



The Effect of Capital Expenditure, Local Own Revenue, Audit Opinions, and Audit Findings on Corruption

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Abstract. Corruption in the public sector remains a major obstacle to regional development, threatening the effectiveness of financial management and public services. Gaps in financial supervision and management that are not transparent are the cause of fraud in the use of the budget. The agency theory states that corruption is caused by a conflict of interest between the community as the principal and the government as an agent, with the external auditor as a supervisor to prevent irregularities. The focus of this research is to find out the relationship between corruption in local governments and capital expenditure, local own revenue, audit opinions, and audit findings. This study uses quantitative methods and uses secondary data. The sample consisted of 250 local governments (districts/cities/provinces) in Indonesia during 2020-2022. The analyst method uses SPSS 27 with multiple linear regression method. The test results showed that capital expenditure had no effect on corruption, local own revenue and audit findings had a positive effect on corruption, and audit opinions had nothing to do with corruption in local governments.

Keywords: Audit Findings, Audit Opinion, Capital Expenditure, Corruption, Local Own Revenue

1. INTRODUCTION

High levels of corruption still exist in Indonesia. Out of 180 countries, Indonesia ranks 110th in 2022 with a Corruption Perception Index of 34 (Transparency International, 2023). In line with the weaker corruption eradication strategy, this score also dropped sharply from the previous year by 4 points. Budget mismanagement, markups, and phony projects continue to be the most prevalent types of corruption in local governments, according to data from Indonesia Corruption Watch (2023).

Furthermore, areas that are strongly linked to capital expenditure and prone to corruption are regional asset management and procurement of goods and services. Capital expenditure, which is supposed to support development, is often a source of abuse. Corruption cases involving infrastructure projects, such as those in Lampung (2022) and Sarmi (2021), show that capital expenditure in asset procurement is often misused, contributing to state losses and disruption of public welfare.

Supervision of capital expenditure and local own revenue is becoming increasingly important, because this area is also identified as a corruption-prone point. local own revenue, which is one of the main sources of regional funding, is also not spared from corruption, as seen from the case of the Street Lighting Tax in Lhokseumawe. For this reason, strict

accountable supervision is needed to minimize the risk of corruption in regional financial management.

Opinions and audit findings are crucial in determining how accountable the management of public finances is in defending against corruption. Although the unqualified opinion is considered an indication of good financial statements, several cases of corruption still occur in areas with unqualified opinion status. Therefore, in order to successfully avoid corruption, it is crucial to develop internal control mechanisms and ensure compliance with rules. This study tries to understand how capital expenditure, local own revenue, audit opinions, and audit findings affect the corruption.

2. LITERATURE REVIEW

Agency Theory

According to agency theory, the principle and the agent have different interests, as demonstrated by the agent's prioritization of his own interests. The difference in information obtained between the agent and the principal causes an agency problem that requires agency costs. Agency costs are the costs incurred to alleviate some of the agency's problems (Peace II & Robinson, 2008). One example of the type of agency cost, namely monitoring costs such as the costs required for audits.

The government sector likewise has this connection between the principal and the agent. The government is an agent who has more information about existing resources, while the community is the principal who has limited knowledge of all government activities. The difference in information can make opportunistic behavior from the agent which increases the possibility of misappropriation or corruption from the agent. To overcome the agency's problems, full supervision of government performance is needed.

Capital Expenditure

Capital Expenditure in Permendagri RI No.77 of 2020 is defined as "Budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than 1 (one) accounting period." In bookkeeping, the value of the asset is calculated from all costs needed from acquisition to the time the asset is ready for use. In general, capital expenditure can be corrupted through the use of fake projects, political lobbying, auction procedures, and price mark-ups. Procedures that regulate the procurement of goods and services by government

agencies have loopholes that can pose a risk of corruption. The loophole is by allowing direct appointment as a substitute for tender. Indonesia Procurement Watch (IPW) states that 83% of the direct appointment process for the procurement of goods and services in government agencies always ends in the practice of inflating prices (kemenkeu.go.id, 2007).

Local Own Revenue

Law of the Republic of Indonesia Number 1 of 2022 defines local own revenue as "Regional revenue obtained from regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate local own revenue in accordance with the provisions of the law." The Deputy Regent of Garut in ddtc.co.id (2021) said that on the revenue side, there is a risk of corruption in the implementation of regional tax administration and regional levies and there are opportunities for misappropriation when optimizing regional tax payments.

Audit Opinion

Based on the Law of the Republic of Indonesia Number 15 of 2004, an audit opinion is a professional statement that serves as an auditor's assessment of the fairness of the data contained in the financial statements. Auditors assure users of financial statements of the accuracy of financial data through audit opinions.

The financial statements' judgments are predicated on four legal criteria: adherence to government accounting standards, appropriate disclosure, legal compliance, and the efficiency of the internal control system. There are four types of opinions that can be given by the examiner, unqualified opinion, qualified opinion, adverse opinion, and disclaimer of opinion.

Audit Findings

According to Ruselvi et al. (2020), the audit findings are the results of an audit by the Financial Audit Agency which reveals findings of internal control and findings of non-compliance with legal requirements. The results of the next audit will be announced through the official website of BPK RI in the Overview of Semester Audit Results of the Financial Audit Agency.

There are two groups of audit findings, findings on internal control and findings on non-compliance with legislation. The more audit findings there are, the more violations of the law and rules are committed. This shows that the management, control, and presentation of local

government financial statements are still substandard and can be detrimental to the state (Nurfaidah & Novita, 2022).

Corruption

The word corruption originates from the Latin *corruptio*, which is derived from the verb *corrumpere*, which meaning rotted, damaged, shaken, twisted, or bought off (Sugiarto, 2021). The World Bank in Nawatmi (2016) defines corruption as the abuse of power for personal or group gain. Therefore, it can be said that corruption is an unlawful act by means of abuse of power carried out by individuals or groups to achieve personal or group benefits.

Hypothesis Development

1. The Effect of Capital Expenditure on Corruption

Increased capital expenditures often involve the allocation of large resources to complex projects that are difficult to oversee. This complexity creates opportunities for local governments to abuse resources due to information asymmetry, opening up space for manipulation and abuse.

Research by Dwiharyadi et al. (2019) found a positive relationship between capital expenditure and corruption, measured by the number of cases in the Supreme Court. Similar findings were also revealed by Maria et al. (2019), who assessed capex as an opportunity for fraud, and by Rahmasari & Setiawan (2021), who showed the positive influence of capex on fraud in Indonesia's local governments.

H1: Capital Expenditure Have a Positive Effect on Corruption

2. The Influence of Local Own Revenue on Corruption

The increase in local own revenue can create opportunities for agents to manipulate information regarding the receipt and use of funds for personal gain, potentially leading to corrupt practices, especially if the increase is not balanced with adequate supervision. Kiswanto et al. (2019) found that the independence ratio, which measures the comparison between local own revenue and transfer income, has a positive effect on corruption. The research of Maria et al. (2021) also shows that regional independence, which is measured through regional revenue, regional spending, and local own revenue, is positively correlated with the level of corruption.

H2: Local Own Revenue Have a Positive Effect on Corruption

3. The Influence of Audit Opinions on Corruption

Audit opinions are an important tool to overcome the information asymmetry between local governments as agents and the community as principals. Supervision by BPK RI helps ensure the quality of financial statements and reduce information asymmetry. An unqualified opinion shows that the local government's financial statements meet the necessary criteria, indicating that the government's duties have been carried out well.

Research by Suhardjanto et al. (2018) shows that the audit opinion provided by BPK RI has a significant negative effect on corruption in Indonesia's provincial government, with the auditor's opinion serving as a benchmark for accountability. Similar findings were also expressed by Utami (2020), who found that audit opinions negatively impact the number of corruption cases in provincial governments.

H3: Audit Opinions Have a Negative Effect on Corruption

4. The Effect of Audit Findings on Corruption

The large number of findings related to non-compliance with the law and weak internal controls can reduce the reliability of financial statements and magnify information asymmetry. The audit findings reported by the CPC show a low level of accountability, which in turn increases the potential for fraud.

The research of Suhardjanto et al. (2018) indicates that the findings of BPK RI are significantly positively related to corruption in Indonesia's provincial governments. Kiswanto et al. (2019) and Vyatra & Payamta (2020) also found that the number of BPK findings was positively related to the level of corruption. Recent research by Cinintya et al. (2022) concluded that audit findings can be an early indication of corruption in local governments.

H4: Audit Findings Have a Positive Effect on Corruption

3. RESEARCH METHODS

Population and Sample

The population in this study is district, city, and provincial governments in Indonesia which totals 1,626 local governments out of 542 local governments during 2020, 2021, and 2022. The number of samples in this study was calculated using the slovin formula with a

margin of error of 5%, so that the number of samples was 750 samples (250 local governments during 2020, 2021, 2022).

Corruption

Corruption is the dependent variable in this study, and it is quantified by the quantity of corruption cases that the Supreme Court has decided and that have permanent legal force (inkracht). Cases from 2020–2022 are included in the statistics, while decisions may be made in 2020–2024. The Supreme Court's corruption rulings are all tracked down, and only cases from that time frame are included, ensuring that the dependent and independent variables for that year are compatible.

Capital Expenditure

The many types of capital expenditures include land, machinery and equipment, buildings, roads, irrigation, and networks, other capital expenditures, and capital expenditures for Public Service Agencies. Based on the Regional Revenue and Expenditure Budget Realization Report for each local government, capital expenditure is calculated in this study using natural logarithms of the total realization of capital expenditures made by local governments.

$$\text{Capital Expenditure} = \text{Ln Capital Expenditure}$$

Local Own Revenue

Taxes, levies, the earnings from the administration of divided regional assets, and other permissible local own revenue are examples of local own revenue. The natural logarithm of the entire realization of local own revenue, as determined by each local government's Regional Revenue and Expenditure Budget Realization Report, is used to calculate local own revenue in this study.

$$\text{Local Own Revenue} = \text{Ln Local Own Revenue}$$

Audit Opinions

The audit opinions variables on LKPD are adopted from the research of Suhardjanto et al. (2018), by grouping audit opinions with unqualified opinion assessment 4, qualified opinion assessed 3, adversed opinion assessed 2, and disclaimer of opinion assessed 1.

Audit Findings

The audit findings show that there is non-compliance with the law and there is weakness in internal control. The variables of audit findings are adopted from the research of Pramesti & Haryanto (2019) which sums up the audit findings found in the audit process by BPK RI in the form of findings on internal control and findings on violations of laws and regulations.

Audit Findings = Internal Control System and Compliance Findings

Data Analysis Methods

The analysis method used in this study is multiple linear regression. Multiple linear regression analysis is used to determine the influence of two or more independent variables on dependent variables. The multiple linear regression model used in the study can be seen through the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Y = Corruption

α = Constant

X1 = Capital Expenditure

X2 = Local Own Revenue

X3 = Audit Opinions

X4 = Audit Findings

ϵ = Error Term

The relationship between independent variables, Capital Expenditure, Local Own Revenue, Audit Opinions, and Audit Findings, to the Corruption will be analyzed using multiple linear regression from IBM SPSS Statistics 27 software.

4. RESULT AND DISCUSSION

Descriptive Statistics

Table 1. Descriptive Statistical Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Capital Expenditure	750	44.13	8808.19	295.5511	482.97712
Local Own Revenue	750	4.86	45608.40	501.2970	2716.46080
Audit Opinion	750	1.00	4.00	3.8893	.42583
Audit Finding	750	3.00	66.00	12.1387	5.56807
Corruption	750	.00	1.00	.1373	.34443
Valid N (listwise)	750				

Source: secondary data processed with SPSS 27, 2024

This study used 750 data from 250 local governments during the 2020-2022 period. Capital expenditure has a minimum value of IDR 44.13M (Padang Panjang City, 2022) and a maximum of IDR 8,808.19M (DKI Jakarta, 2022), with an average of IDR 295.55M and a standard deviation of 482.98, showing high variation. Local own revenue has a minimum value of IDR 4.86 million (Mamberamo Raya Regency, 2021) and a maximum of IDR 45,608.4 million (DKI Jakarta, 2022), with an average of IDR 501.3 million and a standard deviation of 2,716.46, also showing high variation. The audit opinion showed a slight variation, with an average of 3.89 and a standard deviation of 0.43, ranging from 1 (disclaimer of opinion) to 4 (unqualified opinion). The audit results showed low variation, ranging from 3 to 66, with an average of 12.14 and a standard deviation of 5.57. The dependent variable on corruption had an average of 0.18 and a standard deviation of 0.54, with a minimum value of 0 in 647 samples and a maximum value of 6 in Jakarta province (2022). The standard deviation, which is higher than the average, shows how highly variable the data are.

Normality Test

The distribution of the data will be almost normal if the sample size is greater than 30, according to the Central Limit Theorem (CLT) (Gujarati & Porter, 2009). In this study, CLT assumptions can be implemented with a sample size of 750. CLT ensures that the sample's average distribution is nearly normal, even when the raw data may not be normally distributed. Consequently, the data is regarded as normally distributed, permitting the application of multiple linear regression, which necessitates the residual normality assumption. A large sample size ensures that the residual normality assumption is met, therefore this analysis can be carried out without the need for extra transformations or normality tests.

Multicollinearity Test

Table 2. Multicollinearity Test Results

Variable	Collinearity Statistics	
	Tolerance	VIF
Capital Expenditure	.525	1.906
Local Own Revenue	.521	1.918
Audit Opinions	.916	1.092
Audit Findings	.888	1.127

Source: secondary data processed with SPSS 27, 2024

A VIF value of less than 10 is considered proof that there is no multicollinearity problem (Ghozali, 2018). Table 2 shows that independent factors including capital expenditure, local own revenue, audit opinions, and audit findings have a VIF value of 1,906; 1,918; 1,092; 1.127. Because it has a value of less than 10, the four variables do not indicate the problem of multicollinearity.

Autocorrelation Test

Table 3. Autocorrelation Test Results

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.314 ^a	.099	.094	.51982	1.905

Source: secondary data processed with SPSS 27, 2024

The data did not have an autocorrelation problem if the value of $du < dw < 4-du$. Based on Watson's durbin table, it is known that du is worth 1.88806. Therefore, the result of the dw calculation is between du and $4-du$ ($1.88806 < 1.905 < 2.11194$). So it can be concluded if the data does not have an autocorrelation problem.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Model	t	Sig.
(Constant)	18.083	.000
Capital Expenditure	-.779	.436
Local Own Revenue	1.590	.112
Audit Opinion	-.885	.377
Audit Finding	-.468	.640

Source: secondary data processed with SPSS 27, 2024

Based on the heteroscedasticity test carried out, results were obtained that showed that all data had a significance value of > 0.05 . This shows that in all variables, capital expenditure, local own revenue, audit opinions, and audit findings there is no heteroscessism.

Coefficient of Determination Test

Table 5. Coefficient of Determination Test Results

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.351 ^a	.123	.118	.71359

Source: secondary data processed with SPSS 27, 2024

Based on the table above, the value of the determination coefficient seen from the adjusted R square is 0.118 or 11.8%. This shows that the ability of all independent variables (capital expenditure, local own revenue, audit opinions, and audit findings) in explaining and influencing the dependent variable, corruption, is 11.8%, while the remaining 88.2% is explained and influenced by other variables outside this research model.

Statistical Test F

Table 6. Statistical Test F Results

N	F	F Table	Sig.
750	26.094	2.38	.000

Source: secondary data processed with SPSS 27, 2024

The regression model is significant if the probability value (F-statistic) is less than $\alpha = 5\%$ (0.05) and the F-statistic is greater than the F-table. This means that the dependent variable significantly affects the independent variable. Table 6 has an independent variable significance value of 0.000, which is less than 0.05, and F-statistic 26.094, which is higher than F's table 2.38. This shows how dependent variables affect independent variables simultaneously. Therefore, it can be said that there is a simultaneous impact of capital expenditure, local own revenue, audit opinions, and audit findings on corruption.

Statistical Test t

Table 7. Statistical Test t Results

Variable	B	Sig
(Constant)	3.474E-5	.999
Capital Expenditure	-.026	.563
Local Own Revenue	.077	.004
Audit Opinion	.088	.069
Audit Finding	.034	.000

Source: secondary data processed with SPSS 27, 2024

The results show that capital expenditure has a negative regression coefficient (-0.026) with a significance value ($0.563 > 0.05$), so that the first hypothesis that capital expenditure has a positive effect on corruption is not supported. This shows that capital expenditure has no effect on corruption. Meanwhile, local own revenue has a positive regression coefficient (0.077) with a significance value ($0.004 < 0.05$), so the second hypothesis is supported, which means that local own revenue has a positive effect on corruption. For the audit opinions, the results show a positive regression coefficient (0.088) and a significance value ($0.069 > 0.05$), so the third hypothesis that states that the audit opinions have a negative effect on corruption is not supported. Finally, the audit findings have a positive regression coefficient (0.034) with a significance value ($0.000 < 0.05$), so that the fourth hypothesis is supported, indicating that the audit findings have a positive effect on corruption.

The Influence of Capital Expenditure on Corruption

The test results show that capital expenditure has a negative coefficient of -0.026 with a significance value of 0.563 ($> 5\%$), so the first hypothesis (H1) that states that capital expenditure has a positive effect on corruption is not supported. According to the agency theory, agency problems can occur due to information asymmetry between the government as an agent and the community as the principal. This condition allows agents to act opportunistically, which increases the chances of abuse of authority or corruption. In the context of this study, corruption that occurs in local governments is caused by information asymmetry, but the results of the study show that capital expenditure does not directly affect corruption.

In this study, capital expenditure has no effect on corruption because the corruption cases measured are not based on the nominal state loss, but the number of cases that occur. As many as 64.1% of corruption cases occurred in areas with capital expenditure lower than the sample average (Rp295.55M). Based on the Supreme Court's decision (*judex facti*), capital expenditure is often the object of misappropriation, such as mark-ups, fictitious projects, and bribery. However, the increase in capital expenditure is not always related to the frequency of corruption. One example is the corruption case in Sabang City in 2020 related to the determination of the location of the Lhok Batee Waste Landfill, which cost the state Rp1.5 billion, even though capital expenditure in the city decreased from the previous year. These results support the findings of Verawaty et al. (2019).

The Influence of Local Own Revenue on Corruption

The test results support the second hypothesis (H2), which holds that local own revenue has a positive effect on corruption, with a positive coefficient of 0.077 and a significance level of 0.004. Therefore, there is a greater chance of corruption in the area the higher local own revenue. Since regional autonomy was enacted through Laws No. 32 and No. 33 of 2004, local governments have more control over the management of public finances. However, inadequate regulation and a lack of accountability in the administration of local own revenue create an environment that invites agents to take advantage of chances and encourage corruption.

In addition, high local own revenue often creates a budget surplus, which in contrast to the private sector, is not always considered an achievement in the public sector. A large budget surplus indicates low expenditure absorption, so the regions are encouraged to make additional expenditures that may not meet public needs. This, as explained by Maria et al. (2018), increases the risk of corruption due to the pressure to use the remaining budget. These findings are in line with previous research by Kiswanto et al. (2019), Maria et al. (2021), and Yusuf & Suryaningrum (2022).

The Influence of Audit Opinions on Corruption

As the audit opinions have a positive coefficient of 0.088 with a significance of 0.069, the test results refute the third hypothesis (H3), which holds that the audit opinions have a negative impact on corruption. Although the unqualified opinion should show good financial statements, in reality this opinion can be obtained through bribery, as in the case of the Bogor Regency Government in 2021. This shows that audit opinions do not always reflect the freedom of an area from corruption.

Cases of bribery of audit opinions often occur because the unqualified opinion is considered a sign of corruption-free, even though in fact the audit of financial statements is not intended to detect corruption. As explained by the Ministry of Finance, the unqualified opinion only assesses the fairness of financial statements, not ensuring the absence of corruption. As a result, regions that get unqualified opinion can still have a high level of corruption. These results are consistent with the research of Budiman & Amyar (2021), Kurniawati & Pratama (2021), and Pramesti & Haryanto (2019).

The Effect of Audit Findings on Corruption

The test results show that the audit findings have a positive coefficient of 0.034 with a significance of 0.000, which supports the fourth hypothesis (H4) that the audit findings have a

positive effect on corruption. This indicates that the more audit findings, the greater the chance of corruption in a region. The audit findings cover two main aspects: weaknesses in the internal control system and non-compliance with legislation, both of which can increase the risk of corruption.

Weaknesses in the internal control system, such as inaccurate recording or inadequate reporting systems, as well as non-compliance with rules, such as administrative violations and budget abuse, provide opportunities for corrupt behavior. Imperfect oversight and non-compliance with applicable rules open up loopholes for government agencies to deviate from their duties and commit corruption. This research is in line with the findings of Suhardjanto et al. (2018) and Kiswanto et al. (2019), which stated that weak internal control and non-compliance with the law contribute to increased opportunities for corruption and potential state losses.

5. CONCLUSIONS AND RECOMMENDATIONS

The test results show that capital expenditure has no positive effect on corruption, with a negative regression coefficient of -0.026 and a significance of 0.563, so the first hypothesis is not supported. On the contrary, local own revenue has a positive effect on corruption, which is reflected in the coefficient of 0.077 and the significance of 0.004, supporting the second hypothesis. The third hypothesis that stated that audit opinions have a negative effect on corruption was also rejected, with a coefficient of 0.088 and a significance of 0.069. However, the audit findings proved to have a positive effect on corruption, with a coefficient of 0.034 and a significance of 0.000, which supports the fourth hypothesis.

The limitations of this study include difficulties in accessing incomplete Supreme Court decision data and the discrepancy between the year of the decision and the year of corruption. Differences in units of analysis between individuals and regions can also affect the interpretation of results. Further research is expected to obtain more thorough and consistent data and consider a broader context so that the research findings are more relevant for effective public policy implementation.

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