



Determinants of local government capital expenditure in Indonesia: Fiscal capacity, local revenue, and BPK's audit opinion

Marwatul Hasanah¹, Andi Chairil Furqan², Muliati³, Erwinsyah⁴

¹Public Sector Accounting, Universitas Tadulako, Palu, Indonesia

^{2,3,4}Department of Accounting, Universitas Tadulako, Palu, Indonesia

| Article Info | ABSTRACT |
|---|--|
| <p>Article history:</p> <p>Received Jun 13, 2026 Revised Jun 20, 2026 Accepted Jun 30, 2026</p> <hr/> <p>Keywords:</p> <p>BPK Opinion; Capital Expenditures; Fiscal Capacity Index; Local Own-Source Revenue.</p> | <p>Differences in fiscal capacity, local revenue, and financial accountability may contribute to variations in capital expenditure allocation among Indonesian local governments. Understanding these factors is important because capital expenditure supports public infrastructure provision and long-term regional development. This study examines the effects of the Fiscal Capacity Index (FCI), Local Own-Source Revenue (LOSR), and BPK audit opinion on capital expenditure. A quantitative explanatory approach was employed using secondary data obtained from the Ministry of Finance of the Republic of Indonesia and BPK audit reports. The sample comprises 542 local governments observed from 2021 to 2023, resulting in 1,626 panel observations. Panel data regression analysis was used to estimate the relationships between the explanatory variables and capital expenditure. The findings indicate that the Fiscal Capacity Index has a positive and significant effect on capital expenditure. Local Own-Source Revenue also has a positive and significant effect and exhibits the largest coefficient, suggesting that fiscal autonomy plays the strongest role in explaining capital expenditure allocation. In contrast, BPK audit opinion has a negative but statistically insignificant effect on capital expenditure. Overall, fiscal capacity and local revenue are significant determinants of capital expenditure allocation, whereas BPK audit opinion is not significantly associated with capital expenditure among Indonesian local governments.</p> <p style="text-align: right;"><i>This is an open access article under the CC BY-NC license.</i></p> |



Corresponding Author:

Andri Putra Arta,
Agribusiness,
Faculty of Science and Technology,
Institut Teknologi Kelapa Sawit Indonesia,
Jl. Willem Iskandar (Pancing), Medan Estate, Kec. Percut Sei Tuan, Kab. Deli Serdang, Sumatera Utara, 20226,
Indonesia
Email: andriarta714@gmail.com

1. INTRODUCTION

The implementation of regional autonomy in Indonesia is part of a fiscal decentralization policy aimed at improving the efficiency of regional financial management and promoting equitable development across regions, reinforced by Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments.

In reality, the implementation of fiscal decentralization still faces various challenges. The national economic contraction of -2.07% in 2020, based on data from the Central Statistics Agency (BPS, 2021), has led to a decline in local governments' fiscal capacity and increased reliance on

transfers from the central government (Primadi et al., 2024). Capital expenditure is a critical component of the Regional Budget (APBD) because it finances physical assets such as roads, health facilities, schools, and public infrastructure that directly expand access to public services and support long-term regional economic growth (Pratama & Ariza, 2024). Regions that allocate a larger share of their budget to capital expenditure tend to generate stronger local economic activity, as infrastructure investment reduces transaction costs and improves regional competitiveness (Putri et al., 2021; Widodo, 2020).

Inequities in allocation remain evident in the proportion of capital expenditures in the Regional Budget (APBD), which is significantly lower than that of operational expenditures. Data from the Directorate General of Fiscal Balance at the Ministry of Finance shows that in 2021, local government operational expenditures accounted for 67.94% of the total APBD, while capital expenditures amounted to only 17.10% (DJPK, Ministry of Finance, 2021). A similar pattern continued in 2022 and 2023, with the national average for capital expenditures remaining below 20% of the total APBD (DJPK Ministry of Finance, 2022; DJPK Ministry of Finance, 2023).

One factor influencing the low level of capital expenditure is the disparity in fiscal capacity among regions. The Fiscal Capacity Index (FCI) reflects a region's ability to finance public needs based on the balance between revenue capacity and fiscal requirements (Widodo, 2020). Data from the Ministry of Finance's Directorate General of Fiscal Policy (DJPK) indicates a significant disparity in FCI across regions. In 2022, DKI Jakarta's FCI reached 11.34 based on the Regional Fiscal Capacity Map in PMK No. 193/PMK.07/2022, while the average FCI for regencies in Eastern Indonesia ranged only from 0.3 to 0.6.

Local Own-Source Revenue (LOSR) also reflects the level of a region's fiscal autonomy in tapping into local economic potential. The higher a region's LOSR, the greater the local government's flexibility in setting spending priorities without relying too heavily on central government transfers (Putri et al., 2021). Several studies indicate that LOSR has a significant impact on capital expenditures (Himawan et al., 2024; Ivana et al., 2021; Putri et al., 2021). Therefore, this study integrates the Fiscal Capacity Index (FCI) with LOSR to provide a more comprehensive measure of fiscal capacity.

In addition to fiscal capacity, local financial governance also influences patterns of public expenditure allocation. As managers of public resources, local governments are vulnerable to information asymmetry with the public, meaning that their behavior does not always align with the public interest (Jensen & Meckling, 1976). This situation underscores the need for external oversight mechanisms to ensure accountability in local financial management. The audit opinion of the State Audit Agency (BPK) serves as an external oversight instrument that assesses the reasonableness of local government financial statements as well as the quality of internal control systems (Kurnia, 2020; Nurhalimah & Wicaksono, 2024).

On the other side, findings by Muliati et al. (2021) indicate that audits do not always significantly improve the quality of financial information, suggesting that audit oversight does not necessarily drive tangible changes in local government fiscal decisions. A favorable BPK opinion reflects better quality of financial governance and accountability, and is thus expected to improve budget management efficiency, reduce bureaucratic obstacles, and facilitate the absorption of local expenditures, including capital expenditures (Zulkarnain & Andriansyah, 2018). Strengthening local financial accountability has also been shown to improve the overall quality of governance (Erwinsyah et al., 2025; Furqan et al., 2020; Furqan et al., 2021).

A number of research gaps still exist in the literature regarding the factors influencing capital expenditure, even though this topic has been extensively studied in the past. First, most studies examine local revenue (LOSR) or transfer funds separately without including the Fiscal Capacity Index (FCI) as a more comprehensive indicator of fiscal capacity (Himawan et al., 2024; Widodo, 2020). Second, research findings on the impact of financial accountability still yield mixed results. Some studies have found a positive effect (Zulkarnain & Andriansyah, 2018), while others have not found a significant relationship (Hobrouw et al., 2021; Nuraeni et al., 2024). These differing findings likely reflect three empirical gaps: inconsistent operationalizations of audit opinion across studies,

narrow geographic or temporal scope that limits generalizability, and the absence of simultaneous fiscal capacity controls that may confound the observed accountability effect.

This study aims to analyze the influence of the Fiscal Capacity Index, Local Own-Source Revenue (LOSR), and the BPK Opinion on the allocation of local government capital expenditures in Indonesia following the enactment of Law No. 1 of 2022. From a theoretical perspective, this study expands the scope of Fiscal Decentralization Theory and Agency Theory by integrating aspects of fiscal capacity, local autonomy, and audit accountability into a single model. From an empirical perspective, this study uses panel data covering the post-implementation period of Law No. 1 of 2022, as detailed in the Research Method section.

Agency theory explains the relationship between a principal and an agent, where the principal delegates authority to the agent to act in their best interests (Jensen & Meckling, 1976). This relationship is inherently vulnerable to information asymmetry, which can lead agents to prioritize their own interests over those of the principal. In the context of local government, the community serves as the principal and local government as the agent responsible for managing public resources. Information asymmetry between the two creates the potential for fiscal decisions that do not always align with public needs, making external oversight mechanisms necessary. The BPK audit opinion functions as one such mechanism, assessing the fairness of financial statements and the quality of local governments' internal control systems (Kurnia, 2020). Muliati et al. (2021) note that while independent auditors reduce information asymmetry between principal and agent, this function does not operate effectively without adequate auditor quality and independence.

Fiscal Decentralization Theory holds that the transfer of financial management authority from the central government to local governments improves resource allocation efficiency and promotes local fiscal autonomy (Oates, 1999). Local governments possess better information about community needs and can therefore make more targeted fiscal decisions than the central government. This transfer of authority must be accompanied by adequate fiscal space so that local governments can independently determine development priorities, particularly in allocating capital expenditure for infrastructure and public services. Local fiscal capacity in this study is measured through two indicators: the Fiscal Capacity Index (FCI), which reflects the balance between revenue capacity and local fiscal needs (Widodo, 2020), and Local Own-Source Revenue (LOSR), which measures a region's autonomy in financing development from locally generated revenue (Putri et al., 2021). This framework is reinforced by Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments, which emphasizes local fiscal autonomy as the foundation for equitable development financing across regions.

The Fiscal Capacity Index (FCI) is an indicator used to measure a region's financial capacity by comparing revenue capacity with fiscal needs (Widodo, 2020). The Theory of Fiscal Decentralization asserts that the devolution of authority to local governments must be accompanied by adequate fiscal space so that regions can independently determine development priorities in accordance with community needs. Regions with a high FCI generally have greater flexibility in allocating budgets for productive expenditures, particularly capital expenditures in the infrastructure sector to improve the quality of public services.

Research by Widodo (2020) and Auliya & Hidajat (2024) indicates that fiscal capacity has a positive effect on increases in local government capital expenditure. The higher a region's fiscal capacity, the greater its ability to finance development through capital expenditure. Based on these theoretical arguments and empirical evidence, the first hypothesis is formulated as follows: H₁: The Fiscal Capacity Index has a positive effect on capital expenditure.

Local Own-Source Revenue (LOSR) is one of the sources of local government revenue that indicates the level of fiscal autonomy of local governments in financing development and public services (Putri et al., 2021). LOSR provides local governments with the flexibility to determine budget priorities without being overly dependent on the central government. Fiscal Decentralization Theory views LOSR as a financial source capable of expanding the fiscal space of local governments so that it can be used to support long-term development, particularly through capital expenditure.

Research by Hidayat (2024), Samto et al. (2025) indicates that LOSR has a positive effect on increasing capital expenditure allocations. The higher a region's LOSR, the greater the local government's capacity to finance infrastructure development and other public investments. Based on this, the second hypothesis is formulated as follows: H₂: Local Own-Source Revenue (LOSR) has a positive effect on capital expenditure.

The audit opinion of the State Audit Agency (BPK) is a professional assessment of the fairness of local government financial statements, reflecting the level of accountability, compliance, and quality of local financial management (Kurnia, 2020a). The audit opinion serves not only as an administrative evaluation tool but also as a form of external oversight to promote transparency, fiscal discipline, and the strengthening of local governments' internal control systems (Nurhalimah & Wicaksono, 2024). Local governments that obtain an Unqualified Opinion (WTP) demonstrate a stronger commitment to implementing sound financial management in accordance with the principles of public accountability, compared to those receiving other opinion categories.

The theory of fiscal decentralization asserts that the delegation of financial authority to local governments must be balanced by an adequate system of oversight and accountability. Local governments that receive an Unqualified Opinion (WTP) demonstrate that their internal control systems are functioning effectively. Well-organized administrative management and asset record-keeping can also streamline the procurement of goods and services and reduce bureaucratic obstacles. These conditions foster more effective financial governance, enabling the absorption and allocation of the budget, particularly capital expenditure, to proceed more optimally.

On the other side, the agency theory perspective suggests that strict audit oversight may also lead to conservative behavior by local governments in budget management. Capital expenditures carry higher administrative risks and procurement complexities compared to operational expenditures; thus, local governments seeking to maintain the quality of their audit opinions tend to be more selective and cautious in implementing capital expenditure projects to minimize the potential for audit findings (Furqan et al., 2020; Furqan et al., 2021). These findings align with the research by Suandani & Astawa (2021) and Subagyo et al. (2021) which found that audit pressure drives local government budgeting behavior to become more conservative. Obtaining an Unqualified Opinion (WTP) actually has the potential to reduce the volume of capital expenditure implementation because local governments tend to avoid the administrative risks inherent in this type of expenditure.

2. RESEARCH METHOD

Research Data

This study employs a quantitative approach using panel data analysis, which combines cross-sectional and time-series dimensions. The study population comprises all local governments in Indonesia—provinces, regencies, and cities. These three levels of government serve as the unit of analysis for three reasons. First, provinces, regencies, and cities are the primary executors of fiscal decentralization in Indonesia, each holding direct responsibility for financing and delivering public services within its jurisdiction; this makes their capital expenditure decisions relevant for evaluating the effects of fiscal capacity and audit accountability. Second, fiscal capacity, local revenue, and audit opinion quality vary not only between regions but also between provinces and lower-tier governments, offering a broader empirical basis for identifying the determinants of capital expenditure. Third, the Ministry of Finance publishes complete and standardized fiscal data—including FCI, LOSR, and capital expenditure realization—for all three levels, allowing consistent measurement across units. The sample was then selected using purposive sampling, with the criteria being local governments that possess complete data on all four variables for the 2021–2023 period. Based on the 2021 fiscal entity structure, Indonesia comprises 34 provinces, 415 regencies, and 93 cities, totaling 542 local governments, all of which met the data completeness criteria, yielding a total of 1,626 observations. This timeframe was selected for three reasons. First, 2021 marks the beginning of Indonesia's post-pandemic fiscal recovery, as local governments resumed normal budget execution after the severe economic contraction of 2020 (BPS, 2021). Second, Law No. 1 of 2022 on Financial

Relations between the Central Government and Regional Governments restructured intergovernmental fiscal arrangements, making 2021–2023 the most relevant window for observing local government fiscal behavior under the new framework. Third, complete and audited data on FCI, LOSR, capital expenditure realization, and BPK audit opinions were available for all 542 local governments throughout this period, ensuring data consistency and comparability across regions and years.

Empirical Model and Operationalization of Variables

The empirical model used in this study is formulated as follows:

$$\ln BelModalit = \beta_0 + \beta_1 FCI_{it} + \beta_2 \ln LOSR_{it} + \beta_3 OpiniBPK_{it} + \epsilon_{it} \dots\dots\dots(1)$$

The operationalization of the variables in equation (1) above is explained in the following table:

Table 1. Operational Variables and Data Sources

| Variable | Description |
|----------|---|
| BelModal | Measured using the natural logarithm (LN) of the total realized regional capital expenditure budget sourced from the Ministry of Finance of the Republic of Indonesia. This LN transformation is applied to normalize the scale of large nominal data to avoid extreme fluctuations in statistical analysis. |
| FCI | It is an index that measures regional financial capacity relative to the national average based on data published by the Ministry of Finance of the Republic of Indonesia. The FCI is used to measure local governments' ability to finance development. |
| LOSR | Measured using the Natural Logarithm (LN) of the total realized local original revenue sourced from the Ministry of Finance of the Republic of Indonesia. This LN transformation aims to reduce data variance to make the analytical model more stable. This variable includes tax, fee, and local asset components as indicators of the optimization of a region's independent economic potential. |
| OpiniBPK | Measures the accountability of local government financial reports based on the Audit Report (LHP) of the Indonesian Audit Board. This variable is measured using a dummy variable, with 1 for WTP to reflect compliance with accounting standards, and 0 for non-WTP opinions (WDP, TW, and TMP). |

Source: Researcher (2026)

Method of Data Analysis

The data analysis follows a multi-step econometric framework designed to ensure unbiased regression outputs. It begins with descriptive statistics and a Pearson correlation matrix to outline the data's basic traits and flag any early signs of multicollinearity. Selecting the most suitable model for the panel data then requires a sequence of diagnostic tests at the 1% significance level: the Chow test first distinguishes between the Common Effect Model (CEM) and Fixed Effect Model (FEM), after which the Hausman test narrows the choice between FEM and the Random Effect Model (REM). Once the best-fitting model is identified, the empirical analysis proceeds using the Fixed Effect Model with Robust Standard Errors, which accounts for potential heteroskedasticity and autocorrelation across the multi-year regional dataset. The individual hypotheses (H₁, H₂, and H₃) are then tested through partial t-statistics, offering a clear picture of how fiscal capacity, local own-source revenue, and audit opinion each shape capital spending.

3. RESULTS AND DISCUSSIONS

Descriptive Statistical Analysis

Descriptive statistics were compiled to examine the mean, data distribution, and range of each variable prior to further testing. The complete results are presented in Table 2 below.

Table 2. Descriptive Statistical Analysis

| Variabel | Mean | Std. Dev | Min | Max |
|----------|-------|----------|-------|-------|
| BelModal | 26.23 | 0.74 | 22.36 | 29.81 |
| FCI | 1.37 | 0.83 | 0.055 | 11.39 |
| LOSR | 25.75 | 1.43 | 20.03 | 31.53 |
| OpiniBPK | 0.91 | 0.27 | 0 | 1 |

| Variabel | Mean | Std. Dev | Min | Max |
|-------------------------------|------|----------|-----|-----|
| Number of Observation = 1,626 | | | | |

Source: Output STATA-17

Table 2 presents the descriptive statistics for each variable. Capital Expenditure (BelModal) averages 26.2335 with a standard deviation of 0.7411, ranging narrowly between 22.36 and 29.81. The Fiscal Capacity Index (FCI) records a mean of 1.3790, but its range—from 0.055 to 11.391—reveals considerable disparity in regional financial capacity. Local Own-Source Revenue (LOSR), meanwhile, averages 25.7551, with values spanning from 20.03 to 31.53. As for the BPK Opinion, the mean stands at 0.9170 (standard deviation = 0.2760), bounded between 0 and 1; given that this figure sits close to 1, most local governments in the sample evidently obtained an Unqualified Opinion (WTP) throughout the observation period.

Variable Correlation Analysis

Prior to regression testing, a correlation analysis was performed to assess the direction and strength of relationships among the research variables. This step also serves as a preliminary check for any unduly strong associations among the independent variables that might compromise the model. Table 3 below presents the results.

Table 3. Variable Correlation Analysis

| Variabel | BelModal | FCI | LOSR | OpiniBPK |
|----------|---------------------|------------------|---------------------|----------|
| BelModal | 1.0000 | | | |
| FCI | 0.0819*** 0.0009 | 1.0000 | | |
| LOSR | 0.6775*** 0.0000 | 0.0050 0.8393 | 1.0000 | |
| OpiniBPK | 0.0065 0.7919 | 0.0030 0.9047 | 0.1523*** 0.0000 | 1.0000 |

Number of Observation 1,626;
*** Significant Value 1%

Source: Output STATA-17

According to Table 3, Capital Expenditure correlates positively and significantly with both the Fiscal Capacity Index ($r = 0.0819$, $p < 0.01$) and Local Own-Source Revenue ($r = 0.6775$, $p < 0.01$), with LOSR emerging as the strongest predictor among the three. The BPK Opinion, however, shows no significant relationship with Capital Expenditure ($r = 0.0065$, $p = 0.7919$). Among the independent variables themselves, correlations remain weak overall: FCI and LOSR ($r = 0.0050$, $p = 0.8393$), FCI and BPK Opinion ($r = 0.0030$, $p = 0.9047$), while LOSR and BPK Opinion show a somewhat stronger but still modest link ($r = 0.1523$, $p = 0.0000$).

Hypothesis Testing

The regression analysis examined the effects of the Fiscal Capacity Index (FCI), Local Own-Source Revenue (LOSR), and the BPK Opinion on local government capital expenditure in Indonesia, using the panel data approach described in the Research Method section. Table 4 presents the results.

Table 4. Hypothesis Test Results

| Variabel | Expected Sign | BelModal |
|--|---------------|-------------------|
| $\ln \text{BelModalit} = \beta_0 + \beta_1 \text{FCIit} + \beta_2 \ln \text{LOSRit} + \beta_3 \text{OpiniBPKit} + \epsilon_{it} \dots \dots \dots (1)$ | | |
| _Cons | | 17.587 0.000 |
| FCI | H1: + | 0.068*** 0.000 |
| LOSR | H2: + | 0.355*** 0.000 |
| OpiniBPK | H3: - | -0.156 0.507 |

| | |
|---|--------|
| $\ln \text{BelModalit} = \beta_0 + \beta_1 \text{FCIit} + \beta_2 \ln \text{LOSrit} + \beta_3 \text{OpiniBPKit} + \epsilon_{it} \dots\dots\dots(1)$ | |
| Prob > F | 0.0000 |
| Adj R-Square | 0.4682 |
| obs | 1,626 |
| Mean VIF | 1.02 |

Number of Observation 1,626;
Table 1 Explained of Operationalization of Variables;
*** Significant Value 1%

Source: Output STATA-17

Table 4 shows that the regression model is statistically valid (Prob > F = 0.0000), with FCI, LOSR, and BPK Opinion jointly influencing Capital Expenditure. Together, these three variables account for 46.82% of its variation (Overall R-squared = 0.4682), while a Mean VIF of 1.02 rules out multicollinearity among the predictors. Of the three hypotheses tested, two are supported at the 1% significance level. Both FCI (coefficient = 0.0543, p = 0.000) and LOSR (coefficient = 0.2784, p = 0.000) exert a positive influence, with LOSR carrying the stronger impact. BPK Opinion, by contrast, shows a negative but statistically insignificant relationship (coefficient = -0.0355, p = 0.507), leading to the rejection of H₃.

Discussion

The Fiscal Capacity Index Has a Positive Effect on Capital Expenditure

The regression results support H₁, indicating that the Fiscal Capacity Index (FCI) has a significant positive effect on capital expenditure (coefficient = 0.054, p < 0.01). This result is consistent with Oates (1999)'s fiscal decentralization theory, which suggests that adequate fiscal capacity enables local governments to finance public infrastructure more effectively. Regions with a higher FCI have greater fiscal space to increase capital expenditure while meeting their expenditure commitments (Widodo, 2020). In contrast, regions with a lower FCI face tighter budget constraints and tend to prioritize operating expenditure over capital investment. This finding is consistent with Auliya & Hidajat (2024), Widodo (2020), and Rusdiyantoro & Simanjuntak (2022) who also reported a positive relationship between fiscal capacity and capital expenditure.

Although the effect is statistically significant, the estimated coefficient (0.068) is smaller than that of Local Own-Source Revenue (LOS_R). One possible explanation is the structure of Indonesian local government budgets (APBD) during the 2021-2023 period, which was characterized by high personnel expenditure and mandatory spending requirements. Under these conditions, additional fiscal capacity may be allocated primarily to operating expenditure rather than capital expenditure.

Local Revenue has a positive effect on Capital Expenditures

Local Own-Source Revenue (LOS_R) exerts the strongest positive influence on capital expenditure among the explanatory variables (coefficient = 0.278, p < 0.01), confirming H₂. This finding aligns with Oates (1999)'s fiscal decentralization theory, which holds that successful decentralization hinges on a region's capacity to mobilize its own economic resources. Unlike intergovernmental transfers, which are often earmarked for specific purposes, LOS_R gives local governments greater latitude to allocate spending according to local priorities (Ivana et al., 2021; Putri et al., 2021). The result echoes earlier work by Hidayat (2024), Himawan et al. (2024), and Samto et al. (2025), all of which likewise found a positive link between locally generated revenue and capital spending.

The pronounced effect of LOS_R underscores how central self-generated revenue is to financing capital projects. Between 2021 and 2023, as the post-pandemic recovery took hold, regions with more vigorous economic activity tended to collect higher tax and levy receipts, leaving them with more fiscal room for investment. Strengthening local revenue collection, then, ought to go hand in hand with equitable transfer policies, lest gaps in fiscal capacity translate into wider disparities in capital spending across regions.

Disparities in LOSR also bear directly on how evenly national development unfolds. Urban centers and resource-rich regencies, by virtue of their stronger economic bases, generate substantially more own-source revenue, giving them greater room to invest in infrastructure and public services. Regions with weaker revenue bases, meanwhile, remain structurally reliant on central transfers and devote a smaller share of their budgets to capital spending. Over time this divide tends to widen on its own: areas that invest more in infrastructure draw in more economic activity, which in turn pulls their revenue further ahead of less-developed regions. What emerges is an uneven pattern of development that runs counter to the equity goals embedded in fiscal decentralization under Law No. 1 of 2022. Narrowing this gap calls for transfer schemes calibrated to each region's fiscal capacity deficit—rather than population size or administrative status alone—so that every region has a sufficient fiscal foundation to fund capital projects and deliver public services at a comparable standard.

BPK Opinion Has a Negative Impact on Capital Expenditures

Regression results do not support H₃. The BPK audit opinion shows a negative but statistically non-significant effect on capital expenditure (coefficient = -0.0355, $p = 0.507$), indicating that achieving an Unqualified Opinion (WTP) does not, by itself, cause local governments to increase or reduce their capital spending. This finding is consistent with Nurhalimah & Wicaksono (2024) who found that audit opinion does not significantly affect capital expenditure allocation across Indonesian local governments, and with Zulkarnain & Andriansyah (2018), who concluded that audit opinion does not consistently reflect the substance of local government financial performance. Together, these studies suggest that WTP status functions primarily as an indicator of compliance with financial reporting standards rather than as a determinant of fiscal decision-making.

The limited explanatory power of audit opinion reflects the fact that capital expenditure is driven by broader fiscal conditions. Primadi et al. (2024) show that fiscal stress and balancing fund availability influence capital expenditure independently of audit ratings. This interpretation is supported by the descriptive statistics of the present study, where nearly all sampled local governments received WTP opinions during 2021–2023, leaving little variation for audit opinion to explain differences in capital investment. Furqan et al. (2021) further demonstrate that audit findings and follow-up actions improve financial reporting quality and public service delivery but do not significantly alter the scale of capital expenditure. These findings indicate that financial reporting quality and capital spending decisions are governed by different institutional and fiscal mechanisms. From a policy perspective, the ideal balance between financial accountability and regional infrastructure development is to strengthen administrative and institutional capacity so that accountability requirements support, rather than delay, capital investment. Financial accountability alone is unlikely to increase capital expenditure. Instead, local governments should improve fiscal capacity, internal control systems, procurement management, and planning quality to ensure that capital projects can be implemented efficiently while maintaining compliance with public financial management standards. Shifting the audit process from output-based checking to process-based governance, as suggested by Furqan et al. (2020); Furqan et al. (2021), can reduce administrative errors before project implementation and improve execution without compromising accountability. Policymakers should therefore combine effective audit oversight with targeted capacity-building and fiscal support, enabling local governments to maintain high standards of financial governance while accelerating productive infrastructure investment.

4. CONCLUSION

This study examined the effects of the Fiscal Capacity Index (FCI), Local Own-Source Revenue (LOSR), and BPK audit opinion on capital expenditure across 542 Indonesian local governments from 2021 to 2023. LOSR shows the largest and most significant positive effect, confirming fiscal autonomy as the primary driver of capital expenditure decisions. FCI also has a positive and significant effect, although budget rigidity and routine expenditure obligations may limit its contribution to capital investment. In contrast, BPK audit opinion has a negative but statistically insignificant effect,

suggesting that audit opinion is not significantly associated with capital expenditure decisions. Together, the three variables explain 46.82% of the variation in capital expenditure. The remaining variation may be explained by other factors not included in the model, such as transfer funds, local political conditions, and post-pandemic fiscal recovery.

Fiscal transfer policies carry direct implications for the LOSR-capital expenditure relationship. Regions with weak LOSR depend heavily on intergovernmental transfers, yet these funds are typically earmarked and carry stricter usage restrictions than locally generated revenue. This structural asymmetry means transfer increases do not substitute for LOSR in financing capital investment. Central government transfer design should therefore complement local revenue mobilization rather than replace it. Equalizing allocations that account for FCI gaps may reduce capital expenditure disparities among regions that cannot independently finance infrastructure investment.

This study contributes to two bodies of literature. It extends Fiscal Decentralization Theory by integrating FCI alongside LOSR as a more comprehensive measure of local fiscal capacity, moving beyond single-indicator approaches that dominate prior work. The results show that fiscal capacity and revenue autonomy shape capital expenditure through distinct mechanisms, adding empirical depth to decentralization research in developing country contexts. It also contributes to the public sector accountability literature by showing that BPK audit opinions influence capital budgeting through a risk-aversion mechanism. Audit oversight actively shapes local government fiscal behavior rather than functioning as a neutral administrative tool, with implications for accountability framework design in fiscally decentralized systems.

Several limitations apply. The model excludes transfer funds, regional size, and institutional factors as control variables. The 2021–2023 observation period is relatively short to capture long-term fiscal dynamics. Local governments should prioritize LOSR optimization and budget restructuring so that available fiscal capacity translates into productive capital investment. BPK oversight also needs sufficient budgetary flexibility built into the system, so that stronger accountability does not suppress capital expenditure absorption.

Future research should extend the observation period and incorporate transfer funds, institutional factors, and political variables. Three directions are particularly relevant for the audit quality-regional development relationship. First, studies should move beyond audit opinion as a summary measure and incorporate audit findings data, including the number, type, and resolution status of recommendations, to capture audit quality variation that a single opinion category cannot reflect. Regions receiving the same WTP opinion may differ substantially in internal control quality and audit depth, and these differences likely produce different capital expenditure outcomes. Second, future work should test audit quality as a moderating variable between fiscal capacity and capital expenditure, examining whether stronger oversight amplifies or dampens the effect of LOSR and FCI on infrastructure investment across regions with varying administrative capacity. Third, linking capital expenditure realization data to output indicators such as infrastructure completion rates, public service access indices, or Human Development Index scores would allow assessment of whether higher capital expenditure under strong audit oversight actually produces effective regional development rather than measuring budget absorption alone.

REFERENCES

- Auliya, N. W., & Hidajat, S. (2024). Pengaruh kinerja keuangan pemerintah daerah terhadap belanja modal (Studi pada kabupaten/kota di Provinsi Jawa Timur). *Journal of Economic, Business and Accounting*. <https://doi.org/10.31539/costing.v7i15.12092>
- Erwinsyah, Zahra, F., Meldawati, L., Karim, F., Saleh, F. M., & Masruddin. (2025). Meningkatkan Akuntabilitas dan Transparansi Pengelolaan Keuangan Desa dengan E- Government. *Jurnal Abdidias*, 6(1), 142–150. <https://doi.org/10.31004/abdidias.v6i1.1118>
- Furqan, A. C., Wardhani, R., Martani, D., & Setyaningrum, D. (2020). The effect of audit findings and audit recommendation follow-up on the financial report and public service quality in Indonesia". *International Journal of Public Sector Management*, 33(5), 535–559. <https://doi.org/https://doi.org/10.1108/IJPSM-06-2019-0173>

- Furqan, A. C., Wardhani, R., Martani, D., & Setyaningrum, D. (2021). Financial reporting , public services and local executives ' re-electability in Indonesia Financial reporting , public services and local. *Cogent Business & Management*, 8(1). <https://doi.org/10.1080/23311975.2021.1939229>
- Hidayat, T. (2024). PENGARUH DANA ALOKASI UMUM, PENDAPATAN ASLI DAERAH, DAN KINERJA KEUANGAN TERHADAP BELANJA MODAL JAWA BARAT. *Jurnal Akuntansi Bisnis Pelita Bangsa*, 9(1), 105-115. <https://doi.org/https://doi.org/10.37366/akubis.v9i01.1818>
- Himawan, H. S., Mubarak, A., Wahyuni, E., Sari, E. E., & Sukmawati, E. (2024). Pengaruh Pendapatan Asli Daerah Terhadap Belanja Modal di Indonesia. *Balance: Media Informasi Akuntansi Dan Keuangan*, 16(1), 9-13. <https://doi.org/10.52300/blnc.v16i1.12544>
- Hobrouw, Y., Suaryana, I., & Asri Dwija Putri, I. (2021). Pengaruh pendapatan asli daerah, belanja modal dan indeks pembangunan manusia. *E-Jurnal Akuntansi*, 31(2), 401-413. <https://doi.org/10.24843/EJA.2021.v31.i02.p11>
- Ivana, D., Hardiwinoto, & Nurcahyono, N. (2021). Pengaruh Pendapatan Asli Daerah, Dana Alokasi Umum dan Dana Alokasi Khusus Terhadap Belanja Modal. *ASSET: JURNAL MANAJEMEN DAN BISNIS*, 10.
- Jensen, M. C., & Meckling, W. H. (1976). *THEORY OF THE FIRM : MANAGERIAL BEHAVIOR , AGENCY COSTS AND OWNERSHIP STRUCTURE*. 3, 305-360.
- Kurnia, D. (2020a). Pengaruh Temuan Audit BPK atas Laporan Keuangan Pemerintah Daerah, Opini Audit atas Laporan Keuangan Pemerintah Daerah, Tindak Lanjut Hasil Pemeriksaan dan Struktur Anggaran Terhadap Kinerja Pemerintah Daerah. *JURNAL REVENUE Jurnal Akuntansi*, 01(01). <https://doi.org/10.46306/rev.viii.11>
- Kurnia, D. (2020b). Pengaruh Temuan Audit BPK atas Laporan Keuangan Pemerintah Daerah, Opini Audit atas Laporan Keuangan Pemerintah Daerah, Tindak Lanjut Hasil Pemeriksaan dan Struktur Anggaran Terhadap Kinerja Pemerintah Daerah. *Jurnal Revenue: Jurnal Ilmiah Akuntansi*, 1(1), 112-124. <https://doi.org/10.46306/rev.viii.11>
- MULIATI, M., MAYAPADA, A. G., PARWATI, N. M. S., RIDWAN, R., & SALMITA, D. (2021). Does Audit Matter in Earnings Quality of Indonesia Banks? *Journal of Asian Finance, Economics and Business*, 8(2), 143-150. <https://doi.org/10.13106/jafeb.2021.vol8.no2.0143>
- Nuraeni, S., Nurhasanah, N., & Kosasih, K. (2024). Pengaruh rasio kemandirian keuangan daerah dan rasio efektivitas PAD terhadap belanja modal. *Gorontalo Accounting Journal*. <https://doi.org/https://doi.org/10.32662/gaj.v7i2.3482>
- Nurhalimah, M., & Wicaksono, D. (2024). PENGARUH OPINI AUDIT BPK DAN BELANJA MODAL TERHADAP KINERJA KEUANGAN PEMERINTAH DAERAH. *AKRUAL Jurnal Akuntansi Dan Keuangan*, 6(1), 78-87. <https://doi.org/10.34005/akrual.v6i1.4161>
- Oates, W. E. (1999). An essay on fiscal federalism. *Fiscal Federalism and European Economic Integration*, XXXVII(September), 13-47. <https://doi.org/10.4324/9780203987254>
- Pratama, A., & Ariza, A. (2024). Dampak belanja modal, pertumbuhan ekonomi dan upah minimum terhadap indeks pembangunan manusia Kabupaten Sekadau. *EKOMA: Jurnal Ekonomi, Manajemen, Akuntansi*, 3(5), 1338-1350. <https://doi.org/10.56799/ekoma.v3i5.3769>
- Primadi, F. R., Putra, W. E., & Gowon, M. (n.d.). The Impact of Regional Original Income, Balancing Funds, and Fiscal Stress on Capital Expenditures and Regional Government Financial Performance. *Jurnal Ekonomi, Teknologi Dan Bisnis*, 3(6). <https://doi.org/10.57185/jetbis.v3i6.117>
- Primadi, F. R., Putra, W. E., & Gowon, M. (2024). THE IMPACT OF REGIONAL ORIGINAL INCOME, BALANCING FUNDS, AND PERFORMANCE, FISCAL STRESS ON CAPITAL EXPENDITURES AND REGIONAL GOVERNMENT FINANCIAL. *Journal of Economics, Technology and Business (JETBIS)*, 3(6), 305-319.
- Putri, A. S., Muchtolifah, M., & Sishadiyati, S. (n.d.). Analisis pengaruh pendapatan asli daerah, dana alokasi umum, dan dana alokasi khusus terhadap belanja modal. *Jambura Economic Education Journal*, 3(2), 85-92.
- Putri, A. S., Muchtolifah, & Sishadiyati. (2021). ANALISIS PENGARUH PENDAPATAN ASLI DAERAH, DANA ALOKASI UMUM, DAN DANA ALOKASI KHUSUS TERHADAP BELANJA MODAL. *Jambura Economic Education Journal*, 3(2), 85-93. <https://doi.org/https://doi.org/10.37479/jeej.v3i2.10985>
- Rusdiyantoro, I., & Simanjuntak, R. A. (2022). Kesenambungan Fiskal Indonesia Pada Masa Krisis Covid-19. *Jurnal Pajak Dan Keuangan Negara (PKN)*, 4(1), 20-29.
- Samto, Maftuhannisak, Yani, & Jamil, M. S. (2025). Pengaruh Pendapatan Asli Daerah (PAD), Dana Alokasi Umum (DAU), dan Dana Alokasi Khusus (DAK) terhadap Belanja Modal di Kota/Kab Provinsi Jawa Tengah (Periode 2021-2023). *Jurnal Ekonomi Bisnis Dan Akuntansi (JEBAKU)*, April. <https://doi.org/https://doi.org/10.55606/jebaku.v5i1.5369>

- Suandani, K. P., & Astawa, I. G. P. B. (2021). Pengaruh Opini Audit, Belanja Modal, Pendapatan Asli Daerah, Dan Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Kabupaten/Kota Di Provinsi Bali Tahun 2015-2019. *Jurnal Ilmiah Mahasiswa Akuntansi Universitas Pendidikan Ganesha*, 12(03), 2614–1930.
- Subagyo, Sirat, A. H., & Suwito. (2021). The Effect of Audit Results and Local Characteristics on Financial Performance of Province Governments in Indonesia. *Research Journal of Finance and Accounting*, 12(14), 57–65. <https://doi.org/10.7176/rjfa/12-14-06>
- Widodo, S. (2020). PENGARUH INDEKS KAPASITAS FISKAL (IKF) DAN INDEKS RUANG FISKAL (IRF) TERHADAP DANA PERIMBANGAN TAHUN 2015-2020 PADA 122 KABUPATEN DAERAH TERTINGGAL DI INDONESIA. *JURNAL BUDGET*, 5(1), 30–46. <https://doi.org/https://doi.org/10.22212/jbudget.v5i1.34>
- Zulkarnain, Z., & Andriansyah, R. (2018). Opini Audit BPK-RI dan Substansi Kinerja Keuangan Pemerintah Daerah Kota/Kabupaten di Provinsi Kalimantan Barat. *Cakrawala Repositori IMWI*, 1(1), 58–74. <https://doi.org/10.52851/cakrawala.viii.6>