



## CHAPTER 1

### INTRODUCTION

#### 1.1. Background

This research analyzed the impact of Regional Income (*Pendapatan Asli Daerah*), Unspent Funds (*Sisa Lebih Perhitungan Anggaran*), and Balancing Funds (*Dana Perimbangan*) on opportunistic behavior of budgeting at the city in East Java. The motivation underlying this research is the fact that many irregularities (fraud) are found in the use of budget funds. The deviation begins from the budget process which is considered as the practice of opportunistic behavior of stakeholders.

Allegation of a miss in the budget allocation occurs because politicians had a vast interest in budgeting (Keefer & Khemani, 2003; Mauro, 1998; Tanzi and Davoodi, 1997). The allocation of resources in the budget is distorted when corrupt politicians behave, especially related to the opportunity for personal gain on the projects to be financed by the government budget, which would allocate more t projects easily corrupted (Mauro, 1998) and provide benefits politically for politicians (Keefer and Khemani, 2003).

Budgeting process is a process that is quite complex and contain significant political content. The process allocation in the budget is room for Parliament to include constituent interests it represents. On the other hand according Regulation No. 13 of 2006 on Regional Financial Management

Guidelines, executive officers are more dominant and have the authority and greater responsibility in preparing the budget. Executives also have greater power because they have an understanding of bureaucracy and administration, all rules and regulations as well as the underlying direct relationship with the community that has been going on for a long time resulting in better control of information from the executive by the legislature (Florensia, 2009).

Besides being more dominant in the budgeting process, executive officers also act as executors of the budget, so it has more financial information than legislative officials. This is what gives authors the opportunity to both legislative and executive budget for opportunistic behavior. This opportunistic behavior is behavior that is trying to achieve the desire by all means even illegal means (Maryono, 2013). This behavior will exploit the opportunities of short-term profits at the expense of long-term profitability.

Having authorization on implementation of regional autonomy, the executive officers are the ones that make impact in regional income. Regional income increase can be calculated by PAD (*Pendapatan Asli Daerah*) year 1 minus PAD year 0. Legislative officials will encourage executives to always increase the regional income target so it will increase the allocation for programs that support their interest (Sularso et al.). Increasing the number of PAD will give opportunities for budget author to allocate more funds to their field of preference. It is indicated as an opportunistic behavior.

Another problem in the allocation of the budget is late changes in the budget-setting period, which is usually done a few months before the end of the

fiscal year. This makes the budget is not effective or even not fully absorb when the fiscal year ends, and contributes to the low Unspent Funds and thus will increase SiLPA (the remaining budget), where the funds should be used to improve the welfare of the people was not fully absorbed. SiLPA has a bearing on the allocation of the next budgets period, because SiLPA will be used to balance the budget to cover financing expenses.

Other revenue sources to finance local expenditure are the Balancing Funds (*Dana Perimbangan/DP*). According to the UU No. 33 of 2004 on Financial Balance between Central and Local Government, DP is a fund sourced from National Revenue Budget (APBN) allocated to bring equality in the financial capacity among the regions to fund the needs of the region in the implementation of decentralization. DP use quite flexible and not all tied to specific spending programs, thus making up the budget exploit this condition to propose activities that increase its self-interest to gain more benefit (Maryono, 2013).

## 1.2. Problem Formulations

1. Is the regional income or changes of PAD has any significant influence to opportunistic behavior of budget preparation?
2. Is the budget realization or changes of SiLPA has any significant influence to opportunistic behavior of budget preparation?
3. Is the Balancing Funds or changes of *Dana Perimbangan/DP* in Regional Government had any significant influence to opportunistic behavior of budget preparation?

### **1.3. Research Motivation**

Budget Preparation in Local Government is very important since decentralization of budgeting on Regional Autonomy Era. Since 2006, with Regulation No. 13 of 2006 on Regional Financial Management Guidelines, Regional Executives are more dominant than Legislatives (DPRD) in determine the Regional Budgeting. The problem is, there are opportunistic behavior that makes budget preparation has flaw and the Executives and Legislatives are more likely committed fraud and corruption because of that opportunistic behavior.

The difference this research and previous research exists on independent factors that affect opportunistic behavior. Pratiwi 2015, Sularso 2014, Abdullah 2012 and Fathoni 2011 use DAU as independent factors that affect opportunistic behavior. Whereas author excluded DAU factors and add balancing funds (DP) as new independent factor for affecting opportunistic behavior. The reasons behind author decisions are to seek new approach and try to make decision from spending power of local government (PAD, SiLPA, DP). Author is interested in examining the opportunistic behavior that occurs as a result of interaction between the two parties based on the existence of an agency relationship.

### **1.4. Research Benefit**

#### **1.4.1. Theoretical Benefits**

Results of this research are expected to be used as research materials for agency theory development in public sector budgeting and reading material for further research on the same topic.

### **1.4.2. Practical Benefits**

Results of this research can be used as information for assessing and understand the behavior of the budget and may become recommendations to the local government to make improvements in the preparation of the budget.

### **1.5. The Systematic of Research**

#### **Chapter I: INTRODUCTION**

This chapter explains about the background of opportunistic behavior. With the background, the author proposes problem formulation, research motivation, research benefit, and the systematic of research. The background for this research was the fact that many irregularities (fraud) are found in the use of budget funds. The deviation begins from the budgeting process which is considered as the practice of opportunistic behavior of stakeholders.

#### **Chapter II: THEORETICAL FRAMEWORK**

This chapter explains about theory in this research. Agency theory will be used as guidance for this research. Agency relationship happened between the politicians who prepared the budget with the voters who elected politicians. It also happened between the executives and legislatives. Agency problem originated from the difference in interest between principal and agent, as happens in an agency relationship between the local government (executive) and Parliament (legislative). Author also explains about the previous research and conduct the hypothesis for the formulated problems.

### Chapter III: RESEARCH METHODOLOGY

This chapter explains about research approach, variable identification, types and source of data, and research analysis. The data used in this research were APBD of City / Regency in East Java year 2011-2014. The Independent Variable were PAD, SiLPA, and Dana Perimbangan. The Dependent variable was OBB (Opportunistic Behavior in Budgeting). Author used multiple regression analysis to test the relationship between independent and dependent variables.

### Chapter IV: RESULTS AND DISCUSSION

This chapter explains about research result, hypothesis testing and discussion. It also included hypothesis result discussion from author. The PAD and DP had positive and significant impact on Opportunistic Behavior of Budget Preparation. On the other hand, SiLPA had negative and insignificant impact on Opportunistic Behavior of Budget Preparation.

### Chapter V: CONCLUSION AND RECOMMENDATIONS

This chapter explains about the conclusion of the research. The conclusions are PAD and DP affect OBB positively and SiLPA did not affect OBB. The limitation of research and recommendations will be added to complete the research.