RISET
JURNAL APLIKASI EKONOMI AKUNTANSI DAN BISNIS
https://ejournal.ibik.ac.id/index.php/riset E-ISSN : 2656-7113 P-ISSN : 2797-4057 DOI : doi.org/10.37641/riset.v6i1.2064

REGIONAL REVENUES, AUDIT OPINIONS, LOCAL GOVERNMENT FINANCIAL PERFORMANCE: THE MODERATING ROLE OF CAPITAL EXPENDITURE

Eva Yunadia Chaerani[1], Amrie Firmansyah[2]

[1] Indonesian Financial and Development Supervisory Agency,
[2] Universitas Pembangunan Nasional "Veteran" Jakarta

E-mail : evayunadiac@gmail.com[1], amriefirmansyah@upnvj.ac.id[2]

ARTICLE INFO

REGIONAL REVENUES, AUDIT OPINIONS, LOCAL GOVERNMENT FINANCIAL PERFORMANCE: THE MODERATING ROLE OF CAPITAL EXPENDITURE

Submitted:
14 – January – 2024
Revised:
06 – February – 2024
Accepted:
15 – March – 2024

CC BY SA

ABSTRACT

The existence of regional autonomy policies causes regional governments to have their respective authorities in administering government. It encourages increased performance and accountability. In addition, the Covid-19 outbreak that has hit has made people increasingly pay attention to the performance of local governments. This research examines the factors influencing the financial performance of local governments in districts/cities in South Sulawesi. The independent variables used are regional revenue and audit opinion. This study also aims to investigate the effect of capital expenditure as a moderator in the connection between the independent and dependent variables. This study employs secondary data from www.djpk.kemenkeu.go.id and https://e-ppid.bpk.go.id/, as well as multiple linear regression analytic approaches. This research finds that regional revenue significantly negatively affects local government financial performance. In addition, audit opinions significantly positively influence financial performance. However, capital expenditure does not have a moderating role in these two relationships.

Keywords: Performance, Local Government, Regional Revenue, Audit Quality, Capital Expenditure

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

INTRODUCTION

The COVID-19 pandemic that hit the world just caused a significant impact on the economy, and Indonesia is no exception. The crisis has led to a refocusing and reallocation of budgets to address the impact of the pandemic. Resource use focuses on responding to the needs due to the crisis. It led to decreased economic activity, which also impacted government performance. Government performance is focused on the demands of overcoming the health and economic crisis caused by the pandemic. Government performance in managing state administration is in the spotlight for the community. It applies not only to the central government but also to local governments. Local governments must efficiently oversee and utilize regional resources for the community's well-being (Dasmar et al., 2020). It continues even when the pandemic begins to flatten. South Sulawesi is one of the provinces with the largest revenue budget in eastern Indonesia, with IDR 34,145.77 M (Regional Revenue and Expenditure Budget/APBD Posture) for all districts/cities in South Sulawesi in 2021. South Sulawesi is also the most populous province on the island of Sulawesi, so there is quite a lot of attention from the public on its regional performance.

One way to assess local government performance is to examine the region's independence (Deswira, 2022). The average performance independence ratio of districts/cities in South Sulawesi in 2021 only reached 15.22%. The district/city local government in South Sulawesi still considerably depends on the central government. According to Kusuma & Kurnasih (2017), their reliance on the central government influences local administrations' poor performance. In addition, the average regional revenue effectiveness ratio for the 2021 fiscal year was only 85.51%. The regional revenue budgeted by the local government has not exceeded expectations or even been fully realized. This also shows that local governments have not been able to maximize their performance per the plans made in the Regional Revenue and Expenditure Budget.

The region's prosperity is a factor that influences financial performance (Kusumasari & Kartika, 2022). The regional revenue the local government creates reflects a region's wealth. With high and well-managed regional revenue, local governments can fulfill and improve services to their communities.

Local government financial statements need to be audited by Audit Board of The Republic of Indonesia to improve accountability and transparency (Sir et al., 2021). An increase in local government accountability shows better performance by the local government (Rasyid et al., 2022). As a result, the government's capacity to secure an unqualified opinion from the Audit Board of The Republic of Indonesia will influence the local government's financial performance (Suwanda, 2015).

Previous research in Indonesia has looked into the link between regional revenue and the financial performance of local governments. Sari & Wati (2021), Maulina et al. (2021), and Wahyudin & Hastuti (2020) found that regional revenue significantly improves the financial performance of local governments. However, Mulyani & Wibowo (2017) concluded that regional revenue negatively correlates with local government performance. Meanwhile, Kusumasari & Kartika (2022) suggested that government performance is negatively affected by the level of regional prosperity or regional revenue.

Extensive studies have been undertaken on the influence of regional revenue and audit opinions on local government performance. Kurnia (2020) and Masdiantini & Erawati (2016) found that a favorable audit opinion positively affects the government's financial performance. Meanwhile, according to research by Rasyid et al. (2022),

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

government financial performance is negatively affected by audit opinions. In another case, Ditasari & Sudrajat (2020) and Setiawan et al. (2020) found that the financial performance of the local government remained unaffected by the audit opinion.

Several studies find variances or disparities in the influence of regional revenue and audit opinions on the financial performance of local governments. As a result, further research is needed to identify how regional revenue and audit perspectives influence the financial performance of local governments.

Previous studies have extensively addressed the relationship between regional revenue and audit opinions on the financial performance of local governments. This study includes capital spending as a moderating element that has yet to be extensively examined. This study aims to see if capital spending may improve the influence of the independent factors, regional revenue and audit opinion, on the dependent variable, local government's financial performance. Capital expenditure is used for infrastructure development, including public facilities that are useful for the community. Regional revenues should be distributed evenly for capital expenditures and other expenditures to increase development in the area (Fernandes & Putri, 2022). It will have an impact on the financial performance of local governments. Digdowiseiso et al. (2022), in their research, stated that local government financial performance is positively and significantly influenced by capital expenditure.

Agency theory, a subset of game theory, examines the formulation of contracts to incentivize rational agents to act in the principal's best interest, significantly when the agent's interests diverge from the principal's (Scott, 2015). In organizations, the principal's interests conflict with those of the agent, and the principal may want the agent to maximize his interests rather than the agent being willing to do so (Scott, 2015).

The relationships in agency theory also apply to public sector organizations, including local governments. The regional government is an agent given the authority to administer the government to maximize the welfare of the communities as principal. Agency problems in the relationship between local government and the communities are due to the information asymmetry between the two. Regional governments have greater access to information than the people. The existence of agency problems can cause moral hazards, where the government acts according to its interests. If not prevented and resolved, agency problems will have an impact on the performance of local governments.

The financial performance of the local government is an assessment of an activity/program carried out to achieve its targets and objectives (B. I. Sari & Wati, 2021). Fathah (2017) states that as agents responsible for administering the government, regional governments must report accountability for the financial management of resources collected from the community. Financial management accountability reporting helps to assess the financial performance of regional governments. The financial performance of regional governments serves as an indication for measuring their capacities in implementing regional autonomy (Darwanis & Saputra, 2014). By assessing local government's financial performance, the government can identify policies to optimize local communities' well-being.

The prosperity of a region is measured based on the regional revenue realized by that region. Based on Law No. 23 of 2014, regional revenue refers to revenue acquired by the locality, gathered following regional regulations and adhering to statutory provisions. Based on Government Regulation No. 12 of 2019, The regional revenue

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

produced by regional administrations comprises local taxes, regional retributions, proceeds from the administration of distinct local assets, and other lawful local income. A high level of prosperity shows that the regional government successfully implements the activities/programs planned in the regional government planning documents (Kirana & Silardi, 2020).

Regional revenue is income obtained by a region that originates from that region. The high regional revenue shows that the regional government can maximize the regional revenue resources available in its area (Andani et al., 2019). High regional revenue will encourage local governments to manage their resources better to achieve the specified targets (Primadiva et al., 2021). According to Dasmar et al. (2020), the government can use high regional revenue to achieve regional programs and development to improve regional government performance. The greater the regional revenue in a region, the smaller the regional government's dependence on the central government (Mulyani & Wibowo, 2017). Ayu (2018) states that regional revenue positively influences regional governments' financial performance, so increasing regional revenue will improve regional governments' financial performance. The result is supported by the statement of Verawaty et al. (2020) that regional revenue increases the local government's financial performance.

H_1 : Regional revenue is positively associated with financial performance

To improve the quality and prevent manipulation of financial statements, financial statements need to be audited by independent auditors (Ningsih, 2016). Opinions on financial reports show the quality of the government in administering government. An audit opinion is a professional opinion that assesses the fairness of financial reports from local governments. (Pattipawaey & Leatemia, 2023).

Annually, the Audit Board of The Republic of Indonesia examines the Financial Reports of Local Governments and offers an opinion on their fairness. When examining financial reports, the Audit Board of The Republic of Indonesia considers financial equity, internal control systems, and legal compliance. The State Financial Audit Standards define the Audit Board of The Republic of Indonesia’s opinions on financial reports as unqualified, stressing a matter paragraph, qualified, unfavorable, and disclaimer.

The Audit Board of The Republic of Indonesia's audit opinion can be used to assess the government's accountability to its stakeholders (Andani et al., 2019). Thus, the audit opinion impacts the degree of trust that stakeholders place in financial reporting. (Ditasari & Sudrajat, 2020). It will encourage local governments to carry out their governance well to maximize the welfare of their communities. Therefore, the local government's performance should improve with a more favorable audit opinion received (Masdiantini & Erawati, 2016). Suryaningsih & Sisdyani (2016) stated that the local government's performance could be better when it receives more unfavorable opinions or no opinion is provided. The research results of Masdiantini & Erawati (2016) show that audit opinions increase local government financial performance. It is supported by Kurnia (2020), who concluded that there is a positive association between audit opinions and the local government’s financial performance.

H_2 : Audit opinion is positively associated with financial performance

According to Minister of Finance Regulation Number 62 of 2023, capital expenditure enhances fixed and other assets, enduring for more than one fiscal year.

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

Government spending classified as capital expenditure possesses a multiplier effect on the economy, thereby influencing the economic growth of a region (Andani et al., 2019). Governmental capital expenditures involve enhancing infrastructure, including public facilities like roads and bridges, and constructing buildings or acquiring equipment to facilitate government administration.

Local government financial performance experiences a positive impact from capital expenditures, as stated by Kirana & Silardi (2020), Sari & Mustanda (2019), and Mulyani & Wibowo (2017). Local governments utilize capital expenditures to deliver community services through development and governmental administration, fostering economic growth in the region. There is a multiplier effect on capital expenditure issued by the government. In line with this, capital expenditure can improve services provided to the community. It shows that regional governments can perform well through their capital expenditure.

Regarding regional revenue, Wadjaudje et al. (2018) state that capital expenditure positively impacts regional revenue. Increasing capital expenditure will improve public services and facilities provided by local governments. It will, of course, increase regional taxes and retribution that can be collected from the community.

Meanwhile, if it is related to an audit opinion, capital expenditure that is carried out and implemented well can increase the possibility of an unqualified audit opinion. The performance of a regional government is impacted by its capability to receive an unqualified opinion in its financial reports.

Considering the rationale and prior research elucidated, the third and fourth hypotheses are framed as follows:

H_3 : Capital expenditure strengthens the positive association between regional revenue and financial performance

H_4 : Capital expenditure strengthens the positive association between audit opinions and financial performance

RESEARCH METHODS

This study relies on secondary data, including the actualization of the Regional Revenue and Expenditure Budget for all districts/cities in South Sulawesi between 2019 and 2021. This information was collected from the official website www.djpk.kemenkeu.go.id, as well as the Audit Report on the Financial Statements of the Regency/City Regional Government in South Sulawesi for the Years 2019-2021, which can be found at https://e-ppid.bpk.go.id/. This study focuses on local government entities in South Sulawesi's districts and cities. The research comprises 21 districts and three cities during 3-year observations, resulting in 72 observations.

Multiple linear regression for panel data was used to test hypotheses on the impact of regional revenue and audit opinion on the financial performance of local governments in South Sulawesi. Data processing was carried out using a statistical data processing tool, namely Eviews 12. Before conducting hypothesis testing, a classic assumption test is first carried out for panel data.

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

The dependent variable in this study is local government financial performance, which is analyzed using the financial efficiency ratio as a proxy. It follows Fathah (2017), the efficiency ratio formula is as follows:

$$\text{Efficiency Ratio} = \frac{\text{Realization of Regional Expenditure}}{\text{Realization of Regional Revenue}}$$

The independent variables in this study are regional revenue and audit opinion. Based on Andani et al. (2019), the use of regional revenue variables is as follows:

$$\text{Regional Revenue} = \text{Ln Regional Revenue}$$

The following independent variable is audit opinion. The audit opinion is a professional declaration regarding the fairness of government financial statements. This variable is measured based on the following indicators:

Table 1. Audit Opinion Indicator

Audit Opinion	Score
Unqualified (WTP)	5
Unqualified with Explanatory Paragraphs (WTP-DPP)	4
Qualified (WDP)	3
Adverse (TW)	2
Disclaimer (TMP)	1

Source: Primary Data, 2023

The moderating variable used in this study is capital expenditure. Based on Andirfa et al. (2016), the capital expenditure variable uses the following indicators:

$$\text{Capital Expenditure} = \text{Ln Total Realized Capital Expenditure}$$

This study also uses control variables to minimize the influence of other independent variables outside the model. The control variables used are local government size (size) and leverage (Dewata et al., 2017). The proxy of size is as follows:

$$\text{Size} = \text{Ln Total Assets}$$

Furthermore, the proxy of leverage is as follows:

$$\text{Leverage} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

Also, this study uses control variables to reduce the influence of additional independent factors not included in the model. Model 1 investigates the relationship between regional revenue and audit opinions on local government financial performance. Model 2 examines capital spending as a moderating variable in the relationship between regional revenue and audit opinions on local government financial performance. The research model in this study is as follows:

Model 1:

$$\text{Efficiency Ratio} = \beta_0 + \beta_1 \text{ Regional Revenue}_i + \beta_2 \text{ OPINION}_i + \beta_3 \text{ SIZE}_i + \beta_4 \text{ LEV}_i + \varepsilon_i$$

Model 2:

$$\text{Efficiency Ratio} = \beta_0 + \beta_1 \text{ Regional Revenue}_i + \beta_2\text{OPINION}_i + \beta_3\text{Regional Revenue*CAPEX}_i + \beta_4\text{Regional Revenue*OPINION}_i + \beta_5\text{CAPEX}_i + \beta_6\text{SIZE}_i + \beta_7\text{LEV}_i + \varepsilon_i$$

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

Where: Efficiency Ratio is local government financial performance, Regional Revenue is regional revenue, OPINION is audit opinion, CAPEX is capital expenditure, SIZE is the size of local government assets, and LEV is local government leverage.

RESULTS AND DISCUSSION

Descriptive statistical testing is necessary before assessing the study model. Descriptive statistical analysis is used to interpret and summarize the data utilized in the research investigation. The dependent, independent, moderation, and control variables were examined using the mean, median, minimum, maximum, and standard deviation. Table 2 displays the results of the descriptive statistical tests:

Table 2. Descriptive Statistics

Variable	Mean	Med.	Max.	Min.	Std. Dev.	Obs.
PERFORM	0.9926	0.9942	0.0320	0.8935	1.0898	72
OPINION	4.7222	5.0000	0.6965	3.0000	5.0000	72
Regional Revenue (in Milyar Rupiah)	187.1000	133.1600	217.0600	46.1900	1,303.3200	72
CAPEX (in Milyar Rupiah)	244.8600	234.0100	104.5000	83.7500	884.2000	72
SIZE (in Milyar Rupiah)	3,953.7700	2,460.8400	5,596.4000	1,512.0700	30,336.2000	72
LEV	0.0247	0.0189	0.0223	0.0011	0.1130	72

Source: Data Processed, 2023

The hypotheses were evaluated using multiple linear regression analysis. Hypothesis testing was carried out on two research models: Model 1 examines the effect of independent variables on the dependent variable, and Model 2 examines the role of moderating variables on the effect of independent variables on the dependent variable. Table 3 provides an overview of the hypothesis testing results.

Table 3. Summary of Hypothesis Testing Results

	Model 1					Model 2		
Variable	Coeff.	T-Stat.	Prob.		Variable	Coeff.	T-Stat.	Prob.
C	1.4162	7.4583	0.0000		C	2.9876	8.1108	0.3684
OPINION	0.0099	1.9838	0.0257	***	OPINION	0.3122	0.9420	0.1749
Regional Revenue	-0.0177	-2.4824	0.0078	***	Regional Revenue	-0.1591	-0.4979	0.3102
LEV	0.2214	1.3450	0.0916		OPINI*CAPEX	-0.0117	-0.9200	0.1805
SIZE	-0.0008	-0.1042	0.4587		RR*CAPEX	0.0051	0.4166	0.3392
					CAPEX	-0.0428	-0.1404	0.4444
					LEV	0.1703	1.0702	0.1443
					SIZE	-0.0078	-0.9528	0.1722
R^2		0.2216			R^2		0.3153	
Adj. R^2		0.1751			Adj. R^2		0.2405	
F-stat.		4.7689			F-stat.		4.2109	
Prob (F-stat.)		0.0019			Prob (F-stat.)		0.0007	

Source: Data Processed, 2023

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

Based on Table 3, it is known that in model 1, 2 independent variables have a significant effect on local government performance at a significance of 0.50%. It is OPINION and Regional Revenue, while LEV and SIZE have no significant effect. On the other hand, after adding moderating variables in the form of CAPEX, all independent variables in this study have no significant effect on local government performance.

The association between regional revenues and local government financial performance

Regional revenues encompass income generated by local regions, comprising local taxes, regional levies, proceeds from managing distinct local assets, and other lawful regional revenue. A high regional revenues suggests that the local government has successfully implemented activities/programs to generate the anticipated revenue. This study converted regional revenues into natural logarithms to lower the numerical scale. This study included data from all districts and cities in South Sulawesi Province. The negative regional revenues coefficient means that increasing regional revenues will result in a deterioration in financial performance. Thus, the first hypothesis (H_1) is rejected.

The findings are corroborated by Armaja et al. (2015) and Putri & Darmayanti (2019), which stated that local government financial performance is significantly negatively affected by regional revenues. Armaja et al. (2015) state that the rise in regional revenue generated by local governments results in an elevated risk of misappropriation of regional assets. As a result, local government financial performance assessment will negatively impact or decrease.

However, this study shows different results from the same research conducted on local governments. Antari & Sedana (2018) state that regional revenues significantly and positively affects local government financial performance. The disparity in the outcomes of this study and Antari & Sedana (2018) can be caused by using different samples. Antari & Sedana (2018) employed a sample of local governments in the districts/cities of Bali Province from 2011 to 2015. In contrast, this study utilized a sample of local governments in the districts/cities of South Sulawesi Province from 2019 to 2021. It shows that each region has unique characteristics, including the sampling period. Therefore, differences in research results may occur.

The result of this study suggests that as regional revenues increases, the financial performance of local governments tends to decline. When referring to the data used in this study, namely the districts/cities in South Sulawesi Province, the risk of misuse or corruption of regional revenues is getting higher with the higher value of regional revenues generated by the districts/cities in South Sulawesi Province in 2019 to 2021. It aligns with the corruption levels in South Sulawesi Province, which ranks among the top five regions in Indonesia based on the number of corruption cases mapped in 2021 by Indonesia Corruption Watch (Anandya et al., 2022). The generated revenue sources should be utilized to their full potential in delivering services to the community, leading to the government's performance deterioration.

The association between audit opinion and local government financial performance

The audit opinion is Audit Board of The Republic of Indonesia's expert assessment regarding the fairness of local government financial reporting. This research evaluates audit views using indicators, with 1 for disclaimer, 2 for Adverse, 3 for Qualified, 4 for Unqualified with Explanatory Paragraph, and 5 for Unqualified. The unqualified judgment indicates that the local government's financial accounts were presented

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

relatively and following government accounting standards. The positive coefficient value indicates that the more excellent the audit opinion on local government financial statements, the better the financial performance. Thus, the second hypothesis (H_2) in this investigation is accepted.

The result of the research by Wijayanti & Suryandari (2020) aligns with this study. Wijayanti & Suryandari (2020) show that the audit opinion positively impacts the local government's financial performance. According to Wijayanti & Suryandari (2020), The higher the quality of the audit opinion received, the more effective local governments manage their local finances.

The audit opinion received is closely tied to the financial management of a region. If a local government can manage its finances well, including recording and accounting, it will likely receive an unqualified audit opinion. The unqualified opinion indicates that the local government has adhered to standards in presenting and implementing its financial statements, demonstrated sufficient disclosure, complied with legislation, and maintained an effective internal control system (Andani et al., 2019). Local governments that manage their local finances well can use their financial budgets for things that are useful for the community, such as service improvement, infrastructure development, et cetera. The more proficiently a local government handles its finances, the higher the financial performance it will achieve.

The positive correlation between audit opinion and financial performance suggests that furnishing Audit Board of The Republic of Indonesia opinions on financial reports can address an agency issue, precisely information asymmetry (Parwanto & Harto, 2017). Local governments have conducted financial management at the local level in conformity with the allocations specified in the laws and regulations. It is reflected in the audit opinion published to the public. The existence of audit opinion can reduce information asymmetry in agency relationships.

Compared with similar studies, this study demonstrates results that differ from the findings of Alliyah & Karno (2021). Alliyah & Karno (2021) used research objects in districts/cities in Central Java Province from 2014 to 2016. Alliyah & Karno (2021) indicate a significant adverse effect between audit opinion and local government performance. According to Alliyah & Karno (2021), the adverse effect of audit opinions on the financial performance of local government arises from issues linked to auditors' independence. The occurrence of opinion buying and selling practices is due to the disappearance of auditor independence. Therefore, an auditor needs to maintain his independence. Conflicting interests between auditors and the public as principals can result in irregularities that may diminish the performance of local governments despite an improvement in the audit opinion provided. (Alliyah & Karno, 2021) Just like the previous variable, the difference in the results of this study is due to different objects and research periods.

The moderating role of capital expenditure in the association between regional revenues and local government financial performance

Capital expenditure (CAPEX) is a moderating variable used in this study. The impact of capital expenditure is identified through the regression outcomes of model 2, which is achieved by adding the CAPEX variable as a moderating factor in model 1. A comparison of regression results before and after the addition of moderating variables can be seen in Table 3. Capital spending, a moderating variable, has a limited impact on

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

financial performance. Similarly, the interplay between regional revenues and capital spending (Regional Revenues*CAPEX) does not substantially impact the local government's financial performance. As a result, the moderating variable of capital expenditure in this study may be classified as potential or homologized moderators.

The impact of capital expenditures on regional revenues should be apparent if these expenditures are directed toward constructing infrastructure with a focus on delivering services to the community by local governments. Capital expenditure in this study has yet to prove this. Capital expenditure is assumed to concentrate on infrastructure development or internally procuring fixed assets.

The moderating role of capital expenditure in the association between audit opinion and local government financial performance

Table 3 Model 2 demonstrates that the moderating variable capital expenditure does not affect the association between audit opinion and local government financial performance. It is demonstrated by the probability value of the OPINION*CAPEX variable, which is 0.1805 or more excellent than the significance threshold (0.0500), resulting in the rejection of the fourth hypothesis (H_4) in this study.

This study does not show that efficiently managed capital expenditures by local governments may increase the favorable link between audit opinion and financial performance. Increasing capital spending only sometimes increases the impact of audit opinions on the financial performance of local governments. Audit opinions are expected to encompass the fairness of all transactions in financial statements, not only capital expenditures.

CONCLUSION

This study reveals that the government-collected regional revenues significantly and adversely influences financial performance. The actualized regional revenues needs to be more effective in enhancing the financial performance of local governments. Other factors, such as corruption, can cause the government to be inefficient in managing its revenue, which can lower its performance. Secondly, the audit opinion significantly correlates with the local government's financial performance. That indicates local governments with higher quality audit opinions may have better financial performance. It shows that excellent financial management causes the government to perform optimally. Thirdly, Capital expenditure does not alter the correlation between regional revenues and financial performance. Capital expenditure has yet to succeed in enhancing the effectiveness of regional revenues in enhancing financial performance. Also, capital expenditure does not affect the association between audit opinion and financial performance. Capital expenditure has not been able to strengthen the positive influence of audit opinion on financial performance.

Based on the preceding section, it is clear that the negative impact of regional revenues on the financial performance of districts/cities in South Sulawesi highlights the need to improve the design and efficacy of internal controls in regional financial management. regional revenues is supposed to be adequately managed to increase financial performance when internal controls are optimal. Therefore, local governments in the South Sulawesi region need to improve the maturity of their internal control systems. Furthermore, the absence of influence of capital spending on the link between

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

regional revenues and financial performance in South Sulawesi districts/cities emphasizes the necessity of proper budget planning to develop infrastructure and public amenities, resulting in better community services. Performance-based budgeting needs to be emphasized in budget preparation so that the performance targets set can be achieved effectively, efficiently, and economically.

Since this research is confined to districts/cities in South Sulawesi, it only encompasses some districts/cities in Indonesia, presenting limitations. In addition, the use of secondary data also raises the possibility of bias in the research results and discussion. Future studies can employ a wider research object, or using districts/cities from other provinces may produce different results from this study. Also, future studies may employ alternative proxies that assess the performance of local government from the financial perspective and offer more comprehensive insights. Future research can also consider the internal control system's effectiveness, the internal control apparatus (APIP) capability, or other variables that can improve local government performance.

REFERENCES

Alliyah, S., & Karno, D. K. S. (2021). The Influence of Regional Government Characteristics and The Audit Opinion of The Audit Board on The Financial Performance of Regency/City Regional Governments in Central Java Province. *Inspirasi Ekonomi : Jurnal Ekonomi Manajemen*, *3*(1), 40–55. https://jurnal.unimor.ac.id/index.php/JIE/article/view/1264

Anandya, D., Ramadhana, K., & Easte, L. (2022). *Corruption Case Action Trend Monitoring Report in 2021*. https://antikorupsi.org/sites/default/files/dokumen/Laporan Tren Penindakan Kasus Korupsi Tahun 2021.pdf

Andani, M., Sarwani, S., & Respati, N. W. (2019). The Influence of Regional Government Characteristics and Audit Opinions on Provincial Government Performance in Indonesia. *Jurnal Akuntansi*, *9*(2), 111–130. https://doi.org/10.33369/j.akuntansi.9.2.111-130

Andirfa, M., Basri, H., & Majid, M. S. A. (2016). The Influence of Capital Expenditures, Balancing Funds and Original Regional Income on The Financial Performance of Districts and Cities in Aceh Province. *Jurnal Administrasi Akuntansi : Program Pascasarjana Unsyiah*, *5*(3), 30–38. https://jurnal.usk.ac.id/JAA/article/view/4523

Antari, N. P. G. S., & Sedana, I. B. P. (2018). The Influence of Regional Original Income and Capital Expenditures on Regional Government Financial Performance. *E-Jurnal Manajemen Universitas Udayana*, *7*(2), 1080–1110. https://doi.org/10.24843/EJMUNUD.2018.v7.i02.p19

Armaja, A., Ibrahim, R., & Aliamin, A. (2015). The Influence of Regional Wealth, Balancing Funds and Regional Expenditures on Financial Performance (Study of Districts/Cities in Aceh). *Jurnal Perspektif Ekonomi Darussalam*, *3*(2), 168–181. https://doi.org/10.24815/jped.v3i2.8229

Ayu, P. P. (2018). Analysis of PAD and Balancing Funds on the Financial Performance of Regional Governments in West Java. *JAE (Jurnal Akuntansi Dan Ekonomi)*,

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

3(1), 80–96. https://doi.org/10.29407/jae.v3i1.12007

Darwanis, D., & Saputra, R. (2014). The Influence of Capital Expenditures on Regional Original Income and Its Impact on Regional Government Financial Performance (Empirical Study of Regency/City Regional Governments in Aceh Province). *Jurnal Dinamika Akuntansi Dan Bisnis*, *1*(2), 183–199. https://doi.org/10.24815/jdab.v1i2.3628

Dasmar, T., Basri, Y. M., & Indrawati, N. (2020). The Influence of Regional Wealth, Regional Expenditures, Intergovernmental Revenue, Audit Findings (BPK) on Regional Government Performance (Empirical Study of Regency/City Regional Governments in Riau). *Jurnal Al-Iqtishad*, *16*(2), 39–57. https://doi.org/10.24014/jiq.v16i2.10788

Deswira, A. (2022). Analysis of Regional Financial Management Performance and Level of Regional Independence: Case Study of The Regional Financial Agency of Tanah Datar Regency. *Akuntansi Dan Manajemen*, *17*(1), 74–90. https://doi.org/10.30630/jam.v17i1.181

Dewata, E., Ilmiyyah, N. M., & Sarikadarwati, S. (2017). Factors that Influence The Financial Performance of Regency/City Governments in South Sumatra Province 2012-2015. *Jurnal Akuntansi, Ekonomi Dan Manajemen Bisnis*, *5*(1), 147–162. https://doi.org/10.30871/jaemb.v5i1.446

Digdowiseiso, K., Subiyanto, B., & Cahyanto, R. D. (2022). The Influence of Regional Original Income, Balancing Funds, and Capital Expenditures on Regional Government Financial Performance. *Fair Value: Jurnal Ilmiah Akuntansi Dan Keuangan*, *4*(6), 2572–2580. https://journal.ikopin.ac.id/index.php/fairvalue/article/view/1150

Ditasari, R. A., & Sudrajat, M. A. (2020). The Influence of Audit Opinions and BPK Audit Findings on Regional Government Performance in Regencies/Cities in East Java Province. *INVENTORY: JURNAL AKUNTANSI*, *4*(2), 104–117. https://doi.org/10.25273/inventory.v4i2.7668

Fathah, R. N. (2017). Financial Ratio Analysis for Performance Appraisal at Gunung Kidul District Government. *Jurnal EBBANK*, *8*(1), 33*48. http://ebbank.stiebbank.ac.id/index.php/EBBANK/article/view/109

Fernandes, J., & Putri, S. (2022). The Influence of Original Regional Income and Capital Expenditures on Regional Financial Performance in 19 Regencies/Cities of West Sumatra Province. *Jurnal Revenue : Jurnal Ilmiah Akuntansi*, *3*(1), 198–209. https://doi.org/10.46306/rev.v3i1.102

Kirana, A. S., & Silardi. (2020). The Influence of Regional Government Characteristics and Audit Opinions on Regional Government Financial Performance (Empirical Study of Regency/City Regional Governments in Indonesia in 2018). *Jurnal Akuntansi Dan Manajemen Mutiara Madani*, *8*(2), 175–192. https://jurnal.stienganjuk.ac.id/index.php/ojsmadani/article/view/113

Kurnia, D. (2020). The Influence of BPK Audit Findings on Regional Government Financial Reports, Audit Opinions on Regional Government Financial Reports, Follow-up to Audit Results and Budget Structure on Regional Government Performance. *Jurnal Revenue : Jurnal Ilmiah Akuntansi*, *1*(1), 112–124.

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

https://doi.org/10.46306/rev.v1i1.11

Kusuma, P. M., & Kurnasih, L. (2017). The Influence of Audit Opinions and Regional Government Characteristics on Regency/City Government Performance in Indonesia. *Jurnal Equity*, *20*(1), 51–66. https://doi.org/10.34209/.v20i1.487

Kusumasari, K. R., & Kartika, I. (2022). The Influence of Regional Government Characteristics and Audit Factors on Regional Government Financial Performance (Empirical Study of Districts/Cities in Central Java). *Jurnal Ilmiah Sultan Agung*, *1*(1), 645–667. https://jurnal.unissula.ac.id/index.php/JIMU/article/view/26804

Masdiantini, P. R., & Erawati, N. M. A. (2016). The Influence of Regional Government Size, Prosperity, Intergovernmental Revenue, BPK Audit Findings and Opinions on Financial Performance. *E-Jurnal Akuntansi*, *14*(2), 1150–1182. https://ojs.unud.ac.id/index.php/Akuntansi/article/view/15041

Maulina, A., Alkamal, M., & Fahira, N. S. (2021). The Influence of Regional Original Income, Balancing Funds, Capital Expenditures, and Regional Government Size on Regional Government Financial Performance. *Journal of Information System, Applied, Management, Accounting and Research*, *5*(2), 390–399. https://doi.org/10.52362/jisamar.v5i2.373

Mulyani, S., & Wibowo, H. (2017). The Influence of Capital Expenditures, Regional Government Size, Intergovernmental Revenue and Regional Original Income on Financial Performance (Districts/Cities in Central Java Province 2012-2015). *KOMPARTEMEN : Jurnal Ilmiah Akuntansi*, *15*(1), 57–66. https://jurnalnasional.ump.ac.id/index.php/kompartemen/article/view/1379

Ningsih, S. (2016). The Antecedents of Non-Unqualified Opinions of Local Governments Financial Statements: A Study on Counties and Cities in East Java Province. *Asian Journal of Accounting Research*, *1*(1), 16–27. https://doi.org/10.1108/AJAR-2016-01-01-B003

Parwanto, E., & Harto, P. (2017). The Influence of BPK Audit Results on Regional Government Financial Performance. *Diponegoro Journal of Accounting*, *6*(1), 35–43. https://ejournal3.undip.ac.id/index.php/accounting/article/view/18259

Pattipawaey, R. E., & Leatemia, S. Y. (2023). The Effect of Audit Opinion and Audit Findings on the Level of Disclosure of Local Government Financial Statements at Regency / City in Maluku Province 2016-2021. *Conference on Economic and Business Innovation (CEBI)*, *3*(1), 877–886. https://doi.org/10.31328/cebi.v3i1.295

Primadiva, P. P., Rosdini, D., & Mulyani, S. (2021). The Influence of Level of Wealth and Level of Regional Dependency on Regional Government Performance. *Jurnal Paradigma Ekonomika*, *16*(2), 299–310. https://doi.org/10.22437/jpe.v16i2.11999

Putri, N. K. N. I., & Darmayanti, N. P. A. (2019). The Influence of PAD and Balancing Funds on The Financial Performance of Regional Governments in The Sarbagita Region, Bali Province. *E-Jurnal Manajemen Universitas Udayana*, *8*(5), 2834–2861. https://doi.org/10.24843/EJMUNUD.2019.v08.i05.p09

Rasyid, Y., Suci, R. G., & Putri, A. M. (2022). The Influence of Audit Opinions and BPK Audit Findings on the Performance of Regency/City Regional Governments in Riau Province. *PROMOSI (Jurnal Pendidikan Ekonomi)*, *10*(2). https://doi.org/10.24127/pro.v10i2.6589

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author

Sari, B. I., & Wati, H. (2021). The Influence of Original Regional Income, General Allocation Funds and Regional Expenditures on the Financial Performance of Regency/City Regional Governments in West Sumatra Province. *Jurnal Eksplorasi Akuntansi*, *3*(1), 1–11. https://doi.org/10.24036/jea.v3i1.356

Sari, N. M. D. P., & Mustanda, I. K. (2019). The Influence of Regional Government Size, Regional Original Income and Capital Expenditures on Regional Government Financial Performance. *E-Jurnal Manajemen Universitas Udayana*, *8*(8), 4759–4787. https://doi.org/10.24843/EJMUNUD.2019.v08.i08.p02

Scott, W. R. (2015). *Financial Accounting Theory* (7th ed.). Toronto: Pearson Canada Inc.

Setiawan, R., Oktaroza, M. L., & Purnamasari, P. (2020). The Influence of Regional Wealth Levels, Regional Expenditures, and Audit Opinion Results on Regional Government Financial Performance. *Prosiding Akuntansi*. https://karyailmiah.unisba.ac.id/index.php/akuntansi/article/view/21189

Sir, J. S., Samadara, S., & Manuain, D. W. (2021). Audit Opinion and Financial Performance of Local Governments in East Nusa Tenggara. *Proceedings of the International Conference on Applied Science and Technology on Social Science (ICAST-SS 2020)*. https://doi.org/10.2991/assehr.k.210424.093

Suryaningsih, N. M., & Sisdyani, E. A. (2016). Characteristics of Regional Government and Audit Opinion on Regional Government Financial Performance. *E-Jurnal Akuntansi*, *15*(2), 1453–1483. https://ojs.unud.ac.id/index.php/Akuntansi/article/view/16417

Suwanda, D. (2015). Factors Affecting Quality of Local Government Financial Statements to Get Unqualified Opinion (WTP) of Audit Board of the Republic of Indonesia (BPK). *Research Journal of Finance and Accounting*, *6*(4), 139–158. https://www.iiste.org/Journals/index.php/RJFA/article/view/19978

Verawaty, V., Jaya, A. K., Puspanita, I., & Nurhidayah, N. (2020). The Influence of PAD and Balancing Funds on The Financial Performance of Regency/City Governments in South Sumatra. *MBIA*, *19*(1), 21–37. https://doi.org/10.33557/mbia.v19i1.560

Wadjaudje, D. U., Susanti, S., & Pahala, I. (2018). The Influence of Capital Expenditures, Investment, Number of Tourists, and Economic Growth on Original Regional Income of DKI Jakarta Province. *JEKP (Jurnal Ekonomi Dan Keuangan Publik)*, *5*(2), 105–128. https://ejournal.ipdn.ac.id/JEKP/article/view/417

Wahyudin, I., & Hastuti. (2020). The Influence of Original Regional Income, Balancing Funds and Capital Expenditures on the Financial Performance of Regency and City Governments in West Java Province. *Indonesian Accounting Research Journal*, *1*(1), 86–97. https://jurnal.polban.ac.id/ojs-3.1.2/iarj/article/view/2364

Wijayanti, Y., & Suryandari, D. (2020). The Effect of Regional Characteristics, Leverage, Government Complexity, BPK Audit Findings and Opinions on Local Government Financial Performance. *Accounting Analysis Journal*, *9*(1), 30–37. https://doi.org/10.15294/aaj.v9i1.22483

©2024 All forms of plagiarism and misuse of intellectual property rights resulting from the publication of this journal article are the full responsibility of the author