THE INFLUENCE OF LOCAL GOVERNMENT FINANCIAL CHARACTERISTICS AND BPK AUDIT RESULTS ON GOVERNMENT FINANCIAL PERFORMANCE

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Abstract. Transfer revenues dominate the revenue budget in 38 regencies / cities in East Java Province . In 2021, the degree of fiscal autonomy of regencies / cities in East Java on average only reached 19.21%, indicating low local government independence . This study aims to analyze the effect of local government financial characteristics and BPK audit results on the financial performance of Regency/City local governments in East Java using quantitative descriptive methods . Local government financial characteristics utilize the proxies of the size of the local government , the regional prosperity , and the regional dependence ; and the results of the BPK audit utilizes the proxies of audit opinion and audit findings . This study applies agency theory and stewardship theory . The population includes 38 local governments in East Java in 2019-2021, from which the samples of 114 regencies / cities in East Java are selected through purposive sampling, and analyzed by the ordinal logistic regression processed by SPSS software . The results of this study exhibit that the regional prosperity , regional dependence , and audit findings affect financial performance while local government size and audit opinion do not affect the financial performance of regency / city governments in East Java.

Keywords: Local Government Financial Performance; Audit Opinion ; Regional Prosperity ; Regional Dependencies ; Audit Findings ; Local Government Size .

I. INTRODUCTION

Financial performance government area reflect results achievement government area in run a program or activity government For reach objective certain , which can measured based on indicator finance during period certain . Assessment performance finance become aspect essential for government area to carry out evaluation deep as well as set policy action carry on based on results evaluation previously . Although Thus , hope public to achievement performance finance optimal area is not in accordance with expectations held by society .

Based on Report Economy East Java Province published by Bank Indonesia, budget The income of 38 regencies /cities in East Java Province in 2019-2021 was dominated by transfer income and known that degrees autonomy fiscal On average, 52 districts /cities in East Java only reached 19.21%. The low number percentage degrees autonomy fiscal Regency /City in East Java shows Still height dependence Regency /City regarding transfer funds from Central

Government . In fact , the government areas that have performance good finances will own ability For fulfil his needs in a way independent that can shown with achievement level independence fiscal at least by 50%. This is important For discussed Because height level dependence on the government center cause government regions are heavily influenced by policy and depend on allocations budget determined by the government center . The height dependence on the government center can create limitations autonomy finance Because part big funding originate from government transfer funds center .

Research previously show that there is inconsistency results related influence characteristics finance government area to performance finance government area . Research This is replication from research conducted by Safitri et al (2022) . Location difference between study This with study previously namely on the subject and variables research . In the research this , the subject used that is Regional Government of Regency /City of East Java Province 2019-2021 . Variables additions to research This that is variables independent in the form of audit opinion and audit findings which can also be influential to performance finance government area . Apart from that , there are difference analysis regression used . The analysis method used in this research This that is analysis regression ordinal logistics due to variable data dependent ordinal scale , in the form of categories obtained from results calculation variables its dependents . While research conducted by Safitri et al (2022) using regression multiple with direct enter results calculation variables dependent without do categorization moreover formerly .

Study This can give proof empirical that performance finance government area influenced by size government area , level prosperity area , level dependence areas , audit opinions , and audit findings with using Agency Theory (Jensen & Meckling, 1976) and stewardship theory (Donaldson & Davis, 1991) as base theory so that results study This can used by the community general public and academics For become source references to research furthermore .

Research purposes This that is For prove in a way empirical that performance finance influenced by size government area , level prosperity area , level dependence areas , audit opinions , and audit findings .

II. LITERATURE REVIEW

A. Agency Theory

Agency theory according to Jensen & Meckling (1976), namely existence connection Work between owner (principal) with management (agent) for do A service on interest owner Where in implementation service the there is delegation power For take decision from owner to agent . As form accountability on authority that has been given by the principal , agent will give report accountability on results his work in accordance with what has been done . Within the scope of government regions in Indonesia, there are a number of connection agency , namely between society and government area , as well as government central and government area .

According to Eisenhard (1989:59), the theory agency based on several assumptions . Assumptions the differentiated become three type , namely assumptions about characteristic human , assumption organizational , and assumptions information . Assumptions characteristic man emphasize that in theory This man own characteristic For prioritize himself self interest , have limitations rationality (bounded rationality), and always avoid risk (risk aversion). From the nature that , a conflict of interest arises , namely A image showing that Good principal and

agent have the same tendency that is try For prioritize each of their goals . Agents have obligation For maximize profit principal . However , on the other hand side agents are also interested For increase welfare and interests so that there is trend for agent For act outside his obligations . Assumption organizational emphasize that there is conflict between member organization and the information asymmetry that occurs between principal and agent . Conflict the due to existence imbalance information Where agent as party manager own more information Lots than principal . While assumptions information emphasize that information as goods commodities that can for sale buy .

B. Stewardship Theory

Stewardship theory according to Donaldson & Davis (1991) is description situation Where management No motivated with goals individual , will but more motivated For objective interest organization . Stewardship theory originates from from field psychology and sociology , which aims For explain condition Where manager act as guard (steward) and work for the benefit owner . In other words, the relationship that occurs between principal and steward in matter this is the people as the principal and the government as a steward, is established relationship Because existence characteristic base human beings who can trusted , capable act with full not quite enough answer , have integrity and honesty to other parties (Anggara & Cheisviyanny , 2020). In this case this , steward is responsible individual answer For manage or guard something in the name of the owner . If interests of stewards and owners No the same , then the steward will more choose For try Work The same than against interest owner .

Connection stewardship theory in study This can explain existence government area as trusted state institutions can operate duties and functions with appropriate as well as can give not quite enough answer in matter management entrusted finances to government area so that objective economy and welfare public can achieved optimally . If the government areas that play a role as a successful steward reach objective this , then the people as principal will feel satisfied with performance finance government area the .

C. Size Local government

In general size is something reject measure that can be used For know how much big or small the object being measured . Size government area is one of the variables in big or small government something areas that can measured with total assets , the amount employees , total income and level productivity (Sari et al, 2016 in Rufayda , 2019). Based on research conducted by Safitri (2022) , size government areas in the research This proxied use asset government area . Size government large area , has source Power more finances Lots compared to size government small area . The existence of a source Power finance said , will give convenience for government area For operate activity operational area . With existence source adequate power , government area can more Good fulfil needs and expectations its citizens For operate various development programs and initiatives development service public . In addition to providing convenience in implementation activity operational , size big government will give profit in optimize acquisition Regional Original Income (PAD). This can produce improvement realization income original areas that will be will impact on increasing performance finance government area .

D. Regional Prosperity Level

Prosperity area is ability government area in sufficient something need area . Level of prosperity can measured with the total Regional Original Income compared with total income

(Millenia, 2022). Hartini (2022), explains that Regional Original Income (PAD) is source reception original excavated area in the area the For used as basic capital government area in finance development and business area For reduce dependence on funds from government center . PAD has role important in determine ability area For run government programs fully implemented For people's interests . Level of prosperity something government measured using PAD because PAD is the only one source finances originating from from management source Power government area That own . Values and increase in PAD is also a something important things For increase independence area . Demands PAD increases big along many authority from government center to government area . So from that , the government area expected capable dig potential original area and can manage finance area with Good For support the way wheel government .

Regional Dependence Level

According to Manoppo et al (2023), Level of dependency area can seen from allocation funds general . Based on Constitution Number 1 of 2022 concerning Connection Finance between Central Government and Regional Government , General Allocation Fund which will then abbreviated as DAU is part from the Transfer to Regions (TKD) allocated with objective reduce inequality ability finance and services public inter-regional . While TKD itself is a fund sourced from from the APBN and is part from allocated and distributed state spending to the Region for managed by the Region in frame funding organization Affairs The government that became Regional authority . DAU is a Block Grant, which means its use handed over to government area in accordance with priorities , interests , and needs special respective areas for increase service public in frame implementation autonomy area . Referring to the Law Number 1 of 2022, ceiling national DAU is determined with consider need service public as part from implementation , affairs the government that became authority area , ability state finances , TKD ceiling in general overall , and development targets national . Meanwhile Proportion DAU ceiling between provincial and district / city areas consider need funding in frame implementation affairs the government that became authority area between provinces and districts / cities . Government center will supervise implementation DAU allocation for ensure that government area use the budget in a way effective . With so , in a way No direct supervision This will push government area For increase performance his finances .

E. Audit Opinion

Opinion is opinion or statement professionals who are conclusion examiner about fairness something report finance . Referring to the Law Number 15 of 2004 concerning Inspection Management and Accountability of State Finances , there are four type opinion given by the BPK on the audit report finance that is Opinion Reasonable Without Exception (WTP), Opinion Reasonable With Exceptions (WDP), Unreasonable (TW), and Not Providing Opinion (TMP). Level of opinion obtained something entity will influence on trust public . According to Law No. 15 of 2004 concerning Inspection Finance , opinion can become reject measuring in evaluate accountability A entity government and can lower and raise level trust stakeholders interest to reporting presented by the audited party , in matter This entity government area (Rasyid et al., 2022).

F. Audit Findings

Based on Constitution Number 15 of 2004 concerning Inspection State Financial Management and Responsibility , explained that inspection is the identification process problems , analysis and evaluation carried out in a way independent , objective , and professional based on standard examination , for evaluate truth , accuracy , credibility , and reliability information about management and responsibility answer state finances . Audit findings are type action fraud discovered by the BPK at the time inspection report finance government . Findings the violate as well as No in accordance with provision applicable laws and regulations so that need held evaluation For overcome as well as follow up existing findings . Based on the Decree of the Republic of Indonesia's Supreme Audit Agency No. 5/K/I-XIII.2/8/2010 dated August 27, 2010 concerning Coding Technical Instructions Findings Examination , findings inspection consists of from Internal Control System (SPI) findings and findings non-compliance to regulation legislation , as well as 3E findings (Economical , Efficient and Effective) (BPK, 2011). Non-compliance to regulation legislation can cause loss for both the country and government area Because inefficiencies that arise . Impact from non-compliance the covers waste budget , decrease credibility and trust public , up to bring up sanctions the law that must be paid government area consequence violation regulation the .

G. Financial performance Local government

Financial performance area is something results achievement Work government areas that can measured use indicator finance in accordance regulation legislation . Financial performance used as indicator measurement to what extent the government area can using , managing , and allocate existing funds with effective and efficient For reach goals and responsibilities the answer . With existence performance good finances , then matter the can create existence stability economy and encourage existence development For welfare society . There are a number of ratio performance finance areas that can used For measure performance finance areas , including that is , the ratio effectiveness , ratio efficiency finance area , ratio harmony , ratio independence finance area (Halim (2013:231).

According to Halim (2014: 278), independence finance region (autonomy fiscal) shows ability area in finance Alone activity governance , development and services to the community that has pay taxes and levies as source required income region . Independence indicated by the large small income original area compared to income area of origin from source others , such as help government center and from loans . According to Mahmudi, the more tall amount comparison (in matter This income original area) then the more seen that area the own independence in management finance area . The more big percentage of PAD, then matter the show the more the good ability finance area For do investment development , improving quality service public , and support strategic programs that can give impact positive for welfare public local . Relationship patterns level independence finance area can depicted like the table below This :

Table 2.1 Relationship Patterns , Level of Independence, and Ability Regional Finance

Kemampuan Keuangan	Rasio Kemandirian (%)	Pola Hubungan
Rendah sekali	0 − 25	Instruktif
Rendah	>25 − 50	Konsultatif
Sedang	>50 − 75	Partisipatif
Tinggi	>75-100	Delegatif

Safitri e   *Financial*

Sumber: Mahmudi (2019:140)

H. Research Framework

Based on description related theories and variables research on then in the sub chapter framework study This made a skeleton model research . Framework model researcher This is as following :
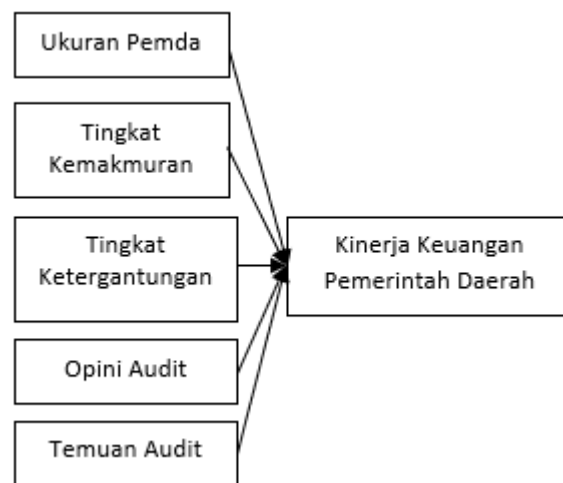

Figure 1 Framework Model Study

Research Hypothesis :
1. *Influence Size Regional Government Impact on Regional Financial Performance*

In running wheel government , government area requires large funds For running regional programs . Knowing size government one of the areas with knowing total assets government area (Kiswanto, 2014 in Natoen et al., 2019). Increasingly big assets owned government area , then size government area the will the more big . The size size government be one of reject measuring public in evaluate performance government . This matter due to if something government area can manage his assets with well , then the people will get Lots facility public , efficient , effective and quality services . Increasingly big size area , then activity operational something area will the more easy so that will give smoothness in get income original area (Safitri et al., 2022). The size size the government will also cause size hope public on performance government . However , in line with structure agency where the government will take steps in accordance with aspirations public in utilize and manage his assets with efficient , this is one of the motivation government in effort increase quality its performance . Then it can concluded that size government proxied area using total assets government area can influence performance finance government area . Formulation hypothesis This in line with research conducted by (Natoen et al., 2019) and (Aminah et al., 2022) which proves that size area own influence positive to performance finance government area . Based on explanation above , hypothesis study can formulated as following :
H1: Size government area influential positive to performance finance government area .

2. *The Influence of Regional Prosperity Level on Regional Financial Performance*

Government prosperity area can stated with amount Local Original Income (PAD) (Annisa et al, 2020). The increase in PAD shows success government area in manage sources reception region . PAD obtained by a region area will used For progress area so that can support improvement performance government area (Maiyora , 2015 in Safitri et al., 2022). The people as agents also play a role active in give contribution constructive For building the nation. Contribution the shown with existence payment tax area as well as retribution an area which is one of the component main in Regional Original Income (PAD). The high contribution public in increasing PAD illustrates height level welfare society . Increasingly tall level welfare in something area so performance finance government the area will also the more good . So can concluded that level prosperity proxied area use Regional Original Income (PAD) can influence performance finance government area . Researchers (Manoppo et al., 2023), (Rufayda , 2019), and (Dasmar et al., 2020) proved that that level prosperity area own influence positive to performance finance government area . Based on the explanation above , then hypothesis study can formulated as following :

H2: Level of prosperity area influential positive to performance finance government area .

3. *The Influence of the Level of Dependence on the Central Government on Regional Financial Performance*

Dependency level area can seen from allocation funds general (Safitri et al., 2022). The General Allocation Fund (DAU) is a fund sourced from from allocated APBN revenue For funding need area in frame implementation decentralization . Every area have difference in dependence to government central government areas that receive large DAU show that government area the No independent in a way financial and have level high dependency (Wulandari & Taqwa, 2019). According to Aminah (2022), the large amount of allocated funds show that government area the Still depend on funds from center compared to with optimize potential wealth owned area said , so that the amount of DAU makes public evaluate performance government area bad Because No Can optimize potential riches the area . With so , can concluded that dependence government regions in government the center shown with regional DAU own negative impact on performance finance government area . This is supported with results Aminah's research (2022) concluded that level dependence government area influential negative to performance government area . Based on the explanation above , then hypothesis study can formulated as following :

H3: Level of dependence government area influential negative to performance finance government area .

4. *Influence Audit Opinion on Regional Financial Performance*

Audit opinion is statement professional as conclusion examiner about level fairness the information presented in report finance (Law Number 15 of 2004. Audit opinion can be help reduce existence asymmetry information with give evaluation in a way independent in accordance with applicable provision to fairness and compliance report accountability made by the agent For principal . The more positive opinion obtained , then matter the can give belief that government has operate his duties with Good in management of public funds . Increasingly good governance finance something entity , then the more good performance too finance entity . While opinion negative can become warning for government For do improvements and enhancements performance . Researchers (Andani & Respati , 2019) and

(Kurnia, 2020) proved that there is influence between audit opinion on performance finance government area . Based on the explanation above , then hypothesis study can formulated as following :
H4: Audit opinion has an effect positive to performance finance government area .

5. Influence Audit Findings on Regional Financial Performance

The BPK audit findings are type action fraud found in the report finance government at the time done audit by the BPK which violates provision internal control and provisions legislation (Manoppo et al., 2023). The number of audit findings can cause disappearance trust public , which ultimately cause loss of resources financing government area . Increasing audit findings Lots signify existence deviation budget , weak internal control system , inefficiency use of funds, up to indication practice corruption in management finance area . This is show that there is non-compliance or deviation in management financial impact negative on performance finance . Amount increased audit findings indicates the bad performance finance government area . On the other hand , if amount audit findings are increasing low , then matter the show height performance finance government area . Research conducted by (Manoppo et al., 2023) proves that that there is influence between audit findings on performance finance government area . Based on the explanation above , then hypothesis study can formulated as following :
H5: Audit findings have an impact negative to performance finance government area .

III. RESEARCH METHODOLOGY

Study This use method studies cases that focus on the District /City Regional Government in East Java Province in 2019-2021. Data in study This analyzed use method analysis descriptive and analytical regression ordinal logistics with help SPSS statistical test tool .

IV. RESULTS AND DISCUSSION

A. Analysis Statistics Descriptive

Analysis descriptive research data taken For study This is data from 2019 to 2021 , namely as many as 38 districts / cities East Java Province . The following is results statistics descriptive in research This :

Table 2.2 Statistical Results Descriptive

	N	Minimum	Maximum	Mean	Std. Deviation
Variabel Independen					
Ukuran Pemda	114	28.16	31.48	29.073	0.647
Tingkat Kemakmuran	114	0.07	0.61	0.187	0.093
Tingkat Ketergantungan	114	0.14	0.51	0.408	0.077
Opini Audit	114	1.00	4.00	3.939	0.359
Temuan Audit	114	17.07	26.17	21.958	1.600
Variabel Dependen					
Kinerja Keuangan Pemda	114	1.00	4.00	1.421	0.715

Based on table results analysis statistics descriptive above , the total amount of data as many as 114 data and consisting of from six variables . The following is description from each variable :

1. Size government area

Size government calculated area (X1) with natural logarithm of total assets company , has average value of 29.073 with standard deviation amounting to 0.647. Total assets government areas in districts / cities The largest province of East Java a total of 31.48 which is natural logarithm of total assets from Regency Sidoarjo period 2020. Total assets smallest in the district / city East Java Province , namely 28.16, which is natural logarithm of total assets from Probolinggo City period 2019 .

2. Regional Prosperity Level (X2)

Based on table results statistics descriptive above , variables level prosperity area own average value of 0.187 with mark standard deviation of 0.093. The minimum value of the variable level prosperity area from all over Regency /City of East Java Province , namely of 0.07 which comes from from Sampang Regency in 2021. Meanwhile level prosperity highest that is originate from Surabaya City period 2021 with mark of 0.61.

3. Regional Dependence Level (X3)

Based on table results statistics descriptive above , variables level dependence measured area with the General Allocation Fund (DAU) compared with total income own average value of 0.408 with mark standard deviation of 0.077. The highest value level dependence area found in Batu City in 2020 with mark of 0.51. Meanwhile , the value lowest level dependence area from all over Regency /City of East Java Province , namely of 0.14 which comes from from Regency Sidoarjo 2020 .

4. Opinion (X4)

Based on table results statistics descriptive above , variables audit opinion has the average value is 3.939 which means the average score audit opinion of the Regency /City of East Java Province received opinion Reasonable Without Exception (WTP) or unqualified opinion with mark standard deviation of 0.359. The lowest value audit opinion on research This originate from Jember Regency period 2019 with mark score 1, namely opinion Not Giving Opinion (TMP) or disclaimer of opinion. While mark highest audit opinion achieved by some big samples in research This with mark score 4 , namely opinion Reasonable Without Exception (WTP) or unqualified opinion.

5. Findings (X5)

Based on table results statistics descriptive above , variables calculated audit findings with the natural logarithm of the total audit findings has average value of 21.958 with mark standard deviation of 1,600. The lowest value audit findings , namely amounting to 17.07 which is natural logarithm of audit findings from government Surabaya City area period 2021. Meanwhile mark highest audit findings , namely amounting to 26.17 which is natural logarithm of audit findings from Regency Lumajang period 2021 .

B. Assumption Test Results Classic

In this study, the classical assumption test used was only the multicollinearity test. The multicollinearity test is used to determine whether there is a correlation between the independent variables in the regression model. A good regression model has no correlation between the independent variables. If the VIF value is less than 10 and the tolerance value is

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greater than 0.10, the model is declared free of multicollinearity. The results of the multicollinearity test are presented in the table below:

Table 2.3 Multicollinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-2.443	3.150		-.775	.440		
	Ukuran Pemda (X1)	.151	.094	.137	1.599	.113	.795	1.259
	Tingkat Kemakmuran (X2)	3.529	.770	.459	4.584	<,001	.579	1.727
	Tingkat Ketergantungan (X3)	2.687	.859	.288	3.129	.002	.683	1.464
	Opini Audit (X4)	.045	.154	.023	.295	.768	.976	1.024
	Temuan Audit (X5)	-.112	.039	-.251	-2.891	.005	.771	1.297

a. Dependent Variable: Kinerja Keuangan Pemda

(Source: Processed secondary data, 2024)

Based on the results of the multicollinearity test shown in table 4.2 above, it is known that the VIF value is less than 10 and the value of each correlation value between independent variables has a tolerance value greater than 0.10, so it can be concluded that the research model is free from multicollinearity problems.

C. Logistic Regression Test Results
Assessing Overall Model Fit

Model fit assessment is performed to determine whether the inclusion of independent variables in a regression model produces better results than a model that only includes the intercept. Model fit is assessed by comparing the initial -2LogL value (intercept only) with the final -2LogL value. The difference in decrease between the initial -2LogL value and the final -2LogL value is indicated by the Chi-square value. If there is a decrease in the -2LogL value, this indicates that the hypothesized model fits the data. The results of the model fit assessment are shown in the following table:

Table 2.4 Results of the Overall Model Fit Test

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	189.153			
Final	142.101	47.053	5	.000

In table 4.4 above, it can be seen that there is a decrease in the initial -2LogL value (intercept only) with the final -2LogL with a chi-square value of 47.053 and a p-value of 0.000 < 0.05 (α). This means that the model with independent variables is better than the model that only uses the intercept.

Testing the Feasibility of the Regression Model (Goodness of Fit Test)

The regression model fit test aims to determine whether the logistic regression model fits the observed data. If the goodness of fit statistic value is greater than 0.05 (α), then the model can be concluded to be able to predict the observed values, or the model can be said to be acceptable because it fits the observed data. The results of the test using the Goodness of Fit Test are shown in the following table:

Table 2.6 Goodness of Fit Results

	Chi-Square	df	Sig.
Pearson	228.566	334	1.000
Deviance	142.101	334	1.000

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In table 4.5 above, it can be seen that the significance value is 1,000. Based on these results, because the significance value is greater than 0.05 (α), it can be concluded that the model is able to predict the observed value or the regression model obtained is fit.

Coefficient of Determination Test (Pseudo R-Square)

The coefficient of determination test (pseudo R-square) is used to determine the extent to which an independent variable can explain its dependent variable. The coefficient test in this study uses the Nagelkerke R-square value. The closer the Nagelkerke R-square value is to 1, the stronger the independent variable's ability to explain the dependent variable. The pseudo R-square results can be seen in the following table:

Table 2.5 Results of the Determination Coefficient Test

Cox and Snell	.338
Nagelkerke	.418
McFadden	.249

Based on table 4.6 above, it can be seen that the Nagelkerke R Square value is 0.418, which means that the variables of regional government size, regional prosperity level, regional dependency level, audit opinion, and audit findings can explain or influence the regional government financial performance variable by 41.8%, while the remaining 58.2% is influenced by other variables outside the research model.

D. Hypothesis Testing

This test is conducted by comparing the probability value (sig.) with the significance level (α). If the significance value is less than 0.05, the regression coefficient is significant. The results of the hypothesis test using ordinal logistic regression can be seen in the table below:

Table 2.7 Results of Logistic Regression Coefficient Test

		Estimate	Std. Error	Wald	df	Sig.	OR
Threshold	[Y = 1.00]	49.216	875.836	.003	1	.955	
	[Y = 2.00]	51.960	875.836	.004	1	.953	
	[Y = 3.00]	52.882	875.837	.004	1	.952	
Location	X1	.134	.362	.137	1	.711	1.143
	X2	17.112	4.633	13.642	1	.000	27017625.303
	X3	16.363	5.763	8.062	1	.005	12774991.133
	X4	11.674	218.938	.003	1	.957	117477.253
	X5	-.555	.187	8.854	1	.003	0.574

Source: Processed secondary data (2024)

The Influence of Regional Government Size on Regional Government Financial Performance

The first hypothesis in this study stated that regional government size has a positive effect on regional government financial performance. Based on the results of the test, this hypothesis was rejected because the hypothesis test results showed a significance value > 0.05. This

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means that changes in regional size, as proxied by total assets, do not affect the financial performance of regional governments in East Java Province.

Based on the research results, this indicates that the role of local governments in improving financial performance has not been functioning as intended. Most assets owned by local governments have a low level of productivity in improving local government financial performance. The large number of regional assets will require the government to work extra hard to manage its assets properly, so the government needs to ensure that these assets are utilized productively and efficiently. Governments with large assets have greater obligations followed by greater public pressure, so the government requires more human resources to manage and monitor these assets directly. This is supported by the results of research by Marfiana & Kurniasih (2013) as cited by Tatas Ridho that local governments with large assets and wealth certainly experience greater pressure from the public to better manage and utilize all their resources to improve performance. In addition, poor management or lack of monitoring of government assets can lead to wasteful resources and a lack of optimal returns on investment. This can be explained by agency theory, which explains that humans have limited rationality in decision-making (bounded rationality), where humans are not always able to act rationally in making decisions.

In the context of agency theory (Jensen & Meckling, 1976), the presence of large total assets that do not guarantee good financial performance can be explained as a consequence of agency problems. These agency problems can be caused by various possibilities based on conflicts of interest. Agents have an obligation to maximize the profits of the principal. However, on the other hand, agents also have an interest in improving their welfare and interests, so there is a tendency for agents to act outside their obligations. This agency problem can be overcome by strict supervision to ensure that agents can act in accordance with the interests of the owner, highlighting the importance of efficient asset management in improving government financial performance.

The results of (H1) of this study align with previous studies by (Pradana et al., 2022) and (Millenia, 2022), which found no effect of regional size on regional government financial performance because regional governments have not been able to properly manage their assets for the benefit of the community. This finding is inconsistent with studies conducted by (Andani & Respati, 2019) and (Natoen et al., 2019), which found a positive effect of regional government size on regional government financial performance.

The Influence of Regional Prosperity Level on Financial Performance Local government

Based on the results of testing the second hypothesis, a significance value of <0.05 was obtained for the regional prosperity variable. This indicates that the second hypothesis in this study is accepted, meaning that the regional prosperity level, as proxied by Regional Original Income (PAD) compared to total regional revenue, has a positive influence on local government financial performance. The higher the level of regional prosperity of a local government, the higher its financial performance.

The results of this study demonstrate that this hypothesis aligns with existing theories that the amount and increase in Regional Original Income (PAD) significantly impacts local government independence, which can be considered a key driver of local government performance. This is because PAD itself is a key factor in macroeconomic performance, contributing to positive growth. Positive growth encourages investment, enabling the

accumulation of substantial investment to drive improvements in regional infrastructure, enhance public services, and support the financing of other programs and activities aimed at improving public services. High-quality public services reflect improved financial performance in the local government (Millenia, 2022). Good infrastructure and high investment in a region will undoubtedly increase its PAD. A high PAD indicates that the local government has a strong enough source of revenue to support its operations without over-reliance on third parties. This financial independence reflects the local government's efficiency and sound financial management capabilities. Furthermore, a high PAD is also an indicator of good financial performance, demonstrating the local government's ability to optimize resources and leverage local economic potential to increase revenue. Thus, based on the explanation and research results above, it can be concluded that the level of regional prosperity proxied using PAD has been proven to improve the financial performance of local governments. In the context of agency relationships (Jensen & Meckling, 1976), this is the result of an agency relationship that runs in accordance with stewardship theory (Donaldson & Davis, 1991), where the local government acting as an agent has carried out its obligations to manage resources and finances for the benefit of the owner or the community. The existence of careful supervision is also one of the successes of this agency relationship in an effort to ensure that the interests of the owner have been met, namely to utilize existing PAD to improve the financial performance of local governments.

Several previous studies align with this research, including Natoen's (2019) study, which stated that local revenue (PAD) is a supporting factor for macroeconomic performance, thus significantly influencing regional prosperity and local government financial performance. Similarly, Millenia's (2022) study found that regional prosperity positively impacts local government financial performance.

The Influence of Regional Dependence Level on Financial Performance Local government

Based on results research obtained , variables level dependence area influential positive to performance finance government area . This is means that hypothesis three who stated that there is influence negative between level dependence area and performance finance government area rejected .

Based on results research , things This indicates that improvement level dependence on the government center , which is shown with the total General Allocation Fund (DAU), can increase performance finance government area . The more high DAU obtained something area so the more big source too Power finances owned by the government area For finance various development and development programs region . DAU is one of the transfer funds provided government center For funding need area . If need area exceed his income , then DAU is needed for sufficient lack The results of the research This show that DAU has allocated with appropriate so that government area capable increase quality service public and achieve development program targets area . With existence proper allocation , DAU can facilitate government area in give service quality and equitable public to all over its people so that matter the can cause impact positive for welfare society . With Thus , the increase DAU allocation is not only impact on increasing quality life society , but also on improvement performance government area in a way overall in fulfil needs and aspirations its people .

Research result This No in line with theory agency (Jensen & Meckling, 1976) which states that there is moral hazard in connection agency related acquisition incentives . However , the

results This in line with stewardship theory (Donaldson & Davis, 1991) which states that management No motivated with goals individual , but rather more motivated For objective interest organization . Based on stewardship theory (Donaldson & Davis, 1991), explained that the relationship that occurs between principal and steward, in matter this is the people as the principal and the government as a steward, is established relationship Because existence characteristic base human beings who can trusted , capable act with full not quite enough answer , have integrity and honesty to other parties (Anggara & Cheisviyanny , 2020). In this case this , steward is responsible individual answer For manage or guard something on behalf of the owner . Government area as steward will guard incentives that have been given principal with full not quite enough answer . As a steward who carries out his duties with well , government area will use as well as allocate DAU efficient and effective For reach objective development and development region . In accordance with its duties , the government area will try optimize benefit from incentives provided as well as increase transparency For guard good relationship between government regions and government center . With Thus , cooperation , trust , and commitment to common interests can come true in effort For increase performance finance government area .

Research result This support research conducted by Dasmar (2020) which states that the more the size of the DAU funds then government can use the funds For increase various government programs so that can increase performance government area . In line with research conducted by Rufayda (2019) which explains that the existence of DAU funds can more empower and enhance ability economy area so that can increase performance finance area . However study This No in line with research conducted by Aminah (2022) which states that level dependence government area influential negative to performance government area

Influence BPK Audit Opinion on Financial Performance Local government

Based on results testing the hypothesis fourth obtained mark significance > 0.05 for variables audit opinion . This show that hypothesis fourth in study This rejected which means audit opinion does not affect performance finance government area .

Auditor's opinion often made into as measurement performance something area in management finance the area of origin from party external , so that often there is symptoms in the area impressed hunting predicate Reasonable Without Exceptions (WTP) (Migang & Zahro, 2019). Based on Auditing Standard SA 240 on not quite enough auditor 's responsibility with fraud in an audit of report finance , has explained that not quite enough answer main For prevention and detection fraud is on two sides , namely the one responsible answer on governance entity and management . While the auditor or the auditor who carries out the audit is responsible answer For get belief adequate whether report finance in a way overall free from error misrepresentation of material, caused by fraud or error . Limitations default in an audit causes existence risks that are not can avoided , namely possibility a number of error presentation of material in report finance No detected even though the audit has been planned and implemented in accordance applicable procedures and standards . This supported and has been described in the Standard Inspection State Finance (SPKN), that examiner only concerned to indication beginning fraud that causes material impact on opinion and conclusion . Although examiner find indication beginning fraud , examiner No authorized For state fraud has happen Because term fraud is realm law (Supreme Audit Board , 2017: 54).

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In addition to Auditing Standards SA 240 and Standards Inspection State Finance (SPKN), has contained in Audit Result Report on Report Finance that in do evaluation risk , examiner consider relevant internal controls with preparation and presentation reasonable report finance For designing procedure proper inspection in accordance with existing conditions , but No For objective state opinion on effectiveness internal control . In carrying out evaluation risk , examiner only responsible answer For identify and assess risk error presentation of material in report financial losses resulting from fraud , obtaining sufficient audit evidence , and provide response to fraud or suspicion identified fraud during the audit (Indonesian Institute of Public Accountants, 2013: 6).

Research result This inconsistent with stewardship theory . Based on stewardship theory (Donaldson & Davis, 1991) has explained that management No motivated with goals individual , will but more motivated For objective interest organization . However , in its implementation government area as management No always prioritize interest public as principal . This is can explained by theory obedience (Stanley Milgram, 1963) which emphasizes importance organization / entity comply rules , regulations , and standards set by authorities supervisor . Based on instrumental perspective in theory compliance , compliance considered driven by interests personal and perception to associated changes with behavior . Changes behavior the can due to on consideration rational advantages and disadvantages Where individual or entity will comply rule Because they believe that matter That will bring benefit or avoided from existence sanctions . Research results show that that audit opinion does not affect performance finance government area can caused by the presence of compliance structural caused Because existence pressure For comply formal rules or standard accounting that has been determined . In addition , compliance to regulations and standards accountancy can seen as effort For get legitimacy in the eyes of stakeholders interests of the government area try show that they comply rule For build and maintain trust public . However , if community and stakeholders interest more notice results real from performance finance , such as improvement service public and development infrastructure , then good audit opinion No Enough For influence perception they .

Hypothesis results fourth in research This in line with study Previously carried out by Rasyid (2022) who explained that increase or decline opinion the audit given by the BPK has not yet Of course make performance government the area good and true BPK as a government auditor more emphasize on fairness report finance based on internal control systems , records accounting and auditing accounts . However study This No in line with research conducted by Andani & Respati (2019) and Kurnia (2020) which stated that influential audit opinion to performance finance

Influence BPK Audit Findings on Financial Performance Local government

Hypothesis fifth in study This state that influential audit findings negative to performance finance government area . Based on results testing in study This , the t-test results show mark significance < 0.05 so that can concluded that hypothesis fifth accepted Where the more Lots audit findings then the more low performance finance government area . And vice versa the more low audit findings then matter the can describe the good performance finance government area .

Audit findings can made into indicator weak internal control and compliance systems to provision regulation legislation . In accordance with existing theories , audit findings that

indicate existence non-compliance or deviation in management finance can impact negative with performance finance . The amount audit findings found , making disappearance trust public as well as stakeholders interest to ability government area in manage source power that has been owned . The loss trust public as well as stakeholders interest make government area face difficulty in get A investment or potential additional funding cause decline performance finance . The audit findings also show that there are funds that are not appropriate targets , deviations , or even corruption that can make things worse performance financial . Audit findings that lead to improvements on existence action carry on results findings that require budget more can be done cause government area need spend more money For overcome existence findings the .

In implementation theory agency (Jensen & Meckling, 1976), for overcome existence problem authority , strict monitoring and supervision in connection agency need conducted . Audit findings are results from existence monitoring and supervision that has been carried out done with good . Appropriate with stewardship theory (Donaldson & Davis, 1991), low audit findings signify that government area as agent has operate his duties with good . This is show that government area the has have an effective internal control system and governance good finances , so that reduce existence potential deviation or conflict interest between agents and principals . The existence of effective supervision can be one of driver the good connection agents and principals in operate healthy relationships . Research results This in line with study Manoppo (2023) stated that that the more Lots violations committed by the government area describe the more the bad performance government area said . Research the support hypothesis in study This that is influential audit findings negative and significant to performance finance government area

V. CONCLUSION

A. Conclusion

Research result This prove that theories used in research This namely Agency Theory and Stewardship Theory have give understanding in study this and accordingly with results study previously as well as hypotheses formulated in the research this . However , in study This No found influence size government area , level dependence area , and audit opinion on performance finance government area . This is No in accordance with formulated hypothesis researchers and results research previously . However , this This can explained through theory compliance that discusses about condition Where somebody or entity obedient to order or applicable rules based on instrumental perspective as well theory related agencies with the existence of a conflict of interest and assumptions characteristic human beings who have limitations rationality (bounded rationality).

B. Limitations

Limitations in study This that is researchers No get Audit Result Report on Report Jember Regency Regional Finance in 2020 because has excluded in data provision by the East Java Representative Office of the BPK .

C. Suggestion

Study furthermore expected can develop study with add variables other related matters with performance finance government area like shopping area , size legislative , and action

carry   on   audit   results   and   can   develop   range   further   research   wide   .

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