

THE ROLE OF AUDIT OPINION IN ENHANCING THE INFLUENCE OF LOCAL REVENUE AND CAPITAL EXPENDITURE ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN INDONESIA



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Abstract

This study examines the moderating role of audit opinion in strengthening the influence of Local Own-Source Revenue (PAD) and capital expenditure on the financial performance of local governments in Indonesia. Using secondary data from 508 regencies and cities over the 2019–2023 period, the research makes use of Moderated Regression Analysis (MRA) not just as a statistical tool, but as a way to uncover how one variable can bend, boost, or blur the effect of another. The data flows in from two solid sources: the Directorate General of Fiscal Balance and the Audit Board of the Republic of Indonesia. In essence, it's like connecting two streams of credible insight to see how they dance together numbers turning into patterns, and patterns unfolding into meaning. The results reveal that PAD has a positive and significant effect on local financial performance, indicating that higher local revenues improve fiscal independence and efficiency in regional financial management. In contrast, capital expenditure does not significantly influence financial performance, suggesting that increased investment in assets has not been optimally managed to produce productive outcomes. Furthermore, audit opinion strengthens the relationship between PAD and financial performance, but not between capital expenditure and financial performance. This implies that sound financial governance and compliance, reflected in favorable audit opinions, enhance the effectiveness of local revenue management. The findings emphasize the strategic role of accountability and transparency in promoting sustainable regional fiscal performance.

Keywords: Local Own-Source Revenue, Capital Expenditure, Audit Opinion, Financial Performance, Local Government.

INTRODUCTION

Indonesia may stand as one nation, yet it thrives through many local hearts. The 1945 Constitution, particularly Article 18 paragraph (1), beautifully outlines that the country is divided into provinces, each consisting of regencies and cities with their own legal local governments. This framework stands firmly on the pillars of Law No. 23 of 2014 on Regional Government and Law No. 33 of 2004, which governs the financial equilibrium between the central and regional authorities. Through regional autonomy, local governments are empowered to handle their own affairs, improve public services, minimize regional inequalities, and make optimal use of their resources. In essence, autonomy transforms diversity into unity and local wisdom into meaningful progress.

Regional autonomy's success is often reflected in how well local governments manage their finances. This involves their ability to raise revenue, plan expenditures, and use funds to achieve public goals. Several factors influence this performance, including regional original revenue (PAD), balancing funds, economic growth, and capital spending (Widajatun & Kristiastuti, 2020). Increasing PAD is crucial for driving regional advancement and sustaining long-term growth (Niswani et al., 2022). PAD, as revenue generated under regional policies within legal frameworks (Pratama et al., 2024), acts as a backbone for fiscal independence and strengthens the region's development potential (Paulina & Supadmi, 2025). The greater the share of PAD in a region's budget, the smaller its reliance on financial support from the central government. In other words, when local revenues grow stronger, regional governments become more independent and capable of sustaining their own development without depending heavily on national subsidies.

In addition to PAD, capital expenditure is another important indicator of the productivity of local government budget management (Suprpto & Purbowati, 2024). Capital expenditure refers to government spending on fixed assets that provide long-term benefits and are used to support regional development (Nugroho & Moonti, 2019). Proper allocation of capital expenditure is expected to strengthen fiscal independence and ensure long-term sustainability (Praptiningsih et al., 2020). To ensure the effectiveness of such management, financial reports must be both relevant and reliable, as information about PAD, capital expenditure, and central transfers forms the basis for strategic decision-making in public services. Reliable financial information guarantees that performance measures such as PAD effectiveness ratios or capital expenditure efficiency truly reflect the actual financial condition of the region (B. Hendaris & Romli, 2021).

The journey toward strong financial performance is complicated by the gap between fiscal decentralization in principle and the actual fiscal strength of local governments. Ideally, regions should be self-reliant in funding development and public services (Fadilah, 2025). Yet, many regions still face challenges in increasing PAD, keeping them dependent on central government support. This dependency hinders the full realization of fiscal independence promised by autonomy.

The ability of local governments to manage financial resources effectively can be assessed through the fiscal independence ratio, which indicates how far a region can fund its development and public services using its own PAD (Atika Almasshadrina, 2025). According to the Directorate General of Treasury, most local governments in Indonesia have achieved high independence ratios; however, some regions still have ratios below 25%, indicating limited financial capacity and heavy reliance on central government transfers. One example is the Talaud Islands Regency, where fiscal independence remains

low due to geographic isolation and limited economic activity. Such conditions result in low PAD and restricted capital expenditure allocation, ultimately impeding local economic development (Pratama et al., 2024).

Previous studies have revealed diverse findings concerning the relationship among PAD, capital expenditure, and financial performance. For instance, (Addini Fitri, 2025; Afifah Maulida, 2024; Kadek Peni Suandani, 2021) found that PAD positively affects regional financial performance, while (Taiwo, 2022) and (Iskandar & Zulfikar, 2023) reported that PAD does not significantly influence fiscal independence or financial performance. Similar inconsistencies exist in studies on capital expenditure: (Fisher & Wassmer, 2015) and (Fatimah, Rafi Zaen, & Salma, 2024) found a positive effect, whereas (Darwanis, 2014) found otherwise. These inconsistencies indicate the need for an additional moderating variable to strengthen the relationship between PAD, capital expenditure, and financial performance, namely audit opinion.

Audit opinion plays a crucial role in strengthening financial governance within local governments. Through audit opinions, local governments can assess their compliance with governmental accounting standards, the effectiveness of internal controls and the reliability of financial reporting (Praptiningsih et al., 2020). A favorable audit opinion, such as an Unqualified Opinion (Wajar Tanpa Pengecualian/WTP), not only reflects high-quality financial reporting but also indicates sound governance practices. Audit opinions enhance the accuracy of PAD reporting and support more effective management of capital expenditures (Fatimah Az Zahrah et al., 2023). Research by (Yasin, 2019) confirms that audit opinions positively affect government financial performance, demonstrating that regions with better audit opinions tend to have more effective financial management and higher productivity in public spending.

Taking these considerations into account, this study aims to examine how audit opinion strengthens the influence of regional original revenue (PAD) and capital expenditure on the financial performance of local governments in Indonesia. The study focuses on regencies and cities throughout the country during the 2019–2023 period, aiming to provide an empirical understanding of how audit assessments interact with fiscal factors to shape regional financial outcomes.

REVIEW OF LITERATURE

Stewardship Theory

Stewardship Theory emphasizes that local government leaders act as trustees who manage public resources not for personal gain, but for the collective welfare of society. According to (Budi & Sastradipraja, 2024), this theory is grounded in four main principles: intrinsic motivation, shared interests, trust and autonomy, and relationship quality which encourage leaders to act responsibly and align their goals with those of the organization.

In the context of local governance, Stewardship Theory provides a useful lens for understanding how Local Own-Source Revenue (PAD) and capital expenditure are managed to achieve better financial performance. Optimizing PAD enhances fiscal independence and reduces reliance on central government transfers, while effective and accountable capital expenditure demonstrates the government's commitment to maximizing public welfare (Budiarmo et al., 2018).

Additionally, audit opinions from the Audit Board of Indonesia (BPK) function as an external control mechanism that strengthens the stewardship role of local governments.

A Unqualified Opinion (WTP) reflects sound accountability and transparency, whereas lower opinions indicate weaknesses in stewardship. Thus, audit opinions serve as a crucial moderating factor linking PAD and capital expenditure to the financial performance of local governments (Ardelia et al., 2022).

Local Own-Source Revenue (Pendapatan Asli Daerah – PAD)

Local Own-Source Revenue (PAD) serves as the financial backbone of regional governments, derived from local wealth and economic activities and managed directly by local authorities (Hafandi & Romandhon, 2020). According to Law No. 28 of 2009, PAD includes regional taxes, levies, profits from regionally owned enterprises, and other lawful revenues, reflecting a region's fiscal self-reliance.

Within the framework of regional autonomy, local governments have the authority to manage their own affairs and mobilize financial resources to support local development (Agusta, 2020). Local economic institutions also contribute to PAD through profits, taxes, and retributions paid to the regional treasury (Hendaris et al., 2022).

Achieving genuine and accountable autonomy requires strong fiscal independence, which depends not only on central government transfers but also on the region's capacity to generate its own revenues. Therefore, increasing PAD is crucial through both optimizing existing sources and developing new ones based on local economic potential (Trisnasari & Sunaningsih, 2022).

Capital Expenditure

Capital expenditure plays a crucial role in enhancing local government financial performance, serving as a strategic investment in long-term growth rather than routine spending (Dharmayasa & Darmayanti, 2021). As defined by Government Regulation No. 12 of 2019, it refers to budget allocations for acquiring fixed assets and long-term resources such as land, buildings, roads, and infrastructure that provide benefits beyond a single fiscal year.

Through effective management, capital expenditure strengthens operational capacity, supports sustainable development, and improves public services. Transparent and accountable use of these funds reflects the practical implementation of stewardship principles in public financial management.

Fiscal Decentralization

Fiscal decentralization functions as a mechanism for transferring funds from the national budget (APBN) to local governments to strengthen fiscal resilience and promote equitable regional development (Mega Christia & Ispriyarso, 2019).

According to Law No. 33 of 2004, decentralization involves delegating authority from the central government to autonomous regions, enabling them to manage their own affairs. This process follows the principle of *money follows function*, ensuring that delegated responsibilities are supported by adequate financial resources. Strategically, fiscal decentralization enhances the efficiency and effectiveness of local resource management, fostering sustainable regional economic growth (Salma Nazikha & Rahmawati, 2021).

Local Government Financial Performance

According to Government Regulation No. 8 of 2006, performance represents the achievement of outputs and outcomes from government programs funded by the budget, evaluated both quantitatively and qualitatively. It reflects how inputs are transformed into results within established legal and operational frameworks (Endang Purwanti, 2021).

Local government financial performance illustrates how well regional administrations manage their financial resources effectively and efficiently. As explained by (Ula & Bharata, 2022), this performance is commonly assessed through the analysis of ratios within the Regional Revenue and Expenditure Budget (APBD), which serves as a vital tool for evaluation. According to (Anggi, 2022) and (Yulitiawati & Mustika, 2020), these ratios encompass several dimensions, including the level of decentralization, financial dependence, financial independence, effectiveness, and efficiency. Together, they provide a holistic understanding of how local governments balance revenue generation and expenditure management while maintaining fiscal responsibility and transparency.

Audit Opinion

Audit opinion serves as a crucial indicator of audit quality and local government accountability. Auditors are required to maintain integrity, professionalism, and competence to ensure credible audit outcomes (Romli & Hendaris, 2019). As noted by (Lestari et al., 2019), the quality of the audit directly influences the value of the opinion, reflecting the fairness and reliability of financial statements.

According to Law No. 15 of 2004 and BPK Regulation No. 1 of 2017, audit opinions are categorized into five types: Unqualified Opinion (WTP), Unqualified Opinion with Explanatory Paragraph, Qualified Opinion (WDP), Adverse Opinion (TW), and Disclaimer of Opinion (TMP). Each type conveys a different level of compliance with Government Accounting Standards (SAP) and internal control adequacy. These opinions collectively function as tools for transparency and accountability, providing stakeholders with insight into the credibility and integrity of local government financial reporting.

Hypothesis

Local Own-Source Revenue (PAD) serves as the primary indicator of a region's level of fiscal independence. It reflects the capability of local governments to explore and utilize local economic potential while reducing reliance on central government transfers. The higher the contribution of Local Own-Source Revenue (PAD) to the total regional income, the stronger the region's financial capacity and its ability to finance development initiatives (Paulina & Supadmi, 2025).

From the perspective of Stewardship Theory, local governments, as stewards, are responsible for managing public revenues to promote the welfare of society (the principals). Governments that are oriented toward public interests will seek to maximize Local Own-Source Revenue (PAD) and allocate it efficiently for development purposes. This aligns with the findings of (Ardelia et al., 2022), which demonstrate that PAD has a positive effect on the financial performance of local governments.

H1: Local Own-Source Revenue has a positive effect on the Financial Performance of Local Governments.

Capital expenditure essentially represents a form of strategic investment by local governments aimed at creating fixed assets and public infrastructure that support economic activities and enhance the quality of public services. In practice, efficiently managed capital expenditure not only strengthens regional productivity but also has the potential to expand the base of Local Own-Source Revenue (PAD) in the future (Nugroho & Moonti, 2019).

From the perspective of Stewardship Theory, the management of capital expenditure reflects the moral responsibility of local governments in utilizing public resources sustainably. Governments oriented toward public value will allocate capital

expenditure with careful consideration of its long-term benefits for society, rather than merely fulfilling short-term political or bureaucratic interests.

Interestingly, several studies support this view. Research conducted by (Demak et al., 2020) and (Treza Tampubolon & Ariadi, 2023) indicates that capital expenditure has a positive and significant effect on regional financial performance, suggesting that the more effectively public investment budgets are utilized, the better the financial performance achieved by local governments.

H2: Capital Expenditure has a positive effect on the Financial Performance of Local Governments.

The audit opinion issued by the Audit Board of the Republic of Indonesia (BPK) serves as an external control mechanism to assess the level of accountability and transparency in the financial management of local governments (Saraswati et al., 2019). An Unqualified Opinion (Wajar Tanpa Pengecualian/WTP) reflects compliance with Government Accounting Standards (SAP), the effectiveness of the Internal Control System (SPI), and integrity in the preparation of financial statements.

Interestingly, within the context of the relationship between Local Own-Source Revenue (PAD) and financial performance, audit opinions play a crucial role in fostering public trust in the reliability of regional financial reports. Local governments that obtain an unqualified opinion (WTP) generally demonstrate stronger fiscal discipline, more accurate PAD recording systems, and more efficient budget utilization. These conditions ultimately contribute to improving the overall financial performance of local governments (Fatimah Az Zahrah et al., 2023).

Consistent with this perspective, findings from (Ithohirah Harahap et al., 2023) further support the view that audit opinions have a positive impact on local government financial performance. Regions that receive higher audit opinions tend to exhibit more transparent, accountable, and effective financial management, both in revenue generation (PAD) and in public expenditure control.

H3: Audit opinion strengthens the influence of Local Own-Source Revenue (PAD) on the financial performance of local governments.

The effectiveness of capital expenditure management is not solely determined by the size of the allocated budget but also by the extent to which accountability is maintained throughout the planning and implementation processes (Romli & Hendaris, 2019). In practice, audit opinions play a crucial role in ensuring that capital expenditures are managed in accordance with established procedures, executed efficiently, and genuinely provide economic benefits to society (Lestari et al., 2019).

From the perspective of Stewardship Theory, audit opinions function to strengthen the trust relationship between the steward (local government) and the principal (the public). Local governments that receive favorable audit opinions demonstrate the presence of effective external oversight and a strong commitment to the principles of good governance. Such conditions ensure that capital expenditure allocations are more accurately targeted, leading to improved quality of public services and enhanced regional financial performance (Dharmayasa & Darmayanti, 2021).

Interestingly, the study conducted by (Parwanto Endri & Harto Puji, 2017) reinforces this view, showing that audit opinions have a positive effect on local government financial performance while simultaneously strengthening the effectiveness of capital expenditure in supporting development and public welfare.

H4: Audit opinion strengthens the influence of capital expenditure on the financial performance of local governments

RESEARCH METHOD

Research Design

This study adopts a quantitative research design aimed at transforming numerical data into meaningful insights regarding the financial performance of local governments in Indonesia. The quantitative approach enables objective measurement and statistical testing of relationships among variables. The research employs Moderated Regression Analysis (MRA) to examine how Regional Original Income (PAD) and Capital Expenditure influence Local Government Financial Performance, with Audit Opinion serving as a moderating variable. The model used in this study is represented by the following equation:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z + \beta_4 (X_1 \times Z) + \beta_5 (X_2 \times Z) + \varepsilon$$

Where Y represents financial performance, X1 is Regional Original Income, X2 is Capital Expenditure, Z is Audit Opinion, and ε denotes the error term.

Research Location and Time

The study focuses on local governments (regencies and cities) across Indonesia whose financial statements have been audited by the Audit Board of the Republic of Indonesia (BPK RI). The datasets are derived from official national institutions, namely The Directorate General of Fiscal Balance (DJPK) under the Ministry of Finance; and The Audit Board of the Republic of Indonesia (BPK RI). These data sources provide audited and verified financial information, ensuring credibility and consistency. The research covers the fiscal years 2019–2023, offering a comprehensive five-year observation period that captures post-reform fiscal decentralization dynamics and the consistency of financial performance trends over time.

Population and Sampling

The population of this study includes all 514 local governments in Indonesia, consisting of 415 regencies and 99 cities whose financial statements are audited annually by BPK RI. However, using an adjustment sampling technique, the research focuses on 508 local governments across 33 provinces, excluding the Special Capital Region of Jakarta due to its unique status as a non-autonomous administrative entity that differs from other local governments in terms of fiscal management and governance structure.

RESULTS AND DISCUSSION

Descriptive Statistical Testing

Table 1.
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PAD	2.450	0.0032	1.9800	0.3717	0.3813

BM	2.450	0.0327	4.6227	0.1781	0.1238
KK	2.450	0.0030	8.5092	0.1851	0.3157

Source: EViews Output (Processed Data, 2025)

The table shows that Regional Original Revenue (PAD) ranges from 0.0032 to 1.9800, averaging 0.3717 with a variability measure of 0.3813. The nearly equal mean and standard deviation suggest considerable variation among regions, highlighting diverse fiscal capacities. Capital Expenditure (BM) ranges from 0.0327 to 4.6227, with a mean of 0.1781 and a smaller variation level of 0.1238, indicating a relatively stable distribution but still some regional differences. Regional Financial Performance (KK) spans 0.0030 to 8.5092, averaging 0.1851 with a standard deviation of 0.3157, showing wide disparities where some regions excel in managing finances while others lag behind.

Classical Assumption Test
Normality Test

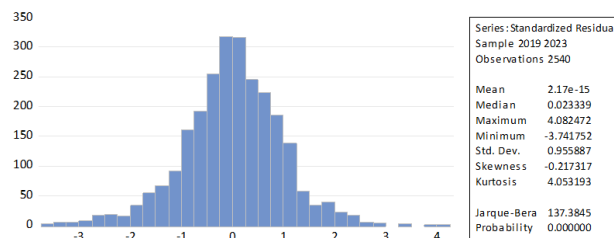


Figure 1. Normality Test

Source: EViews Output (Processed Data, 2025)

Based on Figure 1, the results of the normality test show that the Jarque-Bera value is 137.3845 with a probability of 0.0000. This suggests that the null hypothesis (H_0), which assumes the residuals follow a normal distribution, is rejected, indicating that the residuals deviate from normality. According to (Ruxton et al., 2015), the Jarque-Bera test is highly sensitive to large sample sizes. Consequently, the presence of non-normal residuals in this study is considered normal, as a large amount of data tends to make the statistical test extremely sensitive to even small deviations from a normal distribution.

Multicollinearity Test

Table 2.
Multicollinearity Test

Variabel	PAD	BM
PAD	1.000000	-0.032864
BM	-0.032864	1.000000

Source: EViews Output (Processed Data, 2025)

Table 2 shows that the correlation between Regional Original Revenue (X_1) and Capital Expenditure (X_2) is -0.032864. Being close to zero and far from both 1 and -1, this indicates a very weak connection between the two predictor variables. Thus, the predictive model does not suffer from multicollinearity, meaning each variable contributes unique information in explaining the dependent variable.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test

Variabel	t-Statistic	Prob
PAD	12.68512	0.0730

BM	0.92957	0.3527
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Source: EViews Output (Processed Data, 2025)

Based on the Glejser test results in Table 3, the probability values for Regional Original Revenue (X1) and Capital Expenditure (X2) are 0.0730 and 0.3527, respectively. Both exceed the 0.05 significance level, indicating that neither variable significantly affects the absolute residuals. This suggests that the regression model is free from heteroscedasticity, with consistent residual variance across all observations.

Panel Data Regression Model Selection Test

Table 4. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	24.763680 (507,2030)		0.0000
Cross-section Chi-square	5008.80524	507	0.0000

Source: EViews Output (Processed Data, 2025)

When we looked at the results in Table 4, the Chow test immediately caught our attention, showing a Cross-Section F probability of 0.0000, far below the 0.05 significance level. This clear outcome meant that the null hypothesis could no longer hold, pointing us toward the Fixed Effect Model as the most fitting approach for our analysis. But the story did not end there. To be absolutely certain that we were choosing the right model, we turned to the Hausman test, a crucial step to decide whether the Fixed Effect or the Random Effect Model would best capture the true relationships in our data.

**Table 5.
 Hausman Test**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	4.468270	2	0.1071

Source: EViews Output (Processed Data, 2025)

Looking at Table 5, we can see that the Chi-Square Statistic value is 4.468270 with 2 degrees of freedom and a probability of 0.1071. Because this probability exceeds the 0.05 threshold, the null hypothesis is accepted, pointing to the Random Effect Model as the most appropriate choice for this study.

**Table 6.
 Lagrange Multiplier Test**

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	3448.285 (0.0000)	0.134763 (0.7135)	3448.420 (0.0000)

Source: EViews Output (Processed Data, 2025)

When examining Table 6, we found that the Breusch-Pagan Cross-Section value is 3448.285, accompanied by a significance probability of 0.0000, far below the 0.05

threshold. This result leads to the rejection of the null hypothesis, providing strong evidence that the Random Effect Model is indeed the most appropriate choice for this study.

Table 7.
Random Effect Model Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.158422	0.015481	10.23317	0.0000
PAD	0.075446	0.019728	3.824347	0.0001
BM	-0.007324	0.025433	-0.287970	0.7734

Source: EViews Output (Processed Data, 2025)

Based on the panel data regression analysis, the regression equation obtained is as follows:

$$\text{Financial Performance} = 0.15842 + 0.07544\text{PAD} - 0.00732\text{BM}$$

The starting point of Regional Financial Performance is 0.15842 when both PAD and Capital Expenditure are absent, reflecting the fundamental baseline of fiscal health. As PAD rises, performance climbs steadily by 0.07544 per unit, showing the benefits of increasing local revenue. On the other hand, additional capital spending slightly drags performance down by 0.00732 per unit, illustrating that not all expenditures automatically improve outcomes.

Moderated Regression Analysis (MRA)

Table 8.
Results of Moderated Regression Analysis (MRA)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.172482	0.040509	4.257846	0.0000
X1	0.076517	0.036721	2.083735	0.0373
X2	-0.170522	0.185361	-0.919948	0.3577
M	-0.013138	0.038672	-0.339718	0.7341
X1M	0.001034	0.034025	0.030387	0.0358
X2M	0.165319	0.186497	0.886443	0.3755

Source: EViews Output (Processed Data 2025)

The MRA results presented in Table 8 reveal a clear and positive relationship between PAD (X1) and regional financial performance. This finding indicates that higher levels of local revenue directly translate into stronger fiscal outcomes, highlighting the critical role that Regional Original Revenue plays in supporting the financial health and sustainability of local governments. On the other hand, Capital Expenditure (X2) appears to negatively affect performance, though this relationship is not significant. The Audit Opinion (M) alone also shows no meaningful impact. Importantly, the interaction between PAD and Audit Opinion is small yet significant, implying that audits reinforce the benefits of increased local revenue. Meanwhile, the interaction between Capital Expenditure and Audit Opinion fails to reach significance, indicating that auditing does not enhance or weaken the effect of capital spending.

Hypothesis Testing

Table 9.
Hypothesis Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.158422	0.015481	10.23317	0.0000
X1	0.075446	0.019728	3.824347	0.0001
X2	-0.007324	0.025433	-0.287970	0.7734
R-squared	0.574200	Mean dependent var	0.037247	
Adjusted R-squared	0.495080	S.D. dependent var	0.131344	
S.E. of regression	0.131018	Sum squared resid	43.54968	
F-statistic	7.326038	Durbin-Watson stat	1.360272	
Prob(F-statistic)	0.000672			

Source: EViews Output (Processed Data, 2025)

1. Individual Parameter Significance Test (T-Test)

The T-test results show that Regional Original Revenue (PAD) has a strong and statistically significant effect on regional financial performance, with a t-statistic of 3.824347 and a probability of 0.0001, well below the 0.05 threshold. The positive regression coefficient of 0.075446 indicates that higher PAD leads to better financial performance. In contrast, Capital Expenditure (X2) shows a negative but insignificant effect, with a t-value of -0.287970 and a p-value of 0.7734, suggesting that increased spending does not automatically improve fiscal outcomes and that the quality of expenditure management matters more than its size.

2. Simultaneous Significance Test (F Test)

The results shown in Table 9 demonstrate that Regional Original Revenue (PAD) and Capital Expenditure jointly have a significant impact on regional financial performance. The F-statistic of 7.326038, with a probability of 0.000672 well below the 0.05 threshold, leads to the rejection of the null hypothesis and supports the alternative. This finding highlights that these two fiscal variables do not operate in isolation but interact together to influence the overall financial outcomes of local governments, emphasizing the importance of balancing revenue generation and spending decisions in achieving strong regional fiscal performance.

3. Test of Determination Coefficient (R²)

The results in Table 9 show that the R-squared value is 0.57420, with an Adjusted R-squared of 0.49508, suggesting that Regional Original Revenue and Capital Expenditure together explain slightly over half of the variation in regional financial performance. This means that while these two variables play a major role, 42.58% of the differences in financial outcomes are determined by other elements not covered in this study.

The Influence of Regional Original Revenue on Regional Financial Performance

The t-test results in Table 9 tell a compelling story about the power of Regional Original Revenue (PAD) in shaping local financial health. With a t-statistic of 3.824347 and a probability of 0.0001, PAD clearly has a positive and significant impact on regional financial performance. In other words, the more revenue a region can generate on its own, the stronger its fiscal standing becomes. This reflects not just the numbers, but the region’s skill in harnessing its potential through taxes, levies, or other legitimate sources to fund

development and public services. Regions with higher PAD stand on their own feet, less dependent on central government transfers, and more capable of turning local opportunities into tangible benefits for their communities.

In other words, an increase in PAD strengthens the regional government's fiscal autonomy, allowing it to design and implement policies that directly respond to local needs and priorities. Such financial flexibility encourages innovation in budgeting, infrastructure improvement, and public welfare enhancement. Furthermore, regions with stable PAD often display better transparency and accountability in financial management, as higher local revenue creates greater responsibility for effective and efficient fund utilization.

This finding aligns with the study of (Ardelia et al., 2022), which highlights that regions with increasing PAD generally exhibit stronger financial performance. The study suggests that when fiscal capacity improves, regional governments can finance a wider range of development programs, enhance public services, and reduce their dependency on transfer funds from the central government. In essence, a well-managed and increasing PAD not only strengthens financial performance but also represents the maturity and resilience of a region's economic governance.

The Influence of Capital Expenditure on Regional Financial Performance

Based on the results of the t-test presented in Table 9, capital expenditure has a t-statistic value of -0.287970 with a probability value of 0.7734, which is greater than the significance level of 0.05. Therefore, it can be concluded that capital expenditure does not have a significant effect on regional financial performance. This indicates that although capital expenditure is theoretically expected to improve financial performance through the development of facilities and infrastructure that support regional economic growth, in this study, the increase in capital spending has not yet contributed effectively to improving regional financial performance.

One of the main reasons for this is that the use of capital expenditure in many regions remains suboptimal and has not been fully directed toward productive activities capable of generating long-term economic benefits. High capital expenditure that is not supported by careful planning, efficient implementation, and adequate supervision often leads to budget inefficiency. As a result, the outcomes of capital expenditure do not immediately translate into improved regional financial performance. Ineffective allocation of funds can also cause delays in realizing the expected benefits of public investment, which tend to appear only after several fiscal periods.

This finding is in line with the study by (Defitri, 2020), which explains that capital expenditure does not necessarily have an immediate significant impact on regional financial performance, as the benefits of public investment often unfold over the long term and may take years to become evident. Similarly, the results of the study by (Edira & Bambang Hermanto, 2023) reveal that the low quality of planning and evaluation in program implementation has caused capital expenditure to be ineffective in significantly improving regional financial performance. In essence, without strategic direction and consistent monitoring, capital expenditure may fail to deliver the intended improvements in efficiency, productivity, and financial sustainability of regional governance.

The Effect of Audit Opinion in Enhancing Regional Original Revenue on Regional Financial Performance

Based on the results of the moderation test in Table 8, the interaction between Regional Original Revenue (PAD) and audit opinion shows a coefficient value of 0.00103

with a significance level of 0.0358, which is below the 0.05 threshold. This suggests that the audit opinion enhances the relationship between Regional Original Revenue (PAD) and regional financial performance.

The findings of this study illustrate that a high-quality audit opinion, such as an Unqualified Opinion (WTP), provides a positive signal regarding regional financial governance. Local governments that obtain an unqualified audit opinion generally possess transparent and accurate accounting and financial reporting systems that comply with governmental accounting standards. Regional Original Revenue (PAD) not only represents the fiscal capacity of a region but also reflects the government's accountability in managing its economic resources. When the audit opinion demonstrates a high level of compliance with public accountability principles, it reinforces the relationship between the increase in Regional Original Revenue (PAD) and regional financial performance. Regions with good audit opinions tend to manage their revenues transparently, free from irregularities, and in a responsible manner, enabling optimal utilization of PAD to support development programs and public services.

This result is consistent with the findings of (Praptiningsih et al., 2020), who emphasize that audit opinions play a vital role in reinforcing the link between financial management quality and regional financial performance. A good audit opinion reflects the effectiveness of internal control systems and adherence to existing regulations, thus contributing to the improvement of regional financial performance through better financial accountability.

The Effect of Audit Opinion in Enhancing Capital Expenditure on Regional Financial Performance

Based on the results of the moderation test in Table 8, the interaction between capital expenditure and audit opinion produces a coefficient value of 0.16531 with a significance level of 0.3755, which exceeds the 0.05 threshold. This suggests that the audit opinion does not enhance the relationship between capital expenditure and regional financial performance.

This finding suggests that although audit opinions serve as an evaluation tool for financial accountability, the effectiveness of capital expenditure largely depends on other factors such as the quality of planning, the accuracy of program targeting, and the efficiency of project implementation. A favorable audit opinion does not necessarily guarantee that capital expenditure is utilized productively or that it directly contributes to improvements in regional financial performance.

These results are consistent with the study by (Dwi Apriani et al., 2024), which states that low-quality planning and inadequate program evaluation hinder the impact of capital expenditure on financial performance. In this context, audit opinions function more as an assessment of compliance with governmental accounting standards rather than as a factor that enhances the effectiveness of capital expenditure utilization.

CONCLUSION

Based on the results and discussion of the research on the role of audit opinions in enhancing the influence of Regional Original Revenue (PAD) and capital expenditure on the financial performance of local governments across Indonesia during the 2019–2023 period, several key conclusions can be drawn. PAD experienced fluctuations throughout the period, with a sharp decline in 2020 due to the COVID-19 pandemic, followed by

consistent recovery until 2023 as the national economy improved and regional economic activities revived. Capital expenditure also showed a fluctuating pattern, decreasing significantly during the pandemic due to budget refocusing, but rebounding in 2023 as an indication of fiscal recovery and infrastructure acceleration. Overall, local government financial performance followed a similar trend, declining during the pandemic and then increasing significantly due to higher PAD and improved budget efficiency. Audit opinions also showed positive progress, with the number of regions receiving unqualified opinions (WTP) increasing from around 320 to more than 500 by 2023, reflecting stronger openness and responsibility in financial management. Statistical tests revealed that PAD had a positive and significant effect on financial performance, while capital expenditure did not. Furthermore, audit opinions were found to strengthen the relationship between Regional Original Revenue (PAD) and financial performance, but not between capital expenditure and financial performance. These findings emphasize the need for local governments to enhance PAD management, improve fiscal planning, and utilize audit opinions as strategic tools for better governance and sustainable financial performance.

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