

# Regional Financial Performance and Audit Opinion: Independence and Comparison among Archipelagic Regions in Indonesia

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*Abstract:* This study aims to determine the relationship between regional financial performance, audit opinion results, and the differences between the islands in Indonesia. The data used is in the form of audit opinion results and audited budget realization reports for 2020 from 225 district governments in Indonesia as samples to measure regional financial performance in the form of independence ratios, efficiency ratios, effectiveness ratios, and regional income and expenditure growth ratios. All data comes from the 2021 Semester I Examination Results Summary of the 2020 Fiscal Year Local Government Financial Reports published by the Audit Board of the Republic of Indonesia. Using the One Way ANOVA F-Test and the Chi-Square Pearson Test at a significance level of 5%, the results show a significant relationship between the independence ratio, the effectiveness ratio, and the ratio of regional revenue and expenditure growth to the results of the audit opinion. Another finding is that there are significant differences in the independence ratio, the effectiveness ratio, the ratio of expenditure growth, and the results of audit opinions between the Indonesian archipelago.

*Key-words:* financial performance of local governments, the results of audit opinions, One Way ANOVA F-Test, Chi-Square Pearson Test

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## 1. Introduction

Regional government financial performance is a description of the level of achievement of financial management for the implementation of an activity/policy program in realizing the goals, objectives, vision, and mission of the local government [1]. Regional government financial performance is an essential part of local government performance. It is often the subject of discussion because in addition to showing the ability of the region to manage and control its resources, regional financial performance is also a factor that determines the strategy of the regional government to be implemented in the next period.

One means of evaluating government (regional) financial performance includes government (regional) financial reports that are useful for evaluating the use of economic resources managed by the (regional) government to achieve planned performance. Evaluation of the intended use of economic resources includes [2]: (1) determining the costs of programs, functions and activities to facilitate analysis and make comparisons with predetermined criteria, comparing with the performance of previous periods and with the performance of other units; (2) evaluating the

level of economy, efficiency and effectiveness of certain operations, programs, activities and functions within the government; (3) evaluating the results (outcomes) of a program, activity and function as well as the effectiveness of achieving goals and targets; (4) evaluating the level of equity and fairness.

Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards (SAP) defines financial statements as a presentation of financial data including accompanying notes (if any) intended to communicate economic resources (assets) and/or an obligation of a government entity to certain time or changes in assets and/or liabilities during a certain period following government accounting standards. Regarding local government, Mardiasmo (2018) explains that financial reports are at the same time, an effort by local governments to realize public accountability as one of the objectives of measuring their financial performance. Meanwhile, Aswar (2019) states that local government financial reports manifest regional financial performance.

The Budget Realization Report (LRA) is a regional government financial report which is one of the objects of audit by the Supreme

Audit Agency (BPK) as an independent external auditor for local governments. The LRA presents an overview of the sources, allocation, and use of economic resources managed by the regional government, which illustrates the comparison between the budget and its realization in one reporting period as stated in the Regional Revenue and Expenditure Budget (APBD). Technically LRA provides information regarding the realization of income, expenditure, transfers, surplus/deficit, and financing of a reporting entity, each of which is compared with its budget. This information is useful for report users in evaluating decisions regarding the allocation of economic resources, accountability, and the reporting entity's compliance with the budget. Through LRA,

the local government's financial performance can be assessed, one of which is measured by financial ratios [5].

In the current era of regional autonomy, a financial performance indicator that needs serious attention is regional independence as measured by the independence ratio, namely the Regional Original Income (PAD) to Total Regional Income (TPD) in percent units. Based on data released by the Directorate General of Fiscal Balance (DJPK) Ministry of Finance of the Republic of Indonesia which is shown in Table 1, information is obtained that nationally the average regional independence is still very low which can be seen from the average independence ratio which is less than 25% [5].

Table 1. Independence ratio, Effectiveness Ratio and Financial Efficiency Ratio of Local Governments (Provinces and Districts/Cities) 2016 – 2021

Year	Revenue Realization (trillion Rp.)	Expenditure realization (trillion Rp.)	Efficiency Ratio (%)	PAD (trilyun Rp.)		Independence Ratio (%)	Effectiveness Ratio (%)
				Realization	Target		
2016	1.003,14	1.003,05	99,99	229,34	229,40	22,86	99,97
2017	1.078,57	1.058,32	98,12	274,03	243,01	25,41	112,76
2018	1.110,96	1.093,89	98,46	272,98	269,91	24,57	101,14
2019	1.198,41	1.188,02	99,13	293,66	295,52	24,50	99,37
2020	1.115,49	1.121,96	100,58	264,06	328,42	23,67	80,40
2021	1.110,21	1.088,95	98,08	284,78	310,17	25,65	91,81

Source: DJPK Ministry of Finance of the Republic of Indonesia, processed

The regional government financial independence figure aggregates provincial and district/city regional independence figures. According to data from the Central Statistics Agency (BPS), the low figure is due to the domination of the low independence ratio at the district/city government level with an average of only 11%. In comparison, at the provincial government level it reaches 47.67%. This fact becomes ironic, considering that the law has placed regional autonomy in the district and city governments.

In addition to regional independence, budget efficiency and the effectiveness of extracting regional economic potential through increasing PAD are also important issues. Table 1 shows budget efficiency for almost the entire 2016–2021 period except for 2020, where there was inefficiency with a deficit of

up to 6.4 trillion rupiahs. In the same year, the effectiveness of extracting PAD as a form of regional autonomy implementation appeared to have decreased sharply to close to 19%, in line with the decline in the independence ratio of more than 1%. This is understandable considering that in 2020 there was a wave of the Covid-19 pandemic which hit almost all countries in the world and had a major impact on the economy. The realization of a total budget that has returned to efficiency in line with the increasing effectiveness of extracting PAD which will lead to increased regional financial independence in 2021 is at least one proof of the post-pandemic economic recovery.

Identification results of Aswar (2019) found that the financial performance of local governments, among others, is related to the

results of audits of the Regional Government Financial Statements (LKPD) by the Supreme Audit Agency (BPK) in the form of opinions. Although not the only factor, it is proven that audit opinion has a significant relationship with local government financial performance in addition to regional revenues and legislative size in 108 local governments (provincial and district/city) on the island of Java. Previously, Ar Rozy & Wijayanti (2014) found findings that supported the hypothesis that there was a significant relationship between audit opinion and regional financial performance in districts/cities in Central Java. The same conclusion was obtained in the research of Prayitno & Novita (2013), namely that audit opinions significantly affect regional financial performance because the BPK opinion reflects the quality of the regional financial reporting concerned.

Several empirical studies have found that the BPK's audit opinion on regional financial reports is not a determinant in improving its financial performance. Ilmiyyah et al., (2017) stated that the financial performance of district/city regional governments in the province of South Sumatra is determined more by the level of dependence of local governments on the central government which is reflected in the General Allocation Fund (DAU). The same results were obtained by Marfiana & Kurniasih (2013) for district/city governments on the island of Java, which used efficiency ratios as indicators of regional financial performance.

Previous empirical studies generally examined the relationship between regional financial performance and the results of audit opinions by including other factors, expressed in a regression model and smaller area coverage. Regional financial performance is measured by selecting one of several existing financial performance measurements so that the recommendations from the research results apply only to the one measurement in question. Likewise, the results of audit opinions are more often divided into two categories (WTP and non-WTP) or treated as a dummy variable.

This research is specifically aimed at finding out the relationship between local government financial performance as measured by the independence ratio, efficiency

ratio, effectiveness ratio and the ratio of regional income and expenditure growth with the results of audit opinions of unqualified (WTP), qualified (WDP), disclaimer (TMP), and adverse (TW) in district/city governments in Indonesia considering the focus of regional autonomy according to the law lies with the regency/city government.

Based on this explanation, it is suspected that regional financial performance has a positive relationship with the results of the audit opinion:

- H<sub>1a</sub>: there is a significant positive relationship between the independence ratio and the audit opinion
- H<sub>1b</sub>: there is a significant positive relationship between the efficiency ratio and the audit opinion
- H<sub>1c</sub>: there is a significant positive relationship between the effectiveness ratio and the audit opinion
- H<sub>1d</sub>: there is a significant positive relationship between the income growth ratio and the audit opinion
- H<sub>1e</sub>: there is a significant positive relationship between the expenditure growth ratio and the audit opinion

Throughout 2016 to 2020 fiscal year, audit opinions on LKPD (provincial and district/city) generally experienced improvement. This is at least evident from the increase in LKPDs that received WTP (Unqualified) opinions from 70% in 2016 to 90% in 2020 and the decrease in LKPDs that received WDP (qualified) and TMP (disclaimer) opinions, respectively from 26% and 4% in 2016 to 9% and 0.7% in 2020. However, in 2020 2 LKPDs received TW (adverse) opinions, whereas in the previous 4 years there had never been [10].

If observed by geographical area, the highest percentage of unqualified opinions in the 2020 fiscal year was obtained by provincial and district/city LKPDs in the Java region, which reached 97.5%, followed by Kalimantan, Bali-Nusa Tenggara, Sumatra, Sulawesi, and the lowest was the Maluku-Papua which is "only" 71.6%. In contrast, the highest percentage of achieving non-WTP

opinion results was obtained by provincial and district/city LKPDs in the Maluku-Papua region, namely 26.9%, followed by Sulawesi, Sumatra, Bali-Nusa Tenggara, Kalimantan and the lowest in Java, which was only 2.5%. This phenomenon indicates a disparity in the results of audit opinions between islands.

Therefore, the hypothesis put forward to determine whether there are differences in audit opinion results between regions is as follows:

$H_2$  : results of audit opinions among archipelagic regions significantly differ

Furthermore, based on the fact that there are gaps in both regional financial performance and the results of audit opinions, this research is also aimed at finding out differences in local government financial performance between archipelagic regions in Indonesia which are divided into the islands of Java, Bali-Nusa Tenggara, Sumatra, Kalimantan, Sulawesi and Maluku-Papua.

Therefore, the hypothesis proposed to determine differences in financial performance between regions is as follows:

$H_{3a}$  : the independence ratio among archipelagic regions is significantly different

$H_{3b}$  : the efficiency ratio among archipelagic regions is significantly different

$H_{3c}$  : the effectiveness ratio among archipelagic regions is significantly different

$H_{3d}$  : the revenue growth ratio among archipelagic regions is significantly different

$H_{3e}$  : the expenditure growth ratio among archipelagic regions is significantly different

## 2. Method

For analysis purposes and to answer research problems descriptive and inductive methods are used with a quantitative approach. The descriptive method is carried out by reviewing and analyzing documents in the form of regional financial reports and regional financial management policy documents. At the same time, inductive analysis is used to test the independence between regional financial performance and the results of audit opinions

and examine differences in financial performance and audit opinion results between islands.

This research includes 2 main variables: the financial performance of local governments and the results of the BPK audit opinion on district/city LKPD for the 2020 FY. The research population includes all (508) district/city governments in Indonesia spread across 33 provinces (except DKI Jakarta), namely each 113 regencies/cities are located in the Java region, 41 in the Bali-Nusa Tenggara region, 154 in the Sumatra region, 56 in the Kalimantan region, 81 in the Sulawesi region and 63 in the Maluku-Papua region. Sampling was carried out using the Proportional Stratified Random Sampling technique with a minimum sample size using the following Slovin formulation:

$$n = \frac{N}{1 + Ne^2}$$

where:

$n$  = the number of districts/cities in the sample

$N$  = the number of districts/cities in the population

$e$  = margin of error = 5%

so that 224 districts/cities were obtained. In order to minimize sampling error, the number of districts/cities was rounded up to 225 districts/cities as the sample.

In order to obtain a representative sample, stratification was first carried out based on geographical location, namely, the islands of Java, Bali-Nusa Tenggara, Sumatra, Kalimantan, Sulawesi and Maluku-Papua. For the 6 archipelagic regions, the determination of the number of regencies/cities that will be sampled from each archipelagic region is determined proportionally with the following general formulation:

$$n_i = \frac{N_i}{N} \times n, \text{ for } i = 1, 2, 3, 4, 5, 6$$

Where:

$n_i$  = number of districts/cities in the sample from the archipelago –  $i$

$N_i$  = total number of regencies/cities in the archipelago area –  $i$

$N$  = the total number of regencies/cities throughout the archipelago

$n$  = the total number of districts/cities in the sample (from the Slovin formula)

Second, stratification is also carried out proportionally based on the results of the audit opinion. Because BPK determines 4 classifications of audit opinion results, the formulation used to determine the number of districts/cities to be sampled with the results of the audit opinion - j is as follows:

$$n_j = \frac{N_j}{N_{..}} \times n \quad , \text{ for } j = 1, 2, 3, 4$$

where:

$n_j$  = number of districts/cities in the sample with audit opinion results - j

$N_{.j}$  = total number of regencies/cities with audit opinion results - j

$N_{..}$  = the total number of districts/cities for all opinion results

$n$  = the total number of districts/cities in the sample

The next step is determining the number of districts/cities sampled for each group of

audit opinion results from each island region. For this purpose, the following formulation is used:

$$n_{ij} = \frac{N_{ij}}{N_{.i}} \times n_i \quad , \text{ for } i = 1, 2, 3, 4, 5, 6 \text{ or}$$

$$n_{ij} = \frac{N_{ij}}{N_{.j}} \times n_j \quad , \text{ for } j = 1, 2, 3, 4$$

Where:

$n_{ij}$  = the number of districts/cities in the sample from the archipelago - i with the results of the audit opinion - j

$N_{ij}$  = the total number of regencies/cities in the archipelago area - i with the results of the audit opinion - j

Even though BPK has determined 4 classifications of audit opinion results, the selected sample did not find districts/cities with “TW” opinion results. A complete description of the distribution of districts/cities in the population and research samples can be seen in Table 2.

Table 2. Distribution of Regencies/Cities in Population and Sample according to Audit Opinion Results and Archipelagic Areas in Indonesia in 2020

Archipelago	Population				Amount	Sample			amount
	WTP	WDP	TMP	TW		WTP	WDP	TMP	
Java	110	2	0	1	113	49	1	0	50
Bali-Nusa Tenggara	37	4	0	0	41	16	2	0	18
Sumatra	138	16	0	0	154	61	6	0	67
Kalimantan	52	4	0	0	56	23	2	0	25
Sulawesi	72	7	1	1	81	31	4	0	35
Maluku-Papua	45	15	3	0	63	20	7	3	30
Total	454	48	4	2	508	200	22	3	225

Source: BPK RI 2021, processed

The final step in sampling is to determine which districts/cities will be sampled using a simple random sampling technique.

The type of data used is secondary data with a cross-sectional data structure (cross-sectional data) sourced from the Summary of Examination Results for Semester I of 2021 [10] on Regional Government Financial Reports for Fiscal Year 2020 (LKPD FY 2020) obtained through online services Information and Communication Center for the Supreme Audit Agency (PIK BPK).

Regional financial performance variables are measured through financial ratios which include the independence ratio, efficiency ratio, effectiveness ratio, income growth ratio

and expenditure growth ratio. In contrast, the audit opinion variable consists of 3 classifications of WTP, WDP and TMP because in the sample there were no districts/cities with result of “adverse” opinion. For processing purposes, the variable resulting from the audit opinion is quantified to 1 = WTP, 2 = WDP and 3 = TMP, while to differentiate island areas 1 = Java, 2 = Bali-Nusa Tenggara, 3 = Sumatra, 4 = Kalimantan, 5 = Sulawesi and 6 = Maluku-Papua. While the 5 financial performance indicators are calculated through financial ratios with the following formulation [5]:

1. The independence ratio, shows the degree of contribution of Regional Original Income (PAD) to total regional income. This ratio shows the level of authority and responsibility the central government gives to regional governments to carry out development. The higher the contribution of PAD, the higher the ability of local governments in governance, development and service to the community. The following formula can calculate the independence ratio:

$$\text{independence ratio} = \frac{\text{realization of PAD}}{\text{Realization of Total of Regional Revenue}} \times 100\%$$

2. The efficiency ratio is the ratio that describes the comparison between the realization of regional spending and the realization of regional income. A region's financial efficiency ratio that exceeds 100% indicates a low level of regional financial efficiency. The following formulation calculates the efficiency ratio:

$$\text{efficiency ratio} = \frac{\text{Realization of Regional Expenditure}}{\text{Realization of Regional Revenue}} \times 100\%$$

3. The effectiveness ratio measures the ability of the region to realize the planned PAD which is calculated by the ratio of realization to the target PAD. The greater the effectiveness ratio, the better (more effective) the region's capacity. The formulation used to measure the effectiveness ratio is:

$$\text{Effectivities Ratio} = \frac{\text{realization of PAD}}{\text{Target of PAD}} \times 100\%$$

4. Revenue growth ratio is a number that measures the ability of a region to maintain and/or increase revenue in each fiscal year. This ratio is calculated by the formula:

$$\text{Revenue Growth Ratio} = \frac{\text{regional Revenue}_{2020} - \text{regional revenue}_{2019}}{\text{regional revenue}_{2019}} \times 100\%$$

5. Expenditure growth ratio is a number that measures a region's ability to maintain and/or increase spending in each fiscal year. This ratio is calculated by the formula:

$$\text{Expenditure Growth Ratio} = \frac{\text{regional expenditure}_{2020} - \text{regional expenditure}_{2019}}{\text{regional expenditure}_{2019}} \times 100\%$$

Technically, to find out the relationship between local government financial performance and the results of audit opinions and differences, a test was carried out for differences in the average independence ratio, efficiency ratio, effectiveness ratio, income and expenditure growth ratio in all opinion groups and regional groups using One Way

ANOVA F- Test facilitated by the SPSS 20.0 program. This test belongs to the parametric test group. However, because the sample size is quite large, the assumption of normality for regional financial performance variables, a requirement for using parametric statistical techniques, can be ignored.

The One Way ANOVA F-Test technique is a comparative testing model using F-test statistics. This study compares variations in regional financial performance measures (independence ratios, efficiency ratios, effectiveness ratios, income and expenditure growth ratios) between groups with variations within groups audit opinion results. The comparison or F test statistic is obtained by comparing the variation in the research variables between groups ( $\hat{S}_B^2$ ) with the variations in the research variables within the group ( $\hat{S}_W^2$ ) using the formula (Spiegel and Stephens, 2007):

$$F_{test} = \frac{\hat{S}_B^2}{\hat{S}_W^2} = \frac{\sum_{i,j} (\bar{X}_i - \bar{X})^2 / b - 1}{\sum_{i,j} (X_{ij} - \bar{X}_i)^2 / a(b - 1)}$$

where:

$\bar{X}_i$  = the average value of the research variable in row - i

$\bar{X}$  = the overall average value of the research variables

$X_{ij}$  = the value of the research variable in row - i column - j

a = number of lines

b = number of columns

Differences in audit opinion results between island regions as the third research objective were determined through the Chi-Square Pearson-Test, one of the nonparametric tests. This is done considering

that the audit opinion group and the island group are variables on an ordinal and nominal scale. The statistical formulation of the Chi-Square test is written as follows:

$$\chi^2_{test} = \sum_{i=1}^3 \sum_{j=1}^6 \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

where

$O_{ij}$  = the number of districts/cities in the archipelago area - i with the results of the audit opinion - j obtained from the observations (sample)

$$= n_{ij}$$

$E_{ij}$  = the number of regencies/cities with the results of the audit opinion -j and located in the supposed/hypothesized j-island area

$$= \frac{n_{i.} \times n_{.j}}{n_{..}}$$

### 3. Finding and Discussion

Regional financial performance measures the level of achievement of financial management for implementing an activity/policy program in realizing the goals, objectives, vision and mission of the local government [1]. The better the financial performance, the better the ability of the region to manage and control its resources so that it plays a role in determining the strategy of the regional government that will be implemented in the next period.

#### 3.1 Descriptive Analysis

To get a clearer picture, the authors present a description of the research data in table 3.

Table 3. Descriptive Analysis

Audit Opinion Results	n	Average Financial Ratios				
		IR	EffR	EftR	RGR	IGR
WTP	200	12,1480	101,1290	98,8900	- 6,1444	- 3,9420
WDP	22	7,7475	98,8840	88,0163	- 8,7291	- 9,2282
TMP	3	3,4161	96,6327	76,7871	- 14,009	- 16,402
Archipelago						
Jawa	50	20,4038	99,0007	109,9383	- 5,0308	- 5,3322
Bali-Nusa Tenggara	18	14,0391	100,8610	91,0907	- 8,2823	- 7,6012
Sumatra	68	9,6877	101,1521	92,4396	- 6,5679	-5,2602
Kalimantan	25	9,1581	101,6836	105,7368	- 8,5231	- 3,6205
Sulawesi	36	8,7531	101,8504	96,1327	- 5,4583	- 0,2969
Maluku-Papua	28	4,8062	101,3770	86,3603	- 7,3622	- 6,3679
Total	225	11,6013	100,8495	97,5321	- 6,5020	- 4,6250

where:

n = number of districts/cities in the sample according to the results of the audit opinion and island areas, IR = independence ratio, EffR = efficiency ratio, EftR = effectiveness ratio, RGR = revenue growth ratio, and EGR = expenditure growth ratio

The highest independence ratio is obtained by local governments that have WTP opinion, the efficiency ratio is also obtained by local governments that have WTP opinion, then the highest effectiveness ratio is also obtained by local governments that have WTP opinion. The revenue growth ratio in the study period all decreased. The lowest decline occurred in local governments that have a TMP opinion. Likewise, the expenditure growth ratio has all decreased. The biggest decline occurred in

local governments that have TMP opinions. Based on the archipelago area, the highest independence ratio occurred on the island of Java. Likewise, the ratio of efficiency and effectiveness is the best on the island of Java. Then, the revenue growth ratio and spending all decreased. The ratio of the lowest decline in income occurred on the island of Java. Meanwhile, the lowest expenditure growth decline occurred on the Sulawesi island.

### 3.2 Inductive Analysis

To find out the relationship between financial performance and audit opinion in accordance with the research objectives, it can be seen in the results of the One Way ANOVA F-Test presented in table 4.

Table 4. Analysis of the relationship between financial performance and audit opinion in various archipelago areas

Financial Performance Measures	Inter-Results of Audit Opinion		Among archipelago	
	F - stat	Sign.	F - stat	Sign.
Independence Ratio	3,630	0,028	20,755	0,000
Efficiency Ratio	2,158	0,118	1,333	0,251
Effectiveness Ratio	4,222	0,016	8,037	0,000
Revenue Growth Ratio	2,735	0,067	1,166	0,327
Expenditure Growth Ratio	7,441	0,001	3,003	0,012

Based on table 4, the analysis results found that the independence ratio, effectiveness ratio, and spending growth ratio have a significance value below 0.05 so that the hypotheses H1a, H1c, H1e are accepted. This means that all three are significantly related positively to the audit opinion. While the efficiency ratio and income growth ratio have a significance value above 0.05 so that the H1b and H1d hypotheses are rejected. This means that the efficiency and revenue growth ratios have no significant relationship with the audit opinion.

This study reconfirms that a high regional independence ratio indicates better regional performance. Regional governments have been able to develop regional potential, so that if regional independence increases, the regions will not depend on assistance from the central and provincial governments through balancing funds. However, this does not mean that the regions no longer need to receive

balancing funds if the regional financial independence is high. Balancing funds are still needed to accelerate the pace of development growth in the regions [11]. So that what has happened so far is that local governments that have a greater ratio of regional independence will maintain the quality of their financial reports through better reporting in order to achieve a WTP opinion. Usually local governments that have WTP opinions show better responsibility and transparency so that the community and the central government more trust them. The trust of all stakeholders is intended to maintain the sustainability of local government.

Meanwhile, effectiveness is also important in the regional financial management process. Regional financial management aims to examine public financial management managed by local governments to achieve optimal levels of efficiency and effectiveness. Thus, the large capacity of local

governments in managing regional finances is a manifestation of the ability of local governments to carry out normative regulations.

This study proves a significant relationship between effectiveness and audit opinion. A good audit opinion shows good financial reporting. Local governments with a high effectiveness ratio can manage the funds that have been budgeted and used according to predetermined needs. Therefore, the regional government will show its responsibility for financial management through the results of auditing its financial statements with an unqualified (WTP) opinion. Nonetheless, Saraswati (2018) argues that problems often arise in local governments with unqualified opinions, namely cash management, inventory, procurement of goods and services, and fixed assets.

Another variable that has a significant relationship with the audit opinion is the expenditure growth ratio. Expenditures reflect all expenditures made by local governments, both for operating expenditures, capital expenditures, unforeseen expenditures, and transfer expenditures. The amount of expenditure made by the local government must be accounted for, especially presented in audited financial reports with the results of a unqualified opinion. It is therefore natural that the financial performance of the local government, in this case expenditure growth, has a significant relationship with the results of the audit opinion. This is in line with the research of Schneider & Damanpour (2002) and Giroux & Shields (1993) that quality local government financial reports, especially those related to audit opinions, have a relationship with local government budgeting.

Another finding is related to the government's financial performance in relation to the archipelago. This analysis is intended to find out whether there are differences in the financial performance of local governments from various regional governments in different islands consisting of Java, Bali-Nusa Tenggara, Sumatra, Kalimantan, Sulawesi, and Maluku-Papua. The results found that the independence ratio, the effectiveness ratio, and the expenditure growth ratio are financial performance that

differ significantly between the islands in Indonesia. Therefore, the hypotheses  $H_{3a}$ ,  $H_{3c}$ , dan  $H_{3e}$  are accepted. Meanwhile, the efficiency and revenue growth ratios are not significantly different, so  $H_{3b}$  and  $H_{3d}$  are rejected.

The ratio of regional independence which is very important for measuring the success of regional autonomy [15], is even used as a characteristic of regional governments being able to carry out regional autonomy [16], this of course must be achieved by local governments everywhere. Both in the Java archipelago, Indonesia's business center, and outside Java. However, what happens is that the independence ratio is significantly different in each archipelago. The data shows that the average independence ratio in Java is 20%, while in other islands it is no more than 15%. Even in the Maluku-Papua islands it is only 4.8%. Of course, these findings must receive follow-up from the central government or other parties, especially policies.

Furthermore, the effectiveness ratio also shows differences among the islands in Indonesia. The ability of the regions to realize their funds is of course different in each archipelago. This is of course also influenced by the size of the budget set by the local government. Is the budget prepared too large so that it does not match the needs and capabilities of the region or is it purely due to the failure of the regional government to realize its budget. Java and Kalimantan are islands that have achieved high effectiveness. Regional original income is greatly supported by regional economic progress so that it impacts the high PAD obtained by each region. Java is an island that has the largest economic contribution in Indonesia [17]. Almost 60% of business activities are on this island [18]. So that local governments in the Java archipelago benefit enough from business centers that can increase PAD in Java.

Meanwhile, Kalimantan has an advantage compared to other islands because it has abundant natural resource wealth as well as plantations, mining, oil palm and coal which are the mainstays of the regional economy. so that the government takes

advantage of this situation with many projects that can support increased regional income. This condition is expected to support the effectiveness of local governments in these two islands.

Spending growth is also a significantly different variable. Based on available data, all regional spending decreased in 2020. This is in line with the Covid-19 pandemic which is still peaking. Local governments in islands such as Bali-Nusa Tenggara and Maluku-

Papua have experienced a greater reduction in spending compared to other islands. Usually regions that have high service needs cause regional spending to increase. Almost all local governments have always experienced an increase in spending. However, the Covid-19 pandemic that hit Indonesia in 2020 caused regional spending to decline across all islands. In contrast to the two islands above, Sulawesi is the island that experienced the least decrease in spending.

Table 5. Different Tests of Audit Opinion Between Archipelago (Chi-Square Tests)

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.685 <sup>a</sup>	10	.001
Likelihood Ratio	23.334	10	.010
Linear-by-Linear Association	15.586	1	.000
N of Valid Cases	225		

Furthermore, to find out the distribution of audit opinion in the Indonesian archipelago, it needs to be proven by statistical testing so that the hypothesis can be answered. Table 6 is the output of the different test using chi square. The results found significant differences regarding audit opinions among the 6 islands in Indonesia, so the H<sub>2</sub> hypothesis was accepted. It can be seen that the most unqualified opinions in 2020 are on the island of Java with 98%, followed by Kalimantan with 92%, Sumatra with 91.04%, Bali-Nusa Tenggara with 88.89%, Sulawesi with 88.57%, and Maluku- Papua as much as 66.67%. This data can illustrate that the farther the archipelago from the capital city, the fewer unqualified opinions. Maybe due to demographic conditions, distance, or resources that don't have the capacity as well as in other areas. So that the quality of local government financial reports is also affected.

#### 4. Conclusion

This study provides an overview of the relationship between regional financial performance and audit opinion. The local government manages finances that originate from the community and are used for public services and must be able to account for their finances while at the same time having good performance. Statistics find a significant relationship between financial performance as measured by the independence ratio, the

effectiveness ratio and the regional expenditure growth ratio to the audit opinion results in 2020. Local governments with greater independence mean that PAD can be obtained to the maximum so they must be properly accountable through achieving a reasonable audit opinion. Likewise, effectiveness which can describe the success in using the budget is also expressed in a reasonable opinion. On the other hand, regions that experience large declines in spending also have a relationship with opinion. It can be concluded that a fair opinion on local government can show good accountability to the community so that it is always shown by good financial reporting through the results of an auditor's examination with a unqualified opinion.

Another important finding is that the distribution of islands in Indonesia shows differences in the quality of regional financial management. This was identified from the existence of significant differences between the six islands related to the results of the audit opinion. Differences in financial performance also occur in different islands, especially in the independence ratio, effectiveness ratio, spending growth.

This research has implications for government policies related to the distribution of unqualified opinions that are not yet comprehensive, especially in the eastern islands or those far from the national capital.

So there is a gap between different islands. This correlates with financial performance, in which local governments with good financial performance, especially in the independence, effectiveness, and spending growth ratios, will also have good quality financial reports. Even so, this research also has limitations, especially at the time the research was only conducted in 2020. Where this period was when the Covid-19 pandemic occurred.

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The authors have no conflicts of interest to declare that are relevant to the content of this article.

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