

## Research Article

# The Effect of Regional Expenditure, Balancing Funds and BPK Audit Findings on Regional Government Financial Performance

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## Abstract

Performance measurement is a key strategy for local governments in achieving good governance. This study examines the impact of balancing finances, regional expenditures, and Supreme Audit Agency (BPK) audit results on the financial performance of DKI Jakarta's local government from 2010 to 2016. Secondary data was sourced from DKI Jakarta's Regional Government Financial Reports and Budget Realization Reports, with the census method used to analyze all budget realization data during the period. Multiple linear regression was applied as the analytical technique. The results indicate that regional spending, balancing funds, and BPK audit findings significantly influence the financial performance of local governments. These findings emphasize the importance of efficient and targeted regional expenditure allocations. Additionally, local governments must address BPK audit findings with urgency to enhance governance and transparency. Utilizing financial data and audit findings as a foundation for decision-making can further strengthen financial management. Managerial implications suggest that local governments should optimize resource allocation and integrate audit results into strategic planning to improve fiscal accountability. By doing so, they can promote effective financial governance, ensuring public funds are used responsibly to achieve development goals and enhance public trust.

**Keywords:** Regional Expenditure, Balanced Funds, BPK Audit Findings and Regional Government Financial Performance

**JEL Classification:** H72, H77, H83

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## 1. Introduction

According to the MPR RI Research Institute, there is a significant desire to implement regional autonomy in Indonesia. This aspiration can be achieved through extensive transfers of governmental affairs and authority to the regions, along with increased funding for regional transfers, allocation of deconcentration funds for regional infrastructure, and substantial annual increases in village funds (Republika, 2017). Each year, regional governments establish the Regional Revenue and Expenditure Budget (APBD), which serves as a key instrument for executing regional development (Fathiyah et al., 2021).

The financing of regional development reflects the allocation of substantial regional income and expenditure. This indicates a direct correlation: as regional income allocation increases, the corresponding portion of funding for development within regional spending will also rise, thus allowing development needs to be met without hindrance (Lovita et al., 2023).

To effectively manage regional spending, local governments must accurately measure their fiscal performance to assess how economically, efficiently, and effectively they can allocate public funds. It is crucial for local governments to maintain control over regional expenditures, enhance spending efficiency, and promote budget savings. Evaluating fiscal performance is essential for ensuring accountability in how local governments manage regional finances (Poyoh et al., 2017). The role of local governments is vital in promoting transparency and accountability in regional spending, as well as in the regulation and preparation of financial reports that adhere to government accounting standards, all while upholding the principle of timeliness (Sari et al., 2018; Puspita & Komala, 2023). Local government financial performance refers to a region's ability to collect and manage its financial resources to meet local needs and support effective governance, public services, and regional development, without relying solely on the central government. Additionally, local governments have the autonomy to utilize these funds for the benefit of their communities within the framework of regulatory constraints (Dali et al., 2021).

The financial performance of regional governments is a crucial factor that the public assesses in relation to organizational and management accountability for delivering improved public services. This importance arises from the fact that while although regional administrations have the power to control their own regions, the federal government still has oversight over their policies (Puspita & Komala, 2023). The financial exchange between the central and regional governments is a crucial component of their relationship since it shows how money is distributed for community development and social services as well as for carrying out governmental obligations. As a result, it is mandatory for regional governments to submit reports regarding the accountability of their Regional Revenue and Expenditure Budget to the public, serving as a form of public accountability. True accountability transcends merely demonstrating how public funds are utilized; it requires that these funds be used economically, effectively, and efficiently (Aulia & Rahmawaty, 2020).

Several experts assert that the success of an organization must align with effective management governance, which is achieved when all human resources within it feel a sense of ownership. This concept is often referred to as "stewardship." The connection between stewardship theory and balancing funds is evident in the regional government, which serves as a trustworthy institution committed to acting in the public interest to promote balanced community welfare. Public trust in regional government to manage balancing funds-transfer funds from the central government aimed at maximizing community benefits-is crucial (Verawaty et al., 2020). The reliance of many provinces in Indonesia is clearly evidenced by the significant volume of balancing funds received, which are essential for financing regional needs, unlike regional taxes that are generated locally and used to support the regions without heavy dependence on transfer funds from the central government (Lovita et al., 2023; Wahyudin, 2020). Balancing funds represent a key source of regional income derived from the State Revenue and Expenditure Budget (APBN). The primary objective of providing these funds is to aid regional governments in exercising their authority, thereby realizing regional autonomy and, most importantly, enhancing community services and overall prosperity (Budianto & Alexander, 2021).

Finance Minister Sri Mulyani decided to change several rules in the distribution of regional transfer funds and village funds starting this year. The changes are contained in the Regulation Number 50/PMK.07/2017 of the Minister of Finance (PMK) pertaining to the Administration of Transfers to Regions and Village Funds (TKDD). Prior to this clause, if the budget had been determined in the APBN, the last way it would have remained the same was through the General Allocation Fund (DAU), which the central government distributed to the regions. Now, though, this clause has been modified. Because DAU is more adaptable, it can rise or fall. Everything is covered by the quantity of state money. Boediarso stated that the central government has up to now been responsible for the APBN budget deficit because of the disparity between state revenue and

spending. To cover this deficit, the government must borrow to distribute state spending including regional transfers in it (Kompas, 2017).

Regional financial performance is a key indicator of how responsible and effective local governments are at allocating public funds to deliver improved public services. Although regional governments in Indonesia have been granted the power to administer their particular regions, they remain closely connected to the national government due to financial ties. This connection is seen in the way regional revenue and expenditure budgets (APBD) are used to finance social services, development initiatives, and government operations. In this instance, accountability entails ensuring the economical, effective, and efficient use of public funds in addition to merely publishing expenses. However, the substantial reliance of a number of provinces on balancing funds-transfers from the federal government-highlights the challenges in achieving financial independence.

According to stewardship theory, regional governments that handle these funds effectively build confidence and act in the public interest are achieve good governance (Verawaty et al., 2020). The allocation of General Allocation Funds (DAU) has become more flexible due to recent policy changes, such as those described in the Minister of Finance Regulation (PMK) Number 50/PMK.07/2017, which more closely aligns them with changes in state revenue. Although the goal of this policy is to reduce national budgetary deficits, it presents additional difficulties for regional financial stability and planning.

Unmet research needs include understanding how regional governments may improve fiscal performance, lessen reliance on central transfers, and control the effects of policy changes on financial stability. We address the dynamic fiscal connection between the national and regional administrations and ensuring that public resources are used to maximize community benefits. The research problem centers on finding ways to increase regional financial independence and responsibility.

## **2. Literature Review and Hypothesis**

### **Financial performance**

According to Republic of Indonesia Government Regulation Number 12 of 2019 about Regional Financial Management, 2019, performance is the output or results of a program or activity attained in connection to budget use, including quantifiable amounts and characteristics. Regarding local government, performance measurement is categorized into two types: financial performance and non-financial performance. The aim of assessing financial performance is to provide a report on government operational activities, focusing on evaluating the organization's financial performance in terms of efficiency and effectiveness, as well as monitoring actual costs against budgeted costs (Mardiana & As'ari, 2023).

To evaluate the financial performance of local governments, four ratios can be employed: the independence ratio, economic ratio, efficiency ratio, and effectiveness ratio. This study specifically utilizes the efficiency ratio, which compares output to input, or the realization of expenditures with the realization of regional revenues (Marfiana & Kurniasih, 2018). Financial performance is considered efficient when the resulting ratio decreases, while it is deemed inefficient if the ratio increases.

### **Regional Spending**

Regional spending refers to all forms of obligations incurred by regional governments that are recognized as a reduction in net wealth (Masra, 2020). High levels of regional spending can serve as evidence that the regional government is allocating its budget for the public good. Consequently, this can be interpreted to mean that greater regional spending correlates with a stronger commitment from the government to make its financial reports accessible to the public, particularly through its official website.

### **Balancing Fund**

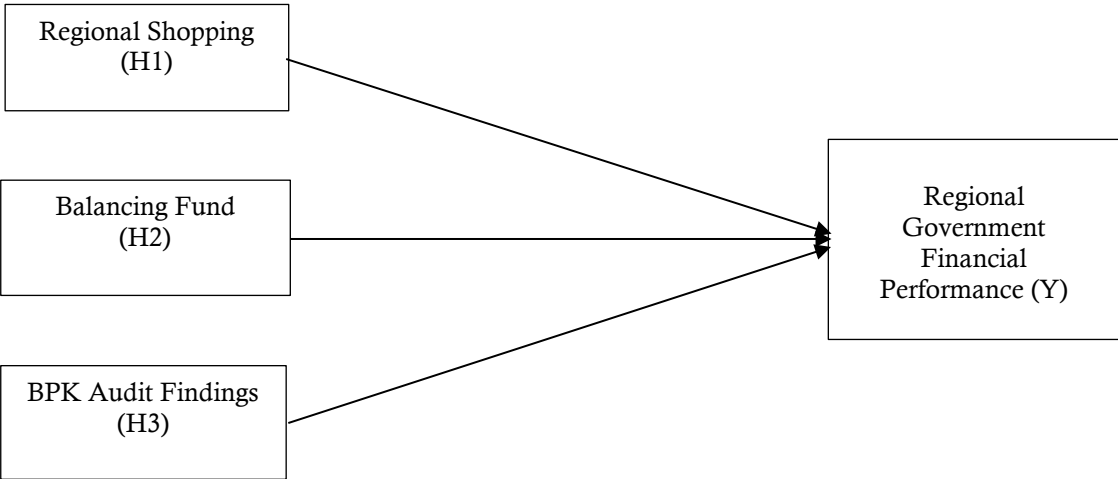
Balancing funds refer to the financial resources allocated in the APBN (State Budget) to regions,

aimed at addressing regional needs within the framework of decentralization. These funds consist of general transfer funds and special transfer funds (Siregar, 2015). Numerous experts emphasize that the success of an organization is closely linked to sound management governance, which is achieved when all human resources within the organization feel a sense of ownership. This concept is often referred to as "stewardship." The connection between stewardship theory and balancing funds lies in the regional government acting as a trusted institution, which operates in alignment with public interests to promote balanced community welfare. Furthermore, public trust in regional governments is crucial for managing balancing funds effectively, as these are transfer funds from the central government intended to maximize benefits for the community (Verawaty et al., 2020).

**Audit Findings**

An audit is a systematic examination process aimed at assessing the actual implementation of financial practices (Astarani, 2018). A crucial aspect of local financial audits is both the number of findings and the types of opinions expressed. Based on these findings, the Audit Board issues several recommendations, and the Regional Government is expected to take appropriate actions in response to these recommendations (Hasanah et al., 2024; Djanegara, 2017). An audit serves as an independent evaluation conducted by a qualified auditor who expresses an opinion on the fairness of a company's financial statements. Public confidence in the reliability of internally generated financial statements is directly influenced by validation from an independent expert auditor (Rachman & Fitri, 2023).

**Research Concept Framework**



**Figure 1. Research Concept Framework**

The figure illustrates a Research Concept Framework designed to examine the impact of three independent variables-Regional Shopping (H1), Balancing Fund (H2), and BPK Audit Findings (H3) on the dependent variable, Regional Government Financial Performance (Y).

Regional Shopping (H1) refers to the allocation and utilization of regional government expenditures to fulfill public needs and drive regional development. The hypothesis suggests that efficient and effective regional spending positively influences financial performance.

Balancing Fund (H2) transfers funds from the central government to regional governments to support regional autonomy. It hypothesizes that optimal management of these funds enhances regional governments' financial performance.

BPK Audit Findings (H3) pertain to the evaluations and audit results provided by Indonesia's Supreme Audit Agency (BPK), which identify compliance levels and financial management issues. Addressing these findings is expected to improve financial accountability and performance.

The framework demonstrates a direct relationship between each independent variable and regional financial performance, emphasizing the importance of governance, accountability, and resource optimization in achieving effective financial management at the regional level.

### **Research Hypothesis**

#### **The Influence of Regional Spending on Financial Performance**

Increasing regional spending should reflect the increasing level of service provided to the community. Furthermore, the evaluation of the regional government's performance increases with the quality of services rendered. The regional government is responsible for regional spending, which is acknowledged as a reduction in net assets. Includes all receipts of money through the Regional General Cash Account, which increases the equity of current funds, which are the rights of the region in one budget as the quality of services provided improves, so does the assessment of the regional government's performance. Regional spending is the responsibility of the regional government and is recognized as a theory above, the following hypothesis can be drawn:

**H1: Regional Spending Has a Positive Impact on Financial Performance**

#### **The Influence of Balanced Funds on Financial Performance**

The high amount in order to ensure the smooth operation of regional government, the balance funds received by the regional government will be an adequate source of funding. operational activities and create good financial performance. Conversely, suppose the balancing funds received are small. In that case, the regional government is likely to need more funds for its operational activities in order to improve the performance that results. In order to support regional needs while enacting decentralization, APBN income are used to create balancing funds. Since the amount of PAD is not enough to cover their budget, many regional governments continue to rely on this source of funding. The balancing fund variable in Priyono et al.'s (2020) study indicates a substantial impact on the regional government's financial performance. Sari et al. (2020), who came to the conclusion that balancing money affects the financial performance of the company, support the findings of this study regional government. From the explanation of the theory above, the following hypothesis can be drawn:

**H2: Balanced Funds Have a Positive Impact on Financial Performance**

#### **The Impact of BPK Audit Findings on Financial Performance**

BPK audit findings are instances where BPK discovered in regional governments' financial reports that a region had violated internal control guidelines or relevant laws and regulations. A regional government's performance deteriorates with the number of infractions it commits. BPK audit findings are instances where BPK discovered in regional governments' financial reports that a region had violated internal control guidelines or relevant laws and regulations. A regional government's performance deteriorates with the number of infractions it commits. Stated differently, a regional government's performance declines with the amount of audit results. Stated differently, the more audit findings there are the lower the performance of a regional government. From the explanation of the theory above, the following hypothesis can be drawn:

**H3: BPK Audit Findings Have a Positive Impact on Financial Performance**

## **3. Data and Method**

### **Types of research**

The main objective of this causative research is to obtain evidence of a causal relationship in order to identify the variables that impact and those that are influenced. Since sampling is typically done at random, data is collected using research instruments, and data analysis is quantitative with the goal of testing the established hypothesis, the methodology employed in this study is quantitative, specifically a research method based on the positivist philosophy. The focus of this topic is on using multiple linear regression analysis to measure variables numerically and analyze data using statistical techniques. This study employed secondary data as its source of information. This study's secondary data comes from information on the actualization of regional spending, balancing funds, and audit findings from the DKI Jakarta Regional Government Financial Report in 2010-2016.



**Data collection technique**

Secondary data collection method: Data is collected using the documentation method. This involves collecting, recording, and calculating information pertaining to the study. The complete population is taken from the DKI Jakarta Provincial Government's local governments' financial reports for this study using the census method from 2010 to 2016.

**Population and Sample**

The object of research in this study is the budget realization report data in DKI Jakarta Province registered in the Directorate General of Fiscal Balance of the Republic of Indonesia during the period 2010 - 2016. The sampling technique in this study is Saturated Sampling to show a sampling determination technique when all members of the population are used in the sample, this is often done when the population is relatively small, less than 30, or research that wants to make generalizations with very small errors. Another term for saturated samples is census, where all members of the population are sampled. The sample in this study is data on regional spending realization reports, balancing funds, and BPK audit findings in DKI Jakarta province in 2010 - 2016.

**Data Analysis Methods**

This topic places a strong emphasis on using numerical measurements to measure variables and statistical techniques like multiple linear regression analysis to analyze data. First, the Statistical Program for Social Science (SPSS) for Windows v.22 program is used to test data analysis. The sample size for this study is fewer than thirty.

**4. Results****Shapiro Wilk Normality Test****Table 1. Results of the Shapiro-Wilk Normality Test**

	Kolmogorov-Smirnova			Shapiro Wilk		
	Statistics	df	Sig.	Statistics	df	Sig.
ShoppingArea	.188	7	.200*	.968	7	.882
Balance Fund	.269	7	.136	.903	7	.348
Audit Findings	.285	7	.090	.858	7	.146

Source: processed data (2018)

Based on table 1 shows that the results of the normality test with the Shapiro Wilk statistical test for Regional Expenditure of 0.882 indicate that it has met the normality assumption because the significance level exceeds 0.05 (sig 0.882 > 0.05) for the Balancing Fund of 0.348 this indicates that it has met the normality assumption because the significance level exceeds 0.05 (sig 0.348 > 0.05), and the Audit Findings of 0.146, this indicates that it has met the normality assumption because the significance level exceeds 0.05 (sig 0.146 > 0.05). This result indicates that it has met the normality assumption because the significance level exceeds 0.05 (sig 0.975 > 0.05). So,  $H_0$  is accepted, or the sample distribution of Regional Expenditure (X1), Balancing Fund (X2), Audit Findings (X3) and Financial Performance of the DKI Jakarta Provincial Government (Y) is normal.

**Classical Assumption Test****Multicollinearity Test****Table 2. Results Multicollinearity Test**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Shopping_area	.904	1.106
Balance_fund	.946	1.057
Audit_Findings	.953	1.049

Source: processed data (2018)

It can be inferred from Table 2 that no independent variable has a tolerance value below 0.10, indicating that there is no correlation between independent variables where the correlation value is more than 95%. The similar conclusion can be drawn from the Variance Inflation Factor (VIF) value calculation results: no variable has a VIF value greater than 10. Therefore, the regression's independent variables do not exhibit multicollinearity model.

### Homoscedasticity Test

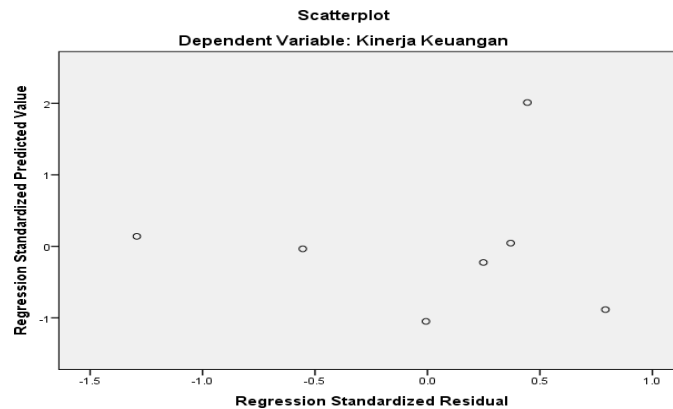


Figure 2. Results of homoscedasticity test

The data points are dispersed randomly and do not form any specific pattern, according to the findings of the aforementioned homoscedasticity test. This regression model does not, thus, experience homoscedasticity, so it meets the requirements and is suitable for use in hypothesis testing.

### Autocorrelation Test

Table 3. Autocorrelation Test Results

No	DW	Information
1	Less than 1.10	There is Autocorrelation
2	1.10 – 1.54	Without Conclusion
3	<b>1.55 – 2.46</b>	<b>There is no autocorrelation</b>
4	2.47 – 2.90	Without Conclusion
5	More than 2.90	There is Autocorrelation

Source: processed data (2018)

Based on Table 3, the DW value is 1,796 and is between -2 and +2 or  $-2 < 1,796 < +2$ . This result means that there is no autocorrelation problem in the variables of Regional Expenditure (H1), Balancing Funds (H2), BPK Audit Findings (H3), and Financial Performance of the DKI Jakarta Provincial Government.

### Hypothesis Testing

#### Multiple Linear Regression Test

Table 4. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardize d Coefficients	t	Sig.
	B	Std. Error	Beta		
Local shopping	.858	.092	.764	9.291	.003
Balancing funds	1,813	.289	.505	6.275	.008
Audit findings	-.067	.029	-.183	-3.283	.001

Source: processed data (2018)

The impact of regional expenditure (H1) on regional financial performance (Y) is shown in the above table. Regional expenditure has a coefficient value of 0.858. Its positive sign indicates that regional financial performance will rise with each increasing value of the regional government capital expenditure variable by 0.858%.

Balancing Funds (H2) on Financial Performance by Region (Y), The value of the Balancing Fund coefficient is 1.813. Its positive sign indicates that regional financial performance will rise with each extra value of the balancing fund variable by 1.813%.

Audit Findings (H3) on Regional Financial Performance (Y), The Audit Findings coefficient value is 0.067. It has a negative sign, meaning that every 1 additional value of the audit findings variable will reduce regional financial performance by 0.067%.

### Partial Test (t-Test)

**Table 5. Partial Test Results (T-Test)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Local shopping	.858	.092	.764	9.291	.003
Balancing funds	1,813	.289	.505	6.275	.008
Audit findings	-.067	.029	-.183	-3.283	.001

Source: processed data (2018)

According to the above table, regional expenditure significantly influences the DKI Jakarta Provincial Government's financial performance to a partial degree 2010-2016 Period. The results of data testing concluded that t count (9.291) > t table (3.182), with a significance level (0.003) <  $\alpha(0.05)$ . So H0 is rejected, and Ha is accepted.

The Balancing Fund partially has a major impact on the DKI Jakarta Provincial Government's financial performance from 2010 to 2016. t count (6.275) > t table (3.182), with a significance level (0.008) <  $\alpha(0.05)$ , according to the data testing results. Thus, Ho is turned down and Ha is approved, indicating that the DKI Jakarta Provincial Government's financial performance is significantly improved to some extent by the balancing of funds 2010-2016 Period.

The The financial performance of the DKI Jakarta Provincial Government for the years 2010–2016 is significantly impacted by the BPK Audit findings. With a significance level (0.001) <  $\alpha(0.05)$ , the data testing findings showed that t count (-3.283) > t table (3.182). Thus, Ha is accepted and Ho is turned down. It indicates that the financial performance of the DKI Jakarta Provincial Government is significantly impacted negatively by the BPK Audit Findings to some extent 2010-2016 Period.

### Coefficient of Determination Test

**Table 6. Results of the Determination Coefficient Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.991	.982	.963	1.95656

Source: processed data (2018)

Table 6 shows that the Adjusted R2 value of 0.991 means that 99.1% of the variation in the dependent variable, namely the regional government's financial performance, can be explained by the independent variables, namely regional spending, balancing funds and audit findings. This indicates the adequacy 99.1% of the dependent variable can be described by the independent variable, with other variables not covered in this study accounting for the remaining 0.9%.



## 5. Discussion

### **The Influence of Regional Spending on Regional Government Financial Performance**

Based on Table 5, regional spending has a positive effect on the financial performance of local governments. Higher regional spending should reflect the higher level of service provided to the community. Furthermore, the evaluation of the local government's performance increases with the quality of services rendered. The regional spending variable in the study by Angelina et al. (2020) indicates that local governments' financial performance is positively impacted. The findings of this investigation are supported by Dasmar et al. (2020), Fatimah & Hasbullah (2020), Sukma et al. (2021), and Lestari & Hapsari (2020), who concluded that regional spending has a positive effect on the financial performance of local governments.

### **The Influence of Balancing Funds on Regional Government Financial Performance**

Based on Table 5, balancing funds have a favorable impact on local governments' financial performance. The substantial amount of balance money that local governments receive will provide them with enough funding such that they can guarantee the smooth running of local government operational activities and create good financial performance. Conversely, suppose the balancing funds received are small. In that case, the local government is likely to need more funds for its operational activities so that the resulting performance could be better. In According to studies by Wahyudin and Hastuti (2020) and Priyono et al. (2020), balancing money improves the financial performance of West Java province's district and city governments. This outcome demonstrates how the availability of balancing funds from the federal government can enhance local governments' financial performance and enable them to better serve the needs of their communities. Digdowiseiso et al. (2022) discovered that the financial performance of local governments was impacted by money balance. These results are in line with study by Prastiwi and Aji (2020), which claims that local governments' financial performance is impacted by fund balancing. The balance fund variable indicates that local governments' financial performance is significantly impacted. Sari et al. (2020), who came to the conclusion that balancing money affects local governments' financial performance, corroborate the findings of this study.

### **The Impact of BPK Audit Findings on Regional Government Financial Performance**

Based on Table 5, BPK Audit Findings have an impact on the financial performance of local governments. BPK findings are more on local government financial reports, especially violations committed by certain regions, namely violating internal control provisions and other statutory provisions. Audit findings are obtained from the results of audits by BPK. Non-compliance with legal provisions causes state or regional losses, potential state or regional losses, revenue shortfalls, administrative weaknesses, lack of savings, inefficiency, and ineffectiveness. This finding is in line with research conducted by the tabulation of local government performance. Qowi and Prabowo (2017), The results of their research explain that the characteristics of local governments represented the performance of district/city administrations in Indonesia is significantly impacted by capital expenditures, the degree of regional wealth, the degree of reliance on the central government, and the results of BPK audits. The performance of local government is significantly improved by wealth levels. According to Muhammad Din et al. (2017), financial audit results can be followed up on to lower the amount of financial losses and increase the responsibility of local government finance reporting. Their research explains that accountability, together with transparency, are major problems for administrative organizers.

## 6. Conclusion

Based on the findings presented, several conclusions can be drawn: Regional Expenditure has a partial influence on the financial performance of regional governments, Balancing Funds significantly impact their financial performance, and BPK Audit Findings also affect this performance. The managerial implications arising from the influence of Regional Expenditure, Balancing Funds, and BPK Audit Findings on the financial performance of regional governments include several critical points that can guide strategic and operational decision-making within these governments.

The implications are as follows: Regional governments must ensure that the allocation of expenditures is conducted efficiently and effectively. Efforts should concentrate on expenditures that foster regional development, enhance public services, and minimize waste. Regional government management should take audit findings from BPK seriously, particularly with respect to addressing identified weaknesses in financial management. Recognizing the significance of Balancing Funds in bolstering regional financial performance, it is essential for regional governments to cultivate strong relationships with the central government to guarantee optimal fund allocation.

The findings of the study highlight several key policy implications aimed at enhancing the financial performance of regional governments. Firstly, regional administrations should develop clear policies that facilitate the efficient and targeted allocation of regional funding. Budget planning needs to prioritize initiatives that directly bolster regional development, improve public services, and address pressing community needs. Secondly, it is essential to systematically address audit findings from the Supreme Audit Agency (BPK) by enhancing internal financial management practices and implementing corrective measures. This will ensure compliance with established norms and regulations while promoting transparency and accountability in financial reporting.

### Recommendation

To ensure that funds are allocated to initiatives with the most significant impact on public services and development, regional governments must prioritize the optimization of spending through comprehensive assessments of regional needs. It is essential to manage balancing funds transparently and monitor their use closely, ensuring alignment with the intended objectives, such as enhancements to infrastructure, education, and healthcare. Regional governments should establish a specialized task force with clear authority to implement audit recommendations promptly and ensure compliance within established timeframes, effectively addressing the findings of BPK audits. This approach will enhance public trust, strengthen accountability, and improve financial performance.

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