Public Sector Accountability and Performance: The Influence of Institutional Scale, Legislative Oversight, and Supreme Audit Judgements

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ABSTRACT

Regional financial performance is commonly assessed through the independence ratio, which serves as an indicator of a region's fiscal autonomy. Despite decentralisation reforms aimed at empowering local governments, the persistently low independence ratios observed across many regions suggest that the realisation of regional autonomy remains suboptimal. This study seeks to provide empirical evidence on the relationship between three institutional variables—local government size, legislative size, and audit opinion issued by the Audit Board of Indonesia (Badan Pemeriksa Keuangan, BPK)—and the financial performance of local governments. The analysis draws on secondary data collected from official sources, namely the Central Bureau of Statistics (www.jabar.bps.go.id) and the Audit Board of Indonesia (www.jabar.bpk.go.id), covering the 2019–2023 period. The study adopts a census approach, encompassing all 27 local governments (18 districts and 9 cities) within West Java Province. A multiple linear regression analysis was conducted using IBM SPSS version 27 to test the proposed relationships. The findings reveal that local government size has a statistically significant positive association with financial performance, suggesting that larger jurisdictions may benefit from economies of scale or greater administrative capacity. Conversely, legislative size is found to have a significant negative effect, potentially indicating inefficiencies or coordination challenges in larger assemblies. The audit opinion issued by the BPK, however, does not appear to exert a statistically significant influence on financial performance, pointing to possible limitations in the extent to which external audit outcomes drive internal financial reforms.

Keywords: Size of Local Government; Legislative Size; BPK Audit Opinion; Local Government Financial Performance

Pengaruh Ukuran Pemerintah Daerah, Ukuran Legislatif, dan Opini Audit BPK terhadap Kinerja Keuangan Pemerintah Daerah

ABSTRAK

Kinerja keuangan daerah diukur melalui rasio kemandirian yang mencerminkan kemampuan otonomi daerah. Namun, rendahnya rasio kemandirian di sebagian besar daerah menandakan bahwa otonomi daerah belum berjalan optimal. Penelitian ini dimaksudkan untuk memperoleh bukti empiris mengenai pengaruh Ukuran Pemerintah Daerah, Ukuran Legislatif dan Opini Audit BPK terhadap Kinerja Keuangan Pemerintah Daerah. Data yang digunakan merupakan data sekunder dari www.jabar.bps.go.id dan www.jabar.bpk.go.id tahun 2019-2023. Populasi dalam penelitian ini ditentukan melalui teknik sensus yang mencakup 18 kabupaten dan 9 kota di Provinsi Jawa Barat. Metode analisis data yang digunakan regresi linear berganda dengan software IBM SPSS 27. Hasil penelitian ini membuktikan bahwa Ukuran Pemerintah Daerah berpengaruh positif signifikan terhadap Kinerja Keuangan Pemerintah Daerah. Ukuran Legislatif berpengaruh negatif signifikan terhadap Kinerja Keuangan Pemerintah Daerah. Dan Opini Audit BPK tidak berpengaruh signifikan terhadap Kinerja Keuangan Pemerintah Daerah.

Kata Kunci: *Ukuran Pemerintah Daerah; Ukuran Legislatif; Opini Audit BPK; Kinerja Keuangan Pemerintah Daerah*

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INTRODUCTION

Local governments in Indonesia operate within a decentralised administrative framework under the oversight of the central government (Ramahdani & Trisnaningsih, 2022). Through a formal delegation of authority, the central government has empowered subnational entities to address region-specific issues and enhance their institutional capacity, with the ultimate aim of improving public welfare (Sugianto & Larasati, 2023). This delegation grants local governments the authority to manage financial resources, enact local regulations, and formulate budgets aligned with regional priorities (Fauziyah & Ekaningtias, 2022), as stipulated in Law No. 23 of 2014 on Regional Government and Law No. 1 of 2022 concerning Financial Relations between the Central and Regional Governments.

A critical element of this decentralisation process is the fiscal authority conferred upon local governments. Fiscal autonomy enables subnational administrations to assume responsibility for financial planning and execution, thereby enhancing their capacity to deliver services and meet local development needs. In this context, financial performance is widely regarded as a key indicator of a local government's ability to manage public resources effectively (Nurrahmadani et al., 2024; Mulyanto et al., 2019). Sound budget management practices are instrumental in improving institutional efficiency and service delivery outcomes (Sari & Mustanda, 2019).

Financial performance is thus employed as a measure of a region’s capability to administer its finances in a manner that sustains service provision and supports development goals. One widely used metric is the independence ratio, which reflects the extent to which a local government can finance its operations independently of central government transfers (Banunaek et al., 2022). A higher independence ratio signifies greater fiscal autonomy, while a lower ratio suggests dependence on external funding (Rayhan & Wibowo, 2022).

Despite the intent of decentralisation reforms, local governments in Indonesia continue to exhibit high levels of fiscal dependency on central transfers. As noted by Indonesia’s Minister of Finance, Sri Mulyani, during the 2024 National Coordination Meeting on Regional Digitalisation, subnational governments remain heavily reliant on central government allocations, while their own-source revenues (Pendapatan Asli Daerah, PAD) remain limited (detikFinance, 2024). This pattern is clearly evident in West Java Province, where only 27.19% of local government revenue in districts and cities was derived from PAD, while 71.90% came from transfer revenues (BPS, 2023).

This persistent fiscal dependency underscores a structural issue in the financial performance of local governments, particularly within West Java Province. The relative proportions of PAD and central transfers over the 2019–2023 period illustrate the limited revenue-generating capacity of regional administrations. Table 1 presents a comparative overview of the financial performance of 27 districts and cities in West Java, highlighting the continued reliance on central government funding as a constraint on regional fiscal autonomy.

Table 1. Progression of Financial Performance of Districts and City Regional Governments in West Java Province from 2019-2023 (In %)

No	Districts/City	Financial Performance Regional Governments (%)				
		2019	2020	2021	2022	2023
1	Bandung Districts	25,65	28,51	28,23	26,65	25,79
2	Bekasi Districts	82,52	83,40	80,90	75,56	76,90
3	Bogor Districts	70,30	68,10	79,54	70,73	70,87
4	Ciamis Districts	10,28	11,34	12,06	12,79	10,93
5	Cianjur Districts	23,64	19,48	26,75	19,22	21,16
6	Cirebon Districts	21,55	21,95	23,38	25,92	23,36
7	Garut Districts	12,13	12,83	14,82	11,91	12,69
8	Indramayu Districts	19,12	23,85	20,28	20,79	21,89
9	Karawang Districts	44,39	46,78	54,52	51,02	51,45
10	Kuningan Districts	17,31	12,76	14,97	14,92	14,09
11	Majalengka Districts	18,39	18,81	19,04	21,15	21,23
12	Purwakarta Districts	28,67	28,87	29,24	33,17	30,54
13	Subang Districts	19,22	19,59	20,23	19,34	22,42
14	Sukabumi Districts	19,75	22,48	21,13	21,32	21,10
15	Sumedang Districts	18,71	19,17	21,05	21,94	22,30
16	Tasikmalaya Districts	8,60	9,90	14,01	10,79	10,52
17	Bandung City	70,27	61,56	64,25	75,55	74,13
18	Bekasi City	73,36	72,04	83,95	79,61	80,03
19	Bogor City	69,79	61,60	73,50	70,00	82,18
20	Cirebon City	48,26	38,35	44,37	57,74	57,75
21	Depok City	73,51	71,80	89,76	81,99	85,90
22	Sukabumi City	40,52	43,99	40,03	43,40	48,89
23	Tasikmalaya City	18,49	22,84	29,38	23,14	27,30
24	Cimahi City	38,77	41,36	38,47	42,15	43,73
25	Banjar City	14,86	18,65	21,09	21,69	20,96
26	Bandung Barat Districts	23,94	24,86	26,07	34,76	29,77
27	Pangandaran Districts	8,95	7,55	15,70	20,88	22,24

Source: West Java Audit Board (Research Data, 2024)

As illustrated in Table 1, which presents the development of financial performance among West Java's district and city governments from 2019 to 2023, a clear pattern emerges: local governments consistently derive a larger proportion of their revenue from central government transfers than from locally generated sources. This fiscal structure underscores the limited capacity of many local governments to generate independent revenue through Regional Original Revenue (Pendapatan Asli Daerah, PAD).

In 2023, this structural dependency was accompanied by a marked decline in financial performance across ten districts and cities within the province. Notably, Bandung District recorded a decline of 25.79%, Ciamis by 10.93%, Cirebon by 23.36%, Kuningan by 14.09%, Purwakarta by 30.54%, Sukabumi by 21.10%, Tasikmalaya by 10.52%, Bandung City by a substantial 74.13%, Banjar City by 20.96%, and West Bandung District by 29.77%. These figures suggest that regional financial performance has been neither stable nor optimal on an annual basis, with significant fluctuations indicating persistent challenges in achieving sustainable fiscal autonomy.

To provide a more comprehensive understanding of these variations, Table 2 presents an evaluation of financial performance across the 27 districts and cities using an interval scale based on the independence ratio. This approach offers a clearer depiction of the degree of fiscal self-reliance attained by each local government over the study period.

Table 2. Financial Capability Levels and Regional Government Relations Patterns in Districts and City of West Java Province from 2019-2023

Capability Financial	Independence Ratio	Relationship Patterns	Count of Districts and City in West Java Province				
			2019	2020	2021	2022	2023
Extremely Low	0% - 25%	Instructive	15	15	12	13	13
Low	>25% - 50%	Consultative	5	5	8	6	6
Moderate	>50% - 75%	Participatory	6	6	3	4	4
Elevated	>75% - 100%	Delegative	1	1	4	4	4

Source: Aziz et al. (2023) (Research Data, 2024)

Table 2 presents the interval scale classification of the independence ratio for districts and cities in West Java Province in 2023. The results indicate that 13 regions fall into the category of very low financial capability, reflecting an instructive relationship pattern in which the central government exerts substantial influence. This pattern underscores the limited progress in achieving meaningful regional autonomy in these jurisdictions. Conversely, the number of regions classified as having low financial capability with a consultative relationship pattern declined in 2023, suggesting incremental improvements in their ability to exercise autonomy.

Further, the data reveal an increase in the number of regions with moderate financial capability and a participatory relationship pattern. This shift implies that more districts and cities are nearing a point where they can independently manage key governance functions. A similar upward trend is observed in the number of regions with high financial capability and a delegative relationship pattern, indicative of stronger institutional capacity to autonomously administer public affairs.

Despite these improvements, the overall financial independence of local governments remains constrained. The instructive relationship pattern continues to apply to nearly half of the jurisdictions assessed, while only a small proportion demonstrate delegative characteristics. This imbalance suggests that fiscal dependence on the central government persists as a systemic feature of local governance in West Java Province.

Regional Original Revenue (Pendapatan Asli Daerah, PAD) serves as the primary metric for assessing the fiscal independence of local governments. PAD reflects a region's ability to generate and manage financial resources autonomously, independent of central government transfers (Ijitihad & Harsono, 2024). Thus, PAD functions not only as a revenue source but also as an indicator of institutional maturity in exercising self-governance. Regional financial performance, in this context, signals the extent to which local administrations are capable of fulfilling their devolved responsibilities (Maulina & Rhea, 2019).

To improve financial performance, it is essential to examine the institutional and structural factors that influence local governments' economic outcomes. One such determinant is the size of the local government, typically measured by total assets, which provide a stable proxy for organisational scale and resource capacity (Hashifa et al., 2024; Ramahdani & Trisnaningsih, 2022). Asset size encompasses both tangible and intangible resources, including infrastructure, equipment, and administrative facilities. Larger asset holdings may enhance a government's ability to generate PAD and support development initiatives (Zamzami & Rakhman, 2023). Effective asset management is therefore a critical component of fiscal performance (Wijaya & Solikhi, 2022).

In addition to organisational size, the structure of the legislative body—specifically, the size of the Regional People's Representative Council (Dewan Perwakilan Rakyat Daerah, DPRD)—can also influence fiscal outcomes. The DPRD plays a vital oversight role, particularly in budget approval and expenditure monitoring (Karno & Alliyah, 2021). As elected representatives, DPRD members are expected to ensure accountability in the use of public funds and act as intermediaries between citizens and local government administration (Raditya et al., 2022). A larger legislative body may offer broader representational capacity and stronger scrutiny, potentially leading to improved financial management (Aprianto, 2021). However, the effectiveness of oversight hinges on the council's commitment to transparency and public accountability (Nurhayati et al., 2022).

Another key determinant of financial performance is the audit opinion issued by the Audit Board of Indonesia (Badan Pemeriksa Keuangan, BPK). The BPK opinion provides an independent assessment of the accuracy and compliance of local governments' financial statements with applicable standards (Karno & Alliyah, 2021). A favourable audit opinion is often perceived as a marker of institutional credibility, which can bolster public trust and encourage voluntary compliance with tax obligations (Zamzami & Rakhman, 2023). Moreover, regular audits serve to reinforce adherence to Government Accounting Standards and promote transparency in financial reporting (Kustinah et al., 2022; Nugraheni & Adi, 2020).

The relationships among local governments, their legislative bodies, and the public can be understood through the lens of agency theory. Originally developed by Jensen & Meckling (1976), agency theory conceptualises the dynamic between principals—those who delegate authority—and agents—those who execute that authority. In the public sector, the theory is often applied to analyse the relationship between the government and the community (Fauziyah & Ekaningtias, 2022; Ditasari & Sudrajat, 2020). When the central government delegates authority to local administrations, asymmetries in information and incentives can emerge, as local governments typically possess greater knowledge of regional conditions than the public they serve (Pratama et al., 2022).

Such information asymmetry creates the potential for divergent interests between principals and agents, leading to agency conflicts and, ultimately, agency costs (Prayuda & Arifin, 2024). These costs may manifest in the form of inefficiencies, misaligned priorities, or reduced accountability. Agency theory thus underscores the importance of transparent financial reporting and effective oversight mechanisms as means of aligning the interests of local governments with those of their constituents (Rasyid et al., 2022; Aswar, 2019). By ensuring that financial management practices are accountable and transparent, local governments fulfil their fiduciary responsibilities and contribute to the overarching goal of public welfare (Fauziyah & Ekaningtias, 2022).

Empirical studies investigating the determinants of local government financial performance have produced mixed results, particularly in relation to government size, legislative size, and the audit opinions issued by the Supreme Audit Agency (Badan Pemeriksa Keuangan, BPK). Research by Hashifa et al. (2024), Meilanda et al. (2023) and Safitri et al. (2023) finds a significant positive relationship between local government size and financial performance. However, contrasting findings are reported by Sari & Mustanda (2019), who suggest a negative association. Similarly, studies on legislative size yield divergent conclusions. While Safitri et al. (2023) and Aprianto (2021) highlight a significant positive effect, Hendaris & Sastradipraja (2024) and Ayunisa et al. (2022) find no discernible impact. The relationship between BPK audit opinion and financial performance is equally contested, with some studies (Chaerani & Firmansyah, 2024; Zamzami & Rakhman, 2023; Pradnyani & Mimba, 2020) reporting positive effects, while others (Nurhalimah & Wicaksono, 2024; Karno & Alliyah, 2021) suggest negative or insignificant outcomes.

Agency theory provides a useful conceptual framework to interpret these findings. It describes the principal-agent relationship between the public and government institutions, wherein local governments, as agents, are expected to act in the best interests of the community (Banunaek et al., 2022). In fulfilling this role, local governments require sufficient resources, particularly in the form of physical and financial assets, to deliver public services effectively. However, the possession of substantial assets also introduces the risk of misappropriation, a common agency problem in public finance (Prayuda & Arifin, 2024). From an agency theory perspective, the size of the local government, particularly as measured by asset holdings, serves as a proxy for its capacity to manage operations efficiently and generate local revenue (Aulia & Rahmawaty, 2020). Greater resource capacity enhances operational efficiency, supports the acquisition of Regional Original Revenue (PAD), and contributes to improved financial performance (Safitri et al., 2023; Natoen et al., 2019).

Empirical findings support this theoretical expectation. Meilanda et al. (2023) show that larger local governments tend to exhibit stronger financial performance. Similarly, Meilanda et al. (2023) report a significant positive effect of local government size on fiscal outcomes. Based on both theoretical considerations and prior empirical results, the following hypothesis is proposed:

H_1: Local government size has a positive effect on local government financial performance.

The legislative size of a local government—represented by the number of members in the Regional People's Representative Council (DPRD)—is another variable of interest. As elected representatives, DPRD members are tasked with ensuring that executive functions are aligned with community needs and that financial resources are managed responsibly (Prayuda & Arifin, 2024). Within the agency theory framework, the legislature serves as a monitoring mechanism to reduce agency costs and align government actions with the preferences of constituents (Zaitul et al., 2021). An optimally sized legislative body can enhance oversight, enforce accountability, and promote more efficient use of public funds, thereby improving financial performance (Gustianra & Serly, 2019).

Effective legislative oversight can also strengthen the quality of public services and institutional credibility. Studies by Safitri et al. (2023) and Gustianra & Serly (2019) confirm that legislative size has a significant positive influence on local government financial performance, with the latter using the independence ratio as a performance proxy. Informed by agency theory and these empirical findings, the second hypothesis is as follows:

H_2: Legislative size has a positive effect on local government financial performance.

The audit opinion issued by BPK constitutes a formal evaluation of a local government's financial reporting, assessing compliance with accounting standards and legal requirements (Pattipawaey & Leatemia, 2023). From the perspective of agency theory, such external oversight is essential in mitigating moral hazard and reducing information asymmetry between local governments and the public (Wijayanti & Suryandari, 2020). A favourable audit opinion enhances the credibility of financial statements, increases public trust, and encourages voluntary compliance with taxation, all of which contribute to stronger financial performance (Angelina et al., 2024; Satriawan et al., 2021).

Several empirical studies corroborate the positive influence of audit quality on fiscal outcomes. Chaerani & Firmansyah (2024) demonstrate that BPK audit opinions are significantly associated with improved financial performance, while Pradnyani & Mimba (2020) report similar findings. These observations support the following hypothesis:

H_3: BPK audit opinion has a positive effect on local government financial performance.

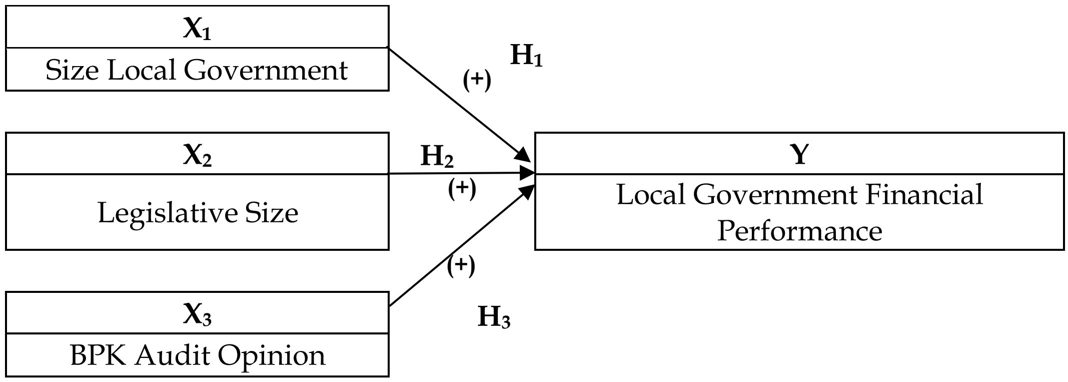

Image 1. Hypothetical Framework

Source: Research Data, 2024

RESEARCH METHODOLOGIES

This study adopts a descriptive quantitative methodology, employing an associative problem formulation grounded in a causal framework to examine the relationships between independent and dependent variables (Sugiyono, 2023). The analysis is based on secondary data drawn from district and city governments in West Java Province over the 2019–2023 period. Regional financial performance is measured using the independence ratio, which serves as an indicator of a local government's fiscal autonomy and capacity to manage public resources independently.

Data collection was conducted through official sources. Information on local government size and BPK audit opinions was obtained from the website of the Audit Board of Indonesia (www.jabar.bpk.go.id), while data on legislative size were sourced from the Central Statistics Agency (www.jabar.bps.go.id). A non-probability sampling technique with a census approach was employed, wherein the entire population of interest was included in the study sample. The population comprises 27 local governments in West Java Province, consisting of 18 regencies and 9 cities, observed across a five-year span from 2019 to 2023.

The study examines the effect of three independent variables—local government size, legislative size, and BPK audit opinion—on a single dependent variable, regional financial performance. The operational definitions and measurement of each variable are presented in Table 3.

Table 3. Operational Parameters

Variable	Concept	Indicator	Scale
Size Local Government	The Size of the government describes the Size or Size of the regional economy, measured by total assets (Karno & Alliyah, 2021)	Size Local Government = Ln (Total Assets)	Ratio
Legislative Size	The legislature Size is measured based on the number of legislative members (DPRD) at the district and city levels (Karno & Alliyah, 2021).	Legislative Size = Quantity of Legislative Members	Ratio
BPK Audit Opinion	BPK audit opinion illustrates the fairness of local government financial statements (Putra, 2022).	Dummy Variables: Value 1 for Unqualified Opinion (WTP) Value 0 for opinions other than WTP	Nominal
Local Government Financial Performance	Financial performance is assessed through the independence ratio, which reflects the area ability to finance its government operations (Sartika, 2019).	Independence Ratio $= \frac{\text{PAD}}{\text{Transfer Revenue}} \text{x}100\%$	Ratio

Source: Research Data, 2024

This study applies quantitative data analysis techniques comprising descriptive statistical tests and multiple linear regression analysis to assess the dataset and evaluate the proposed hypotheses. Data processing was conducted using IBM SPSS software version 27. Prior to the regression analysis, classical assumption testing was carried out to ensure that the model satisfies the fundamental statistical assumptions necessary for valid and unbiased estimations.

The classical assumption tests conducted include assessments of multicollinearity, heteroscedasticity, and autocorrelation. Multicollinearity was evaluated by examining Tolerance and Variance Inflation Factor (VIF) values. A Tolerance value above 0.1 and a VIF value below 10 indicate the absence of multicollinearity among independent variables (Ghozali, 2021). To assess heteroscedasticity, scatterplot analysis was employed; the absence of a specific pattern and the random distribution of residuals around the zero axis suggest that heteroscedasticity is not present (Ghozali, 2021). Given the panel nature of the data covering multiple years, autocorrelation was also tested using the Durbin-Watson (DW) statistic. A DW value within the accepted threshold confirms the absence of serial correlation in the residuals (Ghozali, 2021).

These diagnostic tests collectively ensure the robustness of the regression model, validating the use of multiple linear regression to investigate the simultaneous effect of the independent variables on the dependent variable. The model is specified through the following regression equation:

$Y=a + b_1X_1 + b_2X_2 + b_3X_3$……………………………………………………………..(1)

Where:

Y	=	Projected value, in this context, refers to the Local Government Financial Performance
a	=	The value of Y is constant when variable X is zero
b_1, b_2, b_3	=	Coefficient of regression
X_1	=	Size of Local Government
X_2	=	Legislative Size
X_3	=	BPK Audit Opinion

FINDINGS AND ANALYSIS

Table 4. Descriptive Results

	N	Minimum	Maximum	Mean	Std. Deviation
Size of Local Government	135	28.08	31.61	29.374	0.793
Legislative Size	135	30	55	47.52	5.845
BPK Audit Opinion	135	0	1	0.61	0.488
Local Government Financial Performance	135	7.55	89.76	36.135	23.579
Valid N (listwise)	135				

Source: Research Data, 2025

As presented in Table 4, the descriptive statistical analysis based on 135 observations reveals several insights into the characteristics of the study variables. The average value for Local Government Size is 29.3747, with a standard deviation of 0.7933. The minimum observed value is 28.08, while the maximum reaches 31.61. The relatively low standard deviation—approximately 2.7% of the mean—indicates limited variability in local government size across districts and cities, suggesting a generally uniform distribution of asset holdings among local governments in West Java.

For Legislative Size, the mean value is 47.52 with a standard deviation of 5.845. The range extends from a minimum of 30 to a maximum of 55 legislative members. This moderate level of variation reflects a meaningful difference in legislative composition among local governments, likely attributable to differences in population size and administrative complexity across jurisdictions.

The BPK Audit Opinion variable, which is measured dichotomously (0 = non-WTP; 1 = WTP), has an average value of 0.61 and a standard deviation of 0.488. This suggests that approximately 61% of the local governments received an Unqualified Audit Opinion (Wajar Tanpa Pengecualian or WTP), indicating adherence to generally accepted accounting standards, while the remaining 39% received alternative opinions.

The financial performance of local governments, measured through the independence ratio, exhibits a mean of 36.1359 and a standard deviation of 23.5794. Values range from a minimum of 7.55 to a maximum of 89.76. The high standard deviation—equivalent to approximately 65% of the mean—indicates substantial variability in the fiscal capacity of local governments to fund their expenditures independently. This suggests significant disparities in regional financial autonomy, ranging from very low to relatively high levels across the province.

Table 5. Multicollinearity Test Results

Independent Variable	Tolerance	VIF	Explanation
Size of Local Government	0.601	1.665	No Multicollinearity
Legislative Size	0.610	1.639	No Multicollinearity
BPK Audit Opinion	0.980	1.020	No Multicollinearity

Source: Research Data, 2025

As shown in Table 5, the results of the multicollinearity test indicate that the Tolerance values for Local Government Size, Legislative Size, and BPK Audit Opinion are 0.601, 0.610, and 0.980, respectively. Corresponding Variance Inflation Factor (VIF) values are 1.665, 1.639, and 1.020. Given that all Tolerance values exceed the conventional threshold of 0.1 and all VIF values are well below the cut-off of 10, it can be concluded that multicollinearity is not present among the independent variables included in the regression model. This confirms that the variables operate independently and do not introduce redundancy into the analysis.

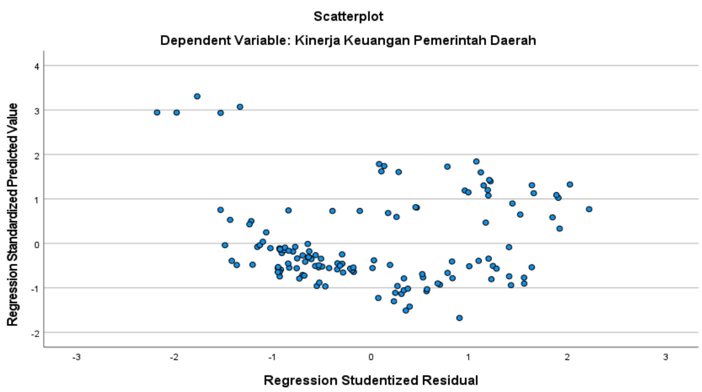

Image 2. Results of Heteroscedasticity Testing using Scatterplot Graphs
Source: Research Data, 2025

As shown in Image 2, the scatterplot displays data points that are randomly distributed above and below the zero line, without forming any discernible pattern. This distribution suggests that the model does not exhibit heteroscedasticity, thereby fulfilling one of the key assumptions of classical linear regression.

Table 6. Autocorrelation Test Results

No	dL	dU	4-Du	DW	Explanation
1	1.6738	1.764	2.235	2.049	No Autocorrelation

Source: Research Data, 2025

As presented in Table 6, the results of the autocorrelation test indicate that the Durbin-Watson (DW) statistic is 2.049, based on 135 observations and three independent variables. This value is evaluated against the Durbin-Watson critical bounds at a 5% significance level ($\alpha = 0.05$), where the lower bound (dU) is 1.7645 and the upper bound (4 – dU) is 2.2355 (Ghozali, 2021). Given that the DW value falls within the range dU < DW < 4 – dU, or 1.7645 < 2.049 < 2.2355, it can be concluded that the regression model does not exhibit autocorrelation. This confirms the validity of the model's residuals and supports the reliability of subsequent inferential analyses.

Table 7. Regression Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Explanation
		B	Std. Error	Beta			
1	(Constant)	-744.048	52.511		-14.169	<0.001	
	Size of Local Government	29.869	2.020	1.005	14.790	<0.001	Ha Accepted
	Legislative Size	-2.034	0.272	-0.504	-7.477	<0.001	Ha Rejected
	BPK Audit Opinion	-0.913	2.567	-0.019	-0.356	0.723	Ha Rejected

Source: Research Data, 2025

According to Table 7, The multiple linear regression model is represented as follows:

Y = -744,048 + 29,869 SLG – 2,034 LS – 0,913 BAO…………………………………..(1)

The results of the multiple linear regression analysis indicate varying effects of the independent variables on local government financial performance. The coefficient for Local Government Size is positive at 29.869, suggesting that an increase in government size is associated with improved financial performance. This finding implies that larger local governments—likely due to greater resource capacity—are better positioned to manage finances effectively and generate revenue independently.

In contrast, Legislative Size exhibits a negative coefficient of –2.034, indicating that an increase in the number of legislative members is associated with a decline in financial performance. This may reflect coordination inefficiencies or elevated agency costs in more populous legislative bodies. Similarly, the BPK

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Audit Opinion variable has a negative coefficient of −0.913. This counterintuitive result suggests that receiving a favorable audit opinion does not necessarily correspond to improved financial performance, potentially reflecting a disconnect between audit outcomes and the underlying fiscal autonomy of local governments.

Table 8. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.798[a]	0.637	0.628	14.374

Source: Research Data, 2025

As shown in Table 8, the coefficient of determination (R^2) is 0.637, indicating that approximately 63.7% of the variation in the financial performance of regional governments can be explained by the three independent variables: Local Government Size (X1), Legislative Size (X2), and BPK Audit Opinion (X3). The remaining 36.3% is attributable to other factors not examined in this study, suggesting the presence of additional variables—such as governance quality, economic conditions, or administrative capacity—that may also influence regional financial outcomes.

Table 9. F-Test Outcomes

	Model	Sum of Squares	Df	Mean Square	F	Sig.	Explanation
1	Regression	47,433.691	3	15,811.230	76.520	<0.001[b]	H_a Accepted
	Residual	27,068.399	131	206.629			
	Total	74,502.090	134				

Source: Research Data, 2025

As presented in Table 9, the F-test results indicate that the calculated F-value is 76.520, which exceeds the critical F-value of 2.67. With a significance level of 0.001—well below the 0.05 threshold—it can be concluded that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted. This finding confirms that, collectively, Local Government Size, Legislative Size, and BPK Audit Opinion exert a statistically significant influence on the financial performance of local governments in regencies and cities across West Java Province during the 2019–2023 period.

The first hypothesis (H_1) was evaluated using a t-test, revealing that the Local Government Size variable (X_1) has a t-value of 14.790, which exceeds the critical value of 1.978. The associated significance level of 0.001 is below 0.05, indicating that H_{01} is rejected and H_{a1} is accepted. This result suggests that Local Government Size has a positive and significant effect on the financial performance of local governments. In practical terms, this means that changes in local government size—as measured by total assets—can influence fiscal performance. Larger asset bases enhance a government's capacity to manage resources efficiently, thereby supporting service delivery and fiscal sustainability (Prayuda & Arifin, 2024).

This empirical finding is grounded in agency theory, which emphasizes the relationship between local governments (agents) and the public (principals), where agents are expected to act in the best interests of the community. To provide high-quality public services, local governments must possess adequate and productive assets (Banunaek et al., 2022). These assets, including land, infrastructure, and facilities, serve as inputs for essential services such as education, healthcare, transportation, and agriculture (Karno & Alliyah, 2021). In addition, asset-based investments can enhance the generation of Regional Original Revenue (PAD), further strengthening financial performance (Nurrahmadani et al., 2024; Natoen et al., 2019).

The results of this study are consistent with prior research conducted by Hendaris & Sastradipraja (2024), Meilanda et al. (2023), Karno & Alliyah (2021), Subagyo et al. (2021) and Aulia & Rahmawaty (2020), all of which found a significant positive relationship between local government size and financial performance. These studies suggest that a larger government structure improves a region's capacity to finance operations and deliver services. However, this conclusion diverges from the findings of Ernawati et al. (2023) and Ramahdani & Trisnaningsih (2022), who argue that larger regional governments may struggle to optimize their fiscal potential, especially when administrative reach becomes a limiting factor. According to this perspective, increases in size may lead to diminishing returns due to coordination challenges in governing expansive jurisdictions.

The second hypothesis (H_2) was also tested using a t-test, with the Legislative Size variable (X_2) yielding a t-value of –7.477, which is lower than the critical t-value of 1.978. With a significance level of 0.001, H_{02} is accepted and H_{a2} is rejected. These results indicate that Legislative Size has a significant negative effect on the financial performance of local governments. Specifically, an increase in the number of DPRD members is associated with a decline in fiscal performance in the districts and cities of West Java Province (Zaitul et al., 2021). This may stem from inadequate legislative oversight, often hindered by competing personal interests and political affiliations. Rather than prioritizing community welfare, some DPRD members pursue individual or partisan agendas, undermining the integrity of their supervisory role.

This finding resonates with agency theory, which conceptualizes legislators as agents acting on behalf of the public. In principle, the DPRD is tasked with overseeing the executive to ensure accountable governance (Karno & Alliyah, 2021). In practice, however, the effectiveness of legislative oversight is often compromised by conflicting interests between legislators and local executives. These dynamics highlight the importance of not only considering the number of legislative representatives but also ensuring the competence and integrity of DPRD members. Improving legislative quality is essential for enhancing governance outcomes and, ultimately, financial performance.

The findings of this study are consistent with those reported by Singa et al. (2024), Zaitul et al. (2021) and Karno & Alliyah (2021), who similarly conclude that Legislative Size exerts a negative and statistically significant effect on local government financial performance. These results suggest that a larger number of legislative members does not inherently enhance fiscal outcomes, a view also supported by (Hendaris & Sastradipraja, 2024). This may reflect inefficiencies stemming from fragmented oversight or conflicting interests that hinder effective governance.

Conversely, these findings differ from those of Aswar (2019) and Gustianra & Serly (2019), who report a positive relationship between Legislative Size and financial performance. In their view, a larger legislative body enhances the supervisory function, particularly in complex administrative environments, by enabling broader oversight and support for the implementation of local government programs. According to this perspective, expanded legislative capacity facilitates more comprehensive monitoring, which can drive improvements in governance and service delivery.

The third hypothesis (H_3) was tested using a t-test, which revealed that the BPK Audit Opinion variable (X_3) produced a t-value of –0.356, which is below the critical value of 1.978. The significance level of 0.723 exceeds the 0.05 threshold, leading to the acceptance of the null hypothesis (H_{03}) and the rejection of the alternative hypothesis (H_{a3}). These results indicate that BPK Audit Opinion does not have a statistically significant effect on the financial performance of local governments. In other words, a change in audit opinion—whether an improvement or decline—does not necessarily correspond to an improvement or deterioration in fiscal performance (Nurhalimah & Wicaksono, 2024).

This result is consistent with the principles of agency theory, which conceptualizes the relationship between the government as an agent and the public as principal. While the BPK audit opinion serves as a formal mechanism to monitor government accountability, a disconnect may exist between audit outcomes and actual financial performance. Diverging interests between auditors and government entities can contribute to performance shortcomings, despite receiving unqualified audit opinions (Karno & Alliyah, 2021). This indicates that audit results may reflect compliance with accounting standards, yet fail to capture broader issues related to financial efficiency or policy effectiveness.

The findings of this study are in line with prior research by Satriawan et al. (2021), Jannah et al. (2020) and Ditasari & Sudrajat (2020), all of whom report no significant effect of BPK Audit Opinion on local government financial performance. These studies emphasize that audit opinions primarily assess the conformity of financial statements with applicable accounting standards and evaluate internal control structures, rather than measuring fiscal health or economic outcomes (Karno & Alliyah, 2021). However, this conclusion contrasts with the findings of Angelina et al. (2024) and Chaerani & Firmansyah (2024), who demonstrate a significant positive relationship between BPK Audit Opinion and financial performance. According to their view, an improved audit rating enhances public trust and reduces agency costs, thereby motivating local governments to adopt sound fiscal practices and improve overall performance.

CONCLUSIONS

The existing literature and theoretical framework suggest that the size of local governments is positively associated with improved financial performance, whereas an increase in legislative size tends to exert a negative influence. Additionally, BPK audit opinions do not appear to significantly affect financial performance. The findings of this study confirm that, collectively, local government size, legislative size, and audit opinion have a joint influence on the financial performance of district and city governments in West Java during the 2019–2023 period.

Nonetheless, this study is subject to certain limitations that future research should address. The analysis was confined to three independent variables, potentially limiting the explanatory power and comprehensiveness of the findings. Future studies are encouraged to incorporate additional variables—such as the decentralization ratio, audit follow-up actions, or governance quality—to develop a more nuanced understanding of the determinants of financial performance. Moreover, expanding the temporal and geographical scope through cross-provincial or longitudinal comparisons may yield deeper insights into patterns of fiscal autonomy across Indonesia.

Despite these limitations, this research contributes to the regional finance literature by providing empirical evidence on the relationship between local autonomy and financial performance in West Java, one of Indonesia's leading provinces in terms of economic output. The findings highlight the differential impact of legislative size and audit opinions on regional fiscal capacity. These insights may inform local government strategies aimed at enhancing financial independence and long-term sustainability, particularly through the optimization of local revenue generation and a critical review of legislative oversight and audit processes. The results also offer a basis for policy reflection and refinement in support of more accountable and autonomous local governance.

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