

The Effect of Local Government Size, Leverage, Audit Findings, Follow-up of Audit Recommendations, and Audit Opinion on Local Government Performance

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ABSTRACT

Introduction - Government performance at the local level is the achievement of the goals of government agencies in implementing their visions and missions, as well as realizing the level of success and minimizing the failure of activities in line with the established plans and policies. Local governments are entrusted with the responsibility of managing and optimizing local resources. The more optimal the local government is in managing these resources, the better they can provide optimal services, thereby accelerating the achievement of societal welfare. Therefore, the realization of societal welfare requires optimal performance from the local government. Factors believed to influence the performance of local governments in this study include the size of the local government, leverage, audit findings, follow-up to audit recommendations, and audit opinions.

Purpose - This study aims to examine the effect of the size of the local government, leverage, audit findings, follow-up to audit recommendations, and audit opinion on local government performance.

Methodology/Approach - This research is a quantitative study that uses secondary data. The research sample consists of regencies and cities in Java and Bali, selected using purposive sampling method. Data analysis method used is panel data regression analysis.

Findings - The results of this study indicate that leverage and audit findings have a negative effect on the performance of local governments. On the other hand, the size of the local government, follow-up to audit recommendations, and audit opinions do not have a positive effect on the performance of local governments.

Originality/Value/Implication - The addition of an independent variable (audit opinion) and the expansion of research objects into regencies and cities not only on the island of Java, but covering the islands of Java and Bali

Keywords: local government performance; local government size; leverage; audit findings; follow-up on audit recommendations; audit opinion

INTRODUCTION

The era of regional autonomy in Indonesia at this time is getting stronger because of the policy of granting autonomy and all authority lies with the regions. In accordance with the mandate of Law Number 23 of 2014 concerning Regional Government, it states that there is a delegation of authority from the central government to regional governments, except for the authority of foreign policy, justice, defense and security, national monetary and fiscal, and religion. Regional autonomy aims to realize the welfare of the community through the provision of maximum services to the community. The implementation of this service is indicated by the use of resources in an efficient and effective manner so that it will facilitate the achievement of agreed goals, the achievement of these goals reflects that the local government has tried to realize the welfare of the community (Rusmin *et al*, 2014).

Local governments play an important role in improving maximum service to the community. Local government must annually compile, plan, and carry out funding activities that have been prepared in the annual financial plan in the form of the Regional Budget (APBD). Based on Government Regulation of the Republic of Indonesia Number 12 of 2019 concerning Regional Financial Management article 1 paragraph (4) Regional Revenue and

Expenditure Budget, hereinafter abbreviated as APBD, is an annual regional financial plan stipulated by regional regulation. The APBD is stipulated by regional regulations

and prepared with a performance approach, which prioritizes efforts to achieve work results from the planned allocation of costs or inputs that have been determined.

Optimal budget utilization will affect local government performance. Government performance in the budget sector is an important thing that must be implemented. One of the indicators in assessing local government performance is budget absorption. Budget absorption is related to the ability of local governments to achieve planned activity targets (Priyono *et al*, 2022).

Achieving maximum activity targets must coincide with good budget planning. The comparison between realization and budget shows how much budget absorption in achieving the planned activity targets. The greater the budget absorption reflects the ability of local governments to achieve planned activity targets. The smaller the budget absorption means that the local government has not been able to achieve the planned activity targets and will affect the performance of the local government it self. Local governments are expected to absorb the budget that has

been prepared properly (Abdullah and Nazry, 2015).

But in reality, local government still experience the same problems every year, namely related to the level of budget absorption. The level of budget absorption in the first and second quarter semesters decreased little by little, but in the third and fourth quarters it increased rapidly. This does not have a positive impact on budget management for economic growth (Ministry of Finance of the Republic of Indonesia, 2022). According to Arif in Rahmaini *et al.*, (2018) until now the central and regional government do not have a standard definition of the standard of a few percent of a region in the category of marginal absorption of the APBD. There are several regions that have an integrity fact which is then signed by the SKPD head that a local government will be recorded as having budget absorption if until the end of the year it is unable to realize 90% of the total APBD that has been prepared.

Regency/city government in Indonesia are inseparable from problems related to budget absorption. One of them is Cilegon City. Based on the Regional Government Financial Report (LKPD) issued by the Central Financial Agency of the Republic of Indonesia (BPK RI), the Cilegon City budget absorption has not yet reached the previously set target. In 2021, Cilegon City's budget absorption dropped dramatically from previous years. The following presents data on the realization and budget for Cilegon City.

Table 1. Cilegon City Budget

Year 2020			Year 2021		
Realization (Rp000)	Budget (Rp000)	%	Realization (Rp000)	Budget (Rp000)	%
1.556.436.662	1.779.909.161	87	1.653.559.838	2.201.070.407	75

Source: secondary data, processed (2023)

The Table 1 shows that the Cilegon City budget absorption in 2021 is very low compared to the previous year, meaning that the performance of the local government in managing the budget is still not optimal. This is due to the late determination of the regional budget. According to the news written in Cilegon Diskominfo, in order to be serious about resolving the low budget absorption of Cilegon City, the city's local government held a meeting with the Director General of Regional Finance of the Ministry of Home Affairs. The Director General of Regional Finance of the Ministry of Home Affairs, Agus Fatoni explained that there are several things that need to be sought for information related to the achievement of budget realization as a form of seriousness in overcoming these problems so that Cilegon City can be better. One of the solutions given is that the Cilegon City local government must provide maximum local government performance in providing public services to the community through budget management. In addition, local governments must have a high commitment in realizing the welfare of the community.

Various studies on local government performance have been conducted but the results of these studies are still mixed. Research that shows a positive relationship between local government size and local government performance is conducted by Kiswanto and Fatmawati (2019); Andani et

al., (2019). Meanwhile, Anggraini et al., (2019) did not find a relationship between the two variables.

The relationship between leverage and local government performance also has inconsistent results. Fitasari and Ismawati (2020); Kiswanto and Fatmawati (2019) found a negative relationship. Meanwhile, Anggraini et al. (2019) found no relationship between the two variables.

The effect of audit findings on local government performance also has inconsistent results. Kiswanto and Fatmawati (2019); Furqan et al., (2020) found a negative correlation between the two variables. The opposite result was found by Anto et al. (2020) that both variables had a positive effect. Meanwhile, Dasmara et al (2020) found that the two variables had no significant effect.

The variable follow-up on audit recommendations on local government performance conducted by Kiswanto and Fatmawati (2019) and Furqan et al., (2020) proves that both variables have a positive effect. Anto et al., (2022) found the opposite result that both variables had a negative effect.

This research was inspired by research conducted by Kiswanto and Fatmawati (2019). The difference in this study lies in the independent variables, research objects and proxies for measuring local government performance. The variables used in Kiswanto and Fatmawati (2019) research are local government size, leverage, audit findings, and follow-up recommendations on local government performance. Meanwhile, this study adds an independent variable, namely audit opinion. In addition, the object of Kiswanto and Fatmawati's (2019) research was conducted at districts and cities in Java in 2014. Meanwhile, the object of this research will be carried out at districts / cities in Java and Bali Islands in 2017-2021.

Based on Law Number 15 of 2004 concerning Examination of State Financial Management and Responsibility article 1 states that opinion is a professional statement as the examiner's conclusion regarding the fairness of the information presented in the financial statements. The financial statements presented must be based on criteria. The criteria consist of: (1) conformity with government accounting standards, (2) adequacy of disclosures, (3) compliance with laws and regulations, and (4) effectiveness of the internal control system. The better the audit opinion given means that it illustrates that the local government has carried out accountability and transparency in budget management. This will have an impact on the performance of local governments in managing the budget so that the budget absorption is higher. In line with the results of research conducted by Andani, et al (2021) which states that audit opinion has a positive effect on local government performance.

The research to be carried out has an additional object, namely districts / cities on the island of Bali. The reason for choosing this object is because Bali Island is famous for its attractive tourism. So that Bali Island tourism attracts

tourists to visit Bali Island. Sandiaga Salahudin Uno as Minister of Tourism and Creative Economy, stated that Bali Island is one of the largest contributors to foreign exchange after the oil and gas industry for Indonesia. Indonesia's revenue is 50% from Bali, which is 20 billion a year (CNBC Indonesia). According to the records of the Central Statistics Agency (BPS) of Bali Province in 2019 foreign tourists visiting Bali reached 6,275,210, but in 2020 the data recorded was 1,069,473, meaning there was a decrease of around 5 million tourists visiting. This must be a concern for the local government and focus more on increasing visiting tourists because revenue from Bali tourism is the largest contributor to Indonesia so that the local government must provide the best possible performance.

LITERATURE REVIEW

(1) Theory

● Stewardship Theory

Stewardship theory is a theory that defines managers as parties who are trusted to carry out actions and have a high drive towards the interests of the company rather than individual interests. Stewardship theory states that society acts as a principal while the government acts as a steward (Kiswanto & Fatmawati, 2019). Stewardship theory is defined by Jefri (2018) as a stewardship model based on managers as stewards given the responsibility of maximizing company interests. Stewardship theory is based on the philosophical assumption that human nature is essentially trustworthy, all actions can be considered, honest, and fair to other parties.

According to Ara, et al (2016) stewardship theory holds that local government as state authorities given responsibility for the interests of society must carry out their duties and functions properly, be responsible for financial management, and are expected to improve community goals through public services that have an impact on the realization of maximum community welfare. The government is motivated to maximize organizational performance as the best form of service in improving organizational welfare. The government as a steward plays a role in service to the community. The services provided must be maximized in an effort to realize community welfare. Therefore, high performance is required for the government and must prioritize organizational interests over individual interests.

● Local Government Performance

Performance is a form of acquisition on an activity, plan, or policy to create goals, direction, and vision of the organization (Bastian, 2006: 274). In relation to the public sector, especially the local government sector, local government performance is a form of achieving the goals of government agencies in implementing the vision and mission as well as realizing the level of success and minimizing the unsuccessful implementation of activities in line with predetermined plans and policies (Puspitasari & Setyanta, 2020). The government is responsible for realizing the welfare of the community through the best service.

Increased public welfare can be seen from how much the amount of government budget absorption. High and low budget absorption is one measure of local government performance in driving economic growth in a region. If the absorption of the local government budget is low, it will have an impact on hampering the economic growth of a region which will affect the performance of the local government which is getting worse. Conversely, if the absorption of the local government budget is high, it will have an impact on economic growth and better local government performance.

Budget absorption is defined as the ability of local governments to achieve development targets to be achieved through the implementation of the budget (Hanif and Suparno, 2017). Budget absorption is related to aspects of regional expenditure which includes the realization and budget of regional expenditure. The difference between budget and realization will relate to absorption. Low budget absorption illustrates the inability of local governments to achieve activity targets. If high budget absorption illustrates that local governments are able to achieve activity targets which will have an impact on the performance of the local government it self (Priyono, et al, 2022).

● Leverage

Leverage is the amount of capital used to finance debt from external parties (Fitasari and Ismawati, 2020). According to Harjito and Martono (2011: 59) leverage is the ratio between total debt and total assets expressed in percentage. In relation to the public sector, the leverage or debt ratio is used by creditors as a consideration for making decisions in providing credit to local governments. Creditors use this ratio to assess the extent of the local government's ability to pay debts. Local governments usually use this leverage for government activities. One of them is related to budget management for government activities. If the local government feels a shortage in terms of budget, it means that the local government will look for other ways, namely by seeking capital from external parties.

● Audit Findings

According to Sudarsana (2013) in Kiswanto and Fatmawati (2019) audit findings are problems in local government financial reports found by BPK against violations of statutory provisions. BPK is authorized to conduct 3 types of audits, namely financial audits, performance audits, and audits with specific objectives. One of the examinations carried out by BPK is an examination of local government financial reports. Examinations conducted by BPK reveal problems of internal control weaknesses and non-compliance with laws and regulations.

● Follow-up of Audit Recommendation

According to the Regulation of the Supreme Audit Agency of the Republic of Indonesia Number 2 of 2017 article 1 paragraph (4) concerning Monitoring the Implementation of Follow-up of Recommendations on Audit Results of the Financial Audit Agency, a recommendation is a suggestion from an examiner based on the results of his/her

examination, which is directed to the person and/or body authorized to take action and/or improvement. Officials are obliged to follow up on recommendations and provide answers or provide explanations on the follow-up to these recommendations. BPK then reviews the answers or explanations received from officials to determine whether the follow-up has been done. The results of the review are classified as follows: (1) the follow-up is in accordance with the recommendation, (2) the follow-up is not in accordance with the recommendation, (3) the recommendation has not been followed up, and (4) the recommendation cannot be followed up. The results of the follow-up of these recommendations should be implemented by the local government as an effort to implement recommendations that will have an impact on higher local government performance. Higher performance will affect efforts to maximize services to the community in achieving community welfare.

● **Audit Opinion**

Based on Law Number 15 of 2004 concerning Examination of State Financial Management and Responsibility article 1 states that opinion is a professional statement as the examiner's conclusion regarding the fairness of the information presented in the financial statements. The financial statements presented must be based on criteria. The criteria consist of: (1) conformity with government accounting standards, (2) adequacy of disclosures, (3) compliance with laws and regulations, and (4) effectiveness of the internal control system. Based on Law Number 15 of 2004 concerning Audit of State Financial Management and Responsibility article 16 paragraph (1) there are 4 types of opinions given by the examiner, namely:

- a. Unqualified opinion.
- b. Qualified opinion.
- c. Adversed opinion.
- d. Disclaimer of opinion.

(2) Hypothesis Development

One of the factors that effect local government performance is the size of the local government. The size of the local government is defined as the size of the object of a local government (Noviyanti and Kiswanto, 2016). The greater the total assets of a region, the greater the demands from the public on local government performance. Stewardship theory holds that managers prioritize public needs rather than individual needs. Local governments as stewards must provide maximum services to facilitate the realization of community welfare through optimal management of assets owned. The greater the total assets owned and the government is able to manage these total assets to achieve the planned program through the budget, it will have an impact on local government performance (Abdullah and Nazry, 2015). Research by Kiswanto and Fatmawati (2019); Andani, et al (2019) state that there is a positive correlation between the size of local government and local government performance. Based on the explanation of the theory and the results of previous research, the first research hypothesis is prepared as follows:

H1: Local government size has a positive effect on local government performance.

Leverage is the amount of capital used to finance debt from external parties (Fitasari and Ismawati, 2020). According to Harjito and Martono (2011: 59) leverage is the ratio between total debt and total assets expressed as a percentage. The greater the total leverage, the higher the dependence of local governments on outside entities. Conversely, the smaller the leverage, the smaller the local government's dependence on outside entities. The higher the dependence of local governments on external parties, the lower the performance of local governments. Stewardship theory holds that the steward will have a high motivation to take the best action for the principal (Kiswanto and Fatmawati, 2019). Stewards as managers must strive not to always depend on external parties for funding government activities. Previous research that shows leverage has a negative relationship with local government performance, namely research by Fitasari and Ismawati (2020); Kiswanto and Fatmawati (2019). Based on the explanation of the theory and the results of previous research, research hypothesis two is prepared as follows:

H2: Leverage has a negative effect on local government performance.

Audit findings are problems found by BPK on local government financial reports related to internal control problems and violations of statutory provisions (Noviyanti and Kiswanto, 2016). Stewardship theory states that the government as a steward will be better if it carries out the rules according to what has been determined so that it makes it easier to realize the welfare of the principal. The more audit findings obtained result in regional inefficiencies and losses. The more violations found means that the government has not managed optimally related to the budget in the local government financial statements. This reflects that the lower the performance of the local government. Previous research proves that there is a negative correlation between audit findings and local government performance due to the high number of violations committed by the local government. This is in line with the results of research conducted by Kiswanto and Fatmawati (2019); Furqan et al, (2020). Based on the explanation of the theory and the results of previous research, the research hypothesis three is prepared as follows:

H3: Audit findings have a negative effect on local government performance.

According to the Regulation of the Supreme Audit Agency of the Republic of Indonesia Number 2 of 2017 article 1 paragraph (4) recommendations are suggestions from the examiner based on the results of his examination, which are addressed to the person and / or body authorized to take action and / or improvement. The existence of this recommendation if BPK has carried out an examination related to local government financial reports. This financial

report contains many budget plans that will be realized. The stewardship theory states that the government as a steward has high power in taking actions to realize the interests of the people as the principal. If the local government follows up on the audit recommendations, it indicates that the local government has implemented the recommendations in order to improve the performance of its governance. The more improved performance will make it easier to realize the welfare of the people as the principal. The efforts made by the local government will have a major impact on the performance of the local government itself because it will accelerate the realization of public welfare through optimal services. Better local government performance means that it reflects that the local government has carried out a lot of follow-up to these recommendations (Kiswanto and Fatmawati, 2019). This is confirmed by the results of research conducted by Kiswanto and Fatmawati (2019) and Furqan et al., (2020) which show a positive correlation between the follow-up of audit recommendations on local government performance. Based on the explanation of the theory and the results of previous research, the research hypothesis four is prepared as follows:

H4: Follow-up on audit recommendations has a positive effect on local government performance.

Based on Law Number 15 of 2004 concerning Examination of State Financial Management and Responsibility, the opinion is a professional statement as the examiner's conclusion regarding the fairness of the information presented in the financial statements. The WTP audit opinion is the hope of all local governments because local governments are considered to have reflected accountability in the management of local government financial reports. The management of these financial statements is related to the budget, one of which is the expenditure budget. The best way for the government as a steward is to be able to manage the budget properly, so that the WTP audit opinion received reflects that the local government is responsible for the accountability of regional financial management for the welfare of the community through the best service. Based on the description above, research conducted by Andani, et al (2021); Ahyaruddin and Amrillah (2018) show a positive correlation between audit opinion and local government performance. Based on the explanation of the theory and the results of previous research, the research hypothesis five is prepared as follows:

H5: Audit opinion has a positive effect on local government performance.

RESEARCH METHOD

(1) Sampling Technique

The sample in this study was 112 districts/cities in Java and Bali. The sampling technique utilized the purposive sampling method. Purposive sampling is a way of determining a sample that refers to certain characteristics that have been determined by the researcher. The sampling criteria in this study are:

1. District/city governments in Java Island and Bali Island.
2. District/city governments in Java and Bali Island that have Local Government Financial Reports (LKPD).

(2) Operational Definition of Variables

• Local Government Performance

According to Government Regulation Number 13 of 2019 concerning Reports and Evaluation of Local Government Implementation article 1 paragraph 5 states that the performance of local government administration is the work result of a measurable output in the implementation of government affairs in accordance with the responsibility of authority within a predetermined time. Local government performance is measured using the formula:

Local Government Performance	=	$\frac{\text{Realization of expenditure}}{\text{Budget expenditure}} \times 100\%$
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• Size of Local Government

The size of local government is defined as the size of the object of local government (Noviyanti and Kiswanto, 2016). The size of local government is calculated using the formula:

Size of local government	=	Ln total assets
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• Leverage

Leverage is the amount of capital used to finance debt from external parties (Fitasari and Ismawati, 2020). Leverage is calculated using the formula:

Leverage	=	$\frac{\text{Debt}}{\text{Equity}}$
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• Audit Finding

According to Sudarsana (2013) in Kiswanto and Fatmawati (2019) audit findings are problems with local government financial reports found by BPK against violations of statutory provisions. Audit findings are calculated using the formula:

Audit Finding	=	$\frac{\text{Nominal of Audit Finding}}{\text{Total Budget expenditure}}$
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• Follow-up on Audit Recommendations

According to the State Financial Audit Standards in the Regulation of the Supreme Audit Agency of the Republic of Indonesia Number 1 of 2017, follow-up recommendations are suggestions from the examiner based on the results of the examination, which are directed to the person and / or body authorized to take action and / or improvement. Follow-up on audit recommendations is calculated using the formula:

Follow up on Audit Recommendations	=	$\frac{\text{Follow up Recommendations}}{\text{Total Recommendations}}$
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• Audit Opinion

Based on Law Number 15 of 2004 concerning Audit of State Financial Management and Responsibility, an opinion is a professional statement as the examiner's

conclusion regarding the fairness of the information presented in the financial statements. Audit opinion is measured using 5 of Likert scale (WTP = 5; WTP-DPP = 4; WDP = 3; TW = 2; dan TMP = 1).

(3) Data Analysis Technique

This research uses panel data regression analysis method because it uses time series and cross section data. The stages in conducting the analysis are as follows:

a. Regression Model Estimation

According to Ghazali and Ratmono (2020: 214-248) below are several approaches taken to estimate the panel data regression model, among others:

- i. *Common Effect Model*
- ii. *Fixed Effect Model*
- iii. *Random Effect Model*

b. Regresi Model Selection

According to Ghazali and Ratmono (2020: 245) after the three models have been estimated, there is one model that is selected and explained in more detail or in accordance with the objectives in this study. The test below is to determine the best model, the test is:

- i. Chow Test
- ii. Hausman Test
- iii. Lagrange Multiplier (LM) Test

c. The next step is panel data regression analysis with the equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Description:

Y = Local Government Performance

a = Constants

β = Regression Coefficient

X_1 = Size of Local Government

X_2 = *Leverage*

X_3 = Audit Finding

X_4 = Follow-up on Audit Recommendations

X_5 = Audit Opinion

e = *Error*

Analysis of panel data regression hypothesis testing is seen from the value of selecting the best regression model. If the chi-square value in the chow test < 0.05 , then the selected model is fixed effect and continued with the Lagrange Multiplier (LM) test. If the chi-square value in the chow test > 0.05 , then the selected model is common effect and the Hausman test is continued. Next, the Hausman test is carried out. If the chi-square value > 0.05 , it means that the selected model is random effect and the Lagrange Multiplier test is continued. If the chi-square value < 0.05 means the selected model is fixed effect and the test is complete. The Lagrange Multiplier test only looks at the best model to use between common effect and random effect.

RESULT AND DISCUSSION

(1) Descriptive Analysis

Table 2. Descriptive Statistics Results

Variable	Minimum	Maximum	Mean	Std. deviation
Local Government Performance	0.825951	0.966640	0.909146	0.027752
Size of Local Government	27.12133	31.45771	29.10724	0.641528
Leverage	0.000036	0.082675	0.012103	0.011791
Audit Finding	0.000008	0.030130	0.001223	0.002009
Follow-up Recommendation	0.005482	1.000000	0.815704	0.252939
Audit Opinion	3.000000	5.000000	4.939597	0.339378

Source: secondary data, processed (2023)

(2) Model Accuracy Test

• Coefficient of Determination

The results of testing the coefficient of determination show an R-squared value of 0.648812, this indicates that the independent variable in influencing the dependent variable is 0.648812 or 64%. While the remaining 36% is influenced by other variables not used in this study.

• F Test Results

The F test results show that the F value is 5.2557 with a significance value of 0.000000 < 0.05 , this means that the independent variables, namely local government size, leverage, audit findings, follow-up audit recommendations, and audit opinion simultaneously affect the local government performance variable.

• t Test Results

Table 3. Test Results of Panel Data Regression

Variable	Coefficient	Probability		Description
		Two Tailed	One Tailed	
C	0.885332	0.0000	0.0000	
Size of Local Government	0.001252	0.8469	0.42345	Unsupported
Leverage	-0.300732	0.0113	0.00565	Supported
Audit Finding	-1.954424	0.0008	0.0004	Supported
Follow-up Recommendation	0.007890	0.1102	0.0551	Unsupported
Audit Opinion	-0.002636	0.4106	0.2053	Unsupported
Dependent variable: Local Government Performance				
R-squared value: 0.648812				
F-statistic: 5.2557				
Probability (F statistic): 0.0000				

Source: secondary data, processed (2023)

Based on the test results, it shows that the local government size variable obtained a coefficient value of 0.001252 with a significance level of 0.42345 < 0.05 , it can be concluded that H1 is not supported so that local government size has no positive effect on local government performance. The leverage variable obtained a coefficient value of -0.300732 with a significance level of 0.00565 < 0.05 , it can be concluded that H2 is supported so that leverage has a negative effect on local government performance. The audit finding variable obtained a coefficient value of -1.954424 with a significance level of 0.0004 < 0.05 , it can be concluded that H3 is supported so that audit findings have a negative effect on local government performance. The audit recommendation follow-up variable obtained a coefficient value of 0.007890 with a significance level of 0.0551 > 0.05 , it can be concluded that H4 is not supported so that it has no

positive effect on local government performance. The audit opinion variable obtained a coefficient value of -0.002636 and a significance level of $0.2053 > 0.05$, it can be concluded that H5 is not supported so that it has no positive effect on local government performance.

(3) Discussion of Research Results

• The Effect of Local Government Size on Local Government Performance

Based on the results of data testing, this study shows that local government size has no effect on local government performance so that H1 is not supported. This means that high or low local government size does not affect local government performance. According to Anggraini, et al (2019), it is said that local governments with large total assets should be required to be able to manage and utilize these assets properly, so that they can play a good role in improving local government performance. This is not in line with stewardship theory which states that the government as a steward prioritizes public needs rather than individual needs in order to realize people's welfare through the best service. Even if the local government has managed its assets optimally, this cannot be a guarantee that the local government in carrying out its performance will prioritize public needs in order to realize public welfare. The results of this study are in line with Noviyanti and Kiswanto (2016); Anggraini, et al (2019) which state that the size of local government does not correlate with local government performance. The results of this study are different from research conducted by Andani, et al (2019); Kiswanto and Fatmawati (2019) which prove that the size of local government has a positive effect on local government performance.

• The Effect of Leverage on Local Government Performance

Based on the results of data testing, this study shows that leverage has a negative effect on local government performance so that H2 is supported. The results of this study reflect that the higher the leverage, the worse the local government performance will be. The existence of a negative correlation means that local governments do not have sufficient internal funds for their government activities. So that it still depends on external parties for its government activities. Sesotyaningtyas (2012) revealed that local governments with high leverage will have poor performance, this is because the main source of funding comes from external parties. The greater the source of funding from external parties, then the local government is unable to pay it, it will have an impact on local governments increasingly burdened by debt so that local government performance is getting worse. This is in line with the stewardship theory that the government as a steward must do better so that it does not always depend on external parties to fund government activities. So that the welfare of the community can be achieved properly through public services. The results of this study are not in line with research conducted by Andani, et al (2019) which states that leverage has a positive effect on local government performance. This research is in line with the results of

research by Fitasari and Ismawati (2020) which states that leverage has a negative effect on local government performance. The results of this study are not in line with research conducted by Andani, et al (2019) which states that leverage has a positive effect on local government performance. This study is in line with the results of research by Fitasari and Ismawati (2020) which states that leverage has a negative effect on local government performance.

• The Effect of Audit Findings on Local Government Performance

Based on the results of data testing, this study shows that audit findings have a negative effect on local government performance so it can be concluded that H3 is supported. The results of this study indicate that the more audit findings obtained, the lower the local government performance. The number of audit findings obtained results in regional inefficiencies and losses. The decline in local government performance can be caused by the increase in violations found. Kiswanto and Fatmawati (2019) state that the large value of audit findings in a local government will cause a decrease in local government performance. This means that local governments must be more careful and more thorough in financial management to avoid losses. In addition, audit findings are related to internal control problems and violations of statutory provisions. Therefore, this research is in line with the stewardship theory that the government as a steward if it does not carry out the regulations as stipulated, it will increase audit findings, causing inefficiencies and losses experienced by local governments due to the many violations found as a result of budget management in local government financial reports that are not implemented optimally. This shows that the performance of local governments is decreasing. The results of this study are in line with Kiswanto and Fatmawati (2019); Furqan et al., (2020) which proves that audit findings have a negative effect on local government performance.

• The Effect of Follow-up Recommendations on Local Government Performance

Based on the results of data testing, this study proves that follow-up on audit recommendations has no effect on local government performance so it can be concluded that H4 is not supported. This means that the number or lack of follow-up recommendations implemented has no effect on local government performance. Kiswanto and Fatmawati (2019) state that the audit carried out by BPK will be useful if it produces recommendations or findings that can improve financial management in a transparent and accountable manner. Follow-up on these recommendations is carried out to improve or improve the quality of management of local government financial reports so that it will have an impact on local government performance. Follow-up of audit recommendations has no effect on local government performance, which can be caused by non-optimal follow-up of recommendations. Local governments only follow up on financial findings but administrative findings are not followed up. Therefore, this is not in line with the

stewardship theory which states that the government as a steward has a high motivation to take action to realize the interests of the people as the principal, so that even if the follow-up recommendations from BPK have been implemented by the local government, this is not a guarantee that it will provide a strong impetus for local governments in order to realize public welfare. The results of this study are not in line with research conducted by Kiswanto and Fatmawati (2019). This research is in line with the results of research by Lestari and Rohman (2022); Harumiati and Payamta (2014).

• The Effect of Audit Opinion on Local Government Performance

Based on the results of data testing, this study shows that audit opinion has no effect on local government performance so it can be concluded that H5 is not supported. A good audit opinion cannot be a guarantee that local government performance is getting better. This is because the audit opinion provided by BPK only assesses financial governance in the Local Government Financial Report (LKPD). The financial statements are only assessed for compliance and fairness with the laws and regulations that have been determined (Muflihatin, 2016). Whether the audit opinion given is good or bad has no effect on the performance of the local government. The local government in managing the Regional Financial Report (LKPD) must be as optimal as possible not only to get a good opinion, but as a form of responsibility in realizing the welfare of the community so that the audit opinion given does not guarantee that the government as a steward has provided the best service to the principal. This research is in line with research conducted by Ditasari and Sudrajat (2020); Muflihatin (2016) which states that there is no correlation between audit opinion and local government performance.

CONCLUSION AND RECOMMENDATION

(1) Conclusion

Based on the data analysis and testing in this study, the following conclusions can be drawn, local government size has no positive effect on local government performance, leverage has a negative effect on local government performance, audit findings have a negative effect on local government performance, follow-up on Audit Recommendations has no positive effect on local government performance, and audit Opinion has no positive effect on local government performance.

(2) Recommendation

Future researchers are expected to expand the object of research so that the research results can be generalized and future research is expected to add research variables of local government characteristics that are thought to affect local government performance, such as intergovernmental revenue (Aminah, et al 2019), besides regional expenditures (Andani, et al 2019), and the ratio of capital expenditures (Anggraini, et al 2019).

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