achieved the "Very High" HDI category. Furthermore, 9,1% of regencies are still categorized as "Low" HDI category. However, there is no city which categorizes as "Low" HDI category.

In the past six years, the growth of the inequality occurred in the cities and the regencies have change dynamically. The inequality of the human development in the cities during 2010-2016 tends to decrease, though the growth was slowing down. The gap between the highest HDI and the Lower HDI in the cities is decreasing, from 23,75 in 2010, it becomes 23,14 in 2016. Meanwhile, the inequality of the human development in the regencies is also decreasing; however, the growth is rapid. In 2010, the gap of inequality between the highest HDI and the lowest HDI of the regencies is 60.07. In 2016, the gap has decreased into 55,59. The phenomenon of the gap between the cities and the regencies is also occurred in every dimensions of development i.e. health, education, and the standard of living. During 2010-2016, the inequality occurred in the cities are smaller compared to the regencies. This is occurred on every dimensions of development, except the standard of living dimension. An interesting phenomenon is occurred within this dimension (the standard of living dimension), in which the inequality occurred in the cities is higher compared to the regencies.

Based on the data, it suggests that almost of all cities in Indonesia are categorized as "High" HDI category and the regencies are categorized as "Medium" and "Low" category. On the other side, almost of all the cities have gained the Unqualified opinion, it is different from the regencies which still have the Adverse Opinion (AO) and Disclaimer of Opinion (DO). This is what has been suspected to cause the difference on the HDI performances between cities/regencies which acquires non Unqualified Opinion and Unqualified Opinion.

CONCLUSIONS, LIMITATIONS, AND IMPLICATIONS

According to the result of the statistical analysis, it can be explained that the levels of HDI and the growth of HDI affect the audit opinion, and the average HDI performances are significantly different between non Unqualified and Unqualified audit opinion. The result of the audit by BPK which is a good or Unqualified Opinion, it indicates the accountability of the local financial management and vice versa. The regions with high level of HDI can participate in decision making process to enhance the social welfare and it is expected to improve the governance process ; hence, it will make the better audit opinion. On another side, the difference of the HDI in cities/regencies in Indonesia also affects the audit opinion which is accepted. The findings of this study are very useful for researchers, government, and society to understand the importance of levels and growth of HDI in affecting the audit opinion, and also to understand that the difference between the HDI of the regencies and the cities can be seen from the audit

opinion. The next researchers are suggested to explain further by looking at the HDI indicators such as the economic, heath, and educational aspects which are affected by the audit opinion.

Some limitations of this study are: not all regencies report their LKPD to the BPK right on time so that the data is not fully complete. The next studies are suggested to examine more deeply the three difference indicators of HDI such as health, education, and social spending, on regencies/cities which get Unqualified and non Unqualified Opinion, whether or not the result will be different.
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