

THE EFFECT OF AUDIT OPINION, LOCAL GOVERNMENT SIZE, BALANCING FUNDS AND LEGISLATIVE SIZE ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENTS IN RIAU PROVINCE

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ABSTRACT

This study aims to test and analyze the Financial Performance of the Regional Government of Riau Province. Some of the factors analyzed in influencing the financial performance of local governments are audit opinion, size of local government, balancing fund, and size of the legislature. The data analysis method used in this study is Multiple Linear Regression Analysis, the data is obtained from the financial statements of the Regional Government of Riau Province in 2009-2020. The results of this study indicate that the audit opinion, the size of the local government, the balancing fund have a significant effect on the financial performance of the regional government of Riau Province, while the legislative size has no significant effect on the financial performance of the regional government of Riau Province.

Keywords: Audit Opinion, Size of Local Government, Balancing Fund, Legislative Size, and Financial Performance of Local Government.

INTRODUCTION

After the reform era, the government system that was originally centralized began to experience decentralization. This was marked by the issuance of Law No. 22/1999 on regional government. The regulation became the basis for granting greater regional autonomy to the regions. The main characteristic that indicates that a region is an autonomous region lies in the financial capacity of the region, meaning that the autonomous region must have the authority and ability to explore its own financial resources. (Halim 2001).

One important criterion to determine the real ability of the region in managing its household is the ability of the region in the field of regional finance. The tool for carrying out regional financial management is regional administration which consists of general administration and financial administration which is now better known as regional financial accounting.

Quoted from the electronic newspaper (Gunawan, 2021) Assistant II for Economic Affairs of Riau Provincial Secretariat Evarefita explained that the total budget in the 2021 Riau Provincial Budget ceiling reached IDR 9.13 trillion. The physical realization of the 2021 Riau APBD is already 23 percent. Meanwhile, the financial realization has now reached 11.45 percent or IDR 1.04 trillion.

Based on this phenomenon, it can be said that the financial performance of several regions in Indonesia is still low and one of them is Riau Province. This can occur because financial management in the regions is still not optimal. With financial management that is not optimal, it can result in reduced regional revenue and a decline in the regional economy.

To improve the economy of a region, one of the things that must be achieved is good financial performance. Local government financial performance according to Syamsyi in Herisistam (2015: 33) is the ability of a region to explore and manage original regional financial resources in meeting its needs to support the running of the government system, services to the community and regional development by not fully depending on the central government and having the flexibility to use funds for the benefit of local communities within the limits set by laws and regulations. There are several factors that influence the financial performance of local governments, including audit opinion, government size, balancing funds, and legislative size.

Audit opinion is the result of an examination that has been carried out by the auditor on the audit of financial statements based on Law Number 15 of 2004. According to (Law No. 15 of 2004) concerning financial audits, the BPK examines the fairness of the financial information presented in the government's financial statements.

The final result of the audit process on financial statements is an audit report which contains an opinion on the financial statements. Opinion is a professional statement that is the examiner's conclusion about the fairness of the information presented in the financial statements (Law No. 15 of 2004 concerning Financial Audit).

Referring to the stewardship theory, BPK acts as a mediator between the two parties (principal and steward). By being audited by an independent BPK, the steward can prove that the trust given by the principal is not misappropriated by the steward's personal interests.

Every year the Supreme Audit Agency (BPK) always audits the Local Government Financial Statements (LKPD) and provides an opinion according to the results of the report. Auditor's opinion is often used as a measurement of a region's performance in managing its regional finances from external parties, so there are often symptoms in the regions that seem to be chasing the title of Unqualified (WTP) (Suryaningsih and Sisdyani, 2016).

This opinion can increase or decrease the level of stakeholder confidence in the reporting presented by the audited party, in this case the local government entity. In other words, the better the BPK audit opinion, the better the performance of a local government should be. The results of Handayani's research (2016) prove that BPK audit opinion has a positive influence on local government performance.

Stewardship theory explains that there is a strong relationship between satisfaction and organizational success. Therefore, local governments will place more emphasis on the main results target for the purpose of organizational interests, where the government will focus on providing maximum service to the community. To provide maximum service to the community is strongly supported by large assets.

The size of local government is one of the variables in the size or size of the benchmark in determining the size of a local government. Total assets were chosen because their value is more stable than income, number of employees or total production of a region.

The large size of the government will facilitate operational activities which will then make it easier to provide adequate community services. In addition, ease in the operational field will also provide smoothness in obtaining Original Revenue (PAD) for regional progress as evidence of improved performance (Kusumawardani, 2012).

According to Masdiantini and Erawati (2016), large size in local governments will facilitate the implementation of government activities and programs in providing adequate community services. In addition, ease in the operational field will also provide smoothness in obtaining PAD for regional progress as evidence of improved performance (Kusumawardani, 2012). This is in accordance with the results of Sumarjo's research (2010) which states that the larger the size of the local government, the better the financial performance of the local government.

The Balance Fund is a fund sourced from APBN revenue allocated to regions to fund regional needs in the context of implementing decentralization. The Balance Fund aims to reduce the fiscal gap between the government and local governments and between local governments. The Balancing Fund, which consists of the General Allocation Fund (DAU), Special Allocation Fund (DAK) and Revenue Sharing Fund (DBH), is a transfer from the central government to regional governments with the aim of financing excess regional expenditure.

To provide improved services and welfare of the people (principal), the government (steward), in this case the central government, provides balance funds from the APBN with the aim of supporting the implementation of local government authority. So that the balance funds can improve the economy and welfare of the community (principal).

The Balancing Fund received from the central government is used to address the issue of horizontal fiscal imbalances, namely the ability of regions to raise revenue varies greatly, depending on the conditions of the region concerned. This relates to regions that have natural resources or not, regions with high or low intensity of economic activity, and the obligation for local governments to maintain the achievement of minimum service standards in each region. Regions with few resources require subsidies in order to achieve these minimum service standards. Therefore, the balancing funds received from the central government will show the stronger the local governments depend on the central government to meet their regional needs. This balancing fund clearly shows the fiscal performance of a region. Particularly for DAU and DAK, if the percentage of a region in the receipt of these two funds is high, then it can be concluded that the fiscal gap / fiscal capacity of the region is low, which also shows how the financial performance of the local government is. This means that if the DAU and DAK of a region are high, then the financial performance of the region is not good. Conversely, if the DBH of a region is high, then the financial performance of the region is good.

Afia Maulina et al., (2021) examined the effect of dana perimbangan on the financial performance of local governments. The results of his research state that balancing funds have a positive effect on the financial performance of local governments.

The House of Representatives (DPRD) or legislative members are tasked with overseeing local governments so that local governments can allocate existing budgets to be utilized properly. The large number of members of the House of Representatives (DPRD) is expected to increase supervision of local governments so that it has an impact on improving local government performance (Sumarjo, 2010). Referring to the stewardship theory, DPRDs are stewards who represent the people as principals. DPRD conducts supervision in order to gain public trust which will improve the financial performance of local governments.

Based on Undang-Undang No. 32 Tahun 2004 The legislative body or the Regional People's Representative Council or known as DPRD is a representative body of the local people and also plays a

role in the implementation of government. The House of Representatives (DPRD) or legislative members are institutions that have a strategic position and role related to regional financial supervision which is tasked with overseeing local governments so that local governments can allocate existing budgets to be utilized properly. Kusumawardani (2012) examines the effect of legislative size on local government financial performance. The results of his research state that legislative size affects the financial performance of local governments.

Research on local government financial performance has been conducted by Ricardo Correa Gomes, Solange Alfinito, and Pedro Henrique Melo Albuquerque (2013) on local governments in Brazil. In Indonesia, research on local government financial performance was conducted by Nova Febrianto (2018) on the Yogyakarta Special Region local government, and Indah Puspa Sari (2016) on the Sumatra Island local government.

The Effect of Audit Opinion on Local Government Financial Performance

Referring to the stewardship theory, BPK acts as a mediator between the two parties (principal and steward). By being audited by an independent BPK, the steward can prove that the mandate given by the principal is not misappropriated by the steward's personal interests. Every year the Supreme Audit Agency (BPK) always audits the Local Government Financial Statements (LKPD) and provides an opinion according to the results of the report.

This opinion can increase or decrease the level of stakeholder confidence in the reporting presented by the audited party, in this case the local government entity. In other words, the better the BPK audit opinion, the better the performance of a local government should be. The results of Handayani's research (2016) prove that BPK audit opinion has a positive influence on local government performance. Thus, the proposed hypothesis:

H1 : Audit Opinion Affects Local Government Financial Performance

The Effect of Local Government Size on Local Government Financial Performance

Stewardship theory explains that there is a strong relationship between satisfaction and organizational success. Therefore, local governments will place more emphasis on the main results target for the purpose of organizational interests, where the government will focus on providing maximum service to the community. To provide maximum service to the community, it is strongly supported by large assets.

According to Masdiantini and Erawati (2016), a large size in local government will facilitate the implementation of government activities and programs in providing adequate community services. In addition, ease in the operational field will also provide smoothness in obtaining PAD for regional progress as evidence of improved performance (Kusumawardani, 2012). This is in accordance with the results of Sumarjo's research (2010) which states that the larger the size of the local government, the better the financial performance of the local government. Thus, the proposed hypothesis:

H2 : Local Government Size Affects Local Government Financial Performance

The Effect of Balance Funds on Local Government Financial Performance

To provide improved services and the welfare of the people (principal), the government (steward), in this case the central government, provides equalization funds originating from the APBN with the aim of supporting the implementation of local government authority. So that the balancing funds can improve the economy and welfare of the community (principal).

These balancing funds clearly show the fiscal performance of a region. Especially for DAU and DAK, if the percentage of a region in the receipt of these two funds is high, it can be concluded that the fiscal gap / fiscal capacity of the region is low, which also shows how the financial performance of the local government. This means that if the DAU and DAK of a region are high, then the financial performance of the region is not good. Conversely, if the DBH of a region is high, then the financial performance of the region is good. Thus, the proposed hypothesis:

H3 : Balancing Funds Affect Local Government Financial Performance

The Effect of Legislative Size on Local Government Financial Performance

The House of Representatives (DPRD) or legislative members are tasked with overseeing local governments so that local governments can allocate existing budgets to be utilized properly. The large number of members of the House of Representatives (DPRD) is expected to increase supervision of local governments so that it has an impact on improving local government performance (Sumarjo, 2010). Referring to the stewardship theory, DPRDs are stewards who represent the people as principals. DPRD conducts supervision in order to gain public trust that will improve the financial performance of local governments.

Kusumawardani (2012) examined the effect of legislative size on local government financial performance. The results of his research state that legislative size affects the financial performance of local governments. . Thus, the proposed hypothesis:

H4 : Legislative Size Affects Local Government Financial Performance

METHOD, DATA, AND ANALYSIS

The population in this study is the Riau Province local government. The sample in this study is the Riau Provincial Government Financial Report 2009-2020. The type of data used in this study is quantitative data with secondary data sources. Quantitative data is data in the form of numbers or numbers, while secondary data is a source of research data obtained indirectly. The data period used in this study is 2009-2020. The data collection methods used in this research are literature study and documentation study.

Descriptive analysis is used to produce an overview of the data that has been collected. The descriptive analysis used in this study is the mean, maximum, minimum, and standard deviation. In this study, hypothesis testing used the t test. This t test aims to test how far the influence of one independent variable on the dependent variable is by holding the other independent variables constant. The F statistical test basically shows whether all independent variables have an overall influence on the dependent variable. The coefficient of determination (R²) is used to determine the percentage change in the independent variable

caused by the independent variable. The goal is to calculate the magnitude of the influence of the independent variable on the dependent variable.

Then, multiple regression analysis is used to determine the effect between the independent variables in influencing the independent variables together or partially. The multiple linear regression equation in this study is:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \quad (1)$$

RESULT AND DISCUSSION

Descriptive Statistics

The descriptive statistics used in this study are the mean, maximum, minimum, and standard deviation.

Table 1.1 Descriptive Statistics Results

	N	Min	Max	Mean	Std. Deviation
OA	12	3	4	3,82	,389
UPD	12	16926364.50	33062037.40	27087330.7417	5711365.58998
DP	12	1879.00	5266.00	3810.8333	1044.22880
UL	12	55	65	60,83	5,149
KKPD	12	78,39	248,71	160,7333	48,51096
Valid N (listwise)	12				

Reference: SPSS 25 output, processed secondary data 2021.

Classical Assumption Test

Normality Test

In this study, researchers used a normality test with graph analysis and the One Sample Kolmogorov - Smirnov test.

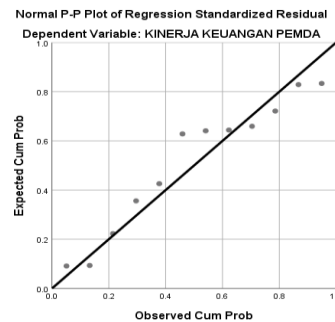


Figure 1.1 Normal P-P Plot of Regression Graph

One Sample Kolmogorov-Smirnov		
Unstandardized Residual		
N		12
Normal Parameters	Mean	.0000000
	Std. Deviation	16.16036641
Most Extreme Differences	Absolute	.243
	Positive	.118
	Negative	-.243
Test Statistic		.243
Asymp.Sig. (2-tailed)		.050 ^c

Table 1.2 Normality Test ResultsReference: SPSS 25 output, processed

secondary data 2021

Autocorrelation Test

To detect the presence or absence of autocorrelation by looking at the value of D-W (Durbin Watson)

Table 1.3 Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin Watson
1	.698	.487	.144	45.05721	1.502

Reference: SPSS 25 output, processed secondary data 2021

Heteroscedasticity Test

Symptoms of heteroscedasticity are detected using a scatterplot graph. The results of heteroscedasticity can be seen in figure 2.1

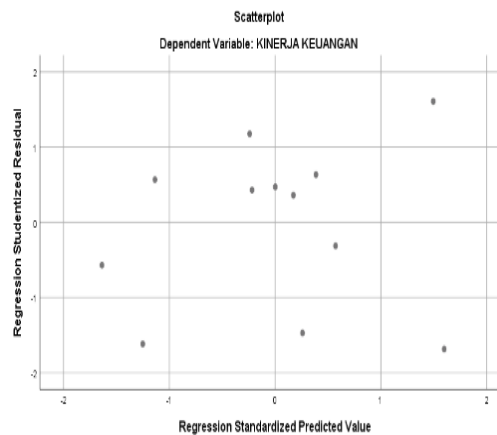


Figure 1.2 Heteroscedasticity Test Results

Multicollinearity Test

Multicollinearity can be seen in the tolerance value and its opposite variance inflation factor (VIF). The cutoff value that is commonly used to indicate the tolerance value is below > 0.10 or the VIF value <10. (Ghozali, 2013: 104).

Table 1.4 Multicollinearity Test Results

Model	Collinearity Statistic	
	Tolerance	VIF
Opini Audit	.794	1.260
Ukuran Pemerintah	.507	5.772
Dana Perimbangan	.240	4.158
Ukuran Legislatif	.173	1.971

Reference: SPSS 25 output, processed secondary data 2021

Multiple Linear Regression Analysis

Table 1.5 Multiple Regression Analysis Test Results

Model	Unstandardized B	Coefficients Std. error	Standardized Coefficients Beta	T	Sig.
1 (Constant)	3.162	9.076		.348	.738
OA	6.870	2.787	.357	2.465	.043
UPD	.008	.002	2.183	5.002	.002
DP	-.361	.062	-1.587	-5.809	.001
UL	-2.788	1.530	-.463	-1.822	.111

Reference: SPSS 25 output, processed secondary data 2021

By looking at the regression results, the following equation can be obtained:

$$Y = 3.162 + 6.870 X_1 + 0.008 X_2 - 0.361 X_3 - 2.788 X_4 + e$$

Based on the multiple linear regression equation above, it is known:

- The constant of 3,162 indicates that if the Audit Opinion variable (X1), Local Government Size (X2), Balance Fund (X3) and Legislative Size (X4) are constant, the local government performance variable (Y) has a positive value of 3,162.
- Audit Opinion (X1) has a positive coefficient of 6.870. This illustrates that every change of one unit, the financial performance of the local government will increase by 6,870 with the assumption that the other independent variables are constant.
- Local Government Size (X2) has a positive coefficient of 0.008. This illustrates that any change of one unit, the local government performance will increase by 0.008 assuming the other independent variables are constant.
- Balance Fund (X3) has a negative coefficient value of -0.361. This illustrates that every change of one unit, the financial performance of the local government will experience a decrease of -0.361 with the assumption that the other independent variables are constant.
- Legislative Size (X4) has a positive coefficient value of -2.788. This also illustrates that every time there is a change of one unit, the financial performance of the local government decreases by -2.788, assuming that the other independent variables are constant.

Model Feasibility Test (F Test)

The F test is used to determine whether the independent variables work together in influencing the dependent variable.

. Table 1.6 F Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.187	4	.297	23.119	.000b
Residual	0.090	7	.013		
Total	1.277	11			

Reference: SPSS 25 output, processed secondary data 2021

Hypothesis Test

Table 1.7 Hypothesis Test Results

Model	Unstandardized B	Coefficients Std. error	Standardized Coefficients Beta	T	Sig.
1 (Constant)	3.162	9.076		.348	.738
OA	6.870	2.787	.357	2.465	.043
UPD	.008	.002	2.183	5.002	.002
DP	-.361	.062	-1.587	-5.809	.001
UL	-2.788	1.530	-.463	-1.822	.111

Reference: SPSS 25 output, processed secondary data 2021

The results obtained in table 1.7 show that the significant value is smaller than the α ($0.043 < 0.05$). While the t value of $X_1 = 2.465$ and t table of 2.364 ($df = n-k-1$) $12-4-1 = 7$, $\alpha = 0.05$), so $t_{count} > t_{table}$ ($2.465 > 2.364$). So H_0 is rejected, which means that audit opinion has a significant effect on local government financial performance.

The results of this study support previous research conducted by Mustikarini and Fitriarsi (2012). The more WTP (Unqualified Opinion) and WDP (Unqualified Opinion) opinions are found in a government, the better the performance of the local government. Audit opinion is a pressure for local governments to organize good governance in order to produce good performance.

The results of this study do not support previous research, namely Marfiana and Kurniasih (2013), which states that audit opinion has no effect on local government financial performance. A good audit opinion cannot be a guarantee that the financial performance of the local government is good.

The results obtained in table 1.7 show that the significant value is smaller than the α ($0.002 < 0.05$). While the calculated t value $X_2 = 5.002$ and t table of 2.364 ($df = n-k-1$) $12-4-1 = 7$, $\alpha = 0.05$), so $t_{count} > t_{table}$ ($5.002 > 2.364$). So H_0 is rejected, which means that the size of local government has a significant effect on the financial performance of local governments.

The results of this study support previous research conducted by Mustikarini and Fitriasi (2012) proving that government size has a positive influence on local government performance. The size of a large government will facilitate the implementation of government activities and programs in providing adequate services to the community. In addition, the existence of a large government size will be followed by a large risk of abuse, so the government needs to increase its accountability.

The results of this study do not support previous research conducted by Noviyanti and Kiswanto (2016) which states that the size of local government has no effect on local government financial performance because an increase or decrease in the size of local government does not affect the financial performance of local governments, the results of the study indicate that the role of total assets in improving the financial performance of local governments in Indonesia cannot function.

The results obtained in table 1.7, the balance fund variable partially shows significant results at a value smaller than α ($0.001 < 0.05$). While the calculated t value of $X_3 = -5.809$ and t table of 2.364 ($df = n-k-1$) $12-4-1 = 7$, $\alpha = 0.05$), so $t_{count} < t_{table}$ ($5.809 < 2.364$). So H_0 is rejected, which means that the balance fund has a significant effect on the financial performance of local governments.

The results of this study support previous research conducted by Estetika Mutiaranisa Kurniawati (2015) which states that balancing funds have a positive effect on Local Government Financial Performance because the greater the Balance Fund obtained from the local government, it can improve Local

Government Financial Performance.

The results of this study do not support previous research conducted by Siti Nur Rochmah (2015) which states that balancing funds have a negative and insignificant effect on Local Government Financial Performance, the greater the show the stronger the local government depends on the central government to meet its regional needs, so that it will make the financial performance of local governments decrease.

The results obtained in table 1.7, the legislative size variable partially shows significant results at a value greater than α ($0.111 > 0.05$). While the t value of $X_4 = -1.822$ and t table of 2.364 ($df = n-k-1$) $12-4-1 = 7$, $\alpha = 0.05$, so t count $<$ t table ($1, < 2.364$). So H_0 is accepted, which means that legislative size has no significant effect on local government financial performance.

The results of this study support previous research conducted by Munter Sinaga (2015) which states that legislative size has no effect on local government financial performance. The size of the legislature explains that the role and supervisory function of legislators if it functions properly can improve the financial performance of local governments. The implementation of activities in local governments that are very well supervised will result in good performance, and vice versa if the implementation of activities in local governments is not well supervised it will result in poor performance.

The results of this study do not support previous research conducted by Sumarjo (2010) which states that legislative size has an effect on local government financial performance. The number of legislative members is able to increase supervision of local governments so that it has an impact on improving the financial performance of local governments.

Determination Coefficient Test

Table 1.8 Test Results of the Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.964 ^a	.930	.889	.11330

Reference: SPSS 25 output, processed secondary data 2021

Based on the table above, it can be seen that the correlation coefficient (R) shows a value of 0.889. This means that 88.9% of the dependent variable or government financial performance is influenced by the independent variables, namely audit opinion, local government size, balancing funds, and legislative size.

CONCLUSION

Based on the results of the data analysis found, it can be concluded that Audit Opinion, Local Government Size, and Balance Fund have a significant effect on Local Government Financial Performance in Riau Province in 2009-2020. However, Legislative Size has no significant effect on the Financial Performance of Local Governments in Riau Province in 2009-2020. Meanwhile, Audit Opinion, Local Government Size, Balance Fund, and Legislative Size together are able to influence the financial performance of the Regional government by 88.9%, and the remaining 11.1% is explained by other variables outside this study. Therefore, from the results found, suggestions for future researchers are expected to expand the research sample so that they can see the trends that occur more broadly. For future researchers, it is hoped that other additional variables can be used so that the research results are better able to predict local government performance more precisely and accurately. Future researchers are expected to use other proxies besides the independence ratio and efficiency ratio in measuring local government financial performance, including the effectiveness ratio, activity ratio, and growth ratio. Finally, every Provincial Government in Indonesia should disseminate public information through the

official website in a comprehensive and sustainable manner.

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