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Do Regional Finance Accountability And Budgetary Composition Enhance Regional Economic Performance In Municipality/ City In East Java?

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ABSTRACT : *Accountability is pivotal factor in the implementation of successful good governance since accountability is an indicator whether public fund is spent properly or not. Another relevant factor is budgetary composition more particularly local tax revenue and capital expenditure due to their correlation with public service. Empirical evidence showed that regional finance accountability affected regional economic performance measured using the Supreme Audit Board opinion and the amount of saved fund had negative and significant influence towards Gross Regional Domestic Product. On the other hand, budgetary surplus had positive and significant influence towards the Gross Regional Domestic Product. Budgetary composition and regional expenditure improved regional economic performance measured using local tax revenue and capital expenditure that have positive and significant influence towards Gross Regional Domestic Product.*

Keywords: *budgetary composition, good governance, regional economic performance, regional financial accountability*

I. INTRODUCTION

In fiscal decentralization era [1], authority is delegated from the central government to local governments, more particularly in regional budgetary management. The government does not necessarily manage a huge budget but regional budgetary management should be well-balanced by implementation of good governance. To measure indicators of good governance, in 1996 the World Bank established six indicators of good governance which involved voice and accountability, political stability, government effectiveness, regulatory quality, and rule of lawa (Kauffman, 2009). In 1997, UNDP established nine indicators of good governance namely participation, rule of law, transparency, responsiveness, consensus orientation, equity, effectiveness and efficiency, accountability, as well as strategic vision (Shield, et al, 2016). Hans and Wagener (2011)'s study described that good governance influenced GDP. Economists claim that accountability is paramount in the success of good governance (Sheng, -) and (Mimicopoulo, 2007); therefore, the study emphasizes on accountability of regional finance. Furthermore, public service is a transmission that explains correlation between accountability and economic performance. As stated by Hatry (1980), accountability is an indicator whether public funds are allocated based on the target and there is no violation in public fund allocation. Rioja (2001) revealed that qualified public services may improve regional economic condition. Furthermore, Monte and Papagni (1997) revealed that public service and public goods are inputs for private sector Production activities that will drive the regional economy. Regional finance accountability is a means of evaluation towards regional government so that it provides public goods of which quantity and quality meet the standard before being presented to the public. In the study there are three indicators of the accountability of regional finance namely Supreme Audit Board opinion, the amount of saved fund, and budgetary surplus which refer to Purbadharmaja (2011)'s study.

Based on regional budgetary composition, capital expenditure is one of type of expenditure where most of the fund is allocated for public service and investment. East Java Budgets showed that the amount of money spent for employees was higher than that spent for capital expenditure. Some studies, such as Gupta, et.al (2002) and Devarajan, et.al (1996) showed that capital expenditure allocation had positive effect towards regional economy. When the amount of money allocated for capital expenditure is increasing but the number is lower than the amount of money allocated for employee expenditure, will regional economic performance be affected? Capital expenditure allocation is a form of interaction between the government and the society as tax payers. It is suitable with the concept of allocative efficiency in decentralization era that regional government is more familiar with local need and which of their need to be prioritized and therefore, the bigger amount of money

[1] . The 2014 Decree number 23 about regional government as the amandement for the 2004 Decree number 32 stated the shift in government system from centralized to decentralized

allocated for capital expenditure, the more efficient it is. On the other hand, one type of interaction from the public to the government is paying tax especially local taxes. In this case, higher amount of local tax will increase fiscal independence (Mardiasmo, 2004). When the amount of money from local taxes increases but the percentage is much lower than regional revenue, will regional economic performance be affected?

Based on the elaboration, the study aims at analyzing the influence of regional finance accountability and regional budgetary composition towards regional economic performance.

II. CONCEPTUAL FRAMEWORK

The conceptual framework begins with the concept of good governance which later analyzed regional financial governance from the perspective of accountability. At present, public sevice is measured directly through the satisfaction of society without making sure whether the budget being spent is accountable or not internally. One important indicator in the implementation of good governance is accountability as described by Sheng (-) and Mimicopoulos (2007). Accountability refers to in question is accountability of regional governments in carrying out their responsibilities. Accountability is closely related to regional government transparency in maintaining regional budgets and becomes indicator of how successful regional government is in allocating regional budgets to the benefit of the society.

Accountability of regional financial governance can be measured by budget implementation evaluation. The only external evaluation for government institution is Supreme Audit Board inspection by giving statement or opinion towards Regional Government Financial Report (*Laporan Keuangan Pemerintah Daerah*/ *LPKD*). The opinion measured how valid the information towards the Regional Government Financial Report is that is suitable with internal control system and compliance with the legislation. Amount of saved funds based on inspections of the Supreme Audit Board becomes one part of evaluation and becomes an indicator of financial governance accountability. Based on budget allocation, budget surplus shows the amount of money and reserved funds owned by regional government to cover any deficit in regional budgets. Low amount of budget surplus and ability of regional government in terms of funding encourage the regional government to meet public expenditure. With accurate allocation, high realization of budgets and high regional funding become the main indicators for regional government performance. Based on the findings of his study, Priono (2011) stated that regional finance management contributed to public service performance in East Java so that regional finance government should meet the mechanism and regulations through accurate planning and estimation, and public-oriented implementation.

Accountability of regional finance governance in relation to economic performance using Gross Regional Domestic Product as the indicator can be analyzed based on government performance during public service. Degree of public accountability is necessary within the standard of performance towards similar information about performance in each public institution. In this case, public accountability is one of the normative models of public service which is related to internal-oriented effectiveness and efficiency of which purpose is to improve managerial performance in order to enhance government responsibility related to public service and public goods that drive regional economy. Besides that, during the era of autonomy and decentralization, various regions compete to apply competence-based government using the implementation of good governance and public accountability becomes their priority. Such competition encourages regional government to attract investment from investors in order to increase the amount of capital. Clear and accountable regulations will attract bothy Domestic and international investors. Therefore, good governance in the form of regional financial governance accountability will encourage good corporate, professionalism and competitiveness that eventually increase capital and Productivity. Expansion of investment and increasing Productivity will increase numbers of employees. Pere (2015) has proven that accountability of Balkans government has positive influence towards future growth of economy with slow influence.

Furthermore, in the era of fiscal decentralization, regional budgetary composition more particularly Revenue Side and capital expenditure allocation more particularly Expenditure Side are closely related to public service. Regional tax is important part of regional income/ revenue which is closely related to regional economic performace based on Keynes (1936) as cited in Sammut (-), increasing revenue from tax has negative influence towards Gross Domestic Product (GDP). Similar equation of tax multiplier refers to ratio from aggregate Production alteration towards tax change by the government (autonomous tax) when consumption is generated by government expenditure. Tax multiplier equation is as follow:

$$K_t = -\frac{b}{1-b} = -\frac{MPC}{MPS} \qquad (1)$$

K_t refers to *tax multiplier*, *b* refers to *MPC* and *(1-b)* refers to *MPS*.

On the other hand, capital expenditure is a major part of government expenditure where most of the capital expenditure is allocated for public services. The correlation between capital expenditure and regional economic performance can be explained by Government Spending Expenditure. Keynes explained that increasing output of goods and services (ΔY) is more than increase in government expenditure (ΔG). The (ΔY /

ΔG) ratio is known as government-spending multiplier where ratio is bigger than 1. The impact of government expenditure is also known as multiplier effect towards income and output (Nelson, 2006). The growth of private sector as the impact of government expenditure will increase Production in the form of accumulation of capital and increasing number of employees needed for private sector. Good governance encourages good corporate in increasing Productivity or professionalism of exogenous employees. Increasing regional income which is accumulated in increasing GDP shows high economic activities in the public within regional scope. In this case, GDP becomes indicator of regional development in terms of economic performance.

III. METHODOLOGY

3.1. Model estimation

Based on the conceptual framework, regional finance accountability is integrated together with budget composition both revenue and expenditure side. These components are specifically transformed into logarithm to fulfil classic assumption and eventually the following econometric model is formulated. The model is as follow:

$$\text{Log. GRDP}_{it} = \alpha + \beta_1 \text{Log(OPI)}_{it} + \beta_2 \text{Log(ASF)}_{it} + \beta_3 \text{Log(BS)}_{it} + \beta_4 \text{Log(LTR)}_{it} + \beta_5 \text{Log(ACE)}_{it} + \varepsilon_{it} \quad (2)$$

where α and β is constant and coefficient of regression, GRDP is Gross Regional Domestic Product, OPI is opinion based on Supreme Audit Board's inspection, ASF is amount of save fund based on Supreme Audit Board's inspection, BS is Budget Surplus, LTR is Local Tax Revenue, ACE is Allocation of Capital Expenditure, $\varepsilon_{it} \sim (0,\sigma^2)$, i is cross-sectional observation data dimension (municipality/ city) and t is time dimension.

Regional Finance Accountability is independent variable and one of the indicators of good governance based on accountability of regional financial governance in the municipalities and cities in East Java. The related indicators involve (1) the opinion of Supreme Audit Board that refers to opinion stated by the Supreme Audit Board towards validity of information presented as regional government financial report, to make sure whether the financial report has met *Standar Pemeriksaan Keuangan Negara* (*SPKN*). The Supreme Auditory Board inspection is reported in the form of *Laporan Hasil Pemeriksaan* (*LHP*) that consists of four categories [[2]]; (2) the amount of saved fund that refers to some amount of money that can be saved based on the supreme Auditory Board inspection in each municipality or city. It represents the amount of money that the country may lose due to some carelessness in regional fiscal management, (3) budget surplus that refers to budget surplus/ deficit from the remaining amount of money in particular fiscal year. It shows how much ability regional government has to cover some deficit in regional budgets owned by each municipality/ city.

Budget composition is an independent variable which is divided into revenue and expenditure sides. (1) Local Tax Revenue is amount of local revenue from 11 types of regional taxes. Tax is a mandatory contribution from regional government to individual or organization without balanced direct compensation; tax can be imposed by legislation, is used to pay for the implementation of local government and regional development based on particular authority municipality and city has; (2) Allocation of Capital Expenditure is some budgets allocated for investment in the form of procurement of assets of which value exceed 12 months. An asset has economic, social and other value that improves public service for the sake of the society (Halim, 2008).

Economic performance refers to government achievement to generate economy represented by Gross Regional Domestic Product as dependent variable that is detrimental factor in regional development of which basis is local economic activities. The study used Gross Regional Domestic Product based on constant value because it puts aside inflation and can be used as foundation to measure economic growth. Positive economic growth represents good economic performance.

3.2. Hypothesis

The Supreme Audit Board opinion, the amount of saved fund, budget surplus, local tax revenue and capital expenditure are predicted to have significant and influence towards Gross Regional Domestic Product in municipalities/ cities in East Java.

3.3. Sources of Data

The Object of research consists of 29 municipalities and 9 cities in East Java. The data are financial report of the municipalities and cities from East Java Supreme Audit Board, budget realization data (audited) in regional financial report stated in the Supreme Audit Board financial report, and Gross Regional Domestic Product from the municipalities and cities from the Bureau of Statistics website. All the data is started in 2010 to 2015.

[2] Based on Supreme Audit Board in a Press Conference (2011): *Wajar Tanpa Pengecualian* (*WTP*/ Unqualified Opinion); *Wajar dengan Pengecualian* (*WDP*/ Qualified Opinion); *Tidak Wajar* (*TW*/ Adverse Opinion); *Tidak Memberikan Pendapat* (*TMP*/Disclaimer Opinion)

3.4. Data Analysis

Data analysis method is multiple linear regression analysis with SPSS version 16 software. To conduct further analysis, transforming scale of ordinal data in the Supreme Audit Board opinions as variable into interval or ratio is conducted using MSI (Method of Successive Interval) transformation technique (Riduwan & Kuncoro, 2013). MSI transformation is facilitated using excel statistic application. The result is as follow:

Table 1 Ratio-to-Interval Transformation

Score of Supreme Audit Board Opinion	Ratio-to-Interval Transformation
4 (*WTP*)	4.733
3 (*WDP*)	3.173
2 (*TW*)	1.466
1 (*TMP*)	1

Source: author's calculation, 2016

IV. RESULTS AND DISCUSSIONS

4.1. Hypothesis Testing

The assumptions involve correlation between variables with normal distribution, free of autocorrelation, absence of multicolinearity, and no heteroscedasticity. Based on the Kolmogorov-Smirnov test, the residuals from the regression equation has probability rate of 0.741 (Prob> 0.05). Therefore, it can be concluded that the residuals of the regression equation is normally distributed. It means that the distribution of average residual data is on the center forming bell-shaped pattern. Furthermore, autocorrelation based on the Durbin Watson test is 1.944. It means that Durbin Watson test score is between 1.5702 (dL) and 2.3006 (4-dU) and as the conclusion, the residual is free from autocorrelation. Multicolinearity test aims at finding out whether there is strong correlation between the independent variables in the regression model. The results showed that the Variance Inflation Factor (VIF) score of each of the independent variables is less than 10 and as the effect, there is not any multicolinearity. In addition, the assumption to be tested is the heteroscedasticity testing. It shows whether residual variation that appears in a model has the same variation or homogeneous. The finding which is obtained by looking at the predictive score of the dependent variable with its residual revealed that the plot of the equation is completely dispersed and does not form a specific pattern. Thus, it can be concluded the assumption that the residual model is homogeneous can be accepted.

4.2. Regression Analysis

The findings of the regression analysis is as below:

$$\text{Log. GRDP}_{it} = 3.062 - 0.550\ \text{Log(OPI)}_{it} - 0.082\ \text{Log(ASF)}_{it} + 0.163\ \text{Log(BS)}_{it} + 0.430\ \text{Log(LTR)}_{it} + 0.427\ \text{Log(ACE)}_{it} + \varepsilon_{it} \qquad (3)$$

Table 2 Output of Multiple Regression

Dependent Variable in Logarithm	Independent Variable in Logarithm	Coefficient	T	Sig t	Description
GRDP	Constanta	3.062	4.177	0.000	Significant
	OPI	-0.550	-3.558	0.000	Significant
	ASF	-0.082	-1.979	0.049	Significant
	BS	0.163	1.981	0.049	Significant
	LTR	0.430	10.858	0.000	Significant
	ACE	0.427	4.600	0.000	Significant
F	=	101.183			
Significance	=	0.000			
R-Square	=	0.726			

Source: author's computation, 2016

Individual significance test is represented by probability as parameter; the result of the test is significant when probability is < 0.05 . From the model, it is found out that the probability for the constant and all of the variables namely OPI, ASF, BS, LTR and ACE is less than 0.05 as shown in the table. Therefore, it can be concluded there is enough evidence to claim that each of the variables have significant influence towards Gross Regional Domestic Product. Furthermore, simultaneous testing of the model using the F-test functions to decide whether all independent variables have influence towards the dependent variable or not. Table 2 shows that F-ratio of the third sub-structure model is 101.183 and its probability is 0.000 or less than 0.05. As a conclusion, the model is considered significant which means that the overall regression equation can be used for further analysis.

Correlation between the independent variables and the dependent variable is determined by R^2 determinant coefficient score which normally is between 0 and 1. When R^2 is closer to one, the independent variables give nearly all information to predict dependent variable. Based on the regression analysis, R^2 is relatively high, that is 72.60%. It means 72.60 % of Gross Regional Domestic Product variance can be explained by variance of Supreme Audit Board opinion, saved fund, budget surplus, PD and BM. The remaining 27.40% can be explained by other variables outside the study.

4.3. Influence of Regional Finance Accountability towards Regional Economic Performance

Opinion of Supreme Audit Board, amount of saved fund and budget surplus become indicators of regional finance accountability that has significant influence towards Gross Regional Domestic Product. Highly accountable regional government will result in positive investment that eventually leads to increasing Gross Regional Domestic Product. It is in line with the findings of the previous studies that good governance is the basic rules to improve the capacity of regional economy since good management of regional budgets will eliminate any doubt investors have (Purbadharmaja, 2011). Yerrabati and Hawkes (2014) argued that freedom of speech, accountability and corruption rate have positive influence towards economic growth. Besides that, Engjell Pere (2015) conclude that government accountability is one of the indicators of good governance (World Bank Indicators) that has positive impact towards future growth of economy with slow influence.

4.3.1. Supreme Audit Board Opinion

Based on regression analysis, Supreme Audit Board opinion has significant and negative influence towards Gross Regional Domestic Product. More positive Supreme Audit Board opinion stated in *WTP*, the economic performance of East Java government tends to decrease. The inversed correlation takes place due to rigid regulations related to financial issues that require regional government to get *WTP* and as the result, people responsible to maintain regional budgets are being too careful in regional budget implementation and accidentally postpone regional economic activities. Besides that, the staffs responsible for regional budget management have yet had sufficient capacity and it slows down the budget absorption and regional economic performance. Human resource is detrimental for in the implementation of good governance (Mildiana, 2014).

The current phenomenon is that regional government becomes very agressive in order to improve their economic performance and as the result, they violate several regulations which they consider too rigid. As an example, the government of Batu had never had *WTP* opinion in the last five years, from 2010 until 2014. In 2010, the government even got disclaimer opinion, but their economic performance increased by 31.08% more than the Gross Regional Domestic Product in the last 5 years. It is different from the government of Blitar that always gets *WTP* opinion but their Gross Regional is only 27.79% out of the total Gross Regional Domestic Product. Regional government that put too much emphasis on improving the opinion tended to be less creative in improving their economic performance due to rigid regulations related to investment; these regulations delimit growth and development of regional economy.

Besides that, positive opinion does not represent low corruption. Positive opinion does not mean the Supreme Audit Board does not find any violations during their inspection (Supreme Audit Board, 2011). Based on the data about the Supreme Audit Board opinion from 2010 to 2014, there is 80% increase in the number of individuals or organizations that get *WTP* opinion; the increase is supposed to decrease the number of cases. However, there is 24% increase in the findings that is not suitable to the *WTP* opinion. Some institutions use Supreme Audit Board opinions as some protection to declare that their institutions are administratively free from corruption. The Supreme Audit Board decides how much money that may cause some loss for the country or reduce public service quality and quantity that causes some effects towards income and goods and service output.

Role of inspectorate cannot be separated from regional government fund management even though inspectorate has yet given optimum supervision and training. The Supreme Audit Board can only take limited number of samples for inspection due to limited amount of time and fund. Some inspections only focus on particular obligatory issues such as education, health and infrastructure. Most violations occur in other aspects. A synergy between inspectorate and the Supreme Audit Board inspections is paramount in the implementation of good management of regional government budget.

The finding is in line with Harry Azhar Aziz (2015)'s paper presented during the focus group discussion located in Pasuruan as the head of the Supreme Audit Board who revealed that both regional government and ministry that have got WTP opinion several times do not succeed in improving economic performance and public welfare based on their indicators [[3]]. As an addition, Virgasari (2009) stated that the Supreme Audit Board opinion is has significant and negative influence towards economic performance of the

[[3]] West Sumatera got *WDP*, *WTP*, and *WTP* opinions respectively between 2011 and 2013 but the growth of economic performance based on the 2011 to 2013 Gross Regional Domestic Product rate was decreasing. Bengkulu had always got *WTP* opinion between 2011 and 2013 but the Gross Regional Domestic Product was decreasing and the percentage of poverty was increasing. The opinions do not have positive impact towards decreasing economic performance and poverty rate. The Head of the Supreme Audit Board has planned to increase and improve quality of inspections in order to give appropriate recommendations.

city and municipality government in East Java where economic performance is measured using regional independence ratio, regional activity ratio and regional economic growth ratio.

4.3.2. Amount of Saved Fund

Based on the findings, the amount of saved funds has significant and negative influence towards Gross Regional Domestic Product. The amount of saved fund that can potentially cause some loss to the country decreases public service quality and quantity which directly puts off regional economic activities. Low amount of saved fund is the parameter of government performance in providing public service from the perspective of good internal fund management. Such condition will create professionalism and competitiveness between regions to drive and improve private sector investment and regional economic performance shown by increasing Gross Regional Domestic Product.

In addition, the quality of the human resources responsible for regional budget management is lacking and there is a discrepancy between targeted implementation and planning and budgeting. It leads to poor execution and budget reporting and has implications for the findings of the Supreme Audit Board inspections. High amount of saved fund is the result of the discrepancy between the actual implementation of government programs and their planning and budgeting. Strategic Planning established previously could only be implemented partially and some programs beyond planning were conducted. The effects are change in working paper planning then the unplanned programs are not the part of the regional budgets so the findings of audit are relatively high. The finding of the study is in line with those of Sudarsana Research (2013) and Marfiana and Kurniasih (2013) that more fund found during inspections indicates the low performance of regional government.

4.3.3. Budget Surplus

The findings indicate that budget surplus has significant, positive influence towards Regional Gross Domestic Product. Higher amount of budget surplus means regional government is able to cover a budget shortfall through the so that the regional government can still continue some activities that are postponed due to shortage of budget. Moreover, one indicator of increasing budget surplus is the government can mobilize local investment that will respond favorably to economic performance where financial revenue through the local investment will be accumulated in budget surplus. Expenditure, more particularly one related to public services will attract investors and investment will improve regional economic performance which is represented by increasing Regional Gross Domestic Product.

4.4. Influence of Regional Budget Composition towards Economic Performance

4.4.1. Local Tax Revenue

Local tax is a component of regional income that becomes indicator of fiscal independence (Mardiasmo, 2004). Based on the regression analysis, the local tax revenue has significant and positive correlation to Regional Gross Domestic Product. Increasing local tax revenue happenes due to increasing awareness and willingness to pay tax as well as the growing number of tax payers. The increasing awareness to pay tax shows the interaction of between regional government and the public through increasing number of qualified public services. Qualified public service will attract investors and directly increase Regional Gross Domestic Product. Increasing number of investment will create more job vacancy, reduce numbers of unemployment and increase number of taxpayers. In this case the local government is able to drive the real sectors to generate public income and respond well to regional competitiveness in increasing Regional Gross Domestic Product of the cities/ municipalities.

The findings are in contrast to Keynes (1936)'s theory of tax multiplier where increasing revenue from tax has negative effects towards Gross Domestic Product (GDP). The amount of local tax is related depend upon the regional regulation with the provisions and limitation of the maximum amount of money to pay based on the 2009 Decree number 28. Out of the eleven types of local taxes, only urban and rural property tax is the type of tax that cannot be shifted and as the effect, it reduces disposable income, consumption and savings. Meanwhile, the remaining ten types of local tax can be shifted to consumers, which means they are relatied to business or private investment. The development of private investment will drive the local economy and improve the economic performance of the region that is accumulated into regional income. The findings are in line with the study conducted by Mutiara (2015) which stated that local tax revenue had significant and positive effect towards East Kalimantan's Regional Gross Domestic Product.

4.4.2. Allocation of Capital Expenditure

Capital expenditure has significant and positive effect towards Regional Gross Domestic Product. The more budget allocated for capital expenditure, there is an increase in goods and service outputs as well as in regional income. The positive influence of capital expenditure towards Regional Gross Domestic Product cannot be separated from the role of fiscal decentralization in which local governments can get closer to the society by making the allocation of expenditure that matches local expectation a priority or in this case improving allocative efficiency (Khusaini, 2006). On the capital expenditure allocation where most of the allocation is given for public services and is long-term investment that can generate economic activities which eventually will increase Regional Gross Domestic Product or macro economic growth. In addition, a positive correlation between capital expenditure and Regional Gross Domestic Product showed that capital accumulation becomes one of the factors that increases economic growth (Arsyad, 2004). Increasing capital expenditure will increase accumulation of public goods such as roads, bridges, and others that can be input for private sector Production.

The Keynesian hypothesis stated that increasing government expenditure may increase goods and service output of goods and services; when increasing output is more than an increase in the government expenditure, a multiplier effect towards income or output may take place. The findings are in line with the hypothesis that that government expenditure in the form of capital expenditure increases income or goods and service output represented by the East Java’s cities and municipalities Regional Gross Domestic Product. Several previous studies stated that the high allocation of capital expenditures tend to increase Regional Gross Domestic Product. A study conducted by Gupta, et.al (2002) explained that countries that make public investment, non employee’s salary, and the public service priorities tend to have faster economic growth than countries that emphasize on employee expenditure. Using the budgets for capital expenditures is more efficient economically than the non-salary or miscellinaous expenditure. Rioja (2001) argued that additional resources in the form of infrastructure investment tends to result in increasing GDP nett and has positive impact towards private sector investment. At the opposite, Devarajan, et.al (1996) elaborated that that government expenditure in 43 developing countries improved their economic growth but capital expenditure had negative effect towards economic growth because most of the developing countries made errors during budget allocation. In several nation-wide studies such as one conducted by Kurniawan et.al (2012) stated that the allocation of capital expenditure had positive yet non significant effect towards economic growth based on Regional Gross Domestic Product towards the constant price in the cities and municipalities in East Java. Anasmen (2009) and Hendarmin (2012) had the same conclusions although they used different approach of economic growth and different areas as the setting of their studies. It happens because each region has different ability to predict their future development including capital expenditures and as the effect it does not have any significant effect towards economic growth. The regional budgets allocated for capital expenditure in each municipality/ city in East Java is relatively large that leads to significant positive effect towards the regional income (Regional Gross Domestic Product).

V. CONCLUSION

Important finding of the study is positive Supreme Audit Board opinion represented by WTP will tend to decrease regional economy due to several factors which include the rigid regional and central government regulations that may set limitation to the growth and development of private sector, low quality of human resources that affects quality of public services, and the role of inspectorate which has yet been able to perform his/her optimum duties and functions. As an addition, higher amount of saved fund will slow down the regional economic performance because it is associated with decreasing quality and quantity of public services. On the other hand, higher amount of budget surplus represented by regional funding can resume some activities postponed by the lack of budget and is able to generate local investments that will respond Regional Gross Domestic Product well. Furthermore, increasing local tax revenue will have positive impact for local investment that will improve regional economic performance. Similarly, the higher amount of capital expenditure will increase the accumulation of public goods that can drive the regional economy. Overall, the study provides a reminder for the government to review policies related toboth central and regional regulations. It is expected that the regulations become more flexible and gives more room for private sectors to grow and invest. In addition, the study can be the basis for the government to keep making innovation to increase local tax revenue and making the allocation of capital expenditure a priority since it functions to increase regional economy.

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