

## Audit, Fiscal, and Capital Expenditure: Determinants of Local Government Corruption

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### Abstract.

Corruption remains a prevalent issue that can manifest at all tiers of government, including regional government in Indonesia. This research aims to empirically prove the impact of audit opinions, audit findings, fiscal decentralization, and capital expenditures on corruption within local government entities. In this study, the level of corruption is quantified using cases of regional government corruption that have received a final legal decision from the court. This research employs a quantitative methodology utilizing panel data regression analysis. The research population consists of all *regency*/municipality governments in Indonesia during the fiscal year period from 2018 to 2022. The sample was obtained using purposive sampling, yielding 219 regional governments which met the criteria. Over a five-year observation period, 1,095 observations were analyzed. The data was then processed and analyzed using Eviews version 12. The research results show that audit opinion and fiscal decentralization significantly reduce local government corruption. Higher audit quality and fiscal decentralization correlate with lower levels of corruption. Meanwhile, audit findings and capital expenditures have no effect on local government corruption.

**Keywords:** Audit findings, Audit Opinion, Capital expenditure, Corruption level, Fiscal decentralization.

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### INTRODUCTION

Fraud is a planned action designed in such a way as to obtain profit for oneself or others through dishonest means (Albrecht et al., 2016). The Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organization, classifies fraud into three categories: asset misappropriation, fraudulent financial reporting, and corruption.

According to the ACFE's annual report for 2018-2022, corruption is the most common type of fraud across all regions of the world. This indicates that corruption is a persistent problem that has the potential to occur in various places (Šumah, 2018). The existence of corruption also has negative impacts, one of which is the slowing of economic growth (Song et al., 2021). Alfada's research (2019) shows the negative impact of corruption, which has a significant influence on economic growth in Indonesia through the variables of private investment, government consumption expenditure, and government investment expenditure. As these variables decrease, economic growth also slows down. Additionally, corruption also leads to economic inequality (Policardo & Carrera, 2018). Corruption directly affects economic inequality through a biased tax system that favors the wealthy Gupta and indirectly through other variables that cause inequality, such as unequal access to education and public services.

The corruption situation in Indonesia can be analyzed through various sources, one of which is Transparency International (TI). According to data released by Transparency International, Indonesia's CPI decreased from 40 points in 2019 to 37 points in 2020. Furthermore, Indonesia's CPI briefly increased by one point in 2021 but then dropped back to 34 in 2022.

Out of the many cases that have occurred in Indonesia, according to the trend of corruption case enforcement from 2018 to 2022 published by Indonesia Corruption Watch, local governments are known to be the government agencies with the most corruption cases each year. In reality, there are several factors that influence corruption at the local government level, including district/city governments. One of these is fiscal decentralization (Fuadi & Maburur, 2021). Through the implementation of fiscal decentralization, greater authority is given to local governments to manage their regional revenues and expenditures, which ultimately has the potential to increase the likelihood of corruption (Maria et al., 2019).

When viewed from the perspective of *modus operandi*, the most prevalent form of corruption in Indonesia is corruption in the procurement of goods/services (Suryo, 2022). Within the scope of government, the source of funds for large-value procurement of goods/services comes from capital expenditure budget lines. The high transaction value and complexity of transactions in capital expenditure make it the budget item most vulnerable to fraud (Ferwerda et al., 2017).

To address corruption in Indonesia, Panji & Utomo (2023) argue that audits in the public sector are essential to provide neutral, impartial, and evidence-based information, thereby enhancing transparency in state financial management, increasing the accountability of budget users, and detecting any misuse or fraud occurring in the management and use of the budget. Based on Law No. 15 of 2004 concerning the Examination of the Management and Accountability of State Finances, the Audit Board of the Republic of Indonesia (*BPK RI*) is a state institution mandated by the 1945 Constitution to conduct audits of the management and accountability of state finances.

*BPK RI* conducts audits of government financial statements at both the central and regional levels. This audit aims to provide an opinion on the fairness of the information presented in the financial statements. *BPK* may issue one of four types of audit opinions: (i) unqualified opinion, (ii) qualified opinion, (iii) adverse opinion, or (iv) disclaimer of opinion.

According to Safira Syahrir & Suryani Prodi (2020), there is a correlation between audit opinions and corruption practices occurring within the scope of local government. The study explained that the quality of the audit opinion is inversely proportional to the corruption occurring in the area, meaning the better the audit opinion received, the lower the corruption in the local government. Audit opinions can be an indicator for assessing whether the principles of good governance have been implemented in a government (Utami et al., 2020). Fulfilling the principles of good governance, with an effective internal control system and high transparency, is considered capable of reducing the potential for deviations or fraud and making corruption in local governments lower.

In addition to the audit opinion, the financial examination conducted by the Audit Board also resulted in audit findings covering weaknesses in the Internal Control System (ICS) and non-compliance with laws and regulations. The large number of audit findings, especially those related to weaknesses in the Internal Control System, indicates that the internal control system in the local government environment is not functioning effectively. Nurfaidah & Novita (2022) reveal that the weaknesses of the *SPI* significantly contribute to the increasing cases of corruption in local governments. The findings largely reflect weak internal oversight and a lack of adherence to good governance principles. In line with this, Yelvionita et al. (2020) stated that internal control has a positive and significant influence on the early warning system for fraud,

so the stronger an entity's internal control, the greater its ability to detect and prevent potential corruption early on.

Based on the descriptions from several previous studies, it is known that fiscal decentralization, audit findings, and capital expenditure can increase corruption in local governments, while a good audit opinion can lower the level of corruption. However, there are also previous studies that show different results. In the relationship between corruption and audit opinions, Budiman & Amyar (2021) and Verawaty et al. (2019) state that the audit opinion does not affect the frequency of corruption. Inconsistency in results is also evident in the influence of audit findings, where Utami (2020) and Aminah (2020) state that the weaknesses of the *SPI* and audit findings do not affect corruption.

A similar phenomenon occurs in studies on fiscal decentralization and capital expenditure. The studies by Alfano et al. (2018) and Changwony & Peterson (2019) show that fiscal decentralization can suppress corrupt practices, while the findings of Alfada (2019) and Fuadi & Mabur (2021) indicate that decentralization has the potential to increase corruption in local governments. Meanwhile, the impact of capital spending on corruption also shows contradictory results. Verawaty et al. (2019) concluded that capital expenditure does not affect corruption, while Rahmasari & Setiawan (2021) and Wicaksono & Prabowo (2022) stated that increased capital expenditure can lead to corruption.

Regarding the decline in Indonesia's Corruption Perception Index (CPI) score and the inconsistency of results from previous studies, the author intends to analyze the impact of audit opinions, audit findings, the level of fiscal decentralization, and capital expenditure on the extent of corruption in local government environments, using the latest corruption case data for corruption that occurred during the 2018 to 2022 fiscal years. To achieve the objectives of this research, various theoretical frameworks and previous research findings that delve into the complex dynamics behind the occurrence of corruption in the public sector were utilized. A thorough understanding of the mechanisms influencing corruption levels in local governments—particularly in relation to audit practices, fiscal decentralization, and capital expenditure—is crucial for identifying the factors that affect corruption. Using agency theory as a conceptual basis, this study also explores how information asymmetry and weak accountability structures can create opportunities for opportunistic behavior by local governments.

### **1) Agency theory**

Jensen & Meckling describe the agency relationship as a contract where one party (the principal) hires another party (the agent) to perform specific work on behalf of the principal by delegating decision-making authority to the agent. In a principal-agent relationship, information asymmetry can occur, leading to moral hazard and adverse selection.

Agency theory can be used as a basis for explaining public sector corruption. Marquette & Peiffer (2015) describe corruption as a double principal-agent problem. The first problem is when political leaders act as principals and are tasked with overseeing bureaucrats as agents to ensure they remain accountable. However, principals do not have perfect oversight capabilities, which gives bureaucrats the opportunity to abuse the authority they have been given. The second problem occurs when the public, as the principal, grants authority to public officials as agents to carry out government duties. As agents, public officials can abuse their positions and authority over public services to gain personal advantage.

## **2) Corruption**

Corruption comes from the Latin word *corruptio* or *corruptus*, which means rottenness, depravity, dishonesty, or immorality (Karsona et al., 2018). Based on Law Number 20 of 2001 concerning Amendments to Law Number 31 of 1999 concerning the Eradication of Corruption, an action can be categorized as corruption if it meets the following elements: (1) any person or corporation; (2) against the law; (3) enriching oneself, another person, or a corporation; and (4) potentially harming the state's finances or economy.

## **3) Audit Opinion**

Based on Law Number 15 of 2004 concerning the Examination of the Management and Responsibility of State Finances, an audit opinion is a professional statement by the auditor regarding the level of fairness of the information presented in the financial statements, based on the following criteria: (i) compliance with government accounting standards; (ii) adequacy of disclosure; (iii) compliance with laws and regulations; and (iv) effectiveness of the internal control system. Based on these criteria, the Supreme Audit Board (*BPK*) can issue four audit opinions: (i) unqualified opinion; (ii) qualified opinion; (iii) adverse opinion; and (iv) disclaimer.

## **4) Audit Findings**

According to Audit Board of Indonesia (2022), audit findings are an indication of problems encountered during the audit process. The audit findings consist of findings regarding weaknesses in the Internal Control System (ICS) and findings of non-compliance with legal regulations. The ICS weakness findings include weaknesses in the accounting and financial reporting system, the implementation of the revenue and expenditure budget, and the overall internal control structure. Meanwhile, findings of non-compliance with regulations include five types: losses to the state/region, potential losses to the state/region, revenue shortages, administrative findings, and indications of criminal activity. Each type of finding provides insight into the effectiveness of internal controls and the entity's level of compliance with regulations. The existence of these audit findings is important because they can indicate weaknesses in governance that potentially increase the risk of corruption.

## **5) Fiscal Decentralization**

Based on Law Number 23 of 2014 concerning Regional Government, decentralization is the transfer of government affairs by the central government to autonomous regions based on regional autonomy. The transfer of authority to regional governments includes the delegation of responsibility and authority for decision-making in the fiscal field, covering both revenue (tax assignment) and expenditure (expenditure assignment) aspects.

## **6) Capital Expenditure**

According to the Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management, capital expenditure is the allocation of budget funds to acquire fixed assets and other assets that provide benefits for more than one accounting period. Based on its type, capital expenditure consists of: (1) land expenditure; (2) equipment and machinery expenditure; (3) building and structure expenditure; (4) road, irrigation, and network expenditure; (5) other fixed asset expenditure; and (6) other asset expenditure.

In this study, four hypotheses are proposed as follows:

H1 = Audit opinion significantly affects the level of local government corruption. H2 =

Audit findings significantly affect the level of local government corruption. H3 = Fiscal decentralization significantly affects the level of local government corruption. H4 = Capital expenditure significantly affects the level of local government corruption.

Corruption remains a common issue at all levels of government, including local governments in Indonesia. This study aims to empirically prove the influence of audit opinions, audit findings, fiscal decentralization, and capital expenditure on corruption in local governments. The purpose of this study is to analyze and measure the extent to which these variables affect the level of corruption, so that it can provide clearer and measurable evidence in efforts to prevent and counter corruption at the regional level. This research is expected to provide benefits both theoretically and practically. Theoretically, the results of the research can enrich the treasures of science, especially in the field of public sector accounting and fiscal policy, by providing empirical evidence related to the determinants of corruption. Practically, the findings of this study can be considered by the government and related parties in formulating more effective policies to improve transparency, accountability, and good regional financial governance, which can ultimately reduce the rate of corruption.

## MATERIALS AND METHODS

This research uses a quantitative approach, utilizing secondary data and panel data regression analysis to measure the direct influence of each independent variable on the level of corruption. The research model includes four independent variables: audit opinion, audit findings, fiscal decentralization, and capital expenditure, whose influence on the dependent variable, corruption level, is analyzed. The operationalization of the variables used in this study is presented as follows.

**Table 1. Operationalization of Variables**

Variable	Indicator	Measurement Scale
Independent Variable (X)		
Audit Opinion (X <sub>1</sub> ) Source: Isnadiva & Haryanto (2021)	Dummy variable: WTP = 1 and non-WTP = 0	Nominal
Audit Findings (X <sub>2</sub> ) Source: Suhardjanto et al (2018)	Number of Findings on Internal Control System and Noncompliance with Laws and Regulations	Ratio
Fiscal Decentralization (X <sub>3</sub> ) Source: Mahmudi (2019)	Locally-Generated Revenue / Total Regional Revenue	Ratio
Capital Expenditure (X <sub>4</sub> ) Source: (Wicaksono & Prabowo, 2022)	Capital Expenditure / Capital Budget	Ratio
Dependent Variable (Y)		
Corruption (Y) Source: Fuadi & Maburur (2021)	Number of corruption cases based on court verdicts	Ratio

*Source: EvIEWS Data Analysis, 2025*

The population in this study includes all district/city governments in Indonesia during the fiscal years 2018 to 2022, totaling 514 entities. The sample determination was conducted using the purposive sampling method with the following criteria: (1) district/city governments that were previously involved in corruption cases based on court decisions in the 2018–2022 fiscal year, and (2) the availability of financial reports and Audit Results Reports (*LHP*) for those financial statements for the same period. Based on these criteria, a total of 219 district/city governments met the requirements and were selected as research samples. With an observation period of five years, a total of 1,095 observations were obtained and analyzed in this study. The data used is publicly available secondary data obtained from several official sources, including: the Supreme Court of the Republic of Indonesia's Decision Directory for corruption case data that has received final and binding decisions; Local Government Financial Reports for data on Local Original Revenue (*PAD*) and capital expenditure realization; and the Summary of Audit Results for the Semester (*IHPS*) of the Audit Board of Indonesia (*BPK*) for audit opinion and audit finding data.

The regression equation used to analyze the influence of each independent variable on the level of corruption is formulated as follows.

$$Y_{it} = \alpha + \beta_1 DF + \beta_2 RTS + \beta_3 RTA + \varepsilon_{it}$$

Information:

<b>KORUP</b>	<b>Corruption level</b>
A	Constant
$\beta_1 - \beta_3$	Beta Coefficient
DF	Fiscal Decentralization at Municipals
RTS	Ratop Audit Findings toward Internal Control System
RTA	Ratio Capital Expenditure
T	Period year -t
I	Municipality -i
$\varepsilon_{it}$	Error factor

Evaluation in this study began with descriptive statistics and the selection of a data regression model. Subsequently, classical assumption tests for multicollinearity, autocorrelation, and heteroscedasticity were conducted. Next, a regression coefficient test (R2) was conducted, an F-test to evaluate the model's suitability, and a t-test to evaluate the individual influence of each independent variable on the dependent variable.

## RESULTS AND DISCUSSION

### Result

**Tabel 2. shows descriptive analysis result from this research**

**Table 2. Descriptive analysis**

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Standard Deviation</b>
Audit Opinion ( $X_1$ )	0000000	1.000000	0.887671	0.315915
Audit Findings ( $X_2$ )	3.000000	34.00000	12.90046	4.509400

	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Standard Deviation</b>
Fiscal Decentralization (X <sub>3</sub> )	0.006721	0.537592	0.119096	0.092324
Capital Expenditure (X <sub>4</sub> )	0.302273	1.213166	0.857412	0.121127
Corruption (Y)	0.000000	7.000000	0.565297	0.946021

*Source: Eviews Data Analysis, 2025*

Based on the results of descriptive statistical testing, the following points were found.

1) Level of Local Government Corruption

The lowest (minimum) level of corruption is 0 (zero) corruption cases, which is held by 706 local government entities. This indicates that 706 local governments are district/city governments with the lowest number of corruption cases compared to other district/city governments. The maximum value for the level of corruption is 7 (seven) corruption cases, held by Muara Enim Regency in 2019 and West Pasaman Regency in 2019. The research data value with the maximum value indicates the local government with the highest level of corruption compared to other local governments. The average number of corruption cases in local governments included in the sample is 0.57. Meanwhile, the standard deviation is known to be 0.9 cases. With a mean value smaller than the standard deviation, this indicates that the level of corruption has a large variation and a wide data spread. This means that some regions have corruption cases that are far higher than the average.

2) Audit Opinion

The lowest (minimum) audit opinion value is 0 (zero) or non-WTP, held by 123 regencies/cities. This means that 123 local governments received non-WTP audit opinions throughout the 2018-2022 fiscal year period. The maximum audit opinion value is 1 (one) or WTP, held by 972 regencies/cities. This means that 972 local governments received WTP audit opinions during the 2018-2022 fiscal year period. The average audit opinion of 88.8% indicates that the majority of local governments received an Unqualified Opinion (WTP). Furthermore, the relatively low standard deviation value compared to the average indicates that the data spread is quite centered around the average value.

3) Audit Findings

The audit findings have the lowest value (minimum) of 3 (three) findings, which occurred in Demak Regency in 2018, 2020, and 2021; Lembata Regency in 2020; Magelang Regency in 2019; and Jayapura City in 2020. This means that the county/city government in question had the lowest number of audit findings compared to other county/city governments. The maximum value of audit findings is 34 findings, which were held by Hulu Sungai Utara Regency in 2021. This means that the local government had the highest number of audit findings compared to other local governments. The average audit findings in the sample were 12.9 findings, which is greater than the standard deviation of 4.51 findings. This condition indicates that the audit findings have relatively little variation and are not too widely dispersed. This means that the values of audit findings tend to be concentrated around the average.

4) Fiscal Decentralization

Fiscal decentralization had the lowest value of 0.67% in Mamberamo Tengah Regency

in 2018. This indicates that the Mamberamo Regency government had the lowest level of fiscal independence compared to other local governments. The highest value for fiscal decentralization is 53.76%, held by Tangerang Regency in 2022, meaning that this local government has the highest level of financial independence among all the samples studied. The average (mean) value of fiscal decentralization is 11.9% higher than the standard deviation of 9%. This indicates that the variation in fiscal decentralization is relatively small, with data distribution concentrated around the average.

5) Capital Expenditure

The lowest value for the capital expenditure variable, 30.22%, was held by Kepulauan Sangihe Regency in 2021, meaning that this local government had the lowest capital expenditure realization compared to other local governments. The maximum value, 121.31%, was held by Gorontalo Regency in 2022, meaning that this local government had the highest capital expenditure realization compared to other local governments. The average capital expenditure is 85.74% greater than the standard deviation of 12.11%. This indicates that the level of variation in capital expenditure is relatively low, with the data distribution not being too spread out.

Next, a regression model selection was conducted between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) to determine the most appropriate regression model. The results of the panel regression estimation for the three models are presented as follows.

**Table 3. Estimate of Panel Data Regression Model**

Variable	Common Effect Model		Fixed Effect Model		Random Effect Model	
	<i>Coefficient</i>	<i>Probability</i>	<i>Coefficient</i>	<i>Probability</i>	<i>Coefficient</i>	<i>Probability</i>
Constant	0.706017	0.0038	1.014067	0.0032	0.699519	0.0056
Audit Opinion (X <sub>1</sub> )	-0.225035	0.0144	-0.241654	0.0385	-0.233255	0.0138
Audit Finding (X <sub>2</sub> )	-0.005052	0.4329	-0.012564	0.1192	-0.007349	0.2664
Fiscal Decentralization (X <sub>3</sub> )	-0.145722	0.6442	-3.894203	0.0131	-0.220587	0.5464
Capital Expense (X <sub>4</sub> )	0.165109	0.4883	0.456729	0.1199	0.226160	0.3531

*Source: Eviews Data Analysis, 2025*

After performing the regression model estimation, the most suitable regression model among CEM, FEM, and REM will be selected. First, the Chow test is conducted to choose between CEM and FEM. Subsequently, the Hausman test is performed to determine the most appropriate model between FEM and REM. The results of the model selection process are shown in Table 4.



**Table 4. Result of Model Selection**

	<i>Cross-section Chi-square</i>	<b>Probability</b>	<b>Decision</b>
<b><i>Chow Test</i></b>			
	361.640501	0.0000	FEM accepted
<b><i>Hausman Test</i></b>	<i>Cross-section random</i>	Probability	Decision
	10.021439	0.0401	FEM accepted

*Source: Eviews Data Analysis, 2025*

Referring to the Chow test results in Table 4, the probability value is known to be 0.0000. Since the probability value is less than 0.05 ( $0.0000 < 0.05$ ), the most appropriate estimation model based on the Chow test is FEM. Next, the Hausman test was conducted. Based on Table 5, the probability value of the Hausman test is 0.0401. Since the probability value is less than 0.05 ( $0.0401 < 0.05$ ), the appropriate estimation model to use based on the Hausman test is FEM. With the same model selected by both tests (Chow and Hausman), this study uses the fixed effect model (FEM).

With FEM being selected as the regression model, it is necessary to conduct classical assumption tests.

1) Multicollinearity Test

The multicollinearity test was conducted using Eviews 12, and the results of this test are presented below.

**Table 5. Result of Multicollinearity Test**

<b>Variable</b>	<b>Centered VIF</b>
Audit Opinoin ( $X_1$ )	1.031310
Audit Finding ( $X_2$ )	1.033566
Fiscal Decentralization ( $X_3$ )	1.039462
Capital Expense ( $X_4$ )	1.020121

*Source: Eviews Data Analysis, 2025*

Referring to table 5, all independent variables showed Centered VIF values below 10.00 ( $1.031310 < 10.00$ ;  $1.033566 < 10.00$ ;  $1.039462 < 10.00$ ;  $1.020121 < 10.00$ ), indicating that no indication of multicollinearity was found in the model. Thus, the requirements for the multicollinearity test have been met.

1) Autocorrelation Test

Autocorrelation test was done with Eviews 12, the result is as below.

**Table 6. Result of Autocorrelation Test**

<b>Model</b>	<b>Durbin-Watson</b>
1	2.080675

*Source: Eviews Data Analysis, 2025*

Referring to Table 6, the Durbin-Watson value is known to be 2.080675. With 1,095 observations and four independent variables ( $k=4$ ), the lower bound (dL) is 1.89543, while the upper bound (dU) is 1.90636. The value of the 4-DU calculation is 2.09364 ( $4 - 1.90636$

= 2.09364).

Based on the autocorrelation testing criteria, the dW value of 2.080675 is greater than dU 1.90636 and also less than 4-dU (2.09364), or in other words,  $1.90636 < 2.080675 < 2.09364$ . Thus, it can be concluded that in the regression model, there is no autocorrelation if the Durbin-Watson test condition is met, i.e.,  $dU < dW < 4-dU$ .

## 2) Heteroscedasticity Test

Heteroscedasticity Test was done with Eviews 12, the result is as below

**Table 7. Result of Heteroscedasticity Test**

<b>Heteroscedasticity Test: Glejser</b>	
<b>Model</b>	<b>Prob. Chi-Square</b>
1	0.3519

*Source: Eviews Data Analysis, 2025*

Referring to Table 7, it is known that the Chi-Square probability value of 0.3519 is greater than 0.05. Therefore, it can be concluded that the regression model does not experience heteroskedasticity, or in other words, has passed the heteroskedasticity test.

To assess the extent to which the dependent variable contributes to influencing the independent variable, a coefficient of determination test was conducted. The results of the coefficient of determination test are as follows.

**Tabel 8. Result of Coefficient of Determination Test**

<b>Model</b>	<b><math>R^2</math></b>	<b><i>Adjusted R<sup>2</sup></i></b>
Fixed Effect Model	0.285841	0.104025

*Source: Eviews Data Analysis, 2025*

Referring to Table 8, the adjusted R<sup>2</sup> value obtained is 0.104025 or 10.4025%. This value indicates that Audit Opinion (X1), Audit Findings (X2), Fiscal Decentralization (X3), and Capital Expenditure (X4) contribute to explaining the Corruption Level (Y) by 10.4025%. The remaining 89.5975% (100 – adjusted R<sup>2</sup> value) comes from other variables or factors not included in this study.

F Test was done to confirm that the model is robust to be applied for subsequent tests. Result of F test is presented in Table 9.

**Tabel 9. F Test Result**

<b>Model</b>	<b><i>F-Statistic</i></b>	<b><i>Prob(F-statistic)</i></b>
Fixed Effect Model	1.572147	0.000004

*Source: Eviews Data Analysis, 2025*

The test results show an F-statistic value of 1.572147 and a Prob (F-statistic) of 0.000004. Since the probability value is below the significance level of 0.05 ( $0.000004 < 0.05$ ), the model used is considered suitable for further analysis.

**Tabel 10. T Test Result**

<b>Variable</b>	<b>Coefficient</b>	<b>t-statistic</b>	<b>Probability</b>
Constant	1.014067	2.956248	0.0032
Audit Opinion (X <sub>1</sub> )	-0.241654	-2.072285	0.0385
Audit Findings (X <sub>2</sub> )	-0.012564	-1.559712	0.1192
Fiscal Decentralization (X <sub>3</sub> )	-3.894203	-2.486520	0.0131
Capital Expenditure (X <sub>4</sub> )	0.456729	1.556765	0.1199

*Source: EvIEWS Data Analysis, 2025*

Referring to the results of the T-statistic test presented in Table 10, the following can be observed.

- a. H1: Audit Opinion significantly influences the Level of Local Government Corruption.

Based on the analysis results, the Audit Opinion variable (X<sub>1</sub>) has a negative relationship with a value of -0.241654. The calculated T value is -2.072285 and the significance level (probability) is 0.0385. Since the probability value is below the significance level of 0.05 ( $0.0385 < 0.05$ ), it is concluded that the audit opinion has a significant negative impact on the level of local government corruption. Thus, H1 is accepted.

- b. H2: Audit findings have a significant effect on the level of local government corruption.

The audit findings variable (X<sub>2</sub>) shows a negative coefficient with a value of -0.012564, a T-statistic value of -1.559712, and a significance level (probability) of 0.1192. Because the Prob value is above 0.05 ( $0.1192 > 0.05$ ), it is concluded that audit findings do not have an effect on the level of corruption in the local government environment. Thus, H2 is rejected.

- c. H3: Fiscal decentralization significantly affects the level of local government corruption.

The fiscal decentralization variable (X<sub>3</sub>) has a negative coefficient of -3.894203, a T-statistic of -2.486520, and a Prob. of 0.0131. Since the Prob. value of 0.0131 is less than 0.05, it can be stated that fiscal decentralization significantly and negatively affects the level of local government corruption. Therefore, H3 in this study is accepted.

- d. H4: Capital expenditure significantly affects the level of local government corruption.

The capital expenditure variable (X<sub>4</sub>) has a positive coefficient of 0.456729, a T-statistic of 1.556765, and a Prob. of 0.1199. Since the Prob. value is greater than 0.05 ( $0.1199 > 0.05$ ), it can be concluded that capital expenditure does not affect the level of local government corruption. Thus, H4 in this study is rejected.

#### 1) Impact of Audit Opinion on the Level of Corruption in Local Government

The research results indicate that audit opinion has a significant negative influence on the level of corruption in local government. This finding implies that the better the quality of the audit opinions received by local governments, the lower the intensity of corruption in that region will be.

An Unqualified Opinion indicates that the financial statements are presented fairly in all material respects and are in accordance with generally accepted accounting standards. An audit opinion can be an indicator that local governments have managed their finances in a clear, measurable, and responsible manner. This good financial performance is an important foundation for preventing abuse of power and corrupt practices. Conversely, other audit

opinions such as Qualified (WDP) or Adverse (TW) indicate significant non-compliance with accounting standards, as well as the potential for material misstatements caused by inadequate internal control systems.

A reliable internal control system allows for the early detection and prevention of deviations, thereby reducing the potential for budget misuse. External audits that result in an unqualified opinion not only reflect compliance with accounting principles but can also serve as an indicator that adequate oversight tools are in place to support the establishment of transparent and accountable governance.

In the context of agency theory, information asymmetry between the principal (society) and the agent (public officials) in the management of regional finances can trigger moral hazard actions such as corruption. Audits conducted by the Supreme Audit Agency (BPK) as the government's independent auditor serve as a mechanism for oversight and transparency to reduce the occurrence of such information asymmetry. An unqualified opinion can also indicate that financial management has been conducted more transparently and accountably, thus narrowing the scope for agents (public officials and bureaucrats) to engage in actions that are contrary to the principal's interests (moral hazard), such as corruption.

This study produced findings that support previous research by Utami (2020), Safira Syahrir & Suryani Prodi (2020), Panji & Utomo (2023) who also found that audit opinions significantly and negatively influence the level of corruption. Conversely, this study produced findings that contradict Isnadiva & Haryanto (2021) dan Warkini et al. (2020) who did not find any influence of audit opinions on the level of corruption.

## 2) Impact of Audit Finding on the Level of Corruption in Local Government

The research findings indicate that audit findings do not affect the level of local government corruption. This means that the quantity of audit findings discovered during the audit process does not significantly affect the corruption occurring in the local government environment.

There are several reasons why audit findings do not affect the level of corruption. One reason is that the findings may not be optimally followed up by local governments. Without concrete follow-up steps, audit findings cannot function effectively as a tool to prevent or suppress corrupt practices. Additionally, there is a possibility that local governments only follow up on audit findings administratively to avoid sanctions, without addressing the root of the actual problem. As a result, the audit findings were not implemented into tangible improvements in internal control systems or financial management practices.

Additionally, resistance from local government employees to change can also be a hindering factor, especially if the change is perceived as a threat to personal or certain group interests. Not only that, but limitations in budget, technical competence, and human resource capacity can also hinder local governments from following up on audit findings and fully implementing the recommendations provided.

The findings of this study are consistent with the research by Al-Faruqi et al. (2024) dan Panji & Utomo (2023) who concluded that audit findings do not have a significant impact on the level of corruption. On the other hand, the findings of this study contradict the study by Nurfaidah & Novita (2022) which concluded that audit findings have an influence on the level of corruption.

## 3) Impact of Fiscal Decentralization on the Level of Corruption in Local

## Government

Based on the research findings, it is known that fiscal decentralization has a significant negative impact on the level of local government corruption. This means that the greater the degree of fiscal decentralization in local governments, the lower the level of corruption that occurs in those local governments. Substantively, the findings of this research indicate that increased fiscal autonomy at the local level plays a role in reducing the likelihood of corruption.

The implementation of fiscal decentralization can reduce corruption because the delegation of financial management authority to local governments can strengthen their independence and responsibility in managing their own financial resources. With increased fiscal independence, local governments have a greater incentive to manage finances transparently and accountably in order to maintain public trust and support regional development. Additionally, decentralization also allows for closer monitoring by local communities, making it more difficult for corrupt practices to go undetected.

Fiscal decentralization also enhances the effectiveness and efficiency of government functions by delegating broader authority, which can ultimately reduce the likelihood of corruption. However, the success of fiscal decentralization in curbing corruption heavily depends on the existence of strong oversight mechanisms and the quality of local financial reports. Strengthening the capabilities of the internal audit unit, continuous bureaucratic reform, and an effective internal control system are important factors in ensuring that decentralization truly has a positive impact on reducing corruption levels.

According to agency theory, fiscal decentralization can reduce corruption because the delegation of financial management authority to local governments strengthens accountability and increases closer and more contextual public oversight. With greater authority, local governments as agents are directly accountable to the local community as the principal, thus having a stronger incentive to manage resources transparently and accountably. Additionally, decentralization reduces information asymmetry between the principal and agent because information regarding local needs and conditions becomes more easily accessible and monitored, thereby minimizing opportunities for moral hazard and adverse selection that can trigger corruption.

The findings of this study are consistent with those of Maria et al. (2019b) and Fuadi & Maburur (2021) who found that fiscal decentralization affects local government corruption. However, the findings of this study contradict the study by Anggono & Haryanto (2024) which revealed that fiscal decentralization has no effect on corruption in local governments.

### 4) Impact of Capital Expense on the Level of Corruption in Local Government

The research results indicate that capital expenditure has no impact on the level of local government corruption. This means the results of this study are not strong enough to conclude that an increase or decrease in capital expenditure directly causes an increase or decrease in corruption cases in the region.

Essentially, corruption in the public sector does not depend on the size of a particular budget item, but rather on how the budget is managed and monitored. Capital expenditure is merely a representation of productive fiscal spending, such as infrastructure development and the procurement of capital goods. However, the capital expenditure figure itself does not reflect how the budgeting process is planned, implemented, and monitored.

Besides that, capital expenditure is just one of the various financial items managed by

local governments. In practice, corruption in local governments can also occur in other budget items, such as spending on goods and services, cash, local revenue, and grants and social assistance. Therefore, the amount of capital expenditure cannot be the sole cause of corruption. Corrupt practices, such as bribery, gratuities, and abuse of power, often occur in processes involving other budget management that may not be directly visible in capital expenditure figures.

Other factors such as bureaucratic culture, local head leadership, human resource capacity, and public participation in oversight also significantly influence the level of corruption, making the impact of capital expenditure insignificant in this study. In many cases, the size of the budget is not directly correlated with the potential for corruption, as what is more determining is how the budget is managed, not how large its value is. Therefore, it can be concluded that the relationship between capital spending and the level of corruption is not directly causal, but rather highly dependent on the governance context and institutional quality of the relevant region.

The findings in this study are consistent with Verawaty et al. (2019) who concluded that capital expenditure has no effect on the level of corruption. However, the findings of this study are not consistent with the research by Wicaksono & Prabowo (2022) which found an influence of capital expenditure on the level of local government corruption.

## **CONCLUSIONS**

This research uses a quantitative approach to examine the influence of audit opinions, audit findings, fiscal decentralization, and capital expenditure on the level of corruption in local governments in Indonesia. The research results indicate that audit opinions and fiscal decentralization have a significant negative impact on the level of corruption. These findings indicate that improving audit quality and regional fiscal independence can strengthen transparency and accountability in public financial management. Conversely, audit findings and capital expenditure did not show a significant impact on corruption levels, suggesting that the size of the findings or budget allocation does not automatically trigger corruption without the underlying institutional context and quality of governance. Based on the findings of this study, the government needs to prioritize improving the quality of audit opinions and strengthening fiscal autonomy as part of its anti-corruption strategy. Local governments must also ensure that their internal control and financial governance systems are able to adapt to increasing fiscal capacity and operational complexity. Additionally, the findings of this study underscore the importance of transparent public financial management, where audit opinions serve not only as a tool for oversight but also reflect the overall quality of governance. Although this research provides relevant insights, it has limitations due to its use of secondary data, which restricts the exploration of qualitative factors such as leadership integrity, compliance culture, or local political dynamics that can influence corruption levels. Therefore, future research is recommended to involve primary data collection, such as interviews, surveys, or case studies, to explore non-quantitative dimensions that also shape corruption risk. Additionally, future research can also utilize the latest corruption case data to gain a more up-to-date understanding of deviation patterns and trends.

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