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Original Article

The Influence of Intergovernmental Revenue, Capital Expenditure, Original Local Government Revenue and Government Size on Local Government Financial Performance with Audit Opinion as a Moderating Variable

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Abstract: *The goal of this study is to demonstrate that there is a relationship between intergovernmental revenue, capital spending, original local government revenue, and size, with audit opinion serving as a moderating variable, and local government financial performance. The Regency and City governments in East Java Province's financial reports from the 2019–2021 Covid 19 epidemic period were used as the sample in this study uses Regional Government Financial Reports (LKPD). Moderating regression analysis is used in the data analysis method. The study's findings show that local government financial performance is significantly influenced by intergovernmental revenue, capital spending, local revenue, and government size. The study's findings also demonstrate that the audit opinion improves the link between local original income and local government effectiveness. In order to obtain an unqualified audit opinion and improve the effectiveness and efficiency of the management of intergovernmental revenue, capital expenditures, and initial local government revenue, the practical contribution of this research is to provide information to regional government heads about the importance of consistently presenting and reporting regional financial reports in a transparent and accountable manner.*

Keywords: *Public Sector Accounting, Capital Expenditure, Intergovernmental Revenue and Local Revenue.*

I. INTRODUCTION

Public sector accounting is widely used in central and local government financial management. The performance of local governments is being impacted by the environmental uncertainties brought on by the covid 19 pandemic that occurred in 2020–2022, and is still going on now. Presenting openness of regional and central government financial reports is a difficulty for local government officials who oversee regional budgets. Public concern continues about how local governments handled the Covid 19 pandemic. Currently, regional leaders have a lot of power to control and manage how regional monies are used. This is in conformity with the passage of Law No. 33 in 2004 regarding the financial balance between the central and regional governments as well as Law No. 32, which was released in 2004 and deals with regional government. The two laws provide information that there have been many changes in local government governance.

Intergovernmental revenue as regional government funds originating from the income post of the State Revenue and Expenditure Budget which is allocated for funding operational and non-operational needs as a form of implementing a decentralized government system (Ayu, 2018). Management of intergovernmental funds during the Covid 19 pandemic by local governments must remain transparent and responsible for their use. Regional government representatives shouldn't use the Covid 19 pandemic as a justification for not managing the intergovernmental revenue pool as effectively as possible. Therefore, the effectiveness of a regional administration is frequently linked to these monies. It has been demonstrated that prudent intergovernmental money management can accelerate the creation of initiatives that enhance community service and welfare (Thalib, 2019). Growing regional independence as reflected in the presentation of financial reports can be used to assess the effectiveness of regional financial management in the decentralization era (Ayu, 2018).

The local government's responsibility includes not only managing APBN money transparently and responsibly, but also deciding how to distribute these income in the form of capital expenditures. The regional government's acquisition of fixed assets and other assets that help the community in the long run constitutes the capital expenditure discussed in this study. This expenditure usually by the government is expenditure for the purchase of appropriate assets such as land, buildings and equipment that provide long-term benefits that will be used to provide services to the community (Thalib, 2019). The local government uses the goods or assets acquired with a capital expenditure allocation as a way to enhance services and local residents' wellbeing. The consideration for capital expenditure is that there is a need for the community and local government for an asset and other supporting facilities that provide long-term benefits for the community. In addition, capital expenditure can also be aimed at facilitating the task of implementing government and public facilities (Siska Yulia, Sindy Fetrisia, 2017).

The expansion of local government performance will be significantly influenced by optimal capital spending. The better and more efficient a local government uses its capital investments, the better and more effective it becomes. Therefore, during the Covid-19 pandemic, the government continued to strive to perform well, although with various limitations due to government policies that regulate operational hours and forms of service to the public during the Covid-19 pandemic. This is evident from the substantial infrastructure that can be used to enhance government operations in terms of providing services to the community and enhancing the welfare of local residents (Sukma & Panji, 2018). According to research by Mulyani & Wibowo (2017) and Alfarisi (2016), capital spending has a big impact on how well local governments operate. The findings of studies by Dasmar et al. (2020) and Siska Yulia and Sindy Fetrisia (2017), however, show that expenditure has little impact on the financial success of local governments.

The local government also earned money from regional original income during the Covid 19 epidemic. Although there have also been changes to the initial regional revenue amount. Regarding Local Own Revenue, PAD is defined as income obtained by funds based on regional regulations in compliance with statutory restrictions established by the state (Law No. 32/2004). The provisions for the original regional income of each area must refer to Law No. 32/2004 even though the mechanism is left to each region by referring to the provisions of the applicable laws (Hendawati et al., 2017). Local revenue is the authority and rights of the regional government which are recognized as an addition or accumulation of increased net worth obtained from sources such as local taxes, parking fees or regional fees, the results of managing and optimizing the utilization of assets and long-term assets of the local government by utilizing the resources that are owned by the separated local government as well as other legitimate local revenue.

Regional original revenue receipts obtained from sources of utilization of natural resources that exist and are owned by the regional government and the collection is regulated in accordance with Law No. 32/2004 are blood tax revenues, fees due to utilization and services for the use of local government assets, fees due to utilization of services general and other legitimate local revenues, such as receipt of giro services and deposits of local government funds in the banking service industry. The source of regional original income during the Covid-19 period has the potential to decrease due to government policies such as limiting community activities which have the potential to increase and spread the Covid-19 virus. The ultimate goal of original regional income is to grant regional governments the power to finance the implementation of regional autonomy activities. The higher and greater the regional original income received and managed, the better the performance of the regional government as a form of decentralised government. According to earlier studies by Sihombing & Arsani (2020) and Sukma & Panji (2018), local revenue significantly improves the financial performance of local governments. Mulyani & Wibowo (2017) and Badjra et al., (2017) in their research, on the other hand, informed that local revenue has no effect on local government financial performance.

Using the total assets of a government, the size of the local government demonstrates how large it is. During the Covid 19 period there were adjustments that affected the addition of assets. With a greater number of assets, it is expected to have better financial performance compared to regions that have fewer assets. However, it must be supported by the government (steward) who manages regional assets as well as possible so that what is planned for a region can achieve its performance. Local governments with significant assets were thought to be capable of offering the general public greater services during the Covid 19 era (principal). Despite the Covid 19 pandemic at the time, the population might feel satisfied when government aims are accomplished through effective asset management. According to study by Masdianti & Erawati (2016), the size of the government has a favourable impact on the financial performance of local governments. The findings of research by Achmad et al. (2017), which demonstrate that government size has a favourable impact on local government financial performance, support this study.

During the Covid 19 pandemic the level of stakeholder trust could change up or down by knowing the audit opinion that had been presented by the BPK (Masdiantini and Erawati (2016). Government auditors must provide specific facts relating to the extent to which the findings occurred in the sample in the report audit during the covid 19 pandemic so that it can strengthen its audit findings. From the results of audits by the BPK during the covid 19 pandemic period, it should be used as a recommendation for future system improvements when local government operational activities have to make adjustments due to the covid 19 pandemic during the 2020 period until now this, not only uncovers the "success" of financial reports in a region, but also finds facts regarding misappropriation of funds that cause state losses (Gutomo 2018).Every year BPK conducts audits of Regional Government Financial Statements (LKPD) and provides opinions on the results i the report. Opinions given by auditors are often used as a basis for measuring local government performance, so that symptoms often arise in areas that seem to be hunting for Unqualified Predicates (WTP) (Suryaningsih and Sisdyani 2016).

Financial performance measures can be used to gauge the success of local governments. Financial performance may be seen in the local government's financial records. During the Covid 19 pandemic, the performance of the local government also changed since many regional officials worked from home, which made it difficult to provide the best services to the community. Even yet, the local government must continue to meet its performance goals for helping the community during the COVID-19 pandemic. The financial performance of local governments can show whether they are performing well or not. The presentation of local government financial reports demonstrates good government performance and can help the public understand how well local governments are performing. According to Irham Fahmi (2012: 2), local governments' accomplishments in financial performance can be used to gauge how well they are performing. The current study is focused on examining the impact of intergovernmental revenue, capital expenditure, and local revenue on government financial performance in the Regency/City of East Java Province during the Covid 19 pandemic in 2019–2021 based on this phenomenon and research background. The aim of this study is to demonstrate the impact of intergovernmental revenue, capital spending, local revenue, and size on the financial performance of local governments, with audit opinion acting as a moderating variable.

II. THEORETICAL FRAMEWORK

A) Previous Research

Nauw & Riharjo (2021) reported that local revenue, intergovernmental revenue, has a major impact on local government performance based on their research on the Papuan regional government, which has a unique autonomy fund. The findings of his study also show that community services can be provided through infrastructure created by capital expenditure funds at the regional administration of West Papua. The financial performance of the district/municipal government of West Papua Province is significantly impacted negatively by capital expenditures on the regional government of West Papua. Additionally, the monies are used to help government representatives conduct outreach, provide training, and provide support in the economic and social sectors in isolated settlements where the majority of the infrastructure is still in poor condition. The study's findings also show that local original revenue has a significant role in enhancing community services, particularly in the fields of health and economic welfare.

The findings of Sihombing & Arsani's research (2020) reveal, concurrently or in part, that local revenue has a favourable impact on the financial performance of local governments. The study's findings also show that the performance of local governments is significantly impacted by the increase of regional spending, which is more frequently employed as long-term capital expenditure. High capital expenditures can be used to deliver better services, and an increase in community welfare will enhance the effectiveness of local government. The study's findings also show how crucial it is for the region to strengthen its usage of revenue receipts in order to raise the economic well-being of its residents.

According to Dasmar et al.'s (2020) research, local revenue has a big impact on how well local governments perform. According to him, the potential that may be best utilised by the regional government by using the natural resources possessed by the area causes the regional original revenue to increase. However, the balancing fund variable did not have a significant impact on the performance of the regional government of North Sumatra province, according to the findings of research by Sari et al. (2020) on capital expenditure and local revenue in the North Sumatra Province between 2014 and 2017.

Alvini (2018) has previously performed research on the impact of local government size, wealth in the region, reliance on the federal government, and capital spending on financial performance. According to the study's findings, the size of the government, the degree of regional wealth, and capital spending all significantly affect financial performance, while dependency levels have the opposite effect. In his study of the impact of government size, PAD, capital spending, legislative actions, and intergovernmental revenue on local government financial performance, Febrianto (2018) provides information about the role that government size plays. The financial performance is unaffected by regional own-source income, capital spending, intergovernmental income, or legislative actions.

Masdiantini and Erawati's (2016) study provides evidence that the performance of local governments is impacted by audit opinions that highlight their ongoing concerns. The results of his research also inform that government auditors must provide specific facts relating to the extent to which errors occur in the sample in the audit report in order to strengthen their audit findings. The results of an audit by the BPK should be used as recommendations for future system improvements, not only revealing the "success" of financial reports in an area, but also finding facts regarding misappropriation of funds that caused state losses (Gutomo 2018). Every year BPK conducts audit activities on the Regional Government Financial Statements (LKPD) and provides opinions on the results of these reports. Research conducted by Suryaningsih and Sisdyani (2016) informs that the opinions given by auditors are often used as the basis for measuring local government performance, so that symptoms often arise in areas that seem to be hunting for Unqualified (WTP) predicates. The results of the study inform that going-concern audit opinions have an effect on local government performance.

a. Agency Theory

According to Jensen and Meckling (1976), agency theory is related to the primary relationship in this study, namely the community represented by the state or central government and the local government as agents as executors and mandates from the community to carry out good governance, transparency, and responsible for realising the best service and the welfare of society. The application of agency theory is extremely pertinent given that regional autonomy was adopted in Indonesia based on Law Number 22 of 1999 governing regional administration. With the existence of these laws, the role of the principal and agent in public sector accounting is explicitly stated. The people as the principal are the party with the full power of the budget represented by the state or the central government, while the agent is the local government, namely the owner of the full power of the use of the budget.

b. Research Framework

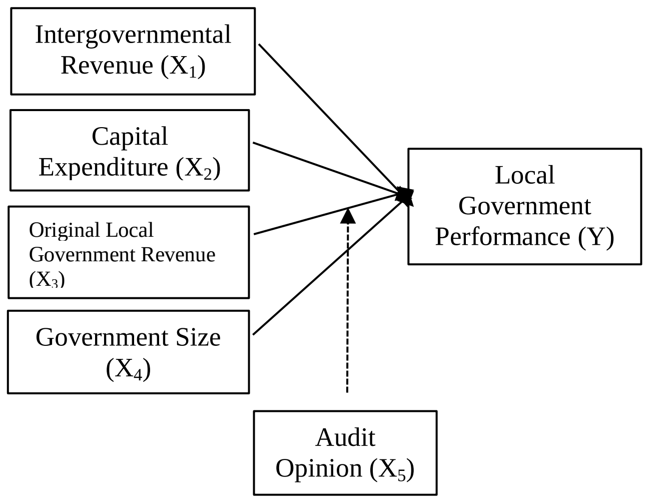

Figure 1:Research Framework and Hypothesis

Hypothesis development were:

H_1: District and city local governments in East Java Province's financial performance are impacted by intergovernmental revenue.

H_2: District and city local governments in East Java Province's financial performance are impacted by capital spending.

H_3: The financial performance of local governments in the province of East Java's regencies and cities is influenced by original local government revenue.

H_4: The financial performance of local governments in the province of East Java varies depending on the size of the government.

H_5: The relationship between original local government revenue and the financial performance of local governments in the regencies and cities of the East Java Province is strengthened by the audit opinion.

III. RESEARCH METHODS

Quantitative research using secondary data on local government financial reports (LKPD) in the form of budget realization reports (LRA) and balance sheets in the Regencies/Cities of East Java Province during the Covid 19 pandemic period in 2019-2021. The data was obtained from http://www.djpk.kemenkeu.go.id/, the websites of each City and Regency DPRD and the Central Statistics Agency.

A) Operational Definition and Variable Measurement

a. Dependent Variable

The district or municipal administration of East Java Province's financial performance is the dependent variable in this study. A level of regional financial performance is the use of financial indicators to obtain a performance result in the domain of regional finance, such as regional expenditure revenues and expenditures. Regional financial management performance criteria if above 100% then it can be classified as inefficient, if 90% - 100% then the criteria are less efficient, if 80% - 90% is included in the criteria quite efficient, if 60% - 80% is included in the efficient criteria, and less than 60% is very effective. The efficiency ratio is a comparison between the costs incurred and the income received. For the efficiency ratio formula according to (Andirfa et al., 2016).

$$\text{Efficiency Ratio} = \frac{\textit{Expenditure Realization}}{\textit{Income Realization}} \times 100\%$$

b. Independent Variable

Because it has an impact on the dependent variable, the independent variable is just that independent. The following are the independent variables in this study:

1. Intergovernmental revenue variable (X_1)

Intergovernmental income is a component of regional income that originates from the outside world (outside the municipality) and the degree of local governments' reliance on transfers from the federal government (80%–98%) (Suhardjanto 2010). The intergovernmental revenue calculation formula is:

Intergovernmental Revenue = Total balancing funds: Total Revenue

2. Capital Expenditure Variable (X_2)

The general administration expenditure group includes normal expenses like maintenance charges as well as capital expenditures, which are regional government expenditures whose benefits outlast one budget and will add to regional assets or wealth. This expenditure group includes types of expenditure both for the regional apparatus expenditure section and for public services (Mardiasmo, 2009) the formula calculation is:

Capital Expenditure =
Expenditure on land + Expenditure on equipment and machinery + Expenditure on buildings and structures + Expenditure on roads, irrigation and networks + other expenditures

3. Variable Original Local Government Revenue (PAD) (X_3)

Locally-generated revenue

Other than general allocation funds, special allocation funds, and balancing funds, regional own revenue (PAD) refers to regional income. According to Article 1 Number 18 of Law Number 33 of 2004, which addresses the financial equilibrium between the centre and the regions, regional original revenue is defined as income earned by the regions and collected in accordance with regional regulations. Regional taxes, regional levies, separate regional wealth management results, and other legitimate regional original revenues are where regional original revenue, as defined by Law Number 33 of 2004, originates. These legitimate regional original revenues are meant to give the regions flexibility in seeking funding for the implementation of regional autonomy as the embodiment of the principle of decentralisation (Sihombing & Arsani, 2020). The following ratio is used to determine how local government revenue has increased over time:

$$\text{Growth Original Local Government Revenue ratio} = \frac{\textit{Income realization PAD } Xn - Xn - 1}{\textit{Income realization PAD } Xn - 1} x\ 100\%$$

Xn is the calculated year, Xn-1 is the Previous year

Government Size (X4)

The local government's size reveals how much total property it has under its control. This is how the size of the government is determined:

Natural Logarithm of Total Assets = Ln Total Assets

Audit Opinion (X5)

Audit Opinion Audit activity is a form of independent verification conducted by the auditor. This study uses an audit opinion by the BPK in each district/city government of East Java. Opinion statements can be in the form of:

Table 1: Opinion Score

Opinion	Score
Do not Give Opinion	1
Unreasonable	2
Qualified With Exceptions (WDP)	3
Unqualified with Explanatory Paragraphs (WTP DPP)	4
Unqualified (WTP)	5

Therefore, it may be claimed that the local government's performance is improving if the audit opinion's score is greater.

The districts and cities in the province of East Java comprise the study's population. The Regional Government Financial Report (LKPD), which covers 29 districts and 9 cities in East Java Province from 2019 to 2021 during the Covid 19 pandemic, serves as the sample for this study. Given that the population's size is known, it may be said that this population is finite (Gozali, 2018). The research data used in this study are secondary data, specifically the yearly Regional Government Financial Report (LKPD) for the Covid 19 pandemic period, which runs from 2019 to 2021. The data collection method comes from sources obtained from http://www.djpk.kemenkeu.go.id/ and the websites of each Regency and City DPRD. In this study using multiple regression analysis techniques and descriptive statistical analysis. A model of prediction known as multiple regression analysis includes more than one independent variable.

Multiple Linear Regression Analysis

Testing the impact of two or more independent variables or independent (explanatory) factors on the dependent variable or dependent variable is done using multiple linear regression. In multiple linear regression, it explains that there is a one-line or linear relationship between the dependent variable or dependent variable and each conjecture (Arum & Anie, 2012).

The model of multiple linear regression is:

$Y = \alpha + \beta 1X1+\beta 2X2+ \beta 3X3 + \beta 4X4 + \beta 5X5. + \beta 3X3. X5 + e$

Y : Local Government Financial Performance

α : Constant

X1 : Intergovernmental revenue

X2 : Capital Expenditures

X3 : Regional Own Revenue

X4 : Government size

X5 : Audit opinion

e : Error

β1-…β5 : Regression coefficient

IV. RESULTS AND DISCUSSION

The p-value (sig.) 0.207 > 0.05 with N = 91, which indicates that the data were normally distributed, is based on the normality test results in Table 2.

Table 2: Data Normality Test Results

	Unstandardized Residual
N	91
Test Statistic	.071
Asymp. Sig (2-tailed)	.207

Source: data processed, 2023

It can be deduced that there is no multicollinearity in the regression model and no correlation between the independent variables because the tolerance values of each independent variable have values more than 0.10 and lower than 10, respectively. The heteroscedasticity test results showed that every independent variable in this study had a significant value > 0.05, leading to the conclusion that the research model did not exhibit any signs of heteroscedasticity. The absence of autocorrelation in the data is indicated by the Durbin-Watson (DW) value.

The influence of each independent variable intergovernmental revenue (X1), capital expenditure (X2), regional original income (X3), and government size (X4) used in this study is measured using Equation 1 of the multiple linear regression model.

Model equation 1
$Y = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X4 + e.$
$Y = 8.119 + 0.427X1 + 0.402X2 + 0.411X3 + 0.397X4 + e.$

Table 3: Multiple Regression Analysis Test Results

Model	***Unstandardized Coefficients***	***Sig.***
	B	
Constant	8,119	0,116
X_1	0,427	0,001
X_2	0,402	0,000
X_3	0,411	0,000
X_4	0,337	0,001

Source: data processed, 2023

The intergovernmental revenue (X1), capital expenditure (X2), regional original income (X3), and government size (X4) variables all significantly affect the financial performance of local governments (Y), according to the results of the model 1 test in Table 3.

Table 5 is the result of the moderated regression analysis test in model 2.

Model equation 2:
$Y = \alpha + \beta1.X1 + \beta2.X2 + \beta3.X3 + \beta4.X4 + \beta3.X3 *X5+ e.$
$Y = 9.144 + 0.410X1 + 0.399X2 + 0.417X3 + 0.401X4 + 0.429X3*X5 + e.$

Table 4: Moderated Regression Analysis Test Results

Model	***Unstandardized Coefficients***	***Sig.***
	B	
Constant	9,144	0,122
X_1	0,410	0,000
X_2	0,399	0,000
X_3	0,417	0,000
X_4	0,401	0,000
X_3*X_5	0,429	0,000

Source: spss data processing, 2022

According to Table 4's moderated regression analysis test results, the audit opinion improves the link between local original income and local government performance. The audit opinion variable is a potent moderating variable, to sum up.

The F test is employed in order to be able to see an influence of the independent factors on the dependent variable at the same time (Ghozali, 2016). Examining the sig-F value in the Annova table of the moderated regression analysis test on the equations in this study is how this is done. If the sig-F value is less than 0,05, the regression model is deemed to be fit. The outcome of the F statistic test is shown in Table 5.

Table 5: Statistical Test Results F

Annova	
F	29,433
Sig.	0,000

Source: data processed, 2023

Based on Table 5, the conclusions showed that the F value was 29,433 and the sig-F value was 0,000, or less than 0.05, respectively. The regression model is therefore deemed to be fit. This suggests that in this study, the influence of the independent variables on the dependent variable may be estimated using the regression model.

To determine the extent to which all independent factors contribute to the variance of a dependent variable, the coefficient of determination test is employed (Ghozali, 2016). When evaluating each of the moderated regression analysis equations, the corrected R2 (R square) value can be found in the model summary table. If the value of R2 is closer to one, all independent variables are said to be able to explain a dependent variable more effectively. The results of evaluating each moderated regression analysis equation's coefficient of determination are listed below.

The coefficient of determination in the moderated regression analysis of this equation is used to quantify the extent to which the original local government revenue, capital expenditure, and government size variables, as well as intergovernmental revenue and capital expenditure, have contributed to the variance in the variable local government financial performance.

Table 6: Test Results for the Coefficient of Determination

Model	***Adjusted R Square***
1	0,517

Source: data processed, 2023

According to Table 6, the modified R2 value is 0,517. Therefore, the intergovernmental revenue, capital expenditure, local original revenue, and government size factors have a 0,517 or 51,7% influence on local government financial performance. This indicates that there are other factors accounting for 48,3% of the error that are not accounted for by the model.

A) Discussion

a. The Effect of Intergovernmental Revenue on Local Government Financial Performance

The study's findings show that the financial performance of local governments is significantly influenced by intergovernmental revenue. It has been demonstrated that prudent intergovernmental money management can accelerate the creation of initiatives that enhance community service and welfare (Thalib, 2019). Growing regional independence as reflected in the presentation of financial reports can be used to assess the effectiveness of regional financial management in the decentralisation era (Ayu, 2018). Research conducted by Sumarjo (2010), Anzarsari (2014), and Maiyora (2015), who in their research said that intergovernmental revenue has a major impact on government financial performance, is prior research that validates the findings of this study. However, this study differs with Sesotyaningtyas (2012) study, which found no discernible relationship between intergovernmental revenue and the financial performance of governments. On the contrary. The use of agency theory in this connection is that intergovernmental revenue is local government revenue obtained from the APBN which must be managed by agents, namely local governments with full and transparent responsibilities. The goal is that these funds can be used to provide welfare and improve the socio-economic community while the principal is in an agency theory relationship.

b. Effect of Capital Expenditures on Regional Government Financial Performance

Capital Expenditure issued by the regional government is a regional investment in the context of providing services to the community whose benefits, both directly and indirectly, can be felt by the community. The government will create the facilities, infrastructure, and infrastructure the state requires, which is represented in the capital expenditures the government makes. A reflection of the numerous infrastructure and facilities created is large capital expenditure. According to logic, the more development that is done, the better the regional government's financial performance will be because the more resources created, the greater the results will be. It is hoped that the region's rapid growth and asset addition will increase its independence in financing its operations, particularly in terms of finance and increasing capital for local government performance, which will have an effect on increasing regional government financial performance. utilising financial indicators established through a policy or statutory provisions from one budget period to the next budget period to increase the achievement of a work result in the area of regional finance, which includes the budget and realisation of Regional Original Revenue (PAD) and Capital Expenditures. Suandani & Astawa (2021), who assert that capital expenditure has a considerable impact on local government performance, complement the findings of this study.

c. The Effect of Regional Original Income on Regional Government Financial Performance

The study's findings show that local revenue has an impact on the financial health of local governments. The ultimate goal of regional original revenue is to grant regional governments the power to finance the implementation of regional autonomy activities. The more and more regional original revenue is received and managed, the more effective the regional government functions as a form of decentralised government. The findings of this study are consistent with other studies by Sihombing & Arsani (2020) and Sukma & Panji (2018), which show that local revenue significantly improves the financial performance of local governments. On the other hand, the research of Mulyani & Wibowo (2017) and Badjra et al. (2017) revealed that local revenue had little impact on the financial performance of local governments. Agency theory is used in this context to explain why the public always wants the local revenue managed by the agent, in this case the local government, to enhance services to the community and also help the local population prosper. The local government is better able to manage available resources and potential so that the income created is larger and more efficient, and is no longer dependent on aid from the central government, the more regional original income is obtained (Thalib, 2019). The findings of this study are also consistent with those of Sihombing and Arsani (2020), Awwaliyah et al. (2019), and Zuhri & Soleh (2016), which found that local revenue (PAD) significantly influences the financial performance of local governments.

d. The Effect of Government Size on Local Government Financial Performance

The findings of this study show that local government performance is significantly influenced by the size of the local government. According to Hartono (2014), the scale used to measure the size of the local government can also be used to measure its state. An organization's size can be determined both physically and virtually. An organisation must be measured non-physically as well as physically when it comes to performance evaluation. The local government's size will make operational tasks easier, which will make it simpler to provide enough community services. Using the total assets of a government, the size of the local government demonstrates how large it is. With a greater number of assets, it is expected to have better financial performance compared to regions that have fewer assets. However, it must be supported by the government (steward) who manages regional assets as well as possible so that what is planned for a region can achieve its performance. Local governments with a large number of assets are assumed to have the potential to provide more services to the community (principal). The achievement of government goals through the performance carried out in managing assets can provide satisfaction to the community. The findings of this study are consistent with those of Masdianti & Erawati (2016) study, which found that the size of the government had a favourable impact on the financial performance of local governments. The findings of research by Achmad et al. (2017), which demonstrate that government size has a favourable impact on local government financial performance, support the findings of the current study.

e. Effect of audit opinion on Local Government Financial Performance

The study's findings show that audit views improve the link between local tax income and local government effectiveness. The findings of this study are consistent with Suandani & Astawa's research (2021), which found that audit opinions significantly affect the performance of local governments. Regional financial reporting that is transparent and accountable for its actions is demonstrated by statements of audit views from the Supreme Audit Agency (BPK) addressing the degree of fairness of information and financial comparisons, or local government performance. One of the income components that must be included in the regional financial reports is regional original income, which is a source of regional income. Local governments perform better the more open and accountable the source and usage of regional own-source revenue funds are. Additionally, the audit opinion obtained through BPK's examination of regional financial reporting aims to uncover government agencies' attempts to improve welfare of the populace as well as to realise transparency and accountability of state funds (Financial Audit Agency 2015). The government is also expected to be able to disclose the results of the programmes that have been implemented in the era of public sector reform, according to Hasthoro and Sunardi (2016), in order to determine whether the government is operating economically, effectively, and efficiently. In order to express an opinion on the fairness of financial information, one of which is offered in the financial statements based on total disclosure, Hartati (2011) claims that one of the criteria for evaluating financial reports is carried out. Because of this, disclosure is crucial to the audit's goal of providing a fairness opinion on the financial statements. in order for the disclosure of the financial accounts to reveal the opinion's evaluation. By connecting the regional government’s financial reports to the reality of performance achievements, it is possible to use the existence of an audit opinion by the BPK as a moderating variable to find out the local government's regional original revenue allocation strategy.

V. CONCLUSION

The aim of this study is to demonstrate the impact of intergovernmental revenue, capital spending, local revenue, and size on the financial performance of local governments, with audit opinion acting as a moderating variable. The study's findings show that local government financial performance is significantly influenced by intergovernmental revenue, capital spending, local revenue, and government size. It has been demonstrated that good intergovernmental fund management can facilitate the creation of initiatives that can raise community welfare and service levels. A reflection of the numerous infrastructure and facilities created is large capital expenditure. According to logic, the more development that is done, the better the regional government's financial performance will be because the more resources created, the greater the results will be. The ultimate goal of regional original revenue is to grant regional governments the power to finance the implementation of regional autonomy activities. The more and more regional original revenue is received and managed, the more effective the regional government functions as a form of decentralised government. The local government's size will make operational tasks easier, which will make it simpler to provide community services. The study's findings also demonstrate that the audit opinion improves the link between local original income and local government effectiveness. The practical contribution of this research is to provide information to regional government heads to always present and report regional financial reports in a transparent and accountable manner in order to obtain an unqualified audit opinion and increase the effectiveness and efficiency of the management of intergovernmental revenue, capital expenditures and regional own-source revenue. Several financial reports, budget realization reports and balance sheets in the districts or cities of East Java Province in the 2019-2021 period were not complete and informative, which was a limitation in this study. Suggestions for further research can consider the use of organizational commitment and professional variables as independent variables to determine behavioral accounting aspects of local government. The practical contribution of this research provides information to regional government heads to always present and report regional financial reports in a transparent and accountable.

VI. REFERENCES

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