

Size, Dependence on Central Government, Capital Expenditure, Audit Opinion on The Financial Performance in East Java Province

Heidy Paramitha Devi*, **Anny Widiasmara**, **Moh.Ubaidillah**, **Anisa Kusnul**, **Aurelia Safrina Berliana**

Accounting Departments, Universitas PGRI Madiun, Madiun City, 63118, Indonesia

Email: heidy@unipma.ac.id, anny.widiasmara@gmail.com, moh.ubaidillah8181@yahoo.com,
kusnulanisa298@gmail.com, aureliasb3@gmail.com

Corresponden Author: *heidy@unipma.ac.id

Abstract: This research aim to determine the impact of size, intergovernmental revenue, capital expenditure, and audit opinion on the financial performance of local government districts/cities in East Java Province from 2016 to 2022. This study's population includes all districts and cities in East Java Province from 2016 to 2022. The total sampling method was used to determine the sample of 38 districts/cities for this study. Secondary data in the form of the balance sheet and statement of budget realization published by the directorate general of financial balance at the ministry of finance, as well as an overview of semester examination results published by the East Java Provincial financial audit agency during the 2016-2022 period, are used. The data analysis techniques used in this study are descriptive statistic analysis, the classic assumption test, multiple linear regression analysis, and hypothesis testing. The study results found that local government's financial performance is influenced by its variable size and capital expenditure. Meanwhile, intergovernmental revenue and audit opinion have no effect on local government financial performance.

Keywords: Size, Intergovernmental Revenue, Capital Expenditures, Audit Opinion, Local Government Financial Performance.

Introduction

Changes in governance have led to demands for bureaucratic reform and improved public services. In several developed countries, such as the United States, the United Kingdom, Australia, and New Zealand, the process of administrative change is inseparable from the implementation of New Public Management (NPM). New Public Management is a new system of state governance that emphasizes a more professional bureaucracy. The United States has the Government Performance and Results Act (GPRA), which is the spearhead of a more professional and accountable bureaucracy. The implementation of performance-based budgeting has also been on the agenda of the British government. Meanwhile, in New Zealand and Australia, the measure of their government's success is bureaucracy (Kearney & Hays, 2025). However, the success of the implementation of New Public Management (NPM) depends heavily on a strong institutional foundation on which the reforms take place, particularly one with a historical legacy of impartial, non-politicized administration that allows for the adoption of modern reforms (Cinar et al., 2025). Indonesia has begun adapting the bureaucratic concept with a system called the Government Agency Performance Accountability System (SAKIP). In practice, the results obtained vary in the level of maturity of government agencies in managing performance. The mapping of the maturity of these agencies is carried out by the Ministry of Administrative and Bureaucratic Reform, which is responsible for overseeing the quality of performance management implementation through evaluations. The evaluation results indicate several problems that occur

in the process of implementing performance management in Indonesia, namely the Indonesian government is unable to (1) establish results-oriented strategic goals, targets, and objectives; (2) establish success measures that can indicate the achievement of goals/targets; (3) determine activities that can encourage the achievement of goals/targets; (4) determine budget allocations for activities that are aligned with goals/targets (Andari & Akbar, 2024).

The impact of this problem is the potential for budget wastage amounting to at least 40% of the State Budget (APBN)/Regional Budget (APBD). Most provincial and district/city governments are at risk of budget wastage. Only two districts/cities have excellent performance management and performance-based budgeting practices. Meanwhile, the implementation of performance management and performance-based budgeting in other districts/cities is very low, thus potentially making mistakes in selecting appropriate programs that will impact development (Pattiasina et al., 2023). Research conducted by (Nofriani et al., 2025) which examines the determinants of organizational innovativeness: the adoption of GASB 34 in Pennsylvania local government. The analysis techniques used are logistic regression and t-test. The results of the study (Nofriani et al., 2025) shows that the size of the government (organization) influences the financial performance of local governments.

Research conducted by (Safitri & Pusposari, 2025) This study analyzes the influence of local government size, prosperity, intergovernmental revenue, audit findings, and BPK audit opinions on financial performance. The analysis technique used in this study is multiple linear regression. The results show that size influences local government financial performance. The research was conducted by (Hendaris & Sastradipraja, 2024) which examines the factors influencing the financial performance of district/city governments in South Sumatra Province from 2012 to 2015. The analysis techniques used in this study were multiple linear regression and the f-statistic test. The results of the study indicate that the size of the regional government does not affect the financial performance of the regional government.

The above phenomenon motivated researchers to conduct research on the financial performance of district/city governments in East Java Province. This study draws on research conducted by (Hayati et al., 2020) entitled The Influence of Size, Wealth, Leverage, Regional Spending, and Intergovernmental Revenue on the Financial Performance of Regional Governments in Central Java. There are differences between this study and the previous study (Priharjanto et al., 2024). First, the independent variables in this study are size, level of dependence on the central government, capital expenditure, and audit opinion. Second, the research subjects are district/city governments in East Java Province. Third, the research period is 2016–2022. The variable used in this study is size, which is proxied by total assets. Previous research on the effect of size on local government financial performance has been conducted by (Pattiasina et al., 2023) which states that the larger the size of the regional government, the easier it will be to implement government activities and programs to improve community welfare because research results show that the size of the regional government (size) influences the financial performance of the regional government. However, research (Anto & Kartini, 2024) stated that the results of the study were different, namely that the size of the regional government (size) which is proxied by the total assets of the regional government does not affect the financial performance of the regional government where the size of the total assets cannot be said to be a factor that can influence the increase or decrease in performance because not

only large assets but the regional government must also have management that is able to utilize and manage assets so that they can provide a source of income for the regional government.

Method

The data used in this study are (1) balance sheet reports and annual budget realization reports for districts/cities in East Java for the 2016-2022 period obtained from the website of the Directorate General of Fiscal Balance, Ministry of Finance, (2) Summary of semester audit results obtained from the website of the East Java Provincial Audit Agency. The determination of the research sample uses a total sampling technique, where the entire population is used as a research sample with a total sample of 38 districts/cities. Data processing in the study uses the IBM SPSS version 24 program.

Table 1. Research Sample

Description	Number
District Governments in East Java Province	19
City Governments in East Java Province	9
Number of Regencies and Cities in East Java Province	38
Total sample during the 2016-2022 research period	152
<i>Error data</i>	24
Total data	128

Source: Data Processed 2022

Result and Discussion

Hypothesis Testing Results

t-Statistic Test

The t-statistic test is used to show how far the independent variable partially influences the variation in the dependent variable (Ghozali, 2021) The basis for making a t-test decision is seen from the significance value of $t < 0.05$, then the hypothesis is accepted or the independent variable partially influences the dependent variable. Meanwhile, the decision is made using a calculated t value greater than the t table value, then the alternative hypothesis can be accepted or states that the independent variable partially influences the dependent variable. The results of the t-test are presented in Table 2 below:

Table 2. Results of the t-Statistic Test

Model	Coefficients ^a					
	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	,896	,077			11,632	,000
Size	-1,616E-14	,000	-,467	-4,076	,000	
Level of Dependence on the Central Government Capital Expenditures	,135	,093	,141	1,459	,147	
Capital Expenditures	1,750E-13	,000	,591	6,168	,000	
Audit Opinion	,000	,005	-,006	-,079	,937	

a. Dependent Variable: Regional Government Financial Performance

Sumber: Data Diolah SPSS (2021)

To determine the t-table value, it can be seen based on the degrees of freedom value $df = (n-k)$ and $\alpha = 5\%$. This study used 5 variables with a total of 128 observation data, so the t-table value can be seen as follows:

$$\begin{aligned}
 t_{\text{table}} &= \alpha ; (n-k) \\
 &= 5\% ; (128-5) \\
 &= 0,05 ; 125 \\
 &= 1,65714
 \end{aligned}$$

Based on the results of the t-test in Table 4.1, the following conclusions can be obtained:

- 1) The calculated t value of the size variable is -4.076, which is higher than the t table value of -1.65714. Meanwhile, based on the significance value of the size variable, the result is $0.000 < 0.05$. Therefore, it can be concluded that the size variable has a significant influence on the financial performance of local governments.
- 2) The t-value for the variable level of dependence on the central government is 1.459, which is less than the t-table value of 1.65714. Meanwhile, based on the significance value of the variable level of dependence on the central government, the result is $0.147 > 0.05$. Therefore, it can be concluded that the variable level of dependence on the central government does not have a significant effect on the financial performance of local governments.
- 3) The calculated t value for the capital expenditure variable is 6.168, which is greater than the t table value of 1.65714. Meanwhile, based on the significance value of the capital expenditure variable, the result is $0.000 < 0.05$. Therefore, it can be concluded that capital expenditure has a significant effect on the financial performance of local governments.
- 4) The t-value of the audit opinion variable is -0.079, which is smaller than the t-table value of 1.65714. Meanwhile, based on the significance value of the audit opinion variable, the result is $0.937 > 0.05$. So it can be concluded that the audit opinion does not have a significant effect on the financial performance of local governments.

Conclusion

The purpose of this study is to investigate the impact of size, central government dependence, capital spending, and audit opinion on the financial performance of district/city administrations in East Java Province from 2016 to 2022, using multiple linear regression analysis. The size of local government has an impact on the financial performance of district/city governments in East Java Province, according to the analysis and discussion. The financial performance of district/city governments in East Java Province is negatively impacted by size, as measured by total assets; that is, the higher a local government's total assets, the worse its financial performance. The variable level of dependence on the central government has no effect on the financial performance of district/city governments in East Java Province. These results indicate that greater dependence on the central government can degrade the financial performance of district/city governments in East Java Province. This conclusion is because the allocation of balancing funds has not been able to increase regional revenue, indicating inadequate financial management of district/city governments in East Java Province. The variable level of dependence on the central government has no effect on the financial performance of district/city governments in East Java Province. These results indicate that greater dependence on the central government can degrade the financial performance of district/city governments in

East Java Province. This conclusion is because the allocation of balancing funds has not been able to increase regional revenue, indicating inadequate financial management of district/city governments in East Java Province. The variable capital expenditure influences the financial performance of district/city governments in East Java Province. These results demonstrate that a higher level of capital expenditure allocation can generate financial resources for local governments to boost regional economic growth, thus indicating that the financial performance of district/city governments in East Java Province is effectively managing their finances. Furthermore, the results indicate no effect of audit opinion on the financial performance of district/city governments in East Java Province. This suggests that audit opinion is not a reliable indicator of the financial performance of district/city governments in East Java Province, despite nearly all districts and cities receiving a favorable audit opinion (unqualified).

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